



2021

Directors' report

on the operations of the KRUK Group
and KRUK S.A.

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Letter from the President of the Management Board

Dear Shareholders,

It is my pleasure to present to you the Directors' Report on the operations of the KRUK Group in 2021. KRUK had its best year ever in 2021, delivering PLN 695m in profit, underpinned by solid foundations and many years of hard work to improve the efficiency of operational processes.

In line with our strategy, in 2021 we focused on improving competitiveness in the debt purchase market, enhancing operational efficiency and driving digital transformation. It was a busy and productive year, helping us to build the potential for continued growth in the future.

A net profit of PLN 695m is over eight times the figure posted the year before, marking a new record in KRUK's operating history. We enhanced our operational efficiency, as demonstrated by recoveries, which reached an all-time high of PLN 2.2bn. Recoveries were higher than expected not only in Poland and Romania, where our mature operations become more efficient by the year, but in all our markets. We owe this to the great effort put into improving each stage of our collection processes, from amicable settlements to litigation and hybrid measures.

We continued work to further enhance our operational efficiency and digital transformation, which is vital in this challenging pandemic time. The digital transformation and new solutions we offer our customers, including e-kruk, e-signature and e-settlement, are helping us broaden our reach, providing customers with opportunities to manage debt repayment the modern way. Digital tools will help further improve our efficiency.

In 2021, we delivered positive profit margins in Italy and Spain, with all markets positively contributing to the Group's EBITDA. The process of learning, process enhancement and stability improvement took longer than initially expected, but today I am content and even optimistic about further growth in these markets. We are one of Europe's largest debt management companies.

Strong recoveries also contributed to cash EBITDA of PLN 1.5bn, also the highest in KRUK's history.

KRUK is firmly standing on its legs in all geographical markets.

In 2021, we invested a record PLN 1.7bn in debt portfolios, mainly unsecured retail debt. We have long been working to improve our competitiveness in the debt purchase market, as reflected in our record-high investments. After subdued investment activity in the first year of the pandemic, last year we significantly increased our investments and market share in Poland. We also resumed investment activity in Italy, which was our second-largest market in terms of investments after Poland in 2021.

In 2021, we continued efforts to increase our access to finance. New domestic and international banks, PKO BP SA and Bank Handlowy being a part of Citi Bank, joined the bank syndicate. We have enjoyed strong interest and trust from investors in the debt securities market. We have issued a total of PLN 535m of bonds, with our prospectus issues heavily oversubscribed, leading to reductions in allocations by as much as 79% in some cases. Despite record investments, we maintained low debt levels, with the ratios of net debt to cash EBITDA and net debt to equity at 1.7x and 1.0x, respectively, at the end of 2021. With these funding options and ample internal sources of finance, we are growing KRUK.

Sustainable and ethical business is our priority. A stable economic system means its participants are more resilient and adaptable to economic, social and climate change. Therefore, we consider ESG as a major opportunity for the Group, and we will be glad to share more ESG data with the market going

forward. In 2022, we are set to develop a comprehensive ESG strategy that would fit into KRUK's business strategy. In 2021, the Group engaged in various social and educational initiatives, including the Day Without Debt project that was first launched ten years ago, and Kapitalni.org website, to name just a few.

2021 was the first full year of work of the current Management Board, and I consider it a very successful and productive period in this context as well.

After the challenging 2020, I am proud to present to you our 2021 results. We have unlocked a new scale of business, and we are a new, bigger and more profitable KRUK. The stellar performance would not have been possible without strong foundations and the hard work we have done over the years at various levels of our business, including the efforts to improve our operational, analytical and technological efficiency. Our success would not have been possible without the commitment of KRUK employees and managers. Our confidence in KRUK's strategy, our vision of the future and our persistent focus on continuous improvement also contributed to our 2021 results and, I strongly believe that, will continue to support our performance in the years to come.

I encourage you to read our Directors' Report on the operations of the KRUK Group for 2021.

With best regards,
Piotr Krupa



KEY ACHIEVEMENTS IN 2021



Portfolio
investments

PLN 1,738m

+281%



Recoveries

PLN 2,216m

+21%



Net profit

PLN 695m

+758%



Cash EBITDA

PLN 1,548m

+25%



Net debt to equity

1.0

-

EUR

PLNm	2021	2020	change	2021	2020
Expenditure on debt portfolios	1,738	456	281%	380	102
Gross recoveries	2,216	1,834	21%	484	410
Carrying amount of purchased portfolios	5,100	3,984	28%	1,114	890
Estimated remaining collections (ERC)	9,989	7,943	26%	2,182	1,775
Total revenue	1,743	1,158	51%	381	259
Revenue from purchased portfolios	1,576	976	61%	344	218
EBIT	860	332	159%	188	73
EBITDA	908	379	140%	198	85
Cash EBITDA**	1,548	1,236	25%	338	276
Net profit	695	81	758%	152	18
Basic EPS (PLN)	36.63	4.29	754%	8.00	0.96
Diluted EPS (PLN)	35.80	4.22	748%	7.82	0.94
ROE***	27%	4%	-	-	-
Net debt to equity	1.0	1.0	-	-	-
Net debt to cash EBITDA	1.7	1.7			

* EBITDA = EBIT + depreciation and amortisation

** Cash EBITDA = EBITDA - revenue from purchased portfolios + purchased portfolio collections

*** ROE = (net profit)/(equity at end of period); the figure does include the effect of share capital increase in December

Source: Company



Business Superbrand 2021

title awarded to KRUK S.A.



7 markets

of operational presence



Poland's Best Employer

title awarded to KRUK S.A.
15th place in the Forbes
ranking



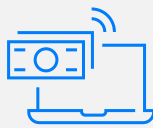
127 million cases in
ERIF BIG database



PLN 206m, i.e.
PLN 11 per share
Dividend paid in 2021



PLN 10bn
Estimated remaining
collections (ERC)



Growing share of online
payments (in Poland 37% of
out-of-court recoveries in
December 2021)



Development of e-
kruk.pl platform (97%
increase in the number of
users since December 2020)



Up to 97% of settlement
agreements signed in
paperless form (in Spain)



Issue
of PLN 535m worth of
bonds



26%
ROE



246 thousand loans
advanced

1 | Chapter

1 KRUK GROUP

The KRUK Group is one of Europe's largest debt management companies. The founder and CEO of KRUK established it more than 23 years ago in Wrocław, Poland. Currently, the Group comprises 25 equity-related companies offering a comprehensive range of modern, integrated services. Today, we have operations in Poland, Romania, Italy, Spain, the Czech Republic and Slovakia, as well as holding assets in Germany. We manage close to PLN 6bn in total assets and delivered net profit of PLN 695m for 2021. For all the past 23 years, we have maintained a consistent track record of profit generation.

The Group's principal business is the management of debt portfolios purchased for the Group's own account as well as providing credit management services to banks, telecommunication operators, insurers, and other third parties.

Our primary markets are 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 purchase corporate debts. The Group actively offers its credit management services to third parties in Poland, Romania, Spain and Italy. KRUK's geographical segments, identified based on revenue, are Poland, Romania, Italy, Spain, and other markets (Czech Republic, Slovakia, Germany).

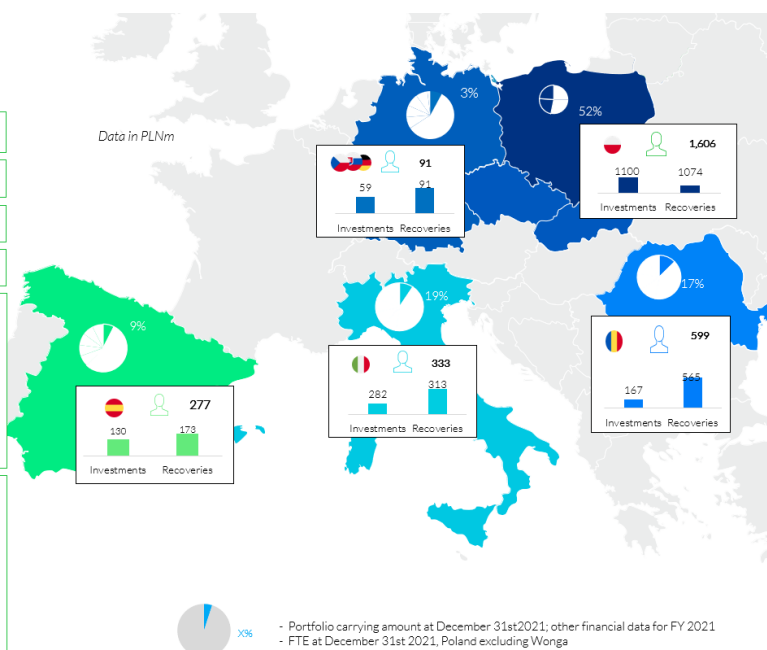
The Group's business in Poland and Romania includes consumer lending. In Poland, we also offer credit reference services.

Since 2011, KRUK S.A. shares have been listed on the Warsaw Stock Exchange, and notes issued by the Company are traded on the Catalyst bond market in Poland. KRUK's share price has risen 723% since its IPO.

The KRUK Group employs more than 3,000 staff and collaborates with some of Europe's largest financial institutions.

KRUK Group in a nutshell

No. 1 in Poland and Romania	7 Market presence	Debt portfolio purchase
		Credit management services
		Consumer lending
		Credit reference
PLN 1,548m Cash EBITDA FY 2021	PLN 695m Net profit FY 2021	PLN 1,748m Amount invested in debt portfolios FY 2021
1.7x Net debt to cash EBITDA	PLN 11 per share Dividend paid in 2021	PLN 5,1bn Portfolio carrying amount
1.0x Net debt to equity		PLN 10bn ERC



1.1 KRUK's milestones

2000	Launch of credit management business
2001	Introduction of success-only fee model in credit management Birth of debt purchase market in Poland
	KRUK emerges as leader of credit management
2003	Enterprise Investors invests USD 21m (PEF IV) in KRUK shares Purchase of KRUK's first debt portfolio
2005	First securitisation of bank debt portfolio in Poland, opening of a second operating centre 80 km from Wrocław
2007	Entry into Romanian market
2008	Implementation of mass amicable settlement strategy (amicable settlement or court collection)
2010	Media advertising – mass communication tool
2011	KRUK shares floated on the Warsaw Stock Exchange Entry into Czech Republic and Slovakia
2014	Purchase of the first large mortgage-backed debt portfolio in Poland Entry into German market
2015	

Entry into, and purchase of the first debt portfolio on, the Italian market

Entry into the Spanish market

Purchase of the first debt portfolio in Spain

2016 Acquisition of competitor's assets in Poland – finalisation of the portfolio acquisition from P. R. E. S. C. O.

Purchase, jointly with the World Bank, of the largest debt portfolio in Romania

2017 Execution of a EUR 250m revolving facility agreement with a syndicate of four banks to finance further debt purchases in Europe

Acquisition of credit management companies in Italy and Spain

2018 Acquisition of Agecredit, a company operating on the Italian credit management market

20th anniversary of KRUK's business

2019 Acquisition of Wonga, an online consumer loan market operator

2020 Development of online tools, remote work process efficiency maintained during pandemic

2021 Significant growth in KRUK's business and profits

Implementation of dividend policy

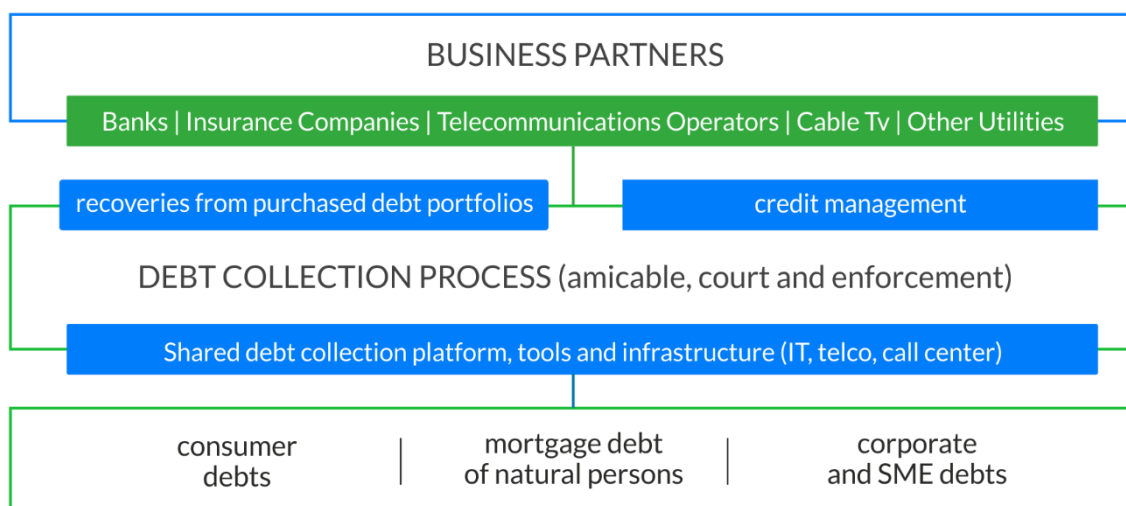
1.2 The Group's core business model

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. Our retail and corporate debt segment also manages SME debt. We focus our activities on the banking market, where our business is based on long-term relations with the key partners.

KRUK business model



The KRUK Group includes Wonga, a company operating on the open consumer loan market in Poland. The Group also offers loan products under the NOVUM brand, primarily targeting customers who make regular repayments or have paid off their debts to the Group in Poland and Romania. KRUK also owns ERIF BIG, a company that collects and provides credit information in Poland.

1.3 KRUK's relations with indebted persons

We treat customers with respect

We treat our indebted persons who are our customers with dignity at all stages of the collection process. In line with our new brand strategy, we facilitate debt repayment and present indebted persons with all available options, while reminding them of their responsibility to pay off their debts. In our communications to customers, we warn them about the possible measures we may take in case they fail to pay off debt and, where necessary, we implement those measures.

Customer communication

We employ a range of communication channels to reach customers, including phone, written correspondence (including email), online or personal contact (field consultants). Customers may sign a settlement agreement or make repayments via e-kruk or e-payment platforms. Our interactions with customers are compliant with all applicable ethical and legal standards and principles. We constantly improve our customer service, also by conducting service quality surveys.

Process efficiency

The collection process is assessed for efficacy at every stage, with the optimum model selected. If amicable collection attempts prove ineffective, legal and enforcement proceedings are initiated. After the legal procedure has been launched, a settlement agreement may still be reached through what we call a 'hybrid process'.

Education

We engage in a number of initiatives promoting financial literacy among customers. We run the Day Without Debt educational campaign in Poland, Romania, the Czech Republic and Slovakia to encourage

people to pay off their debts, with the campaign also present in traditional media, including radio. We engage in educational projects seeking to develop digital literacy competencies, including the gamification programmes 'Be child again' and 'The calendar with surprises' run in Romania. Our educational initiatives in the Czech Republic and Slovakia included lectures delivered in secondary schools on how to escape the debt trap and be financially responsible. In all countries where we are present we regularly post financial tips, advice and information on our corporate blog. In Poland, we also publish sponsored articles on local websites and large nationwide websites, including wp.pl and gazeta.pl.

1.4 We are the most recognisable company in our industry

We bolster our strategy through advertising campaigns run in the media. In the past, the theme of indebtedness and solution to debt problems 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. We are also active online. 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 according to tracking studies carried out by Ariadna Nationwide Research Panel and the research consultancy Maison&Partners*. In the fourth quarter of 2021, knowledge of the KRUK brand, measured by brand awareness, was 85%.

KRUK aided brand awareness vs peers

Poland	
Company	
KRUK	85%
Competitor 1	45%
Competitor 2	30%
Competitor 3	30%
Competitor 4	28%
Competitor 5	21%

Source: CAWI brand survey by Ariadna Nationwide Research Panel in Poland

KRUK's logo awareness vs debt management sector competitors

Poland	
Company	
KRUK	78%
Competitor 1	40%
Competitor 2	30%
Competitor 3	30%
Competitor 4	27%
Competitor 5	17%

Source: CAWI brand survey by Ariadna Nationwide Research Panel in Poland

1.5 KRUK on the debt market

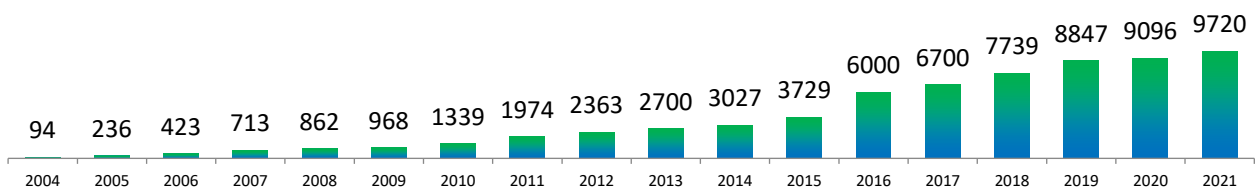
1.5.1 Purchased debt portfolios

From 2002 to the end of 2021, the KRUK Group purchased 1,297 debt portfolios with a total nominal value of approximately PLN 90bn. We purchased debt portfolios in seven countries: Poland, Romania, the Czech Republic, Slovakia, Germany, Italy, and Spain. In 2002–2021, we acquired more than 9.5m cases.

Debt portfolio purchase and management

1. Debt sale auction	Banks regularly sell debt portfolios to improve their liquidity or to ensure compliance with regulatory requirements and the tax law.
2. Debt portfolio valuation by KRUK	Our approach to valuation is based on 19 years experience in purchasing debt portfolios – close to 1,300 portfolios purchased and over 4.8 thousand valuations carried out since start of the business
3. Auction winning and portfolio purchase	Debt is purchased at a high discount, typically for 5% - 25% of its nominal value.
4. 4.a. Commencement of amicable settlement process 4.b. Court and enforcement proceedings/hybrid process	Increased debtor reach and recovery at above 2x of the purchase price.

Number of cases purchased by KRUK (cumulative, '000)



Unsecured retail debt portfolios are valued based on information on indebted persons, information on products involved, and data on indebted persons' behaviour. The valuation process employs advanced statistical tools and behaviour data accumulated since 2003.

In principle, with respect to collecting unsecured retail debt, our preferred approach is to reach with the indebted person an out-of-court amicable settlement based on mutually agreed optimum repayment terms. The debt collection process may, however, involve taking a case to court and foreclosure or be

conducted in the form of a hybrid process. For more information on the array of debt collection tools applied, see Section 1.5.3 *Operating tools*.

1.5.2 Credit management services

The average annual number of cases outsourced to the Group for credit management purposes is over 2.5 million. 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.

Credit management (outsourced debt collection)

- Non-performing debt portfolio

- Tender for credit management services – selection of debt collection company

- Referral and submission of cases for collection using KRUK tools

- Debt collection by KRUK

- Transfer of outstanding cases back to the client

- Client's decision whether to hold a new tender for credit management services or sales auction with respect to remaining outstanding debt

1.5.3 Operating tools

Our know-how of more than 20 years 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. Below are described the main tools used to support the debt recovery process.

Debt monitoring

Very early stage collections, with a strong focus on client's rehabilitation – the tool used in credit management services provided to third parties

Monitoring of amounts due from indebted persons 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. At this stage, the probability of reaching the client and talking to them is very high. At this stage we contact the client via phone, text messages, and personal dunning letters.

Amicable (out-of-court) collection process

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 first step in the amicable approach is to reach the client, establish contact and agree on the optimal debt repayment option, taking into account scoring models. The next step in the amicable process is

usually the execution of a debt instalment agreement. The amicable process includes, but is not limited to, the use of the following:

- phone calls (and also chats, including chatbots and voicebots),
- letters, including e-mail,
- visits by field advisors – they contact clients when other communication methods fail.
- online tools – via the e-KRUK platform the customers may, e.g., execute a settlement, pay their debt. On-line payment tools are also available (e.g. BLIK in Poland, direct debit in Spain).

Court and enforcement proceedings

The KRUK Group handles all aspects of court enforcement proceedings, from claim filing to enforcement by court bailiff or equivalent body. We also take active part in bankruptcy proceedings. Worth noting is that the initiation of court proceedings does not exclude the possibility of amicable repayment (hybrid process). The Kruk Group's activities as part of court and enforcement proceedings include, but are not limited to:

- handling of court proceedings aimed at obtaining an enforcement order, including, in Poland, ordinary, warrant-of-execution and separate proceedings, such as payment order, writ of payment, electronic proceedings by writ of payment, and simplified procedures;
- enforcement of debt claims in the course of insolvency and arrangement proceedings;
- handling the probate process, including in particular identification of the indebted person'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;
- active cooperation with authorities conducting enforcement proceedings – conducting enforcement monitoring.

Hybrid process

The initiation by KRUK of legal proceedings does not exclude the possibility of repaying the debt. Efforts may still be made to amicably resolve the problem of the client's debt. Telephone calls, written communication (including via e-KRUK) and face-to-face contacts can be used at this stage.

Specialised services

As part of our services, we handle advanced and non-standard processes for various types of cases,

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 or arrange credit restructuring (applicable to debts managed for third parties), 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.

1.5.4 Consumer lending

The KRUK Group provides cash loans in Poland (under the Wonga and Novum brands) and Romania (under the Novum brand). NOVUM products are offered primarily to our most reliable customers who have a history of regular repayments or have repaid their debts to the Group, while Wonga products are offered on the open market, mainly through the online channel.

1.5.5 Credit reference agency

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

ERIF BIG is one of the five credit reference agencies in Poland, but the only one 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.

The positive and negative credit information available from the ERIF BIG 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 agency also provides products that support debt collection and monitoring processes. The service of adding new negative entries in the database and sending a relevant notice to indebted persons 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 trading partners or clients.

1.6 Number and value of cases under the KRUK Group's management

As at December 31st 2021, the KRUK Group managed a total of 7.7m debt cases (in purchased portfolios and as part of credit management services), compared with 7.3m as at December 31st 2020, with the increase attributable mainly to higher debt purchases. As at the end of 2021, the nominal value of managed debt was PLN 104.6bn, having increased from PLN 88.9bn a year earlier in both the purchased debt and credit management portfolios. The key data on debt cases managed by the Group is presented below.

Table 1. Number and value of managed cases as at the end of 2021 and 2020

	Dec 31 2021	Dec 31 2020
Number of managed cases (millions)	7.7	7.3
of which purchased debt cases	7.0	6.6
of which credit management cases	0.7	0.7
Nominal value of managed cases (PLNbn)	104.5	88.9
of which purchased debt cases	84.5	78.4
of which credit management cases	20.1	10.5

Source: Company

2 | Chapter

2 GENERAL INFORMATION ON KRUK S.A. AND THE KRUK GROUP

This section presents key information on the KRUK Group, its structure, share capital, and human resources.

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.

Parent contact details

Name: **KRUK SPÓŁKA AKCYJNA**

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

Telephone: **71 79 02,800**

Fax: **71 79 02,867**

Corporate website: <http://en.KRUK.eu/>

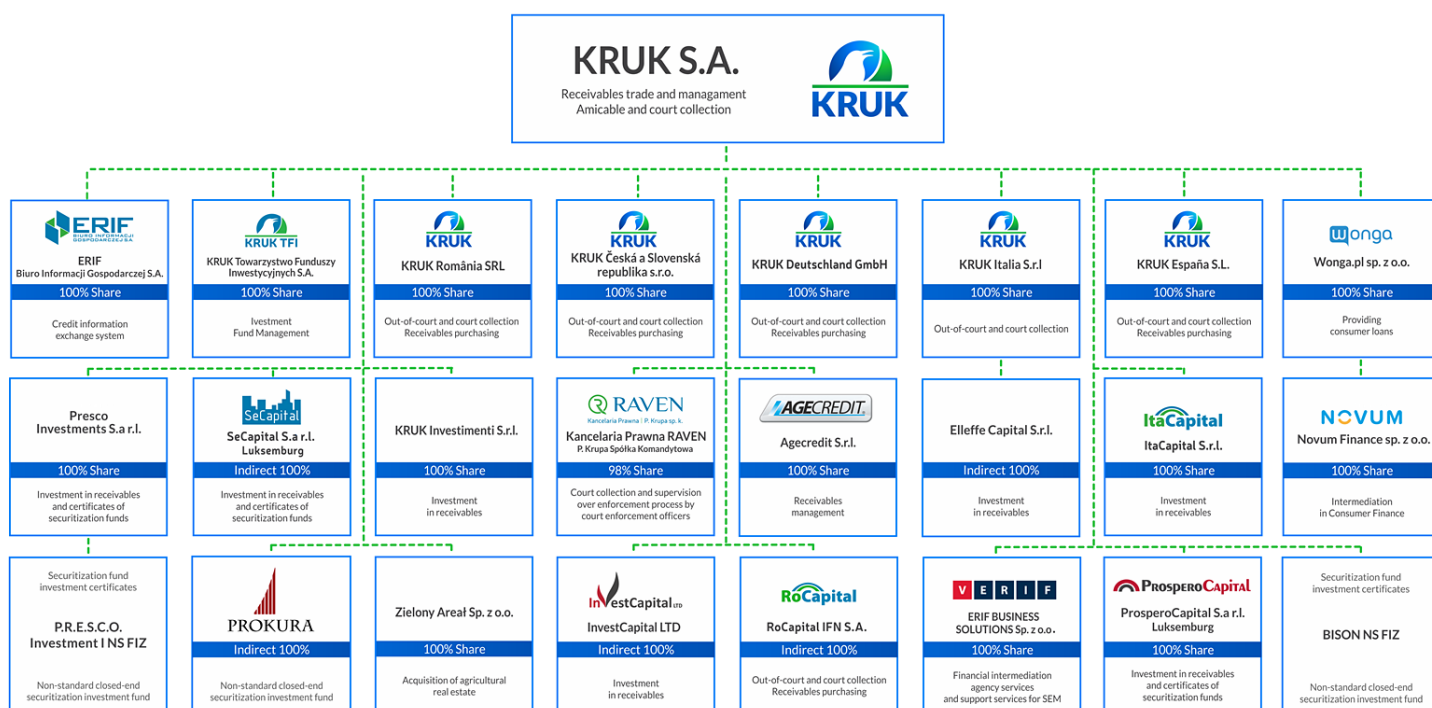
For the organisational chart of the KRUK Group, see Section 2.2.1. *Description of the Group's structure.*

2.2 Structure

2.2.1 Description of the Group's structure

The structure of the KRUK Group as at December 31st 2021 and KRUK S.A.'s ownership interests in the subsidiaries are presented below.

Figure 1. Structure of the KRUK Group



Source: Company

As at December 31st 2021, the Group comprised KRUK S.A. (the Parent), 24 subsidiaries, and two entities controlled through personal links. The subsidiaries are presented below.

Table 2. KRUK S.A. subsidiaries

Subsidiary	Registered office	Principal business activity
DEBT MANAGEMENT		
AgeCredit S.r.l.	Cesena	Credit management company operating in Italy
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
ItaCapital S.r.l.	Milan	Investing in debt or debt-backed assets
KRUK Česká a Slovenská republika s.r.o.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Espana S.L.U.	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
KRUK INVESTIMENTI S. R. L.	Milan	Investing in debt or debt-backed assets

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
KRUK Romania S.r.l.	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
INVESTMENTS IN DEBT PORTFOLIOS		
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
Bison NS FIZ (closed-end investment fund)	Wrocław	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are held by KRUK S.A.
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wrocław	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are held by Presco Investments S.a r.l.
Prokura NS FIZ securitisation fund	Wrocław	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are indirectly held by KRUK S.A.
InvestCapital Ltd.	Malta	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
CONSUMER LENDING		
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
Wonga.pl sp. z o.o.	Warsaw	Company operating in the consumer lending market
DEBT MANAGEMENT SUPPORT ACTIVITIES		
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
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
Zielony Areal sp. z o.o.	Wrocław	Buying and selling own real estate; services supporting crop production.
Entity controlled through personal links	Registered office	Principal business activity
Corbul S.r.l	Bucharest	Detective activities

Gantoi, Furculita Si Asociatii S.p.a.r.l.	Bucharest	Law firm
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Source: The KRUK Group

Subsequent to the reporting period, on January 31st 2022, KRUK TECH s.r.l. of Bucharest was registered. The shareholders in the company are KRUK S.A. and KRUK Romania s.r.l., holding ownership interests of 99% and 1%, respectively. The principal business activity of the company is the provision of IT services and software development.

Accordingly, as at the date of this Report, the KRUK Group comprised the parent KRUK S.A., 25 subsidiaries, and 2 entities controlled through personal links. The subsidiaries are presented below.

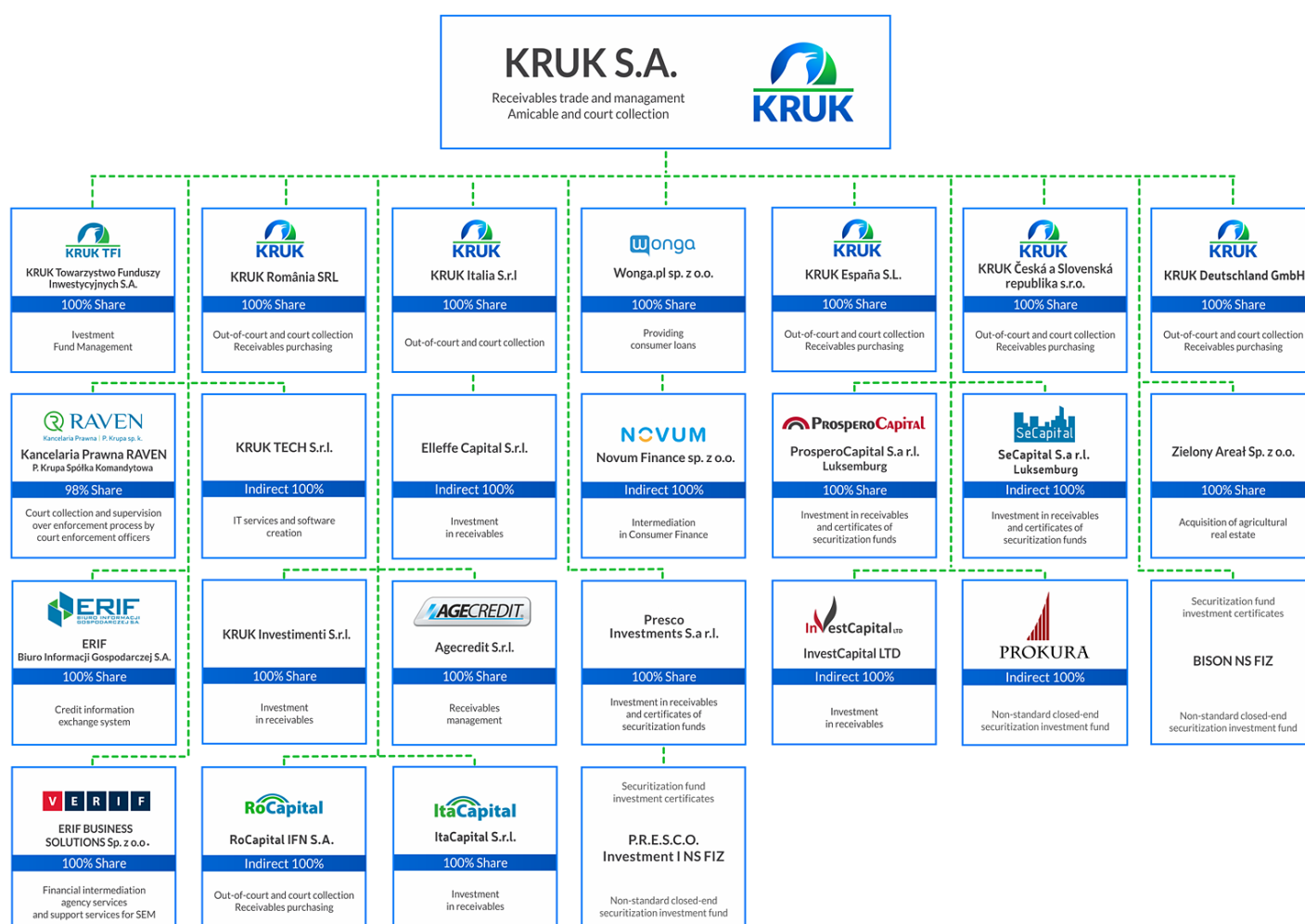
Table 3. KRUK S.A. subsidiaries as at the date of this Report

Subsidiary	Registered office	Principal business activity
DEBT MANAGEMENT		
AgeCredit S.r.l.	Cesena	Credit management company operating in Italy
Elleffe Capital S.r.l.	La Spezia	Investing in debt or debt-backed assets
ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets
KRUK Česka a Slovenska republika s.r.o.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Espana S.L.U.	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
KRUK INVESTIMENTI S. R. L.	Milan	Investing in debt or debt-backed assets
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
KRUK Romania S.r.l.	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
INVESTMENTS IN DEBT PORTFOLIOS		
KRUK Funduszy S.A.	Towarzystwo Inwestycyjnych Wroclaw	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds
Bison NS FIZ (closed-end investment fund)	Wroclaw	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are held by KRUK S.A.
P.R.E.S.C.O. Investment I NS FIZ securitisation fund	Wroclaw	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are held by Presco Investments S.a.r.l.

Prokura NS FIZ securitisation fund	Wrocław	Non-Standard Securitisation Closed-End Investment Fund All certificates issued by the fund are indirectly held by KRUK S.A.
InvestCapital Ltd.	Malta	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Secapital S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Presco Investments S.a r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
CONSUMER LENDING		
NOVUM FINANCE sp. z o.o.	Wrocław	Granting consumer loans
Wonga.pl sp. z o.o.	Warsaw	Company operating in the consumer lending market
DEBT MANAGEMENT SUPPORT ACTIVITIES		
ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
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
KRUK TECH S.R.L.	Bucharest	Software development and provision of IT services
Zielony Areał sp. z o.o.	Wrocław	Buying and selling own real estate; services supporting crop production.
Entity controlled through personal links	Registered office	Principal business activity
Corbul S.r.l	Bucharest	Detective activities
Gantoi, Furculita Si Asociatii S.p.a.r.l.	Bucharest	Law firm

Source: The KRUK Group

Figure 2. Structure of the KRUK Group as at the date of this Report



2.2.2 Changes in the Group's structure in 2021

On July 1st 2020, the Extraordinary General Meeting of Secapital Polska Sp. z o.o. decided to dissolve the company through liquidation. On February 25th 2021, the Extraordinary General Meeting of Secapital Polska Sp. z o.o. in liquidation passed a resolution on approval of the liquidation report and on completion of the liquidation. On March 9th 2021, the registry court issued a decision to delete Secapital Polska Sp. z o.o. in liquidation from the business register.

On April 29th 2021, the articles of association of KRUK INVESTIMENTI S.R.L. of Milan were executed. On May 6th 2021, the company was entered in the Business Register. The principal business activity of the company involves investment in debt portfolios. KRUK S.A. holds 100% of shares in the newly incorporated company.

On September 9th 2021, the Articles of Association of Zielony Areal sp. z o.o. of Wrocław were executed. On October 4th 2021, the company was entered in the Business Register. The company's principal business activity consists in buying and selling of own real estate and provision of services supporting crop production. KRUK S.A. holds 100% of shares in the newly incorporated company.

On December 1st 2021, KRUK S.A. transferred all shares in its wholly-owned subsidiary NOVUM FINANCE sp. z o.o. to WONGA.PL sp. z o.o. in consideration of acquiring shares in the increased share capital of WONGA.PL sp. z o.o.

In addition, on January 31st 2022., i.e. subsequent to the reporting period, KRUK TECH S.r.l. of Bucharest was registered. The shareholders in the company are KRUK S.A. and KRUK Romania s.r.l., holding ownership interests of 99% and 1%, respectively. The principal business activity of the company is the provision of IT services and software development.

2.2.3 Changes in the Group's significant management policies

In 2021, there were no changes to any significant management policies of the Parent and its subsidiaries.

2.2.4 Consolidated entities

All Group entities are fully consolidated, except for ProsperoCapital S.a.r.l., which is consolidated using the proportional method.

2.2.5 Company branches

The Company has no branches.

2.3 Share capital

2.3.1 Share capital structure

As at December 31st 2021 and as at the issue date of this report, the Company's share capital totalled PLN 19,012,898 and was divided into 19,012,898 shares with a par value of PLN 1 per share.

Table 4. The Company's share capital as at December 31st 2021

Series	Number of bearer shares
Series A	2,421,220
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	539,682
Series G	1,000,000
TOTAL	19,012,898

Source: Company

2.3.2 Changes in the share capital and conditional share capital

In the reporting period, the following changes were made in the share capital:

- a PLN 39,234 increase in the share capital in connection with the issue of 39,234 series F shares as part of a conditional capital increase. The shares were registered with the CSDP and introduced to trading on January 27th 2021;

- a PLN 271,000 decrease in the share capital as of October 1st 2021 (i.e. the date the decrease was entered in the Business Register of the National Court Register) following the buyback and cancellation of 271,000 Series A Company shares with a par value of PLN 1 per share. The buyback had been carried out in accordance with the rules defined in Resolution 7/2020 of the Company's Annual General Meeting of August 31st 2020 on allocation of KRUK S.A.'s net profit for 2019, authorising the Management Board to buy back Company shares for cancellation, and creation of a capital reserve to fund the share buyback;
- a PLN 272,853 increase in the share capital in connection with the issue of 272,853 series F shares as part of a conditional capital increase. The shares were introduced to trading on December 6th 2021.

Details of the changes in KRUK S.A.'s share capital are presented in the table below.

Table 5. Changes in the Company's share capital as at December 31st 2021

Date of registration of shares with the CSDP and of their introduction to trading or deregistration date, as appropriate	Number of new shares/cancelled shares	Series	Basis for the increase/cancellation	Share capital after the change (PLN)	Details
January 27th 2021	39,234	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	19,011,045	Issue as part of a conditional share capital increase
October 19th 2021	-271,000	Series A	Resolution No. 23/2021 of the Annual General Meeting of June 16th 2021	18,740,045	Cancellation of shares bought back by the Company
December 6th 2021	272,853	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	19,012,898	Issue as part of a conditional share capital increase

2.4 Dividend policy and income distributions to shareholders in other forms

On December 2nd 2021, the Management Board of KRUK S.A. passed a resolution to adopt the KRUK S.A.'s Dividend Policy.

According to the Policy, the overriding objective of KRUK S.A. is to ensure sustainable growth of the Company and increase its value through profit growth and dividend payment while maintaining appropriate liquidity and observing the principles of sustainable development (ESG).

The Management Board's intention is for KRUK to concurrently drive its value growth and make regular profit distributions to shareholders. The objective behind adopting the Dividend Policy is to carry into effect the Management Board's intention and take account of KRUK's status as a growth company paying out dividend based on clear and constant criteria for distribution of generated profits.

The Company's Management Board expects that it will submit to the Annual General Meeting a recommendation to pay out dividend amounting to 30% or more of the KRUK Group's consolidated net profit for a previous financial year, attributable to shareholders of the parent.

The Dividend Policy is available on the Company's website at: <https://en.kruk.eu/investor-relations/dividend-policy>.

2.4.1 Historical data on dividends and income distributions to shareholders in other forms

Information about the value of dividends and income distributions to shareholders in the form of share buyback for the last seven financial years is presented in the table below.

Table 6. Historical information about dividend/income distribution through buyback of shares by KRUK S.A.

	in 2014*	in 2015	in 2016	in 2017	in 2018	in 2019**	in 2020
Value of dividend paid/share buyback	PLN 25.9m	PLN 35.5m	PLN 37.5m	PLN 94.0m	PLN 94.7m	PLN 95.0m	PLN 206.1m
Buyback price per share	N/A	N/A	N/A	N/A	N/A	350zł	N/A
Value of dividend paid per share	PLN 1.5	PLN 2.0	PLN 2.0	PLN 5.0	PLN 5.0	N/A	PLN 11.0
Dividend record day	Jul 1 2015	Jul 8 2016	Jun 29 2017	Apr 25 2018	Jul 2 2019	N/A	Jun 24 2021
Dividend payment day	Jul 24 2015	Jul 29 2016	Jul 5 2017	Apr 27 2018	Jul 10 2019	Nov 18 2020	Jul 2 2021

* No dividends were paid by the Company prior to 2014. ** KRUK S.A. share buyback as a form of income distribution to shareholders in respect of 2019 Source: Company

On June 16th 2021, in accordance with the Management Board's recommendation, the Annual General Meeting of KRUK S.A. passed Resolution No. 7/2021 on the allocation of KRUK S.A.'s 2020 net profit and payment of dividend to the Company's shareholders. The Annual General Meeting resolved to pay dividend of PLN 11.00 per share. Dividend of PLN 206,140,495.00 was be distributed from the Company's net profit for 2020, of PLN 81,355,730.59, increased by the amount of PLN 124,784,764.41 transferred from statutory reserve funds created out of the Company's earnings. In accordance with the resolution, the dividend record date with respect to dividend for the year ended December 31st 2020 was set for June 24th 2021. The dividend was paid on 18,740,045 KRUK S.A. shares on July 2nd 2021.

In addition, after the reporting date, on March 4th 2022, the KRUK S.A. Management Board, acting in accordance with the Company's Dividend Policy for 2021–2024, passed a resolution recommending that the Annual General Meeting approve payment of dividend of PLN 13 per share. The dividend would be distributed from the Company's net profit earned in 2021. The recommendation on the payment and amount of dividend takes into account the criteria set out in Section 4 of the KRUK S.A. Dividend Policy.

2.5 Performance of Company shares on the Warsaw Stock Exchange

2.5.1 Share price

In 2021, the stock market listing of KRUK shares increased by 139.6%, compared with a 15.22% decline in the previous year. Our stock outperformed in relation to the WIG and mWIG40 indices, which reached rates of return of +21.52% and +33.07%, respectively.

On the last trading day in 2021, the Company's market capitalisation was PLN 6.2bn (compared with PLN 2.7bn at the end of the previous year). On December 31st 2020, KRUK ranked 24th in terms of market capitalisation on the WSE.

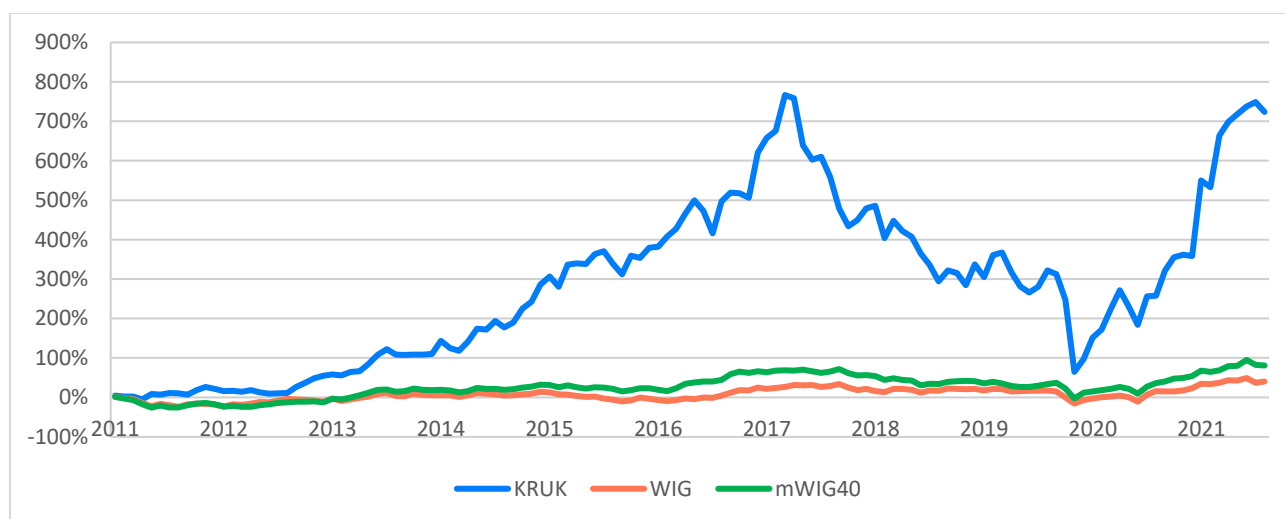
Rates of return on KRUK S.A. stock, WIG and mWIG40 in 2021 – at close

Date	KRUK	WIG	mWIG40
Rate of return	+139.6%	+21.5%	+33.1%

Source: GPW.pl

From the IPO on the Warsaw Stock Exchange in May 2011 to the end of 2021, the rate of return on KRUK shares was 723.7%. Over the same period, the all-cap WIG index rose by 15.50%, While the mid-cap mWIG40 index gained 80.90%.

Performance of KRUK stock against WIG and mWIG40 from the Company's IPO on the WSE in May 2011 to the end of 2021

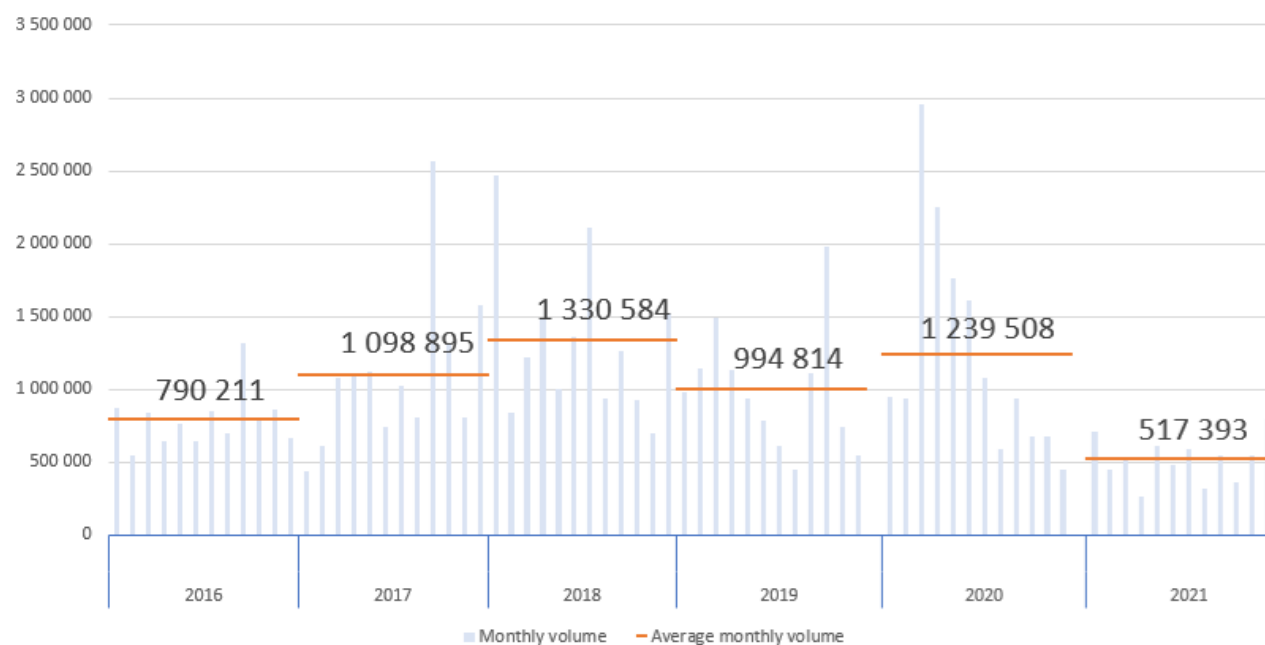


Source: in-house analysis, based on stooq.pl

2.5.2 Stock liquidity

The total volume of KRUK S.A. shares traded in 2021 was 6.2m, and the total value of trading reached PLN 1.6bn. To compare, the total volume of KRUK S.A. shares traded in 2020 was 14.8m, with the total value of trading at a similar level. The average daily trading volume of KRUK shares in 2021 was 25 thousand shares, and the average daily trading value stood at PLN 6.5m. In 2021, KRUK was the 28th 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 2016–2021



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

2.5.3 Ownership interests of open-end pension funds (OFE) in KRUK S.A.

KRUK S.A. is one of seven WSE-listed companies in which OFE's ownership interest exceeds 50%. As at the end of 2021, OFE's aggregate ownership interest in KRUK S.A. was 57%.

Ownership interests of individual OFE in the Company:

Shareholder	Ownership interest	Number of votes	Updated on
OFE Nationale-Nederlanden	14.74%	2,763,105	30-12-2021
OFE Aviva Santander	9.28%	1,740,000	3-11-2021
OFE PZU Złota Jesień	8.80%	1,650,000	3-11-2021
OFE Aegon	6.01%	1,125,500	30-12-2021
OFE Allianz Polska	5.18%	971,056	30-12-2021
OFE MetLife	4.96%	930,000	16-6-2021
OFE Generali	4.57%	856,289	30-12-2021
OFE UNIQA	3.68%	689,865	30-12-2021
OFE PKO BP Bankowy	1.50%	280,912	30-12-2021
OFE Pocztynion Arka	1.06%	198,139	30-12-2021

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

2.6 Human capital

2.6.1 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 both debt management specialists with extensive experience and staff in a number of non-operational functions (e.g. analysts, IT engineers, statisticians, lawyers, etc.). In 2021, the Group's workforce (on an FTE basis) did not increase in line with the strong year-on-year growth in its business and net profit.

Table 7. KRUK Group's workforce (FTEs*) in 2021-2020

	2021	2020
FTE employment*	3,062	3,067

* 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, cooperation agreements, and civil law contracts. Inactive employees (i.e. persons on long-term leaves, e.g. maternity leaves) not included. Source: Company

Below are presented short professional profiles of the current members of the KRUK S.A. Management Board.



Piotr Krupa, [President of the Management Board and Chief Executive Officer](#)

Co-founder of the Company, CEO and President of its Management Board since 2003. He successfully completed training for prospective judges and is a qualified legal counsel. He is also licensed as a detective.

He started his professional career in 1997 as a partner in Kuźnicki i Krupa s.c. A year later, together with a college friend, he set up a legal publishing house KRUK. 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 of and a shareholder in KRUK S.A., and the KRUK Group has expanded to manage debt in Poland, Romania, the Czech Republic, Slovakia, Germany, Italy and Spain. Mr. Krupa is responsible, among other things, for setting the Group's strategic vision and overseeing its key markets and business lines.



Michał Zasepa, [Member of the Management Board and Chief Financial Officer](#)

Member of the Supervisory Board of KRUK S.A. from 2005 to 2010. Member of the Management Board since 2010. At the KRUK Group, he is responsible for financial management, financing, investor relations, and supervision of business lines other than debt collection.



Piotr Kowalewski, [Member of the Management Board and Chief Operational Officer](#)

With KRUK S.A. since 2004, he joined the Management Board in 2020. He is responsible, among other things, for the unsecured retail debt recovery strategy and development of online business.



Urszula Okarma, [Member of the Management Board and Chief Investment Officer \(CIO\)](#)

She joined KRUK S.A. in 2002 and has been serving on the Management Board since 2006. She is responsible, among other things, for developing and implementing the Group's investment strategy, building and maintaining relations with key business partners, and legal support function.



Adam Łodygowski, [Member of the Management Board and Chief Data & Technology Officer](#)

With KRUK S.A. since August 2020, he was appointed Member of the Management Board on November 5th 2020. Responsible, among other things, for the valuation of debt portfolios across all geographies, development and delivery of the Group's digital transition strategy, and ensuring effective IT support function for the Group.

Source: Company

Members of the Company's Management Board and other key personnel of the Group are a strong team experts in such areas as credit management, finance, high-volume process management, debt portfolio valuation, legal support, business partner relations, sales, HR management, IT, and analytics. 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. More than 10% of the shares are held by Management Board members. The Company has not issued any employee shares.

For more information on human capital, see Section 10 *Non-financial statement*.

2.6.2 Incentive Scheme

Incentive Scheme for 2015–2019

The incentive scheme for 2015-2019 was adopted by Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014 (the 2015-2019 Scheme), as amended by Resolution No. 23/2020 of the Annual General Meeting of KRUK S.A. of August 31st 2020 to amend Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of Wrocław of May 28th 2014 on setting the rules of an incentive scheme for 2015–2019, conditional increase of the Company's share capital and issue of subscription warrants with the Company shareholders' pre-emptive rights waived in whole with respect to shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association.

It was the second incentive scheme operated by the KRUK Group as a public company. For details of the 2015–2019 Incentive Scheme, refer to the Directors’ Reports on the operations of the KRUK Group in 2020 and in prior years.

A total of 847,950 subscription warrants were offered and delivered to eligible persons throughout the entire duration of the 2015–2019 Scheme, i.e. in 2016-2021.

Since, by decision of the shareholders of August 31st 2020, the subscription warrants remaining to be granted under Tranche 5 and not granted to the Eligible Persons in 2020 could be granted until the end of 2021, on June 2nd 2021, the Management Board passed a resolution determining the second list of members of the Management Board eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015–2019 Incentive Scheme. The resolution was approved by a resolution of the Supervisory Board of June 4th 2021, and on the basis of the resolution, 32,992 additional subscription warrants were allotted to the Management Board members.

On June 22nd 2021, the Company’s Management Board passed a resolution to determine the third list of persons other than Management Board members who were eligible to acquire Tranche 5 subscription warrants for 2019 under the 2015–2019 Incentive Scheme. Under the resolution, 9,097 subscription warrants were allotted to the eligible persons.

Table 8. Tranches under the Incentive Scheme

Tranche	Number of subscription warrants acquired by members of KRUK’s Management Board	Number of subscription warrants acquired by other eligible persons
Tranche 1 for 2015	20,000	86,435
Tranche 2 for 2016	50,480	91,467
Tranche 3 for 2017	54,344	85,853
Tranche 4 for 2018	89,768	115,528
Tranche 5 for 2019	124,588	129,487
TOTAL	339,180	508,770

Following the amendments to the Commercial Companies Code and the obligation to convert subscription warrants into book-entry form, on February 25th 2021 all subscription warrants issued and outstanding were converted into book-entry form and entered in the securities register maintained by the CSDP.

As at December 31st 2021, 539,682 subscription warrants were converted into Series F shares in the Company. The eligible persons hold 308,268 warrants convertible into Series F shares.

As at December 31st 2021, members of the Management Board of the Company held no rights to KRUK S.A. shares other than those under the subscription warrants presented below.

Table 9. Number of subscription warrants held by present and former members of the Management Board as at December 31st 2021 and as at the date of this Report

Name and surname	Number of warrants granted in Tranches 1 to 5	Number of outstanding warrants held under Tranches 1 to 5
Piotr Krupa	83,942	83,942
Piotr Kowalewski*	22,138	17,138
Adam Łodygowski**	-	-
Urszula Okarma	63,893	63,893
Michał Zasepa	63,893	50,728
Agnieszka Kułton***	56,663	-
Iwona Słomska****	56,663	16,250

* Piotr Kowalewski had been covered by the Incentive Scheme for 2015–2019 as an eligible person other than a member of the Management Board until May 28th 2020. Since May 29th 2020, when he assumed the position of member of the KRUK S.A. Management Board, Piotr Kowalewski has become entitled to acquire Tranche 5 subscription warrants as an eligible person being a member of the Management Board.

**Adam Łodygowski became a member of the Management Board of KRUK S.A. on November 6th 2020.

*** Agnieszka Kułton, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until May 28th 2020. **** Iwona Słomska, listed among the Incentive Scheme participants who are members of the Management Board, had served as a member of the KRUK S.A. Management Board until July 31st 2020.

Incentive scheme for 2021–2024

On June 16th 2021, the Annual General Meeting of KRUK S.A. passed a resolution on setting the rules of an incentive scheme for 2021–2024, conditional increase in the Company's share capital and issue of subscription warrants with the Company existing shareholders' pre-emptive rights disappplied in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association (2021–2024 Incentive Scheme).

For the purposes of the 2021–2024 Incentive Scheme, the General Meeting approved a conditional increase of the Company's share capital by up to PLN 950,550.00, through an issue of up to 950,550 Series H ordinary bearer shares.

Under the 2021–2024 Incentive Scheme, eligible persons will have the right to acquire Series H Company shares on preferential terms set forth in the resolution. Eligible persons are members of the Management Board, including the President of the Management Board, and the Company's employees, as well as members of the management boards and employees of the KRUK Group companies.

Holders of subscription warrants will be entitled to exercise their rights to subscribe for Series H shares at the issue price equal to the turnover-weighted average closing price of Company shares on the Warsaw Stock Exchange from May 15th 2021 to June 15th 2021. Holders of subscription warrants will be entitled to exercise their rights to subscribe for series H shares attached to the subscription warrants not earlier than 24 months after the date on which they acquired the subscription warrants (lock-up for subscription of series H shares by holders of subscription warrants) and not later than on December 31st 2028.

The warrants will be issued in two pools: the basic pool (760,440 subscription warrants) and additional pool (190,110 subscription warrants).

Subscription warrants of the basic pool will be issued in four tranches, one for each of the following years of the reference period, i.e. for the financial years 2021–2024.

Subscription warrants of the additional pool will be issued as a single tranche – Tranche 5, and will be offered in 2025 for 2021–2024.

Subscription warrants of the basic pool for a given financial year will be granted to eligible persons on condition that EPS (calculated on the basis of the Group’s consolidated financial statements) increases by no less than 15.00%. For details on EPS calculations for the purposes of the 2021–2024 Incentive Scheme, see the resolution of the KRUK S.A. General Meeting of June 16th 2021.

Subscription warrants of the additional pool will be granted on condition that the rate of return on the shares (taking into account profit distributions to shareholders in the form of dividends) increases, at the end of the 2021–2024 Incentive Scheme, by a predetermined amount relative to the issue price.

The subscription warrants are issued free of charge, may be inherited, but may not be encumbered and are not transferable.

Acting pursuant to the Scheme, by way of a resolution of July 5th 2021 the Supervisory Board determined the list of persons eligible to participate in the scheme, being members of the Company’s Management Board.

In accordance with the terms of the Scheme, the number of Warrants to be allotted and offered to members of the Management Board throughout the term of the Stock Option Plan shall be 40% of all Warrants.

By way of a resolution of July 15th 2021, the Company’s Management Board determined the list of persons who are not members of the Management Board and are eligible to participate in the 2021–2024 Incentive Scheme.

3 | Chapter

3 OVERVIEW OF THE KRUK GROUP'S AND KRUK.S.A.'s BUSINESS IN 2021

3.1 Consolidated financial highlights of the KRUK Group

Table 10. Consolidated financial results in 2021–2020

	Year ended Dec 31		
	2021	2020	Change
	(PLN '000, unless stated otherwise)		
Revenue	1,742,683	1,157,812	51%
Operating profit (EBIT)	859,616	332,265	159%
Net profit for period	694,758	81,356	758%
Cash flows from operating activities, including	-288,797	743,516	-139%
Debt purchases	-1,738,002	-456,224	281%
Cash recoveries	2,215,806	1,833,874	21%
Cash flows from investing activities	-13,612	-10,905	25%
Cash flows from financing activities	356,021	-737,333	-148%
Total net cash flows	53,612	-4,722	-1235%
Total assets	5,909,400	4,643,031	27%
Equity	2,600,817	2,043,771	27%
Return on equity (ROE)	27%	4%	-
Earnings per share (PLN)			
Basic	36.63	4.29	754%
Diluted	35.80	4.22	748%

Source: Consolidated financial statements

Net profit and return on equity (ROE)

The amount posted by the KRUK Group in net profit for 2021 was PLN 695m, up PLN 614m, or 758%, year on year. The key factor driving the net profit growth was a PLN 585m (51%) year-on-year increase in revenue. The KRUK Group's net profit for the first half of 2021 was PLN 396m, i.e. PLN 415m more than a year earlier, marking the first time that the Group's half-year result came in higher than any of its prior full-year figures. At an all-time high of PLN 695m, the Group's net profit for the entire 2021 was double that posted for 2018, which was the Group's previous record full-year result.

As at December 31st 2021, total equity stood at PLN 2,600m, having increased by 27% year on year.

Return on equity (ROE) was 27%, up 23pp relative to 2020.

Revenue and revision of recovery projections

In 2021, the KRUK Group generated PLN 1,743m in revenue, i.e. 51% more than the year before. In 2021, revenue from purchased debt portfolios amounted to PLN 1,576m, having increased by 61% year on year. The revenue growth was driven mainly by recoveries from debt portfolios coming in above the target and by an upward revision of recovery projections.

In 2021, the deviations between actual and projected recoveries disclosed jointly with revenue decreases on early collections in collateralised cases and payments from original creditor totalled PLN 327m, relative to PLN 235m the year before.

A PLN 270m upward revision of recovery projections was recorded in 2021, compared with a downward revision of PLN -205m in 2020, which was mainly due to the effects of the COVID-19 pandemic. The PLN 270m revision made in 2021 includes an upward revision of projected recoveries from retail portfolios (PLN +310m) and a downward revision of projected recoveries from secured portfolios (PLN -40m).

Costs of operations

In 2021, costs of operations (direct, indirect and administrative expenses) amounted to PLN 835m, having increased by PLN 56m (7%) relative to 2020. The year-on-year increase in costs was partly attributable to a lower cost base in the comparative period. The significant business growth recorded by the Group in the reporting period did not prompt an increase in the number of employees, with the increase in labour costs resulting from a rise in salaries and the bonus paid in 2021. In 2020, in response to the pandemic, the Group introduced a cost savings plan, which helped temporarily reduce costs, including salaries and wages. Direct and indirect costs were PLN 631m, having increased by PLN 11m (2%) year on year. The year-on-year increase in overall costs was primarily attributable to higher costs in the purchased debt segment, which was partly offset by reduced costs in the credit management and other services segments. In the purchased debt segment, direct and indirect costs rose by PLN 65m, or 14%, mainly due to increased litigation and debt enforcement costs (primarily in Italy and Romania) and, to a lesser extent, to increased salaries and wages. In the credit management segment and the other services segment, direct and indirect costs decreased by a total PLN 49m, or 36%, including by PLN 21m, or 31%, in the former alone. The difference was mainly attributable to a PLN 25m impairment loss on the Spanish subsidiary recognised in 2020. In the other services segment, the year-on-year reduction in direct and indirect costs was PLN 28m (40%).

Administrative expenses increased by PLN 44m, or 28%, year on year mainly as a result of higher costs of management stock options (the Group's new management stock option plan for 2021–2024 has been

expensed since July 2021, and also in 2021 the last outstanding stock options under the previous plan were expensed) and higher salaries and wages.

Purchased debt portfolios

Recoveries from purchased portfolios

The annual value of recoveries from purchased debt portfolios was the highest in the Group's history and amounted to PLN 2,216m, up by 21% year on year. In each of the Group's operating markets, recoveries in 2021 were higher than in 2020.

Despite a slight decline in their share, recoveries in Poland and Romania continued to account for the bulk of the KRUK Group's total (73% in 2021 vs. 76% in 2020). In 2021, the Group recorded a significant, 57% and 25% year-on-year increase in recoveries on the Spanish and Italian markets, respectively.

In the three months to March 31st 2021, recoveries from portfolios purchased by the KRUK Group totalled PLN 512m, having for the first time exceeded the PLN 500m threshold in a single quarter. In the three months to December 31st 2021 alone, recoveries came in at PLN 601m, the strongest quarterly result recorded by the KRUK Group to date.

Table 11. Recoveries from purchased portfolios, by market

	2021 recoveries	Share in total	2020 recoveries	Share in	Change y/y
	PLNm	recoveries	PLNm	total	
				recoveries	
Poland	1,074	48%	863	47%	25%
Romania	565	25%	525	29%	8%
Italy	313	14%	250	14%	25%
Spain	173	8%	110	6%	57%
Other markets	91	5%	85	4%	9%
KRUK Group	2,216	100%	1,834	100%	21%

The tables below present, respectively, the amounts of 2020 and 2021 recoveries from purchased debt portfolios and shares of purchased debt portfolios in the 2020 and 2021 total recoveries broken down by the portfolio acquisition period.

Table 12. Amounts of 2020 and 2021 recoveries from purchased portfolios by portfolio acquisition period

	Acquisition period								
	2004-2010	2011-2015	2016	2017	2018	2019	2020	2021	TOTAL
2020 recoveries	121	522	316	198	338	305	34	n/a	1,834
2021 recoveries	129	511	351	234	355	259	184	192	2,216

Table 13. Shares of purchased debt portfolios in the 2020 and 2021 total recoveries by portfolio acquisition period

	Acquisition period							
	2004-2010	2011-2015	2016	2017	2018	2019	2020	2021
2020 recoveries	7%	28%	17%	11%	18%	17%	2%	n/a
2021 recoveries	6%	23%	16%	11%	16%	12%	8%	9%

The portfolios purchased over the last six years accounted for the largest (more than 70%) share in the KRUK Group's total recoveries in 2021 and in 2020, with the portfolios acquired in 2011–2015 accounting for more than 20% of total recoveries in 2021. At the same time, the Group continued to recover debts from portfolios that had already been under its management for more than 10 years (portfolios purchased no later than 2010). At PLN 129m, recoveries from those portfolios in 2021 were up PLN 8m year on year, largely as a result of the improved efficiency of debt collection processes.

The contribution of the portfolios acquired in 2021 to total recoveries was 9%, in keeping with corresponding figures recorded in prior years. The share of debt portfolios purchased in a financial year in total recoveries posted for that year is largely determined by the acquisition date (the earlier in a year an asset is acquired, the longer it will contribute to recoveries in that year). This is in particular evident for the 2020 recoveries, only 2% of which were attributable to debt portfolios acquired in 2020, as most, i.e. 75%, were not purchased until the last quarter of that year.

New portfolio purchases

In 2021, the Group invested PLN 1,738m in debt portfolios, 281% more than a year earlier and more than ever before in absolute terms. In 2021, KRUK acquired debt portfolios with a total nominal value of close to PLN 9.7bn, the highest amount in more than two decades of its operating history. In all of the markets where the Group operates, debt originators, mainly banks and other financial institutions, held debt sale auctions throughout 2021. Accordingly, KRUK purchased debts over the entire reporting period, and the Group's investments in each quarter of 2021 were higher than in the corresponding period of 2020. In 2021, the KRUK Group resumed investment activities in Italy and, relative to 2020, stepped up its efforts in this area in Poland, Romania, Spain, the Czech Republic and Slovakia.

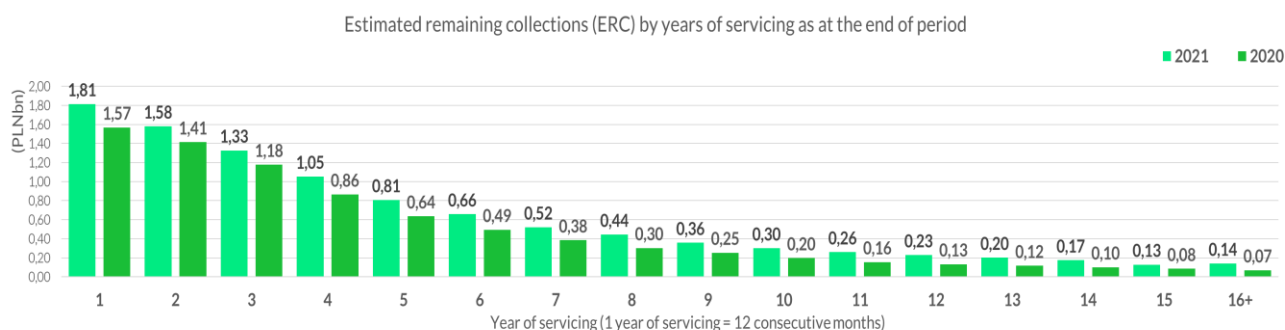
The total investments in 2021 were almost four times higher than in 2020. Record-high investments were made on the Polish market, accounting for 63% of the total investments in 2021.

2021 saw the Group's investments exceed by 25% the previous record levels posted in 2018, with the bulk of its investment activities (46% of the annual total) conducted in the the fourth quarter of 2021. Some of the debt purchase transactions were executed under forward-flow agreements, whereby KRUK may continue to acquire portfolios from the debt originators also in the coming quarters, including in 2023 in certain cases.

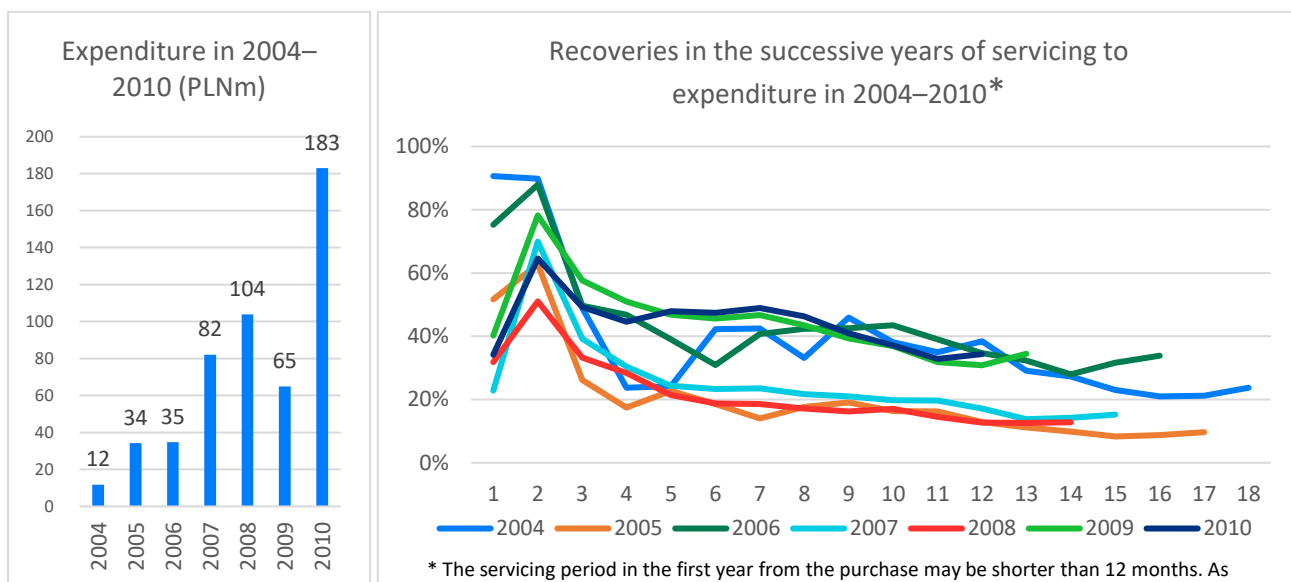
Estimated remaining collections (ERC)

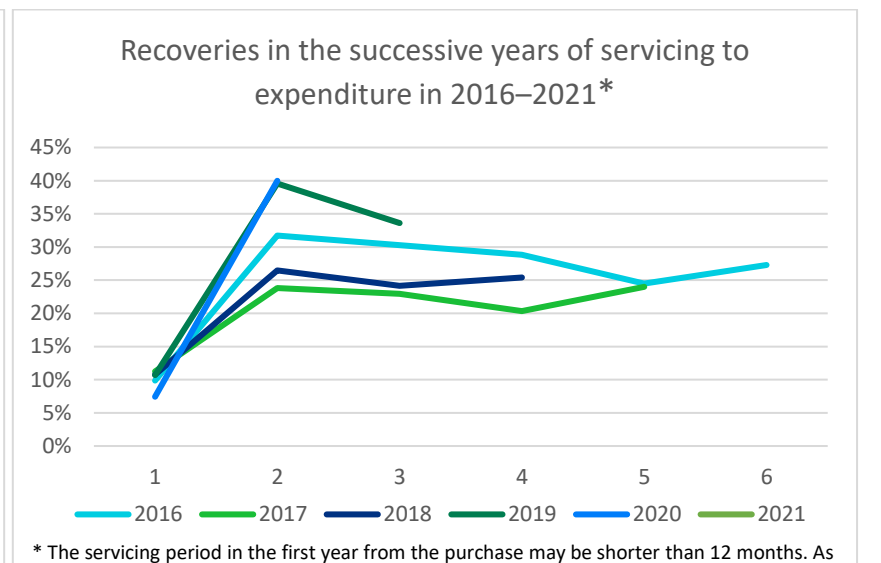
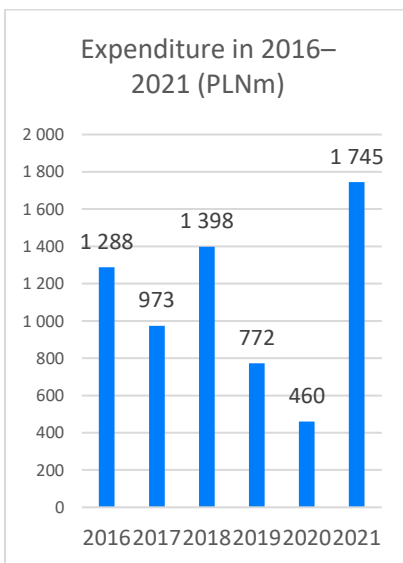
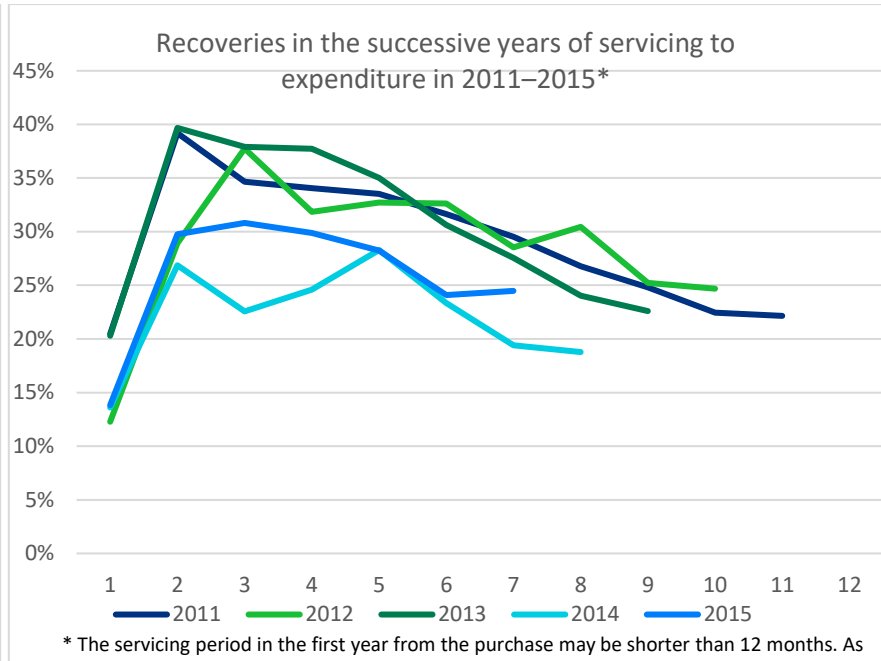
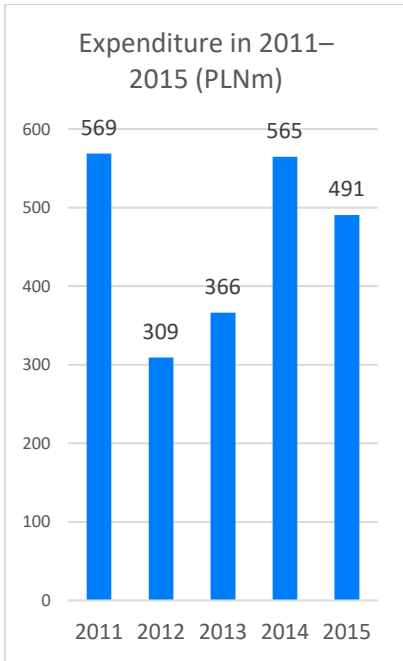
Estimated remaining collections from debt portfolios as at December 31st 2021 were PLN 10bn, up PLN 2bn, or 26%, on December 31st 2020, and up PLN 1bn on September 30th 2021. The increase was driven by investments of as much as PLN 1,738m in debt portfolios with a nominal value of PLN 9.7bn,

and an upward revision of recovery projections, with a discounted value of PLN 270m in 2021. A detailed schedule of ERC from debt portfolios is presented in the chart below.



As at the end of 2020, the KRUK Group extended the expected recovery period in the accounting estimate from 10 to 15 years, in line with the trend towards longer recovery periods. Most recoveries are still expected to be made within the first five years from the purchase (69%), but recoveries made after the first ten years are material enough to be included in future recovery projections. The expected recovery period was extended following an analysis of historical recoveries from portfolios purchased by the KRUK Group over the last 19 years – KRUK’s first investments date back to 2002. To illustrate this, taking into account the expenditure and its weight on the existing portfolio, below is an overview of portfolios in three time perspectives: portfolios purchased in 2004–2010 (longer history of recoveries, also after 10 years of servicing), portfolios purchased in 2011–2015 (shorter history of recoveries, within the first 10 years of servicing), and the newest portfolios, purchased in 2016–2021:





The table below presents recoveries in successive calendar years in relation to expenditure on portfolios purchased in 2004-2021, with the proviso that the first period from the acquisition date may be less than 12 months (portfolios are purchased from January 1st to December 31st).

Table 14. Recoveries in successive calendar years in relation to expenditure on portfolios purchased in 2004–2021

	Period																	
	1*	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2004	91%	90%	49%	24%	24%	42%	42%	33%	46%	38%	35%	38%	29%	27%	23%	21%	21%	24%
2005	52%	63%	26%	17%	23%	19%	14%	18%	19%	16%	16%	13%	11%	10%	8%	9%	10%	
2006	75%	88%	50%	47%	39%	31%	41%	42%	43%	43%	39%	35%	32%	28%	32%	34%		
2007	23%	70%	39%	30%	24%	23%	24%	22%	21%	20%	20%	17%	14%	14%	15%			
2008	32%	51%	33%	28%	21%	19%	19%	17%	16%	17%	15%	13%	13%	13%				
2009	40%	78%	58%	51%	47%	46%	47%	43%	39%	37%	32%	31%	34%					
2010	34%	65%	49%	45%	48%	47%	49%	46%	41%	37%	33%	34%						
2011	20%	39%	35%	34%	34%	32%	30%	27%	25%	22%	22%							
2012	12%	29%	38%	32%	33%	33%	29%	30%	25%	25%								
2013	20%	40%	38%	38%	35%	31%	28%	24%	23%									
2014	14%	27%	23%	25%	28%	23%	19%	19%										
2015	14%	30%	31%	30%	28%	24%	24%											
2016	10%	32%	30%	29%	24%	27%												
2017	11%	24%	23%	20%	24%													
2018	11%	26%	24%	25%														
2019	11%	40%	34%															
2020	7%	40%																
2021	11%																	

* The servicing period in the first year from the purchase may be shorter than 12 months. As at Dec 31 2021

The relation of recoveries in successive calendar years to expenditure on portfolios purchased in 2004–2021 may differ from year to year depending on a range of factors, including:

- the KRUK Group's debt management process,
- the type and nature of debt portfolios purchased in a given year,
- shares of various geographies in total debt portfolio acquisitions in a given year,
- external environment, including legal and business environments.

Credit management services

Throughout 2021, the nominal value of debts outsourced to the Group for collection was PLN 29.4bn (relative to PLN 9.8bn in 2020). In 2021, banks remained the Group's main trading partners in the credit management segment. Credit management revenue in 2021 was PLN 62m, an increase of 8% year on year, driven by the larger scale of outsourced cases, successful process optimisation, and new projects, including some run in partnership with the Polish Development Fund. Revenue increased by 9% and 34% on the Polish and Spanish markets, respectively, with a 7% decrease in Italy and a nominal (2%) decline in Romania. 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.

Consumer loans (Novum and Wonga)

In 2021, Wonga disbursed 236 thousand cash loans in Poland, amounting to a total of PLN 651m. As part of the Wonga business line, consumer loans of up to PLN 20,000 per loan are granted, with repayment periods of up to 48 months.

In 2021, the Group advanced 9.5 thousand NOVUM cash loans in Poland and Romania, with a total principal amount of PLN 23m. As part of the NOVUM business line in Poland, consumer loans of up to PLN 12,000 per loan were granted for periods from 3 to 30 months. In Romania, NOVUM granted consumer loans of up to RON 60,000 per loan, with repayment periods of up to 60 months.

Given the COVID-19 pandemic and resulting uncertainties, as well as the temporary reduction – under the Act of March 8th 2020 on Special Measures to Prevent, Counteract and Combat Covid-19, Other Infectious Diseases and Related Crisis Situations, and Certain Other Acts (Dz. U. 2020, item 568) – of a cap on non-interest costs of consumer loans, both Wonga and Novum temporarily reduced the sale of loan products, while introducing additional changes and restrictions to the creditworthiness assessment process. The reduced cap on non-interest costs, which originally was to expire on March 8th 2021, was on January 25th 2021 extended until the end of June 2021.

The enacted legislative changes undermined the profitability of products offered by Wonga and Novum. In the second half of 2021, Wonga and Novum gradually restored their pre-pandemic product offering and increased the sale of loans.

Novum's revenue was PLN 19m, up 16% year on year, whereas Wonga's revenue was PLN 72m, down 8% year on year.

Wonga has been 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 fee refunds, in 2020 the company recognised a provision for the difference between the applied method of reimbursement and the straight-line method. The Group regularly estimates the level of the provision for the difference between the applied method of fee return and the straight-line return. The provision reflects the probability of the outflow of funds estimated by the Group. From September 18, 2020, the Group introduced a linear settlement of the commission return with early loan repayment.

Credit reference (ERIF BIG)

As at January 3rd 2022, the ERIF BIG database contained 127m cases (including 123m positive credit information reports), showing debts with a total nominal amount of more than PLN 56.2bn. To compare, as at December 31st 2020 the database contained 105m records (including 101.6m positive credit information reports), showing debts with a total nominal amount of PLN 52.9bn. In 2021, close to 13 million credit information reports were downloaded from the ERIF BIG database. In 2021, revenue derived by BIG from the provision of credit reference services was PLN 9m, 14% less than the year before.

3.2 KRUK Group's performance by business segment

The performance of each reportable segment is discussed below.

Table 15. KRUK Group's performance highlights by reportable segment

(PLN '000)	TOTAL	TOTAL
	2021	2020
Total revenue	1,742,683	1,157,812
Purchased debt portfolios	1,575,627	976,341
including revision of recovery projection	270,032	-205,271
Credit management services	61,614	56,821
Other products	100,676	104,856
Other income	4,766	19,792
Direct and indirect costs	-630,525	-619,077
Purchased debt portfolios	-533,682	-468,381
Credit management services	-46,677	-67,620
Other products	-41,667	-69,893
Unallocated expenses	-8,499	-13,183
Gross profit ¹	1,112,158	538,732
Purchased debt portfolios	1,041,945	507,959
Credit management services	14,937	-10,799
Other products	59,009	34,963
Revenue/ unallocated expenses	-3,733	6,609
General expenses	-204,187	-159,926
EBITDA	907,971	378,805

¹ Gross profit = operating income - operating expenses.

In 2021, the Group's gross profit was PLN 1,122m, having increased by PLN 573m, or 106%, on the previous year. The increase was mainly attributable to a 51% year-on-year growth in revenue. Operating expenses increased by 2%, reflecting mainly a 14% rise in the purchased debt segment's operating expenses, which was partly offset by a 31% and 40% reduction in operating expenses in the credit management and other services segments, respectively.

The purchased debt segment's gross profit was PLN 1,042m, up PLN 534m (105%) year on year. The increase in gross profit was largely attributable to a PLN 599m growth in revenue, which was driven by recoveries from debt portfolios coming in above the target and by an upward revision of the recovery projection totalling PLN 270m, relative to PLN -205m in 2020. In 2021, the deviations between actual and projected recoveries disclosed jointly with revenue decreases on early collections in collateralised cases and payments from original creditor totalled PLN 327m, relative to PLN 235m the year before. The purchased debt segment's operating expenses rose by PLN 65m, or 14%, year on year, primarily as a result of higher litigation and debt enforcement costs (mainly in Italy and Romania) and, to a lesser extent, of an increase in salaries and wages.

The credit management segment's gross margin came in at PLN 15m, having increased by PLN 26m on the previous year. The increase was mainly attributable to a PLN 25m impairment loss on the Spanish subsidiary recognised in 2020.

3.3 KRUK Group's performance by geographical segment

Discussed below are the Group's results by geographical segment (presentation).

(PLNm)	Poland		Romania		Italy		Spain		Other markets		Head Office		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Expenditure on debt portfolios	1 100	346	167	48	282	0	130	55	59	8	N/A	N/A	2021	2020
													1,738	456
Recoveries	1 074	863	565	525	313	250	173	110	91	85	N/A	N/A	2,216	1,834
Carrying amount of purchased debt portfolios (PLNbn)	2.7	1.9	0.9	0.9	1.0	0.7	0.4	0.4	0.2	0.1	N/A	N/A	5.1	4.0
Revenue	872	622	412	315	279	117	113	38	61	46	N/A	N/A	1,743	1,158
Purchased debt portfolios	751	498	396	299	270	107	97	26	61	46	N/A	N/A	1,576	976
Credit management services	24	22	13	13	9	10	15	11			N/A	N/A	62	57
Wonga	72	78									N/A	N/A	72	78
Other activities	25	24	3	3							N/A	N/A	29	26
EBITDA	543	293	295	221	105	-29	18	-80	30	19	-79	-51	908	379
Cash EBITDA	866	658	464	447	148	113	94	4	59	59	-79	-51	1,548	1,236

3.3.1 Poland – market overview and KRUK Group's business

In 2021, debt sale auctions held by debt originators (mainly banks and financial institutions) went through without any pandemic-related disruptions. In Poland, sale transactions were concluded included all types of debts (unsecured retail debt, mortgage-backed debt, and corporate debt). Unsecured retail debt accounted for 74% of the total debt supply on the Polish market. As in prior years, KRUK's main competitors in Poland are foreign entities. The estimated nominal value of the total debt supply in Poland increased from PLN 8.6bn in 2020 to close to PLN 13.1bn in 2021. According to KRUK's estimates, the average price paid for unsecured retail debt was 20% of the nominal value (as investments/nominal value), having increased by 5pp year on year, largely as a result of the improved quality of assets offered for sale and of strong competition on the market. Investors spent a total of PLN of 2.1bn on debt, of which 52% was attributable to KRUK, a figure representing its historically largest market share in Poland.

KRUK expects that 2022 will see debt supply remain flat or decline slightly on 2021.

The KRUK Group's expenditure on portfolio purchases in Poland reached PLN 1.1bn, representing 63% of all funds invested by the Group in 2021. The nominal value of the purchased portfolios is over PLN 6.5bn.

Recoveries in Poland amounted to PLN 1,074m, up PLN 211m (25%) year on year, accounting for 48% of the Group's total recoveries.

Given the factors discussed above, the carrying amount of purchased debt portfolios as at December 31st 2021 was PLN 2,668m, relative to PLN 1,876m the year before. Polish portfolios accounted in total for 52% of the carrying amount of all debt portfolios held by the KRUK Group.

Revenue in Poland grew 40%, to PLN 872m, driven by higher revenue from purchased debt portfolios (up 51%), credit management services (up 9%). Wonga generated revenue of PLN 72m, down 8% year on year. The bulk of the Group's revenue in Poland (86%) was attributable to the purchased debt segment, which recorded a PLN 110m upward revision of recovery projections, compared with a downward revision of PLN -38m in 2020.

EBITDA on the Polish market came in at PLN 543m, up 85% on the previous year, driven by an excess of actual recoveries, in particular from unsecured retail debt portfolios, against projections and an upward revision of recovery projections. At the same time, cash EBITDA stood at PLN 866m, up 32% on 2020, mainly on higher year-on-year recoveries.

As at the date of issue of this report, the KRUK Group was not aware of any new or proposed regulations related to COVID-19 that could materially -affect the value of its debt portfolios. The KRUK Management Board consistently pursues the Group's strategy, focused primarily on purchased debt portfolios, taking into account various scenarios.

Tomasz Ignaczak – CEO Poland

2021 was another pandemic year that created a number of challenges, which we successfully tackled. Remote and hybrid working is our new reality that has positioned our staff to even improve their efficiency, which translated into record-high performance. In Poland, despite strong competition we made very good investments in portfolios of virtually all kinds of debts, from fresh unsecured bank debts to large secured corporate cases. This gave us an unprecedented market share in excess of 50%. 2021 was a record year in terms of recoveries as well.

We continued our efforts to further automate and digitalise our processes. We are on the right track, and I am confident that the solutions we worked on during 2021 will pay off in the future.

3.3.2 Romania – market overview and KRUK Group's business

Unsecured retail and corporate debt portfolios with a nominal value of PLN 1.6bn were sold on the Romanian market in 2021. According to KRUK's estimates, total expenditure on retail and corporate debt in 2021 was PLN 296m, with KRUK's share at 60%. Average prices on the market were around 19% , reflecting asset quality and competitiveness in the market. KRUK invested PLN 167m in debts, all of which were unsecured retail debts with a nominal value of PLN 688m. KRUK entered into a forward-flow transaction, which will translate into investments in 2022 and 2023.

Recoveries from portfolios in Romania amounted to PLN 565m, up 8% year on year. They accounted for 25% of the Group's total recoveries. The Group posted an over PLN 188m upward revision of ERC, compared with a downward revision of PLN 9m in 2020. In the previous year, recoveries and revisions were primarily affected by temporary restrictions on enforcement from pensions, which expired in the third quarter of 2020. The Group has seen recoveries increase since then. As at the date of issue of the full-year report, no material legislative changes related to COVID-19 were identified by the KRUK Group, likely to affect the value of the Group's debt portfolios.

Total revenue from the Romanian market amounted to PLN 412m, up 31% on 2020. Most of the revenue was derived from purchased portfolios, which accounted for 96% of total revenue in 2021.

Given these factors, the carrying amount of purchased debt portfolios as at the end of 2021 was PLN 887m, having remained unchanged year on year. Romanian portfolios accounted in total for 17% of the carrying amount of all debt portfolios held by the KRUK Group.

The Group's revenue from credit management services was over PLN 13m, down 2% year on year.

EBITDA on the Romanian market came in at PLN 295m, up 34% on the corresponding period of the year before, driven by an excess of actual recoveries against projections and the upward revision of the ERC forecast. Higher recoveries bolstered cash EBITDA, which rose 4% year on year, to PLN 464m.

Cosmina Marinescu, CEO Romania

This year we are celebrating the 15th anniversary of our presence on the debt management market in Romania.

Our joint efforts to promote financial literacy, individual customer approach and operational efficiency improvements brought record recoveries in 2021, rooted in our mission to protect people dealing with challenges created by the pandemic, with an unwavering focus on protecting employees in the pandemic situation. Thanks to its approach to continuous improvement and conservative cost management, KRUK Romania was able to fully offset the adverse impact on revenue in the first year of the pandemic, so we can safely say we have emerged stronger and with a sound financial footing. And this with most of our work done remotely.

KRUK Romania will seek further growth in 2022 relying mainly on its operational excellence.

3.3.3 Italy – market overview and KRUK Group's business

According to the KRUK Group's estimates, the supply of unsecured retail debt, SME and corporate debt portfolios was in excess of PLN 97bn, while the supply of unsecured retail debt portfolios amounted to PLN 55bn in 2021. Most of the portfolios were sold by the banking sector and the main buyers in the Italian market were local players. The average price paid for unsecured retail debt portfolios, calculated as expenditure incurred to the nominal value of debt, was close to 4% compared with 6% the year before, and reflected both asset quality and competitiveness in the market. Expenditure in Italy totalled PLN 5.1bn, with KRUK's market share estimated at 5%.

After a year-long break, the Group resumed investments in Italy in 2021, encouraged by improved performance and profitability recorded in that market. PLN 282m was spent to buy debt portfolios with a nominal value of PLN 1,656m. All of them were unsecured retail debts. In 2021, we entered into a forward-flow transaction enabling us to purchase portfolios from a bank in quarterly tranches until November 2023.

Recoveries from portfolios in Italy amounted to PLN 313m, up 25% year on year. They accounted for 14% of the Group's total recoveries.

Revenue in Italy amounted to PLN 279m, of which 97% was revenue from purchased portfolios. In 2021, the Group recognised an aggregate PLN 36m upward revision of ERC from Italian portfolios, compared with a downward revision of PLN 96m the year before. As at the date of issue of the report, the KRUK Group did not identify any material legislative changes attributable to the coronavirus pandemic that could affect the value of the Group's debt portfolios.

Given the factors discussed above, the carrying amount of purchased debt portfolios as at December 31st 2021 was PLN 972m, down 32% year on year. Italian portfolios accounted in total for 19% of the carrying amount of all debt portfolios held by the KRUK Group.

The business of credit management services posted revenue of PLN 9m, down 7% year on year.

In 2021, EBITDA came in at PLN 105m, compared with negative EBITDA of PLN -29m in 2020. For the first time Italy made a positive contribution to the Group's EBITDA. On account of a year-on-year growth in recoveries, cash EBITDA came in at PLN 148m, compared with PLN 113m the year before.

Tomasz Kurr, CEO Italy

In common with other European markets, the Italian market expected increased supply of debt and a related 'NPL wave'. As it turned out, the wave was not as severe as expected, and gradual normalisation facilitated a return to pre-pandemic levels.

KRUK Italia used this time to resume its investment activity, successfully closing projects in the key segment of unsecured retail debts. The value of transactions was similar to pre-pandemic years, and the reported performance, which was in line with expectations, warrants a bolder scale-up of operations in the coming years. 2021 was also a step towards expansion and diversification of the corporate debt business line including secured corporate debts.

Our ambitious team and growing organisational and process maturity combined with the market's potential leave us to expect a rising contribution of the Italian company to the KRUK Group's performance.

3.3.5 Spain

Based on KRUK's estimates, in 2021 sales of bank and non-bank debt portfolios in Spain reached nearly PLN 42bn in nominal terms (excluding mortgage debt), of which nearly a half were sales of unsecured retail debt. Most of the portfolios were sold by the banking sector and other financial institutions. The average price paid for the portfolios, calculated as expenditure incurred to the nominal value of debt, was close to 9% compared with 11% the year before, and reflected both asset quality and competitiveness in the market. The total amount invested by all players on the Spanish market was in excess of PLN 1.7bn, with KRUK's share at 8%.

KRUK invested PLN 130m in Spain in 2021, purchasing (unsecured retail) debt portfolios with a nominal value of PLN 626m, compared with PLN 55m and PLN 380m, respectively, in 2020.

Recoveries in Spain totalled PLN 173m in 2021, up 57% on 2020 when the Spanish market was particularly hard hit by the pandemic. Recoveries in Spain accounted for 8% of the Group's total recoveries.

Revenue was PLN 113m, an over three-fold rise on 2020. As in other markets, revenue in Spain was generated mainly from purchased debt portfolios (86%), contributing PLN 97m, up 267% year on year. The Group recognised an almost 5m downward revision of ERC, a combined effect of upward revisions in the unsecured retail debt business line and downward revisions in the corporate debt business line. Revenue from the credit management business came to PLN 15m, up 34% year on year.

EBITDA in Spain was PLN 18m, compared with negative EBITDA of PLN -80m in 2020. As in Italy, 2021 was the first year of Spain's positive contribution to the Group's EBITDA.

Driven by a year-on-year growth in recoveries, cash EBITDA was PLN 94m, up PLN 90m year on year.

As at the end of December 2021, the carrying amount of debt portfolios was PLN 420m, accounting for 8% of the Group's total debt portfolios.

As at the issue date of this report, a prolongation of the prohibition on business bankruptcies in Spain until June 30th 2022 (originally imposed until the end of 2020) was identified by the KRUK Group as a material legislative change attributable to the coronavirus pandemic. The impact of the change was reflected by KRUK in its accounting estimates.

Alina Giurgea, CEO Spain

In 2021, we recorded a year-on-year increase in the number and value of transactions. The market is highly competitive with international players participating. Despite the challenging environment, KRUK Espana managed to increase the scale of its operations through portfolio investments and new agreements signed with business partners in the (banking and non-banking) financial sector for the provision of debt management services.

Given the current environment, we believe that 2022 will be driven by several factors, including the evolution of concentration in the banking sector and macroeconomic factors. Regardless of external events, we will continue to focus on further improvement of our processes. Our team is motivated, and the strong 2021 results are a springboard to future success.

3.3.4 Other markets – market overview and KRUK Group's business

According to in-house estimates, consumer debt portfolios sold in the Czech Republic and Slovakia in 2021 was almost PLN 1.5bn (in nominal terms in auctions we know of), up on the PLN 1.1bn recorded in 2020. The estimated expenditure made in the market was just under PLN 0.3bn. Average prices, calculated as expenditure incurred to the nominal value of debt, were 19%. In the Czech Republic and Slovakia, KRUK purchased unsecured retail debts with a nominal value of PLN 226m, investing PLN 59m, over seven times more than in 2020. KRUK's share of the unsecured debt purchase market in the Czech Republic and Slovakia was ca. 24% and 20%, respectively. In Germany, KRUK did not invest in new portfolios.

Recoveries in other markets amounted to PLN 91m, compared with PLN 85m in 2020, representing 4% of the Group's total recoveries. The segment's revenue was PLN 61m, up 33% year on year. All of the revenue was derived from purchased portfolios.

The KRUK Group recognised a PLN 11m upward revision of ERC, compared with an almost PLN 1m downward revision recognised in 2020.

As at the date of issue of this report, the KRUK Group did not identify any material legislative changes attributable to the coronavirus pandemic in Germany, the Czech Republic and Slovakia that could affect the value of the Group's debt portfolios.

EBITDA on other markets was close to PLN 30m, up 53% year on year, reflecting mainly a higher-than-expected level of recoveries and upward revisions of ERC. Cash EBITDA on other markets was PLN 59m and remained unchanged year on year.

As at the end of the year, the carrying amount of debt portfolios in other markets was PLN 153m, representing 3% of the Group's total debt portfolios.

Jaroslava Palendalová, CEO Czech Republic and Slovakia

2021 was a very important year for KRUK Česká a Slovenská republika in terms of investment. We purchased a large bank portfolio in the Czech Republic, and we made our first investments in the e-commerce segment in the Czech Republic and in Slovakia. The number of auctions increased, but the nominal value of debts offered for sale was lower. The need for digital transformation, driven by the pandemic, is also contributing to continuous improvement of operational efficiency. We constantly seek out new solutions to provide our customers with simple and convenient service.

In 2022, we will continue to be active in all existing market segments, with a particular focus on the banking sector. We will also continue work on optimising processes and developing online tools. We consider the continuous search for new segments as a major opportunity. Our understanding of the situation and our ability to adapt and drive continuous improvement are our key strengths on the road to success.

3.4 Carrying amount of purchased debt portfolios

As at the end of 2021, the carrying amount of purchased debt portfolios was PLN 5.1bn, up nearly 28% year on year. The increase was mainly driven by a high level of investments and recoveries.

Table 16. Movements in purchased debt portfolios in 2021

PLN '000

Carrying amount of investments in debt portfolios as at Jan 1 2020	4,196,821
Purchase of debt portfolios	456,224
Purchase price adjustment for discount	(100)
Cash recoveries	(1,833,874)
Increase/(decrease) in liabilities to indebted persons due to overpayments	6,620
Valuation of loyalty scheme	9,513
Payments from original creditor	(2,844)
Revenue from purchased debt portfolios	976,341
Carrying amount of foreclosed property	(15,864)
Carrying amount of property sold	18,914
Translation differences on debt portfolios	172,329
Carrying amount of investments in debt portfolios as at Dec 31 2020	3,984,080
Carrying amount of investments in debt portfolios as at Jan 1 2021	3,984,080
Purchase of debt portfolios	1,738,002
Purchase price adjustment for discount	-
Cash recoveries	(2,215,806)
Receivables from debt sold	(3,200)
Increase/(decrease) in liabilities to indebted persons due to overpayments	5,705
Valuation of loyalty scheme	7,174
Payments from original creditor	-
Revenue from purchased debt portfolios	1,575,627

Carrying amount of foreclosed property	(7,156)
Carrying amount of property sold	18,374
Translation differences on debt portfolios	(2,624)
Carrying amount of investments in debt portfolios as at Dec 31 2021	5,100,176

Source: Consolidated financial statements

3.5 Investments

3.5.1 Investments in debt portfolios

In 2021, the KRUK Group purchased 164 debt portfolios with a total nominal value of PLN 9.7bn. KRUK invested in bank and non-bank portfolios, including, apart from secured and corporate debts, mainly unsecured retail debts. To compare, in 2020 KRUK purchased 78 debt portfolios with a total nominal value of PLN 3.1bn for PLN 456m.

The Group's investments in Poland amounted to PLN 1.1bn, having increased more than three times on the previous year and accounting for the largest share in the Group's total investments in debt portfolios. The expenditure outside Poland amounted to PLN 638m, compared with PLN 110m in 2020. Summary data for debt portfolio purchases in 2021-2020 is presented below.

Table 17. Summary of debt portfolios purchased in 2021 and 2020

	2021	2020
Number of purchased debt portfolios	164	78
Nominal value of purchased debt portfolios (PLNm)	9,651	3,132
Expenditure on debt portfolios (PLNm)	1,738	456

Source: Company

KRUK made its largest investments in Poland (63% of the total), with Italy, Romania, Spain and the Czech Republic accounting for the remainder of its total expenditure on debt portfolios.

Table 18. Expenditure in 2021 and 2020, by country (PLNm)

Country	2021	2020
Poland	1,100	346
Romania	167	48
Czech Republic and Slovakia	59	8
Italy	282	0
Germany	0	0
Spain	130	55
Total	1,738	456

Source: Company

3.5.2 Loans

In 2021, the KRUK Group companies advanced 246 thousand cash loans, compared with 155 thousand the year before. In 2021, the value of loans advanced was PLN 696m, compared with PLN 339m in 2020.

3.5.3 Other capital expenditure

In 2021, the main items of the Group's other capital expenditure were PLN 16.1m spent on new vehicles (including under finance lease contracts) and PLN 5.9m spent on plant and equipment. The Company also made material investments of PLN 11.5m in licences and software, including PLN 0.6m invested in proprietary software.

3.5.4 Equity investments within the Group

In 2021, KRUK increased or reduced the capital of its subsidiaries:

Table 19. Movements in share capital at the Group companies

Company	Action	Amount
InvestCapital Ltd.	Share capital increase	PLN 172.0m
InvestCapital Ltd.	Share capital reduction	PLN 250,2m
KRUK Deutschland GmbH	Share capital reduction	PLN 3.3m*
KRUK Espana S.L.U.	Capital injection	PLN 10.9m*
KRUK Italia S.r.l	Share capital reduction	PLN 7,0m**
AgeCredit S.r.l.	Capital injection	PLN 3,1m*

* Translated at the mid-exchange rate quoted by the NBP as at the date of share capital increase/reduction;

On April 29th 2021, the articles of association of KRUK INVESTIMENTI S.R.L. of Milan were executed, whereby the company's share capital was set at EUR 10 thousand. On May 6th 2021, the company was entered in the Business Register. The principal business activity of the company involves investment in debt portfolios. KRUK S.A. holds 100% of shares in the newly incorporated company.

On September 9th 2021, Zielony Areal sp. z o.o. of Wrocław, with a share capital of PLN 5 thousand, was incorporated. On October 4th 2021, the company was entered in the Business Register. The company's principal business activity consists in buying and selling of own real estate. KRUK S.A. holds 100% of shares in the newly incorporated company.

On December 1st 2021, in connection with an increase in the share capital of WONGA.PL sp. z o.o., the Company's Management Board resolved to subscribe for shares in the increased share capital of WONGA.PL sp. z o.o. In consideration of the shares in the increased share capital of WONGA.PL sp. z o.o., which is wholly owned by KRUK S.A., the Company agreed to transfer all shares in NOVUM FINANCE sp. z o.o. to WONGA.pl Sp. z o.o.

3.5.5 Sources of investment financing

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

3.5.6 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.

3.6 Financial highlights of the KRUK S.A.

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

In 2021, KRUK generated revenue of PLN 183m, that is 15% more than in 2020. Revenue from purchased debt portfolios and from credit management services increased by 11% and 24%, respectively, and revenue from other services increased by 56%. Direct and indirect costs were PLN 118m, having increased 6% year on year. Relative to 2020, gross profit increased by PLN 17m (or 35%), with the largest increase seen in credit management services and in other products. In the credit management services segment, gross profit was PLN 13m (i.e., more than 8 times the previous year's amount), driven primarily by a 24% increase in revenue, partially offset by higher direct and indirect costs. Gross profit in the other products segment increased by PLN 12m, driven mainly by a 56% year-on-year increase in revenue. Gross profit in the purchased debt portfolios segment remained at a level comparable to the amount reported for 2020.

In 2021, the Company's net profit was PLN 695m, having increased by more than eight times year on year. The increase in the Company's net profit was mainly attributable to the share of profit/(loss) of equity-accounted entities (an increase of PLN 539m, to more than double the amount reported for 2020).

The table below presents selected data and financial highlights of the Company for 2021, with comparative data for 2020.

	Year ended Dec 31		
	2021	2020	Change
	(PLN '000, unless stated otherwise)		
Revenue	182,621	158,917	15%
Operating profit/(loss)	-68,856	-53,655	28%
Profit/(loss) before tax	757,564	192,513	294%
Net profit/(loss) for owners of the Parent	694,758	81,356	754%
Net cash from operating activities	-22,158	-5,304	318%
Cash recoveries	38,239	35,904	7%
Net cash from investing activities	209,395	513,698	-59%
Net cash from financing activities	-140,134	-515,610	-73%
Net change in cash	47,103	-7,216	

Diluted earnings per share	35.80	4.22	747%
Average number of shares ('000)	18,966	18,977	0%
Earnings per share	36.63	4.29	754%

	Year ended Dec 31		
	2021	2020	Change
	(PLN '000, unless stated otherwise)		
Total assets	4,414,079	3,758,750	17%
Non-current liabilities	1,231,645	1,047,937	18%
Current liabilities	581,617	667,042	-13%
Equity	2,600,817	2,043,771	27%
Share capital	19,013	19,011	
Book value per ordinary share	137.13	107.70	27%

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4 FINANCIAL REVIEW

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 were applied with respect to all the reporting periods presented in these consolidated financial statements, except for the change involving the reclassification of property and the presentation change involving items of the consolidated statement of financial position.

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

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

The accounting policies were applied with respect to all the reporting periods presented in these separate financial statements, except for changes related to the implementation of the equity method for measurement of investments in subsidiaries, reclassification of property and changes in the presentation of items in the separate statement of financial position.

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

By applying the equity method, the Company's result and equity are identical to results and equity of the KRUK Group.

4.2 Analysis of the consolidated financial data

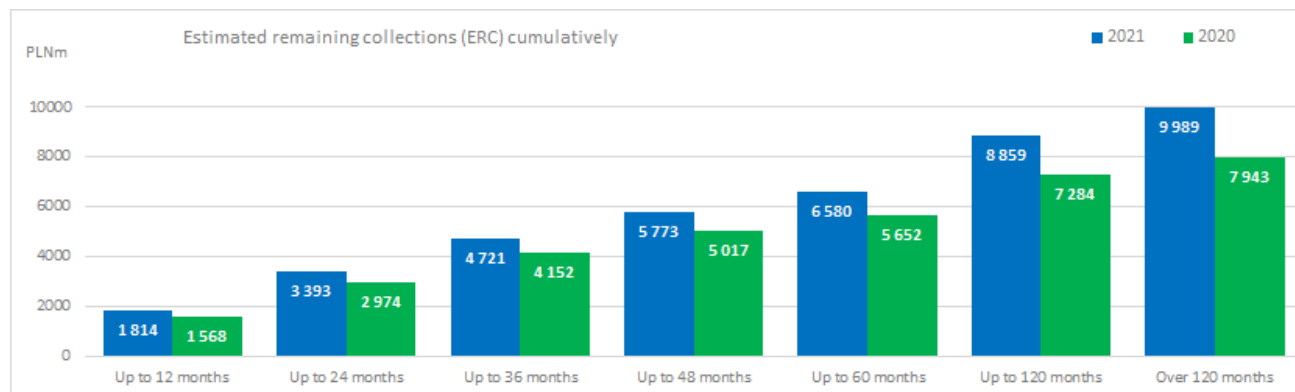
4.2.1 Revenue by product

The main sources of revenue for the KRUK Group are debt purchase activities, credit management services, and consumer lending. Revenue from purchased debt portfolios includes mainly interest income, effects of debt portfolio revaluations, resulting primarily from a change in estimates of expected cash inflows from a given portfolio, and deviations between actual and projected recoveries disclosed jointly with revenue decreases on early collections in collateralised cases and payments from original creditor. 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.

Gross return rates on investments made in 2021 were estimated as at the time of the investments at 22%, compared with 21% (gross IRR calculated as internal rate of return on collections and expenditure). As at December 31st 2021, the rate of recoveries from portfolios purchased in 2021 in relation to their purchase prices was estimated at 2.0x, compared with a 2.4x recovery rate estimated

as at December 31st 2020 for portfolios purchased in 2020 (the recovery rate is calculated based on the sum of actual historical recoveries and estimated remaining collections).

Estimated remaining collections from all portfolios purchased by December 31st 2021 assumed in the accounting estimate are PLN 9,989m. Depending on the market and type of the portfolio, estimated remaining collections may be spread over a period of 15 years or more.



Estimated remaining collections (ERC) presented cumulatively as per the accounting estimate as at December 31st 2021 and December 31st 2020

Source: Company

4.2.2 Revenue by geographical markets

The Group operates on seven geographical markets, divided into five segments:

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

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

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

The Group's total assets were PLN 5,909m, having grown 27% year on year.

Table 20. Structure of the Group's assets

PLN '000	Dec 31 2021	Dec 31 2020	Change
Assets			
Cash and cash equivalents	199,164	145,552	37%
Trade receivables	22,873	16,804	36%
Investments	5,416,512	4,208,724	29%
Other markets	270,851	271,951	0%

Total assets	5,909,040	4,643,031	27%
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Source: Company

The largest increase was posted under investments and was attributable to new debt portfolio purchases, upward revaluation, and amortisation of debt portfolios. A marked year-on-year growth in investments contributed to a PLN 647m year-on-year increase in bank borrowings and other debt instruments.

Table 21. Structure of the Group's equity and liabilities as at December 31st 2021

PLN '000

	Note	Dec 31 2021	Dec 31 2020	Change
Liabilities				
Trade and other payables	27	162,986	112,227	45%
Derivatives	24	-	11,236	-100%
Hedging instruments	25	-	18,386	-100%
Employee benefit obligations	26	48,661	42,860	14%
Income tax payable		18,369	5,223	252%
Borrowings, debt securities and leases	23	2,869,020	2,222,176	29%
Provisions	28	43,060	53,124	-19%
Deferred tax liability	17	167,077	134,339	24%
Total liabilities		3,309,173	2,599,571	27%
Equity				
Share capital	21	19,013	19,011	0%
Share premium		333,264	310,430	7%
Cash flow hedging reserve		17,885	(14,783)	-221%
Translation reserve		75,708	81,360	-7%
Other capital reserves		122,202	103,626	18%
Retained earnings		2,032,745	1,544,127	32%
Equity attributable to owners of the Parent		2,600,817	2,043,771	27%
Non-controlling interests		(590)	(311)	90%
Total equity		2,600,227	2,043,460	27%
Total equity and liabilities		5,909,400	4,643,031	27%

Source: Company

4.2.4 Current and future financial position

There are no material risks to the KRUK Group's current or future financial position. For detailed information on financial performance, see Section 3. *OVERVIEW OF THE KRUK GROUP'S AND KRUK S.A.'s BUSINESS IN 2021*

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

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

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

As the Group recognises debt purchases under operating activities, its investing activities related to the purchase of debt portfolios and the related increase in the amount 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 2021.

4.2.7 Key financial ratios

4.2.7.1 Profitability ratios

For the ratio analysis of KRUK S.A. to yield meaningful conclusions, a comprehensive analysis of the KRUK Group's ratios is necessary.

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

Table 22. Profitability ratios

Profitability ratios	Year ended Dec 31	
	2021	2020
EBITDA margin	52%	33%
EBIT margin	49%	29%
Pre-tax margin	44%	18%
Net margin	40%	7%
Return on assets (ROA)	12%	2%
Return on equity (ROE)	27%	4%

Source: Company

Formulas used to calculate the ratios:

- EBITDA margin = operating profit for the period + depreciation and 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
- ROE = net profit for the period / equity

The year-on-year improvement in profitability ratios in 2021 was driven by the following, partly mutually offsetting factors:

- an increase of PLN 585m, or 51%, in revenue relative to 2020;
- higher direct, indirect and general costs by PLN 58m i.e. by 7%, as well as depreciation and amortization;
- a positive change (PLN 42m) in finance income/costs; which was mainly attributable to IRS and CIRS derivatives and exchange rates positively affecting exchange differences, in particular on the measurement of the Group's EUR-denominated financial liabilities;
- PLN 44m decrease in tax expense.

As at year-end 2021, equity was 27% higher year on year.

The Group's assets rose 27% relative to the end of 2020. The largest increase in assets was seen in investments (up PLN 1,208, or 29%) and was attributable to the resumption of investment activity following the period of significant uncertainty caused by the COVID-19 pandemic, upward revaluation and amortisation of debt portfolios.

4.2.7.2 Debt ratios

For the ratio analysis of KRUK S.A. to yield meaningful conclusions, a comprehensive analysis of the KRUK Group's ratios is necessary. The table below presents the key debt ratios of the KRUK Group.

Table 23. Debt ratios

	Year ended Dec 31	
	2021	2020
Total debt ratio	56%	56%
Debt to equity ratio	126%	126%
Net debt to equity ratio	1.0x	1.0x
Net debt to cash EBITDA ratio	1.7x	1.7x
Current ratio	7.0x	5.2x
Quick ratio	7.0x	5.2x

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

In 2021, the ratios changed only slightly and, in the Management Board's opinion, remained at safe levels. For instance, the 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 1.0x (the maximum level being 3.0x in the case of issues for which financial debt limits have been defined), and the net debt to cash EBITDA ratio was 1.7x (the maximum level being 4.0x).

The liquidity ratios are determined by the nature of assets under purchased debt portfolios, which are presented as current assets, and will be used as part of operating activities for a period longer than 12 months.

4.3 Financial instruments

4.3.1 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);

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

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

4.3.2 Derivatives

In 2021, the Group could enter into derivative transactions under master agreements.

Table 24. Derivative transactions entered into by the Group as at December 31st 2021

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. and InvestCapital Ltd.	Jun 13 2013	PLN 35,700,000	- 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	2,224,000 EUR	- notarised statement by KRUK S.A. on voluntary submission to enforcement
Master agreement governing execution of forward currency transactions	ING Bank Śląski S.A.	KRUK S.A.	Aug 9 2018	15,000,000 EUR	- none
Master Agreement for the Execution of Financial Forward Transactions	ING Bank Śląski S.A.	KRUK S.A.	Dec 10 2021		
Master Agreement for the Execution of Financial Forward Transactions	ING Bank Śląski S.A.	InvestCapital Ltd.	Aug 20 2021	10,000,000 EUR	- 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

In 2021, none of the Group companies entered into any new interest rate hedges.

Open contracts of the KRUK Group companies as at December 31st 2021 are presented below.

Table 25. Open contracts as at December 31st 2021

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.	IRS	PLN 150,000,000.00	buy	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
TOTAL as at Dec 31 2021	KRUK S.A.	IRS	PLN 530,000,000.00	buy			

In 2021, the Company took measures to hedge currency risk arising from the translation of net assets in a foreign operation and entered into FX Forward and FX Swap contracts, as provided for in the KRUK Group's currency risk management policy. It is the Group's objective to mitigate the effect of exchange differences arising on consolidation of foreign subsidiaries on the consolidated financial statements. KRUK S.A. entered into EUR/PLN hedging transactions with a tenor of one month, and the maximum value of open transactions in 2021 was EUR 34m. The transactions were designated for hedge accounting.

In addition, in April 2021, InvestCapital Ltd. entered into two EUR/PLN FX forwards for a total notional amount of PLN 250m, maturing in June 2021. The transactions, entered into to hedge a cash flow, were not designated for hedge accounting.

As at December 31st 2021, the Group did not have any open transactions of this type.

4.3.3 Risks associated with the use of financial instruments

When using financial instruments, the Company is exposed to credit risk, liquidity risk (debts) and market risk (currency, interest rates). For further information on the methods of managing the risks, see Section 7 *Material risk factors and their management*.

Below are presented assets with exposure to credit risk.

Table 26. Assets with credit risk exposure

PLN '000	Note	Dec 31 2021	Dec 31 2020
Investments in debt portfolios	15	5,100,176	3,984,080
Loans	15	316,336	224,644

Hedging instruments	25	13,803	-
Trade and other receivables, excluding tax receivables	18	42,109	34,358
Cash and cash equivalents	19	199,164	145,552
		5,671,498	4,388,634

Source: Company

4.4 Events with a significant effect on the Group's operating and financial results

4.4.1 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 2021 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.

4.4.2 Non-recurring factors and events

In 2021, the COVID-19 pandemic continued to affect the way KRUK operated. Most employees worked from home, and the restrictions imposed had an impact on the profitability of the Group's business, in particular in the other services segment. The Group's consumer lending business was adversely affected by the introduction in Poland of a cap on non-interest charges applicable to consumer loans, which had an impact on the industry's financial performance and translated into fewer requests for data from the ERIF BIG database from lenders.

4.4.3 Operations – COVID-19 and measures taken in connection with the pandemic

As in 2020, the COVID-19 pandemic affected the Group's operations in many dimensions. The key ones are presented below:

- Most employees can work from home, an arrangement which we smoothly and swiftly switched to in 2020. In Poland, as many as 95% of our staff worked remotely at one time or another.
- We took care of the employees' safety by adapting the rooms or providing the required sanitisers and disinfectants; we reduced the need for and frequency of face-to-face meetings.
- The field advisors met with clients in person, observing the applicable sanitary requirements.
- We continued to develop our existing online tools (e-KRUK, e-payments, e-signature, online settlement, self-service process) to enable efficient process management and to enable our clients to pay their liabilities safely and comfortably, regardless of any restrictions on the free movement and personal contact.
- We reduced non-interest costs of consumer loans in compliance with legislative changes introduced in Poland, which affected the margins on loan products and performance of the consumer lending business.
- We continued to apply the cost savings policy adopted in 2020.
- We accounted for additional pandemic-related risks in debt portfolio valuations; however, our competitive edge on the debt purchase market, operational efficiency and good availability of financing allowed us to invest PLN 1,738m in new debt portfolios.
- We took a conservative approach to the valuation of debt portfolios to reflect the likely impact of the pandemic on recoveries.

- The measures we took to support the operating process during the pandemic, the cost-cutting measures we applied, and also our long-standing policy of keeping the Group's debt at a relatively low level allowed us not only to maintain a stable financial and liquidity position, but also to achieve record-high levels of investment in new portfolios and of recoveries from existing assets.

4.5 Securities in issue

4.5.1 Company shares

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

4.5.2 Company bonds

In 2021, the Company issued four series of bonds with a total nominal value of PLN 205m under prospectus based bond issue programmes (three series under the Seventh Bond Issue Programme and one series under the Eighth Bond Issue Programme). The bond offerings were addressed to retail investors, and the issue price of each bond was equal to its nominal value of PLN 100.

In addition, the Company issued the first series of bonds with a total nominal value of PLN 330m under the First Bond Issue Programme without a Prospectus. The offering was addressed to qualified institutional investors, and the issue price of each bond was equal to its nominal value of PLN 1,000.

Table 27. Bond issues in 2021

Series	Nominal value	Issue date	Due date	Interest	Interest payment
AK2	PLN 20m	February 2021	February 2026	fixed 4.20%	every 3 months
AK3	PLN 70m	June 2021	June 2026	fixed 4.00%	every 3 months
AL1	PLN 330m	June 2021	June 2027	variable – 3M WIBOR + 3.70%	every 3 months
AK4	PLN 65m	July 2021	July 2026	fixed 4.00%	every 3 months
AM1	PLN 50m	December 2021	December 2026	variable – 3M WIBOR + 3.40%	every 3 months

Source: Company

Subsequent to the reporting date, the Company issued the following series of bonds:

Table 28. Bond issues subsequent to the reporting date

Series	Nominal value	Issue date	Due date	Interest	Interest payment
AL2	PLN 350m	February 2022	February 2028	variable –	every 3 months

					3M WIBOR + 3.20pp	
					variable -	
AM2	PLN 50m	February 2022	February 2027		3M WIBOR + 3.30pp	every 3 months

Source: Company

Series AL2 bonds are amortising bonds, with a maturity period of six years from the issue date. They were issued under the First Bond Issue Programme without a Prospectus, and the issue price of each bond was equal to its nominal value of PLN 1,000.

Series AM2 bonds were issued under the prospectus-based 8th Bond Issue Programme. The issue price of each bond was equal to its nominal value of PLN 100.

The Prospectus for the Eighth Bond Programme, whereby the Company may issue further series of bonds with a total amount of up to PLN 600m, expires in August 2022.

4.5.3 Redemption of bonds

In 2021, the Company redeemed debt securities with a total nominal value of PLN 540m, on the maturity dates set forth in the terms and conditions of the relevant series.

Table 29. Bonds redeemed in 2021

Series	Due date	Number of bonds redeemed	Nominal value
AB1	March 2021	650,000	PLN 65m
AB2	May 2021	1,350,000	PLN 135m
Z1	June 2021	100,000	PLN 100m
AB3	June 2021	650,000	PLN 65m
AB4	September 2021	350,000	PLN 35m
AA1	November 2021	100,000	PLN 100m
AF1	December 2021	400,000	PLN 40m

Source: Company

4.5.4 Liabilities under bonds

As at December 31st 2021, the nominal value of outstanding bonds issued by the Company was PLN 1,307m.

Table 30. Bonds to be redeemed in 2022

Series	Due date	Number of bonds redeemed	Nominal value
AA2	March 2022	150,000	PLN 150m
AC1	May 2022	57,900	PLN 57.9m

AE1	May 2022	20,000	EUR 20m
AE2	June 2022	20,000	EUR 20m
AA4	October 2022	75,000	PLN 75m

In 2022, by the date of this Report, the Company redeemed Series AA2 bonds with a nominal value of PLN 150m.

As at March 15th 2022, the nominal value of outstanding bonds issued by the Company was PLN 1,557m.

Financial ratios monitored pursuant to the terms and conditions of the bonds

As at December 31st 2021:

- **Debt Ratio** stood at 1.0x
- **Net Debt to Cash EBITDA ratio** was 1.7x

where:

- **Cash EBITDA** is defined in the Glossary of terms
- **Equity** means the KRUK Group's equity;
- **Debt Ratio** means: Net Debt to Equity;
- **Net Debt** represents the KRUK Group's Financial Liabilities less the KRUK Group's cash;
- **Financial Liabilities** are defined in the Glossary of terms

4.6 Assessment of financial resources management

4.6.1 Financial forecasts

KRUK does not issue any performance forecasts.

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 partly 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 Agreements executed by companies of the KRUK Group

Material agreements

Below is presented an overview of agreements, annexes and transactions executed by the KRUK Group in 2021 which may be considered material to the Group's operations.

4.7.1 Agreements executed with non-Group companies

Execution of debt assignment agreement in Italy

On June 17th 2021, agreements were concluded between the Company's subsidiary Kruk Investimenti s.r.l. of Milan, Italy (the "Buyer"), and UniCredit S.p.A. of Milan (the "Seller"). The agreements provide for the purchase of debt portfolios comprising unsecured consumer loans, with an aggregate nominal value of up to EUR 304m (PLN 1.4bn translated at the mid exchange rate quoted by the National Bank of Poland for June 17th 2021). Under the agreements, debts with a nominal value of up to EUR 250m (PLN 1.1bn translated at the mid exchange rate quoted by the National Bank of Poland for June 17th 2021) will be purchased in four tranches between June 2021 and March 2022.

On November 25th 2021, agreements were concluded between the Company's subsidiary Kruk Investimenti s.r.l. of Milan, Italy (the "Buyer"), and Deutsche Bank Spa of Milan (the "Seller"). The agreements provide for the purchase of debt portfolios comprising unsecured retail loans, with an aggregate nominal value of up to EUR 317.6m (PLN 1.48bn translated at the mid exchange rate quoted by the National Bank of Poland for November 25th 2021). Under the agreements, debts with a nominal value of up to EUR 26m (PLN 1.21bn translated at the mid exchange rate quoted by the National Bank of Poland for November 25th 2021) will be purchased in eight quarterly tranches over a continuous period of 24 months.

Execution of debt assignment agreement in Spain

On May 7th 2021, an agreement was concluded between the Company's subsidiary InvestCapital Ltd. of Malta and Cofidis S.A. Sucursal en Espana of Barcelona. The agreement provided for the purchase by InvestCapital Ltd. of a portfolio of unsecured retail debt from Cofidis S.A. Sucursal en Espana, with a total nominal value of approximately EUR 91m (PLN 415m at the mid exchange rate quoted by the National Bank of Poland for May 7th 2021).

Execution of debt assignment agreements in Poland

On November 4th 2021, an agreement was concluded between the Company's subsidiary PROKURA NS FIZ (the "Buyer") and one of Poland's largest banks (the "Bank"). The agreement provided for the purchase from the Bank of a portfolio of unsecured retail debt with a nominal value of approximately PLN 543m and a portfolio of unsecured SME debt with a value of approximately PLN 724m.

On December 22nd 2021, agreements were concluded between the Company's subsidiary PROKURA NS FIZ (the "Buyer") and Getin Noble Bank S.A. (the "Bank"). The agreements provided for the purchase of a portfolio of unsecured retail debt and a portfolio of secured and unsecured mortgage debt, with a total nominal value of approximately PLN 859m.

Execution of debt assignment agreement in Romania

On December 24th 2021, an agreement was concluded between the Company's subsidiary InvestCapital LTD of Malta (the "Buyer") and UniCredit Consumer Financing IFN S.A. of Bucharest (the "Seller"). The agreement provides for the purchase of portfolios of unsecured retail debt with a total nominal value of up to RON 240m (PLN 224m at the mid exchange rate quoted by the National Bank of Poland for December 24th 2021). The agreement provides that the debt will be purchased in 24 monthly tranches.

4.7.2 Intra-group agreements

In 2021, KRUK S.A. did not execute any agreements with Group companies that could be considered material to the business of the KRUK Group.

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

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

4.7.4 Borrowing agreements

The table below presents all of the KRUK Group's credit facilities and security interests established in respect thereof as at December 31st 2021 (PLNm).

Table 31. Credit facility agreements as at December 31st 2021 (PLN m)

Bank	Borrower	Agreement date	Final repayment date	Facility	Limit as at the agreement date, as amended	Limit as at Dec 31 2021
Santander Bank Polska S.A.	KRUK S.A.	April 2011	credit facility (120): October 2026 Additional credit facility (55): October 2024	Revolving credit facility	175	175
Getin Noble Bank S.A.	KRUK S.A.	March 2014	May 2024	Revolving credit facility	260	195
mBank S.A.	PROKURA NSFIZ	July 2015	July 2023	Revolving credit facility	140	84
Bank Pocztowy S.A.	KRUK S.A.	December 2018	December 2023	Revolving credit facility	50	30.8
ING Bank Śląski S.A.	PROKURA NS FIZ	December 2018	credit facility (225): December 2025 long-term credit facility (25): December 2026	Revolving credit facility	250	250
DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A.	Invest Capital LTD, KRUK Romania S.R.L., Prokura NS FIZ, KRUK Espana S.L.U.	July 2017	July 2026	revolving credit facility, syndicated credit facility	1,370,6	1,370.6

PKO BP S.A.	PROKURA NS FIZ	September 2021	September 2026	Non-revolving credit facility	29.8	28.3
PKO BP S.A.	PROKURA NS FIZ	December 2021	December 2026	Non-revolving credit facility	57.2	57.2
Getin Noble Bank S.A.	KRUK S.A.	December 2021	December 2027	Non-revolving credit facility	100	100
Total					2,432.6	2,290.9

Table 32. Security interests established for credit facilities contracted by Group companies as at December 31st 2021 (PLNm)

Bank	Borrower	Collateral and other security	Value of collateral provided by the borrower as at December 31st 2021 (PLNm)
Santander Bank Polska S.A.	KRUK S.A.	- registered pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - power of attorney over accounts of KRUK S.A. - statement by KRUK S.A. on voluntary submission to enforcement	277.2
Getin Noble Bank S.A.	KRUK S.A.	- pledge over KRUK S.A.'s ownership interest in a specified compartment of SeCapital Sarl - power of attorney over KRUK S.A.'s accounts - notarised statement by KRUK S.A. on voluntary submission to enforcement	352.4
mBank S.A.	PROKURA NSFIZ	- registered pledge over specified portfolios held by PROKURA NS FIZ - surety under civil law provided by KRUK S.A. - financial pledge over specified account of PROKURA NS FIZ - power of attorney granting authority to exercise control over specified account of PROKURA NS FIZ - power of attorney granting authority to exercise control over specified accounts of KRUK S.A. - notarised statement by KRUK S.A. on voluntary submission to enforcement - notarised statement by PROKURA NS FIZ on voluntary submission to enforcement	130
Bank Pocztowy S.A.	KRUK S.A.	- financial pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - financial pledge over specified account of PROKURA NS FIZ - power of attorney granting authority to exercise control over specified account of KRUK S.A. - notarised statement by KRUK S.A. on voluntary submission to enforcement	57.1

ING Bank Śląski S.A.	PROKURA NS FIZ	<p>- registered pledge over specified debt portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial and registered pledge over a specified account of PROKURA NS FIZ - financial pledge over a specified account of KRUK S.A. - power of attorney granting authority to exercise control over a specified account of KRUK S.A.</p> <p>- power of attorney granting authority to exercise control over a specified account of PROKURA NS FIZ held with PeKaO S.A. - notarised statement by KRUK S.A. on voluntary submission to enforcement - notarised statement by PROKURA NS FIZ on voluntary submission to enforcement</p>	353.8
DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A.	Invest Capital LTD, KRUK Romania S.R.L., PROKURA NS FIZ, KRUK Espana S.L.U.	<p>- pledge over specified debt portfolios held by Borrowers- pledge over specified bonds issued by ItaCapital S.r.l. - pledge over specified bank accounts of Borrowers - 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 statement by KRUK S.A. on voluntary submission to enforcement</p> <p>- notarised statement by PROKURA NS FIZ on voluntary submission to enforcement</p>	1,998.1
PKO BP S.A.	PROKURA NS FIZ	<p>- surety under civil law provided by KRUK S.A.</p> <p>- financial pledge over specified account of PROKURA NS FIZ</p> <p>- financial pledge over specified account of KRUK S.A.</p> <p>- power of attorney over specified account of PROKURA NS FIZ</p> <p>- power of attorney over specified accounts of KRUK S.A.</p> <p>- notarised statement by KRUK S.A. on voluntary submission to enforcement</p> <p>- notarised statement by PROKURA NS FIZ on voluntary submission to enforcement</p>	-
PKO BP S.A.	PROKURA NS FIZ	<p>- surety under civil law provided by KRUK S.A.</p> <p>- financial pledge over specified account of PROKURA NS FIZ</p> <p>- financial pledge over specified account of KRUK S.A</p> <p>- power of attorney over specified account of PROKURA NS FIZ</p> <p>- power of attorney over specified accounts of KRUK S.A.</p> <p>- notarised statement by KRUK S.A. on voluntary submission to enforcement</p> <p>- notarised statement by PROKURA NS FIZ on voluntary submission to enforcement</p>	-

In connection the revolving multi-currency credit facility agreement of July 3rd 2017, as amended, concluded between InvestCapital LTD, KRUK Romania S.R.L., Prokura NS FIZ, KRUK Espana S.L.U. (the “Borrowers”) and KRUK S.A. (the “Surety Provider”), and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., PKO BP S.A. and Bank Handlowy w Warszawie S.A. (the “Lenders”), in order to secure liabilities under the agreement:

- On January 7th, May 10th and September 20th 2021, InvestCapital LTD and the Lenders signed agreements under Spanish law establishing pledges over debt portfolios purchased by InvestCapital LTD on the Spanish market;
- On June 22nd and December 20th 2021, PROKURA NS FIZ and DNB Bank ASA, acting as the security agent, signed agreements under Polish law establishing registered pledges over debt ortfolios purchased by PROKURA NS FIZ on the Polish market;
- Subsequent to the reporting date, on January 5th 2022, InvestCapital Ltd and DNB Bank ASA, acting as the security agent, signed an agreement under Romanian law establishing pledges over debt portfolios purchased by InvestCapital Ltd on the Romanian market;
- Subsequent to the reporting date, on January 24th 2022, InvestCapital Ltd and DNB Bank ASA, acting as the security agent, signed an agreement under Italian law establishing pledges over bonds issued by Kruk Investimenti.

As at December 31st 2021, the total value of portfolios pledged as security under those agreements was PLN 997.7m.

In the connections with the credit facility agreements entered into on September 14th and December 21st 2021 between PROKURA NS FIZ (the “Borrower”), KRUK S.A. (the “Surety Provider”) and PKO BP S.A. (the “Bank”), on January 10th 2022, i.e. subsequent to the reporting date PROKURA NS FIZ and PKO BP signed agreements under Polish law establishing registered pledges over debt portfolios purchased by PROKURA NS FIZ on the Polish market. As at December 31st 2021, the total value of portfolios pledged as security under those agreements was PLN 113.8m.

Subsequent to the reporting date, on February 1st 2022, an overdraft facility agreement was concluded between PROKURA NS FIZ as the borrower, KRUK S.A. as the surety provider, and Bank Polska Kasa Opieki S.A. as the lender. The maximum amount the facility under the agreement is PLN 80m. In order to secure liabilities arising under the agreement:

- on February 8th 2022, PROKURA NS FIZ and the Lender executed an agreement establishing a financial pledge over the former’s bank account held with Polska Kasa Opieki Spółka Akcyjna and authorising the Lender exercise control over that account;
- on February 21st 2022, PROKURA NS FIZ provided a statement of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 120m, which will expire on or before January 31st 2030.

Subsequent to the reporting date, on February 1st 2022, an overdraft facility agreement was concluded between KRUK S.A. as the borrower and Bank Polska Kasa Opieki S.A. as the lender. The maximum amount the facility under the agreement is PLN 80m. In order to secure liabilities arising under the agreement:

- on February 4th 2022, KRUK S.A. granted a power of attorney to the Lender authorising the latter to exercise control over the former's bank account held with Polska Kasa Opieki S.A.,
- on February 21st 2022, KRUK S.A. provided a statement of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 60m, which will expire on or before December 31st 2030.

In connection with the credit facility agreement of December 22nd 2021 between Getin Noble Bank S.A. and KRUK S.A., in order to secure liabilities arising under the agreement:

- subsequent to the reporting date, on February 15th 2022, KRUK S.A. provided a statement of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 150m, which will expire on or before December 31st 2029.

4.7.5 Termination of credit facility and loan agreements

In 2021, the Group companies, except Novum Finance Sp. z o.o., RoCapital I.F.N and Wonga.pl Sp. z o.o., did not terminate any loan agreements with entities from outside the KRUK Group.

4.7.6 Loans, sureties and guarantees granted; borrowings, sureties and guarantees received

Loans advanced by KRUK S.A. to its subsidiaries

In 2021, KRUK S.A. granted its subsidiaries loans whose total amount translated into the Polish złoty is PLN 153.3m.

Table 33. Loans advanced by KRUK S.A. to subsidiaries as at December 31st 2021 (PLNm)

Borrower	Purpose	Currency	Amount of loans granted in 2021	Total amount of all liabilities under loans granted by KRUK S.A. as at December 31st 2021
Wonga.pl Sp. z o.o.	financing of day-to-day operations	PLN	92.7	303.9
Novum Finance Sp. z o.o.	financing of day-to-day operations	PLN	4.5	33.7
KRUK Romania S.r.l.	financing of investing activities	EUR	22.9	39.8
Zielony Areal sp. z o.o.	financing of day-to-day operations	PLN	0.3	0.3
KRUK Česká a Slovenská republika s.r.o	financing of investing activities	CZK	20.8	43
		EUR	12.1	
			153.3	

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 2021, 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 2021. Source: Company

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 Wonga.pl Sp. z o.o., which mature in up to seven years

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

4.7.7 Loans received by the Company from subsidiaries

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

In 2021, KRUK S.A. received PLN 2m in loans from ERIF Biuro Informacji Gospodarczej S.A. As at December 31st 2021, the Company's outstanding liabilities (principal and interest) towards ERIF BIG S.A. under the borrowings were PLN 7.6m.

Loan from KRUK Italia s.r.l. of Milan

Borrowings from Kruk Italia S.r.l. were intended to finance day-to-day operations of the Company. Loans received in 2021 totalled PLN 2.9m. Following partial repayment (PLN 1.4m) of the loan received in 2020, the outstanding amount of the loan (PLN 13.3m) and both loans received in 2021 (PLN 5.5m) was offset against Kruk Italia's statutory reserve funds (PLN 18.8m in total). As at December 31st 2021, the Company had no outstanding liabilities under any borrowings towards Kruk Italia S.r.l.

4.7.8 Intra-company loans between subsidiaries

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

In 2021, KRUK Towarzystwo Funduszy Inwestycyjnych S.A. advanced PLN 1.0m in loans to PROKURA NS FIZ to finance the latter's investing activities. As at December 31st 2021, the company's outstanding liabilities under borrowings towards PROKURA NS FIZ were PLN 31m.

Loans advanced by InvestCapital Ltd. to KRUK Investimenti S.r.l.

In 2021, InvestCapital Ltd. advanced to KRUK Investimenti S.r.l. a loan of PLN 118.0m (as translated at the mid exchange rate quoted by the NBP for the loan grant date) to finance the latter's investing activities. As at December 31st 2021, KRUK Investimenti S.r.l. had no outstanding liabilities under any borrowings towards InvestCapital Ltd.

Loans advanced by RoCapital I.F.N. to KRUK Romania S.R.L.

In 2021, RoCapital I.F.N. advanced a loan of RON 3.5m to KRUK Romania S.R.L. of Bucharest. As at December 31st 2021, the outstanding liabilities of KRUK ROMANIA S.R.L. towards RoCapital I.F.N. under the loans received in 2021 stood at PLN 1.8m (as translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2021).

Loans advanced by KRUK Romania S.R.L. to Gantoi Furclita Si Asociatii

In 2021, KRUK Romania S.R.L. advanced a loan of RON 0.2m to Gantoi Furclita Si Asociatii of Bucharest. As at December 31st 2021, Gantoi Furclita Si Asociatii's liabilities towards KRUK Romania S. R. L. under the loans received in 2021 were PLN 46.5 thousand (as translated at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2021).

4.7.9 Consumer loans offered by the KRUK Group through Novum and Wonga

In 2021, the KRUK Group companies advanced 246 thousand cash loans, compared with 155 thousand the year before. In 2021, the value of loans advanced was PLN 696m, compared with PLN 339m in 2020.

In 2021, Wonga disbursed 236 thousand cash loans in Poland, amounting to a total of PLN 651m. As part of the Wonga business line, consumer loans of up to PLN 20,000 per loan are granted, with repayment periods of up to 48 months.

In 2021, the Group advanced 9.5 thousand NOVUM cash loans in Poland and Romania, with a total principal amount of PLN 45m. As part of the NOVUM business line in Poland, consumer loans of up to PLN 12,000 per loan were granted for periods from 3 to 30 months. In Romania, NOVUM granted consumer loans of up to RON 60,000 per loan, with repayment periods of up to 60 months.

4.8 Guarantees

4.8.1 Guarantees obtained

On December 23rd 2021, Santander Bank Polska S.A. executed Annex 7 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 2021. Under the annex, the guarantee was extended until December 30th 2022. The guarantee amount is EUR 291,873.81 and PLN 204,137.16. The guarantee is secured by a power of attorney over the Company's bank accounts held with Santander Bank Polska S.A.

4.8.2 Guarantees provided

Following the cancellation of shares in InvestCapital Ltd effected on June 10th 2021, on the same date KRUK S.A. provided InvestCapital Ltd. with a corporate guarantee of up to PLN 250m. The guarantee expired on September 17th 2021. The purpose of the guarantee was to secure the interests of InvestCapital Ltd.'s creditors, who could challenge the cancellation of shares by September 17th 2021.

4.9 Sureties

In 2021, KRUK Group companies provided the following sureties:

- On October 5th 2021, KRUK S.A. provided a surety for PROKURA NS FIZ's liabilities under the credit facility agreement of September 21st 2021 between PROKURA NS FIZ and PKO BP. The surety has been issued for up to PLN 44.7m, with the proviso that its amount will decrease in proportion to repayments made under the facility so as to represent 150% of the amount of the outstanding debt under the facility. The surety will expire not later than on September 20th 2029. In connection with the surety, KRUK S.A. provided a statement on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to EUR 44.7m, which will expire on or before September 20th 2028.
- On December 14th 2021, KRUK S.A. provided a surety for PROKURA NS FIZ's liabilities under the credit facility agreement of December 14th 2021 between PROKURA NS FIZ and PKO BP.

The surety has been issued for up to PLN 85.8m, with the proviso that its amount will decrease in proportion to repayments made under the facility so as to represent 150% of the amount of the outstanding debt under the facility. The surety will expire not later than on December 13th 2029. In connection with the surety, KRUK S.A. provided a statement on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 85.8m, which will expire on or before December 13th 2028.

- Subsequent to the reporting date, on February 8th 2022, KRUK S.A. provided a surety for PROKURA NS FIZ's liabilities under the credit facility agreement of February 1st 2022 between PROKURA NS FIZ and Polska Kasa Opieki S.A.. The surety has been provided for up to PLN 120m and will expire on or before January 31st 2031. In connection with the surety, KRUK S.A. provided a statement on voluntary submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure for up to PLN 120m, which will expire on or before January 31st 2031.

For information on the other existing sureties under credit facility agreements and master agreements enabling the Group to enter into transactions in derivative instruments, see Section 4.7.4 *Borrowing agreements* and Section 4.3.2 *Derivatives*.

4.10 Significant events after December 31st 2021

In Italy, on January 17th 2022, agreements were concluded between the Company's subsidiary Kruk Investimenti s.r.l. of Milan (the "Buyer") and Unicredit SpA Group of Milan (the "Seller"). The agreements provided for the purchase of portfolios of secured and unsecured corporate debt with a total nominal value of approximately EUR 222m (PLN 1bn at the mid-exchange rate quoted by the National Bank of Poland for January 17th 2022).

On February 1st 2022, KRUK Group companies executed credit facility agreements for PLN 80,000 thousand and PLN 40,000 thousand, maturing on December 31st 2028.

Subsequent to the reporting date, on February 2nd 2022, the Company issued, under the First Bond Issue Programme without a Prospectus, Series AL2 amortising bonds with a total nominal value of PLN 350m and a maturity period of six years from the issue date. On February 8th 2022, the Company issued five-year Series AM2 bonds with a total nominal value of PLN 50m under the prospectus-based Eighth Bond Issue Programme.

Subsequent to the reporting date, Russia's aggression against Ukraine started on February 24th 2022. The KRUK Group does not hold any assets in Ukraine or Russia, nor does it carry out any business activity in those countries. A Ukrainian company is one of the suppliers of IT development services to Wonga, a subsidiary. Given the circumstances, the cooperation with the Ukrainian supplier is continued to a limited extent. This does not affect Wonga's ongoing operations, and it is possible to source the services in Poland.

With no operations conducted in Ukraine or Russia, the Company expects the implications of the conflict for the Group's operations will be indirect and limited. Provided below is an assessment of the possible impact of the conflict in Ukraine on selected areas of operations.

Recoveries from purchased debt portfolios

The Company has not seen any changes in customers' repayment behaviour after the conflict started. Although prices in Poland and Romania are rising, there has been a strong increase in wages and salaries and the unemployment rate is stable, therefore the Company does not expect the trend in recoveries to deteriorate.

Investments in debt portfolios

So far, the Company has not seen any impact of the conflict on either portfolio supply or portfolio prices.

Access to debt financing

The Company expects to face temporary difficulties in placing bonds on the Polish market. The Company does not consider this to be a serious impediment given the PLN 400m worth of bonds issued in the first two months of 2022 and the plan to increase the amount of credit available under bank loans.

Liquidity management

The Company believes the current situation in Ukraine does not and should not have a material adverse effect on the following areas of the Company's operations:

- 1) meeting the required financial covenants – currently the covenants are at safe levels, far lower than the thresholds set in relevant credit agreements and bond terms.

Furthermore, when calculating most of the financial ratios the effect of exchange differences is neutralised.

The Company anticipates potential minor short-term fluctuations in the net debt/cash EBITDA ratio as different EUR/PLN exchange rates are used to calculate the numerator (net debt in PLN is calculated using the mid exchange rate for a given day) and the denominator (EBITDA in PLN is calculated using the average exchange rate for the last 12 months), but the impact of the fluctuations should not be significant.

- 2) Liquidity position – the Group maintains its liquidity ratios at safe levels and considers the safety of its liquidity position to be high, therefore an increase in financing costs or EUR/PLN exchange rates has no material impact on the Group's liquidity. Another factor reducing the Group's exposure to fluctuations in foreign exchange rates and the WIBOR rate is the fact that the Group funds investments in EUR-denominated assets from bank loans in EUR and own funds in EUR. Also, the Group's WIBOR-sensitive debt represents only 52% of total debt (as at December 31st 2021), as part of the debt bears interest at fixed or EURIBOR rates or is hedged under IRS.

Loans advanced

As the war in Ukraine is pushing up prices of energy carriers and causing a strong depreciation of the zloty, further interest rate hikes are expected. The consequences for households would be rising costs of living including the cost of servicing existing loans.

We have identified the risk that the quality of Wonga's loan portfolio may deteriorate due to borrowers' lack of liquidity. Wonga has carried out creditworthiness assessments as part of its lending process since 2019. Approximately 90% of loans are made to customers with the highest credit score,

therefore the aforementioned risk is marginal. The recorded delays in payments have been stable, also in the months following the implemented interest rate hikes.

Digital security

All systems are running smoothly and are subject to routine and, given the current situation, enhanced testing and safeguards. The Group has undertaken a number of digital security measures:

1. Business relationship has been established with CERT.PL, which specialises in computer security, and CERT recommendations issued in connection with the conflict have been implemented
2. Special level of protection has been provided for backup copies of our critical systems
3. Steps have been taken to establish a permanent relationship with an external Security Operations Centre.

The situation in Ukraine does not affect the financial statements as at the reporting date or the recognition and measurement of individual items of the statements after the reporting date.

4.11 Analysis of the Company's financial data

4.11.1 Revenue by product

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

In 2021, KRUK generated revenue of PLN 183m, that is 15% more than in 2020. Revenue from purchased debt portfolios and from credit management services increased by 11% and 24%, respectively, and revenue from other services increased by 56%.

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

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

Revenue by product and market

For the reporting period January 1st 2021 – December 31st 2021.

	Poland	Romania	Italy	Spain	Other foreign markets	Head Office	Unallocated income / expenses	TOTAL
Revenue	143,892	30,725	1,104	1,997	2,776	-	2,127	182,621
Purchased debt portfolios	3,755	27,637	-	-	2,044	-	-	33,436
Credit management services	109,456	-	-	-	-	-	-	109,456
Other products	30,681	3,088	1,104	1,997	732	-	-	37,603
Other income	-	-	-	-	-	-	2,127	2,127
Direct and indirect costs	-	-	-	-	-	-	-	(117,915)

Purchased debt portfolios	-	-	-	-	-	-	-	(13,054)
Credit management services	-	-	-	-	-	-	-	(96,739)
Other products	-	-	-	-	-	-	-	(3,920)
Unallocated expenses	-	-	-	-	-	-	-	(4,202)
Gross profit ¹	-	-	-	-	-	-	-	64,706
Purchased debt portfolios	-	-	-	-	-	-	-	20,382
Credit management services	-	-	-	-	-	-	-	12,717
Other products	-	-	-	-	-	-	-	33,682
Unallocated expenses	-	-	-	-	-	-	-	(2,075)
Administrative expenses	-	-	-	-	-	-	-	(116,655)
EBITDA	3,842	18,335	(1,317)	(865)	523	(70,392)	(2,075)	(51,949)
Amortisation	-	-	-	-	-	-	-	(16,907)
Finance income/costs	-	-	-	-	-	-	-	(37,992)
Share of profit/(loss) of equity-accounted investees	-	-	-	-	-	-	-	864,412
Profit before tax	-	-	-	-	-	-	-	757,564
Income tax	-	-	-	-	-	-	-	(62,806)
Net profit	-	-	-	-	-	-	-	694,758
Carrying amount of debt portfolios	6,452	23,417	-	-	1,918	-	-	31,787
Cash recoveries	7,207	29,125	-	-	1,906	-	-	38,239

For the reporting period January 1st 2020 – December 31st 2020.

	Poland	Romania	Italy	Spain	Other foreign markets	Head Office	Unallocated income / expenses	TOTAL
Revenue	111,759	25,699	949	1,275	2,622	-	16,613	158,917
Purchased debt portfolios	4,473	23,973	-	-	1,733	-	-	30,179
Credit management services	88,057	-	-	-	-	-	-	88,057
Other products	19,229	1,726	949	1,275	889	-	-	24,068
Other income	-	-	-	-	-	-	16,613	16,613
Direct and indirect costs	-	-	-	-	-	-	-	(110,878)
Purchased debt portfolios	-	-	-	-	-	-	-	(11,108)
Credit management services	-	-	-	-	-	-	-	(86,545)

Other products	-	-	-	-	-	-	(2,562)
Unallocated expenses							(10,664)
Gross profit ¹							48,039
Purchased debt portfolios	-	-	-	-	-	-	19,071
Credit management services	-	-	-	-	-	-	1,512
Other products	-	-	-	-	-	-	21,505
Unallocated expenses							5,949
Administrative expenses	-	-	-	-	-	-	(83,698)
EBITDA	(20,518)	17,069	(1,559)	3,436	(3,512)	(36,525)	5,949
Amortisation							(17,995)
Finance income/costs	-	-	-	-	-	-	(79,219)
Share of profit/(loss) of equity-accounted investees	-	-	-	-	-	-	325,386
Profit before tax	-	-	-	-	-	-	192,513
Income tax	-	-	-	-	-	-	(111,158)
Net profit							81,356
Carrying amount of debt portfolios	6,643	24,906			1,781		33,329
Cash recoveries	6,914	27,164			1,825		35,904

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

Structure of assets and liabilities in the statement of financial position

	PLN '000	Note	Dec 31 2021	Dec 31 2020
Assets				
Cash and cash equivalents		19	53,698	6,595
Hedging instruments		23	13,803	-
Trade receivables from related entities		18	27,331	20,594
Trade receivables from other entities		18	2,870	2,640
Other receivables		18	7,255	7,869
Inventories		17	18,970	28,755
Investments		15	419,983	320,520

Equity-accounted investments in subsidiaries	14	3,814,418	3,315,459
Property, plant and equipment	12	39,882	37,521
Intangible assets	13	9,502	12,841
Other assets		6,367	5,956
Total assets		4,414,079	3,758,750
Equity and liabilities			
Liabilities			
Trade and other payables	27	29,170	51,863
Derivatives	24	-	11,236
Hedging instruments	23	-	18,386
Employee benefit obligations	25	24,153	21,464
Income tax payable		14,995	4,358
Borrowings, other debt securities and leases	22	1,565,210	1,462,143
Provisions	26	12,657	11,280
Deferred tax liability	16	167,077	134,249
Total liabilities		1,813,262	1,714,979
Equity			
Share capital	20	19,013	19,011
Share premium		333,264	310,430
Cash flow hedging reserve		17,885	(14,783)
Translation reserve		75,708	81,360
Other capital reserves		122,202	103,626
Retained earnings		2,032,745	1,544,127
Total equity		2,600,817	2,043,771
Equity and liabilities		4,414,079	3,758,750

5 | Chapter

5 BUSINESS ENVIRONMENT

5.1 Debt management market

The key segmentation criterion applying to the Group's debt management market is debt ownership. 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 all types of debt: secured and unsecured consumer (retail) debts, including mortgage debts, as well as SME and corporate debts. However, the preferred category are unsecured consumer debt portfolios.

- 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.

The Group actively offers its credit management services in Poland, Romania, Spain and Italy.

According to the type of managed debt, three market segments can be distinguished:

- 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 situation in the credit 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 standing in a period of fast economic growth:

- Growth in household incomes in real terms translates into consumers' greater willingness to spend and increased demand for credit, which leads to the subsequent increase in banks' lending activity;
- Increase in the lending activity translates into a rising overall debt level in the economy and, consequently, into more cases being processed on the non-performing debt management market;
- Growing incomes of the public 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 indebted persons 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.

The impact of the COVID-19 pandemic is described in Section 4.4.3 Operations – COVID-19 and measures taken in connection with the pandemic, and in Section 7 Risk factors and their management.

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 trading 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. The majority of 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.

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. In addition, 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 is an integral part of the existing legal and regulatory environment. As a rule, administrative decisions and 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 financial penalties being imposed on the Company or any of its subsidiaries, or the Company or the subsidiaries being required to change their policies and to compensate the affected customers for their losses. This may have an adverse effect on the Group's operations, financial condition and image.

In view of the European Union's efforts to combat climate change, also legal acts aimed at imposing a sustainability commitment on businesses, minimising the negative environmental and climate impacts of economic activities, and managing ESG risks, are becoming increasingly important.

Law-makers in Poland and other countries where the Group operates have taken active measures to mitigate of the effects of the COVID-19 pandemic. These have often focused on the prevention of virus spread, including temporary restrictions on movement and gatherings, limiting access to or closing down of certain institutions or sectors of the economy, and introduction of remote work.

The Group's operations comply with the applicable laws and regulations, and take account of the recommendations and guidance of the competent supervisory authorities, including those on competition and consumer protection. However, given the nature of its operations, it is possible 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 indebted persons 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 areas of economic activity, in particular competition, financial services markets, consumer rights, fair business practices and terms of contracts with consumers, tax legislation applicable in member states, personal data protection, etc.

Since the Group is also present abroad, below is presented an overview of the legal and regulatory environment in the countries where it operates.

Romania

In Romania, debt companies are required to register with the National Consumer Protection Authority (NAPC), which is the Romanian supervision authority responsible for protection of consumer rights and for maintaining the register in which any entity looking to launch debt collection operations must be entered. 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

In Slovakia, any entity wishing to transact business consisting in purchasing portfolios of debts arising under consumer loans agreements or granting consumer loans has to be 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 activities are subject to licensing by Questura. The institution directly supervising debt collection and purchase activities is the Bank of Italy, while Autorita' Garante della Concorrenza e del Mercato (AGCM) is the authority charged with imposing sanctions in the event of a breach of the Codice di Condotta law, laying down best practices to be followed in debt collection.

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. 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.

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

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

- In Poland: The President of UOKiK – with respect to competition law and protection of collective consumer interests, The President of the Personal Data Protection Office – with respect to processing and protection of personal data, and the Financial Ombudsman – with respect to protection of clients of financial market entities;
- In the Czech Republic: the Czech Commercial Inspection Authority, which is competent for protection of consumers, including supervision of the debt recovery business, and the 'financial arbitrator' responsible for settling disputes between consumers and financial institutions on an out-of-court basis. Other relevant authorities include the body responsible for supervising compliance with personal data protection regulations;
- In Slovakia: the Slovak Commercial Inspection Authority, which is responsible for protection of consumers, including in the area of debt collection activities, and the body charged with supervising compliance with personal data protection regulations;
- In Romania: the National Bank of Romania (NBR), which is responsible for supervising non-banking financial institutions (IFNs); The NSC, which is the capital market regulator; National Supervisory Authority for the Processing of Personal Data;
- In Germany: Kammergericht Berlin, which is the authority overseeing the credit management sector and activities of credit management companies.
- In Italy: Garante della Privacy, which is authorised to impose sanctions in the event of a breach of personal data protection rules, and Guardia di Finanza, which is authorised to impose sanctions in the event of a breach of tax obligations.
- In Spain: the Spanish Personal Data Protection Agency.

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.

A license from the PFSA is also required for entities other than investment fund management companies in order to engage in management of securitised debt held by securitisation funds. The PFSA supervises licensed entities with regard to compliance of their securitised debt management activities with applicable law and regulations, the managed funds' articles of association, the agreement concluded with the investment fund management company, and the terms of the licence.

KRUK Towarzystwo Funduszy Inwestycyjnych S.A. is licensed to conduct activities consisting in establishment and management of investment funds. KRUK S.A. holds a licence to manage securitised debts and, in this respect, is subject to supervision by the PFSA.

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.

The activities of securitisation entities in Malta are regulated and supervised under the Debt Securitisation Act. by the Malta Financial Services Authority (MSFA). InvestCapital Ltd. of Malta has been licensed by the MSFA to conduct securitisation activities.

Outsourcing of debt collection by banks

In Poland, pursuant to the provisions of the Banking Law (consolidated text: Dz.U. of 2021, item 2447), 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 by decrees and guidelines of the Czech National Bank and the National Bank of Slovakia, respectively. 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, debt collection entities 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 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.

Exchange of business information

ERIF Biuro Informacji Gospodarczej S.A.'s business is regulated under the Act on Disclosure of Business Information and Exchange of Business Data (consolidated text: Dz. U.2021, item 2057), which provides the basic legal framework and defines the rules for the collection and sharing of business data. Compliance of ERIF BIG's activities consisting in provision of credit reference agency services with applicable laws and regulations as well as data management rules and policies is supervised by the minister competent for the economy.

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 and personal data breach risk management are particularly important in the Group's operations.

Personal data may only be processed as specified by law, 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 ("GDPR"), with the use of technical and organisational measures which ensure personal data protection, in particular against disclosure to unauthorised individuals.

With respect to personal data protection laws and regulations, the Group also monitors and analyses their interpretations as well as related guidelines and other decisions as issued by competent data protection authorities in each of the jurisdictions where the KRUK Group operates.

As the body of available case law on various aspects of construing and applying the GDPR is growing, the Group has been able to identify and analyse that which is relevant to its business practices and, if required, accordingly modify its personal data processing procedures to ensure strict compliance.

Priority is given to conducting all processes across the Group in conformity with all applicable data protection laws and regulations, including the GDPR, best practices adopted in the industry, and the aforementioned regulatory interpretations and guidelines.

The Group has implemented a personal data breach risk management system to identify, analyse, review and monitor such risk. The system is improved on an ongoing basis. Risk mitigation controls are also reviewed and monitored.

The KRUK Group has in place tools to monitor personal data breach complaints as well as procedures to enable data subjects to exercise their rights under the GDPR.

As part of its debt management activities, the Group is also required to ensure security of any privileged information it obtains in accordance with applicable rules and standards, including those arising under the bank-client confidentiality provisions of the Banking Law (for bank debt cases) or the confidentiality provisions of the Investment Funds Act (for securitised debt cases).

Those operations which involve making available credit information are also governed by the Act on Disclosure of Business Information.

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 2021:

Poland

- **Act Amending the Act on Special Measures to Prevent, Counteract and Combat COVID-19, Other Infectious Diseases and Related Crisis Situations, and Certain Other Acts**
 - The act became effective as of January 26th 2021 and provided for an extension of the cap on non-interest borrowing costs until the end of June 2021 for credit facility and loan agreements concluded in the period from its effective date to June 30th 2021.

Romania

- **Act on the Use of Electronic Means of Communication in Litigation – effective as of May 2nd 2021:**
 - In civil matters, where possible, the court, with consent of the parties, may decide to hold hearings and conduct trial using means of remote audio-visual communication;
 - Where possible, process, briefs and other court documents are served by fax, email or other means of communication that enable such service with acknowledgement of receipt.

Czech Republic

- **Act Amending the Code of Civil Procedure – effective as of July 1st 2021:**
 - the act introduced a legal framework for setting up protected bank accounts. At a borrower's request, a bank may open a protected account to be credited with income which cannot be foreclosed on for debt enforcement purposes and which is intended for the purposes of satisfying the debtor and his family's basic needs. The debtor may have only one protected account. Protected accounts are intended to ensure effective protection of income exempt from foreclosure (minimum wages and pensions, spousal and child maintenance, welfare allowances).
- **Act Amending the Code of Civil Procedure and the Enforcement Act – most provisions effective as of January 1st 2022:**
 - The act has amended the debt enforcement procedure, requiring, among other things, that unsuccessful enforcement proceedings conducted for six years or more be terminated unless the creditor pays the competent enforcement authority an advance fee to continue the proceedings. The continuation is granted for a period of three years, with an option to request one more three-year extension. The act has also constrained enforcement through foreclosure of personal property. Within the meaning of the act, the original six-year duration of unsuccessful enforcement proceedings includes five years prior to the effective date of the act and one year following it.

Slovakia

- **Act on Introduction of Certain Restrictions and Other Measures to Contain COVID-19 – effective from February 21st 2021 to the end of the state of emergency triggered by the pandemic:**

- Pursuant to the Act, debtors may request two three-month repayment deferrals from their creditors using an official form that creditors are required to make available on their websites. A creditor may refuse such request (with the refusal to be accompanied with a statement of reasons) if:
 - the debtor has been in arrears with payments for more than 30 days prior to filing the request;
 - the debtor has defaulted on payment of at least EUR 100 for more than 30 days under a different loan agreement concluded with the same creditor;
 - the request is incomplete in view of the applicable formal requirements.
- **Governmental Regulation amending Regulation No. 268/2006 on the amount of salaries and wages exempt from foreclosure in enforcement proceedings – effective as of January 1st 2022:**
 - The Regulation sets the amount which is exempt from foreclosure at 140% of the minimum wage (EUR 218.06). Accordingly, the portion of an individual's salary or wage which debt cannot be enforced against is EUR 305.28.
- **Act Amending the Code of Civil Procedure and the Act of Summary Civil Procedure – effective as of July 1st 2022:**
 - Pursuant to the act, individuals are no longer required to present a rationale for objecting a payment order.
 - The provisions apply also to proceedings initiated prior to the effective date of the act. The court will apply a lower legal standard to scrutinizing the reasonability of objections filed by defendants who are consumers. If only one of the defendants submits a statement of reasons for the objection within the prescribed time limit, the payment order is automatically rendered unenforceable against any of them, and the case is scheduled for trial.

Spain

- **Royal Decree-Law 5/2021:**
 - The decree extended until December 31st 2021: (i) the waiver of the requirement resting on insolvent businesses to file for insolvency; (ii) the option to modify repayment plans approved in the course of pending insolvency proceedings; (iii) the suspension of the requirement to file for insolvency; and (iv) suspension of the processing of insolvency applications filed by creditors. Subsequently, Royal Decree-Law 27/2021 was passed, extending the above measures until June 30th 2022.

EU legislation

EU legislation that will affect all of the Group companies' business across the EU jurisdictions where they operate includes:

- Directive of the European Parliament and of the Council of November 24th 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU. The Directive has already entered into force and should enable credit institutions to better deal with non-performing loans by improving the conditions for their sale to third parties on efficient, competitive and transparent secondary markets, while protecting the rights of borrowers; the purpose of the Directive is to address the position of credit purchasers and credit servicers in relation to non-performing credit and to harmonise the authorisation requirements for credit servicers.

- Directive (EU) 2019/1937 of the European Parliament and of the Council of October 23rd 2019 on the protection of persons who report breaches of Union law. Its purpose is to lay down minimum standards of protection for persons reporting breaches of EU laws and of ethical conduct standards in a work-related context, including the requirements to establish internal reporting channels, appropriate internal procedures for receiving and following up on reports, and certain whistle-blower protection rules, including a prohibition on retaliation. The Directive provided for a 2-year transposition period, which elapsed on December 17th 2021. However, many countries, including Poland, have not yet transposed the directive into national law.
- Directive (EU) 2019/1023 of the European Parliament and of the Council of June 20th 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132. The purpose of the directive is to create effective early warning tools and preventive restructuring frameworks available to debtors in financial difficulties where insolvency is likely to occur, as well as to provide for a full discharge of debt. The measures, solutions and tools provided for in the Directive are intended to enable viable entrepreneurs to continue operating while meeting their creditors' claims; allow honest insolvent or over-indebted entrepreneurs a second chance; and enable non-viable businesses to liquidate effectively. Many members states are in the process of transposing the Directive into national law, the deadline for which is July 17th 2022; the members states that have already completed the transposition include the Czech Republic.
- Directive (EU) 2019/2161 of the European Parliament and of the Council of November 27th 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules. The purpose of the Directive is to afford consumers a greater measure of protection against unfair contractual terms and market practices as well to ensure protection of consumer rights in distance contracts. All of the amended Directives provide for imposition on infringing undertakings by competent judicial or administrative bodies of fines, whose maximum amount must be equal to at least 4% of the undertaking's annual turnover in the Member State, where the infringement is committed. Other amendments concern the scope of information required to be provided to a consumer prior to the conclusion of a distance contract. Member States should transpose the Directive by May 28th 2022.

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.

Proposed amendments to laws with a possible impact on the Group's business

Poland

- **Government-sponsored bill to amend certain laws to counter usury practices:**
 - According to the bill, the granting of a loan would be conditional on the loan applicant being awarded a positive credit score. The bill provides for a requirement to secure from the consumer a representation on the amounts of his or her income and expenses and to run know-your-customer checks on him or her.
 - If the lender failed to comply with this requirement or if the consumer's representation or other information obtained by the lender indicated that as at the date of the loan

agreement the consumer had been in default on other payment liabilities for more than six months and the consumer loan granted by the lender was not used to repay such liabilities, then:

- the disposal of any debt claims under the loan agreement by way of assignment or otherwise would be invalid and ineffective;
 - no debt claims arising under the loan agreement would be enforceable until full repayment or expiry of the earlier liabilities or until such liabilities were found not to have ever existed by way of a final and unappealable court judgment.
 - If the bill is passed into law, lenders will also be required to promptly notify credit reference agencies of any loans granted and any defaults by borrowers.
 - The bill sets a new cap on non-interest borrowing costs – at 5% for loans maturing within 30 days and at 10% (both on a one-off and per-annum basis) for loans maturing in more than 30 days. In either case, maximum non-interest borrowing costs over the entire loan period could not exceed 45% of the total amount of the loan.
 - According to the bill, only joint-stock companies (*spółka akcyjna*) with a share capital of at least PLN 1m would be allowed to operate a consumer lending business.
 - Consumer lending activities would be further regulated and supervised by the Polish Financial Supervision Authority.
- **Bill to amend the Code of Civil Procedure and certain other acts:**
 - the court would have the discretion to decide that there can be no reasonable doubt as to the validity of the defendant's service address as indicated in the statement of claim and that process has been effectively served if the defendant twice ignores the notice of attempted service and fails to collect the registered mail containing the process from the post office within the prescribed time limit;
 - the court would be able to enter an order to close the trial *in camera* (this amendment would be likely to accelerate court proceedings);
 - neither the court when deciding a petition to grant a writ of execution to the creditor's legal successor nor the debt enforcement officer requested to conduct foreclosure would any longer be required to examine the statute of limitation period on collecting default interest;
 - the validity periods of property valuation reports and quantity and value estimation reports would be extended;
 - the right to join ongoing enforcement proceedings, including those commenced before September 8th 2016, would be reinstated;
 - consumer cases would be heard in accordance with a separate set of rules;
 - enforcement proceedings could no longer be commenced on submission of a writ of execution granted to the creditor's legal predecessor, and assignees could no longer join ongoing enforcement proceedings if the debt was assigned on certain conditions precedent or the assignee is a foreign entity;
 - **Bill to amend certain acts to ensure development of the financial market and protection of investors on that market, in particular the Act on Investment Funds and Management of Alternative Investment Funds of May 27th 2004 ("Investment Funds Act"):**
 - If passed into law, the bill would replace the term 'securitisation fund' with the the term 'specialised debt fund' in the Investment Funds Act to resolve the existing conflict between Polish and EU legal terminology arising from the fact that a single term is used

to refer to two different kinds of a fund. The bill would also entirely remove the term 'securitisation' from the Investment Funds Act to avoid any potential doubts as to the relationship between Polish and EU legislation in this area. A specialised debt fund could continue to operate in one of the two already available forms: as a standardised or non-standardised fund;

- the bill would further enable closed-end investment funds to operate as specialised debt funds investing assets in debts, including debts financed with public funds as defined in applicable legislation, or in rights to receive benefits arising from certain debts as specified by the entity originating the transfer of debt-related risk or other entity that has concluded an agreement with the fund whereby the entity is required to transfer all benefits arising from such debts to the fund; specialised debt fund would be required, and would have the exclusive right, to use the designation 'specialised standardised/non-standardised debt fund' in their names;
- the amount of a fine that the PFSA may impose on an entity which has been engaged by an investment fund management company to perform certain activities under an agreement with respect to a specialised investment fund or closed-end investment fund and which is licensed to manage securitised debts for: (i) a violation of a law or regulation or non-compliance with the articles of association of a securitisation fund, (ii) failure to comply with the terms of the entity's licence or conducting non-licensed activities, or (iii) performing activities in violation of fair trading practices or in breach of the interests of the shareholders in the securitisation fund would be increased from PLN 500,000 to PLN 5,000,000;
- the bill would impose limitation on investment fund portfolio managers, including by removing the concept of securitised debt management from Art. 192 of the Investment Funds Act. According to the proposed bill, the management of investment fund portfolios could only be outsourced to:
 - other investment fund management companies licensed to manage investment portfolios comprising one or more financial instruments;
 - Poland-based entities conducting securities brokerage activities with respect to the management of investment portfolios comprising one or more financial instruments;
 - EU-based entities conducting securities brokerage activities with respect to the management of investment portfolios comprising one or more financial instruments;
 - entities based in an OECD country other than an EU Member State conducting securities brokerage activities (subject to additional statutory conditions);
 - specialised entities other than those referred to above which are licensed to manage investment portfolios comprising one or more financial instruments (subject to additional statutory conditions) – exclusively with respect to the management of private-equity portfolios;
- the bill provides for an 18-month transition period to enable affected entities to introduce organisational and other changes to ensure compliance with the amended legal requirements.

Romania:

- **Bill on consumer protection with respect to the total cost of credit and assignment of debt claims:**
 - the bill would limit the total cost of credit to the amount of the principal where the principal is lower than RON 15,000. The cap would apply to existing contracts, including those that have already been assigned;
 - the bill would require that creditors obtain opinions on draft agreements with debtors (depending on the 'financial condition of the customer and the maximum amount of the customer's outstanding debt');

- debtors would be entitled to request that the amount of their outstanding liabilities be adjusted (decreased). If the creditor refused such adjustment, the debtor would be entitled to challenge such refusal in court, with any enforcement of the debt automatically stayed for the duration of the court proceedings;
 - if the court rejected the request for adjustment, the creditor would lose the right to demand payment of commission, interest or penalties unless the debtor filed the request in bad faith.
- **Bill to amend and supplement certain consumer protection legislation:**
 - if the court found that a consumer contract contained unconscionable clauses, the infringing party would be required to cure all existing contracts in its consumer debt portfolio, reimburse any payments made under such clauses, and remove such clauses from its contract templates (the clauses found to be unconscionable could not be applied in any new contracts concluded by infringing party with customers);
 - final court decisions finding certain contractual clauses to be unconscionable could be used by other consumers affected by such clauses to enforce their claims for reimbursement against lenders, with such claims not to be subject to the statute of limitations;
 - contractual clauses deemed unconscionable would be published on the ANPC official website;
 - the use of unconscionable contractual clauses would constitute a violation of law and so would be penalised.

Spain:

- **Bill on measures to improve the efficiency of the public justice system:**
 - The bill introduces measures to enhance the efficiency of the Spanish justice system, including by imposing a requirement to attempt mediation before a dedicated body (MASC) prior to commencing litigation. In the absence of a response to a preliminary proposal to conclude a settlement agreement or if the mediation ends without the parties concluding such agreement, a lawsuit must be initiated within three months. In addition, the bill proposes to allow judges to deliver oral decisions in cases with the amount in dispute of up to EUR 15 thousand (EUR 2 thousand currently) and admit electronic powers of attorney.
- **Consumer Protection Bill:**
 - The main purpose of the bill is to set minimum quality parameters in order to improve consumer protection and enforcement of consumer rights. Pursuant to the bill, businesses would be required to set up a personalised customer service with free-of-charge hot-lines, which could not be turned into an extra revenue stream. The bill further provides for a maximum period of one month for responding to complaints and imposes a requirement to operate a customer service that is adequate to the business activities conducted (24/7/365 customer care for basic services). Such services would be audited by independent third parties, and customer service personnel would have to be properly trained in order to be able to handle customer complaints.
- **Bill on the right to accommodation:**

- The bill is intended to improve the tools and remedies available to ensure proper enforcement of the existing right to decent and suitable accommodation;
- The bill seeks to establish a broadly defined 'protected accommodation' standard for a period of at least 30 years, introduce the notion of affordable housing in order to increase the availability of affordably priced housing offers, and elaborate the concept of decent and suitable accommodation;
- The bill also proposes to amend the process of eviction from unprotected accommodation so as to enable competent welfare services to provide adequate timely relief to evicted persons.

Italy

- **Bill on facilitating the renegotiation of non-performing or unfair loans:**
 - The bill is intended to help families and small businesses that have been affected by the economic consequences of the COVID-19 pandemic to solve their debt problems.
 - According to the bill, in situation where a Creditor (defined as a Bank, Financial Intermediary, SPV or debt collection business) wished to assign debts to third parties, for such assignment to be effective the Creditor would be required to first notify each debtor, by registered mail, of the carrying amount of its debt as disclosed in the Creditor's most recent authorised financial statements.
 - The debtor would then be entitled to propose in writing, within a prescribed time limit, an individual settlement agreement, including the amount the debtor would be willing to pay in consideration for discharging the outstanding debt.
 - If the debtor failed to make such proposal or failed to comply with the terms of the settlement agreement, the Creditor would be allowed to assign the entire amount of the outstanding debt.

The Group monitors on an ongoing basis changes in legislation that may affect its business. However, as at the date of this Report, neither the final wording nor the effective dates of the bills listed above were known, nor was it possible to reliably determine whether they would or would not be passed into law or assess their overall impact on the Group's business

6 | Chapter

6 DEVELOPMENT DIRECTIONS OF THE KRUK GROUP

6.1 Development directions and prospects of the Group

Strategic Triad – mission, vision and values of the KRUK Group

The mission and long-term vision of the Group are reviewed on a regular basis. Following the most recent review in 2021, they have been redefined to read as follows:

MISSION

We uphold the social and legal norms of debt repayment, always with respect for the people that we cooperate with.

VISION: VALUES-PEOPLE-LEAN

Values	No matter what we do, we stand up for our values.
People	We want to attract people who share our values and believe that the need to progress goes on no matter the circumstances, even when we succeed.
Lean	We believe in the ongoing improvement of our processes. We do not hesitate to call problems by their name and seek optimum solutions for their solving.

VALUES

Respect	Mutual respect is the foundation of our business. We treat everyone as we would like to be treated.
Cooperation	Together we achieve more. We build partner relationships based on transparent rules. We call things by their name.
Responsibility	Everyone is accountable for one's decisions, actions or negligence and their consequences.
Development	We constantly grow. Our inner need to progress goes on under any circumstances, even when we achieve success.
Simplicity	Simple is beautiful. We simplify our processes and eliminate waste. Done is better than perfect.

2021 saw a transformation of the KRUK Group's management model. Many years of rapid growth and new additions to the Group's business portfolio of debt collection companies operating on the European market gave us a great competitive strength, which is experience in doing business in diverse legal,

economic, social and cultural environments. We decided to gather and apply this experience in a project to change the Group's management model to make it more efficient and tailor it to our organisation. The pursuit of the right balance between the global and local growth strategies resulted in a model that strengthens synergies at the Group level, while providing a platform for business units to operate as companies that can be locally responsive and, thus, competitive.

The organisation management model is several systems linked together. The process architecture, process management system, management by objectives system and organisational structure closely linked to the stated business strategy are elements having a common source – the strategic triad. During the transition process, it was clear the KRUK Group needed to review its mission, vision and values.

The foundation made up of the corporate values that have guided the Group since its inception have remained unchanged and are deeply embedded in our business DNA. Our aim was only to simplify them in order to strengthen the common ground between our employees, customers, shareholders, and business partners.

In response to the question about the KRUK Group's long-term vision, the Management Board focused on clarifying what company we want to be rather than where we want to be. In line with the philosophy of Lean Management, which has been with us for several years now, we believe the value of the organisation will be an additional effect of our constant focus on how to improve our processes, what people we have on our team and what rules we follow.

In its essence, our mission remains unchanged. We believe that, being part of the economic and social ecosystem, we have an important role to play, which needs to be played in compliance with all legal standards to bring tangible social and financial benefits.

Strategic plan 2019–2024

The KRUK Group continues to implement its strategy for 2019–2024, evaluating its objectives and assumptions as part of regular strategic reviews but also every time factors influencing its feasibility change.

Our overriding objective remains to expand our business by increasing the scale of operations, improving efficiency and optimising the costs of the KRUK Group's processes.

The outbreak of the COVID-19 pandemic in 2020 forced us to review the Group's strategic objectives as early as March 2020. Scenario planning and the implemented system of safeguards against risks posed by the changing reality caused us to watch more closely any deviations from the assumptions we had made and to respond flexibly. These competencies and experience led to the development of a continuous strategic review process and a new approach to the operationalisation of strategic pillars and modules, which the KRUK Management Board implemented throughout 2021 and intends to continue in 2022. Strategic sessions and reviews are done by the Management Board several times a month, ensuring the process is effective and efficient.

As a result of this work, all previously defined strategic directions were maintained and confirmed, with the continuing pandemic reality adding a new dimension to our thinking about digital transformation.

2021 was a year of process changes. Processes were optimised largely through the deployment of technological and analytical solutions. In all our markets, we consider the potential offered by technology and the 'new normal' of digital reality permeating many areas of our activities as key to understanding and building competitive advantage. But the digital transformation written into our

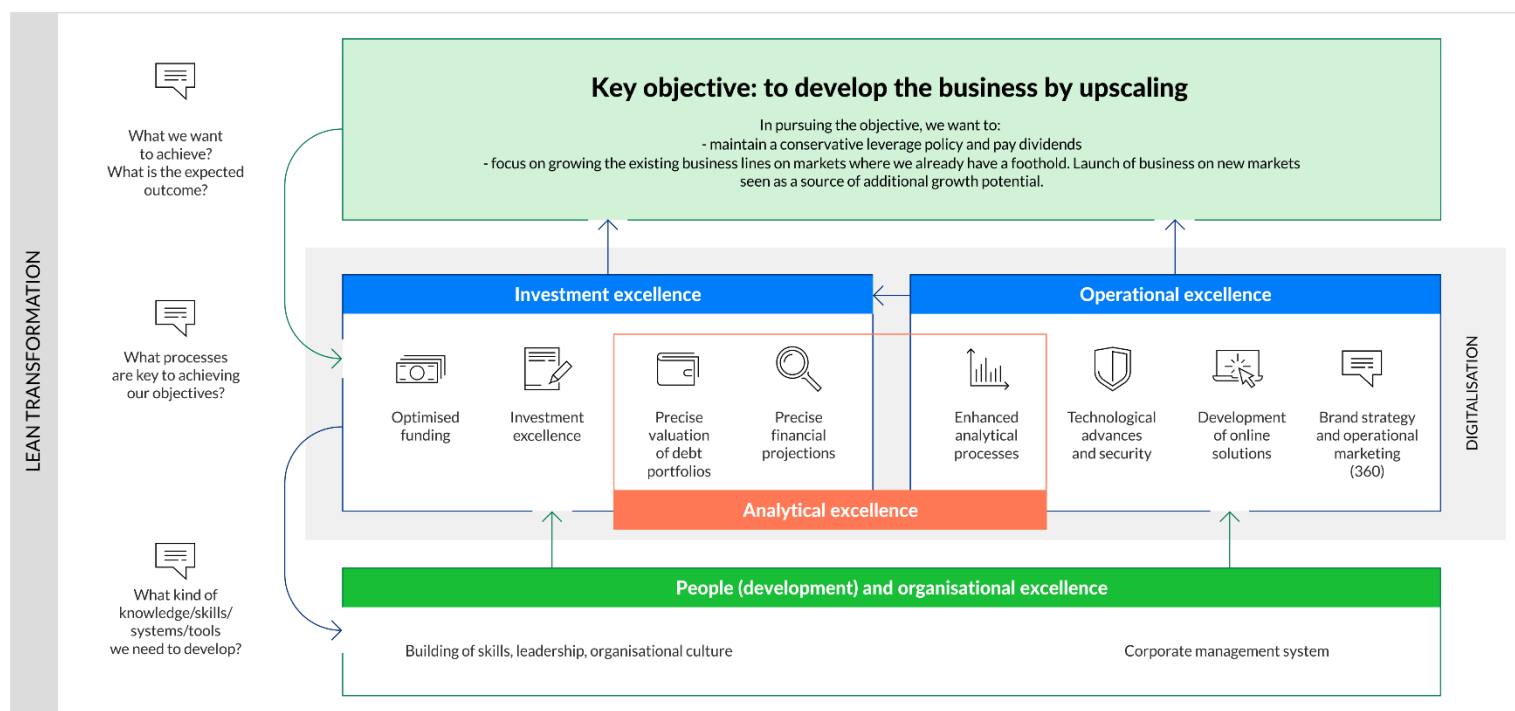
strategy is to focus not only on the technology aspect but, first and foremost, on the organisational culture, development of digital competencies among staff and customers and the business dimension.

A key element of the preparations for the transformation is the project (implemented in the CDTO area) to centralise infrastructure and technology resources within the KRUK Group, which was launched in 2021.

Two new areas of responsibility were set up at the KRUK Group Head Office to strengthen digital transformation activities: Head of Cloud and Head of Digital Transformation.

We maintained the visualisation of the strategy lines modified in 2021, and we continue to use it in the communication and strategy implementation processes.

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. In this area, we uphold the assumptions made at the time of designing our long-term strategy. Launch of new business lines and entry into new geographical markets offer further growth potential, but unsecured retail debt is our priority.

Implementation of the strategic plan in 2021

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

Investment excellence

- Expanding funding sources that meet the adopted security, cost and availability criteria; Adding further banks to the bank syndicate providing credit to the Group; Issue of bonds with a nominal value of PLN 535m.

- Optimising the valuation process (shortening it through automation, etc.) and further development of valuation methods (to extend the period in which KRUK expects to generate future cash flows from purchased debt portfolios)
- For further information on the investments made, see Section 3.5 of this Report.

Operational excellence

- As part of the efforts to build a platform for exchanging knowledge and best practice between markets, common KPIs for key processes and sub-processors have been identified, primarily in the unsecured retail debt business line. Routine KPI reviews enable transfers of solutions or process improvements using synergies, while taking into account the diverse environments in which individual companies operate.
- Further improvement in business analytics – decision-making models and other solutions using, among others, machine learning, facilitating effective business decision making at every level of service and process execution.
- Technological development: continued implementation of cloud solutions; further digitalisation of paper-based processes, continued roboticisation to facilitate and accelerate process activities; extensive process automation. In 2021, the IT area launched a transformation process aimed at building an internal software house with centralised IT resources across all markets to more efficiently respond to emerging business needs.
- Development of online solutions: In all markets, we continued to hone our self-service tools (e-KRUK, e-payment, electronic signature, online settlement). In Poland, we implemented a new version of the e-kruk system, which was freshened up and given a clearer customer interface, contributing to improved conversion rates in the tool. The new system will be implemented in Romania this year, with further countries to follow. The share of online payments grew by an average 24pp in all countries in 2021. As at the end of 2021, online payments as a percentage of total recoveries at the amicable stage were 64% in Spain, 37% in Poland, and more than 20% in Romania and Italy. Paperless settlement agreements grew significantly, accounting for 97% of all agreements signed in Spain in December 2021 (88% in Poland, 70% in Italy, and 36% in Romania). KRUK's customers are able to manage their debt (including by entering into an online settlement) through the e-KRUK platform in Poland, Romania and Italy, the total number of e-KRUK users having increased by 97% relative to December 2020. Based on an in-house analysis, we see the growing needs of customers moving online and selfpayers (payers with no need to interact with KRUK employees).
- We continue to work in the hybrid model in all markets, recognising it is no longer a temporary solution but a new work standard we want to develop by incorporating new functions and utilities for our managers and their employees.

People, competencies

- As part of the transformation processes related to the new management model, the KRUK Group established a new position – HR Strategy Manager, who is responsible for building a long-term strategy to foster a 'digital organisational culture' and competence management systems within the organisation.
- As part of the defined digital transformation challenges, the Group's HR strategy area is building the foundations for launching development programmes and digital exclusion prevention programmes for our employees.

ESG

- In response to the KRUK Group growing needs for responsible, stable and sustainable development, the position of ESG Strategy Manager was established in the Strategy Management area.
- ESG Strategy Manager is responsible for non-financial reporting processes, but is primarily a partner of the KRUK Management Board in the preparation of strong ESG strategic objectives to be an inseparable part of the Group's business strategy.

6.2 Major research and development achievements

Research and development work in 2021 was carried out in many areas and included the following:

- Continuous improvement of the methodologies, statistical models and machine learning models used in the pre-purchase debt portfolio valuation process in order to improve valuation accuracy and mitigate risks involved in investment projects; Evaluation of the feasibility and methods of using data provided by the original creditors and data collected during servicing of the purchased debt; Examination of the methods of accounting for changes in the legal and process environment in the pre-purchase portfolio valuation method.
- Further development of statistical methods used for estimating collections from purchased retail debt portfolios.
- Launch of a project, partnered by an external consultant, to investigate the impact of external (including macroeconomic) factors on collections from retail portfolios.
- 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.
- Further development of online services – e-kruk platform, online payments, electronic signature.
- Continued work on cloud solutions.
- Further improvement of business analytics (work on decision-making models and other business intelligence solutions, machine-learning).
- Continuous development of efficient database structures and improvement of control and optimisation mechanisms applied in these structures.

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

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7 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;
- identify appropriate controls, including limits and procedures; enable control and monitoring of risk levels and the progress on implementing the risk management strategy.

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 in the Group's legal and regulatory environment. The Management Board is responsible for defining risk management procedures and overseeing their implementation.

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

The Group's internal control, risk management, compliance and internal audit system is effective and fits the profile and scale of the Group's operations.

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

Risk	Description of risk and its effects if materialised	Handling method (management strategy)
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; 	<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</p>

- events of force majeure.

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.

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.

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.

Risk of error in estimating the value of acquired debt portfolios

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

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

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

Having acquired by the end of 2021 as many as 1,300 debt portfolios and having carried out over 4,800 debt portfolio valuations, the KRUK Group has gained extensive experience in estimating the values of such portfolios. The information base it has compiled helps mitigate the risk of incorrect estimate of the value of purchased debt portfolios.

Risk of material decline in recoveries from purchased debt portfolios

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. Additional risk may be generated by the growing number of consumer bankruptcies. As at the date of this report, the KRUK Group holds no

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. 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>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>Risk related to adverse effects of the Covid-19 pandemic on the economic condition and financial performance of the KRUK Group</p>	<p>In the Company's opinion, the Covid-19 pandemic and its consequences in Poland and other countries where the KRUK Group operates have had, and may continue to have, an adverse effect on the Group's economic condition and financial performance. Such adverse impacts are likely to be seen mainly in the amount of recoveries from purchased debt portfolios, which may come in lower than expected, potentially leading to a downward revision of recovery projections. The pandemic may also adversely affect the performance of the consumer lending business, as well as the other business lines pursued by KRUK. The KRUK Group's operations are being continued on each market and within each business line, and the Group's liquidity position remains stable. However, at the time of preparation of the 2021 report, the Company is unable to predict the full scale of the adverse impact of the coronavirus spread and its effects on the Group's economic condition and financial performance.</p>	<p>Taking various scenarios into account, the KRUK Group intends to manage its operations in a way that would minimise any adverse effects on KRUK's assets and financial performance. The following measures have been taken to that end: the switchover to remote work (with 95% of the employees having opted to work from home during the pandemic period), reduction of investments in new portfolios in 2020, and cost saving initiatives in 2020. At the time of preparation of the 2021 report, the Company was unable to predict the full scale of the continued coronavirus spread and its effects on the Group's economic condition and financial performance, due to the heightened uncertainty of estimates. In 2020, the Group revised its recovery projections downward to account for the adverse impact of the pandemic on its performance. In third quarter of 2020, recoveries started to grow, in particular from unsecured retail portfolios, a trend that continued throughout 2021 despite the pandemic. The Group monitors the situation on an ongoing basis, including any draft legislation which on enactment may adversely affect the Group's performance.</p>
<p>Risk of increased costs of the Group's business</p>	<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>
<p>Operational risks related to the Group's business</p>	<p>The KRUK Group is exposed to the risk of damage or loss for reasons attributable to its personnel, ICT systems, vendors or external circumstances. Key operational risks include: employee turnover and mistreatment of or misconduct towards employees; breach of the continuity, integrity or quality of a Group entity's</p>	<p>The Group operates 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, procedures for handling incidents and reporting on operating losses and proposing remedies, development and constant oversight</p>

performance, assets or human resources in connection with a a service provided or with the activities of a vendor which the entity signed an outsourcing agreement with; disruptions in the performance of ICT systems; defects in agreement or other arrangements governing legal relationships with third parties; unfavourable rulings by courts or other tribunals or authorities; unavailability or scarcity of resources or services required to carry on regular business activities; wilful or negligent misconduct by by employees, customers, business partners or third parties causing harm to the Company; fraud, extortion and hacking attempts. 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.

of the applied IT technologies in line with the latest new technology trends).

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 KRUK Group in view of the need to ensure personal data protection.

Risk of changes in the external environment, particularly in the legal and macroeconomic environment

The risk of changes in the external environment mainly includes changes in the legal and regulatory environment as well as changes in the macroeconomic and social environment, changes in the banking and financial sectors, and the activities of competitors.

Legislation and regulatory requirements applicable to the KRUK Group's business, in particular laws and regulation 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. No assurance can be given by the Company that legislative amendments directly affecting, or having an adverse impact on, debt collection will not be introduced in jurisdictions in which the Group operates. In addition, these regulations are subject to differing interpretations, which poses the risk that they may be applied in an inconsistent manner by court and public administration bodies. Therefore, no

The Group has developed and implemented a procedure for monitoring changes in legislation and regulatory requirements. The Group prepares for any expected changes in advance by conducting a thorough analysis of any draft laws or regulations proposed and assessing their economic impact on the Group, as well as by developing, if required, a plan to implement relevant changes to the business to ensure compliance. The KRUK Group also monitors court rulings. In principle, judicial decisions are not regarded as a source of law and as such do not constitute binding authority on courts in other cases; however, in practice they do inform the construction and application of the law.

Group companies are members of various organisations and associations, which gives them the opportunity to voice their opinion on and/or opposition to proposed legislative or regulatory changes through forums provided by such bodies and also to exchange knowledge with other industry players.

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

assurance can be given by the KRUK Group that its interpretation of Polish law or laws of other countries applicable to the KRUK Group's business will not be challenged, which may in turn result in financial penalties being imposed on any of the KRUK Group entities, or such entity being required to change its policies and to compensate the affected customers for their losses. This may have an adverse effect on the KRUK Group's operations, financial condition and image.

The low level of legal and 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.

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.

Competitor activity has a direct impact on the KRUK 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.

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. The KRUK 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 debt portfolio acquisitions, the KRUK 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, on the other hand, drives up recoveries, as do various governmental welfare measures, allowances and family support schemes.

The KRUK Group monitors its own market position and that of its competitors on an ongoing basis, including reviewing information on any business practices applied by others that have been challenged by competition and consumer protection regulators or personal data protection authorities.

Credit risk

Credit risk is the risk of financial loss if a client or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is chiefly associated with purchased debts, receivables for 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:

- investments in debt portfolios,
- loans,
- trade and other receivables.

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:

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

	<p>Additional risk may be generated by the growing number of consumer bankruptcies.</p>	<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.</p> <p>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>Market risk (currency risk and interest rate risk)</p>	<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 bond issue prospectuses. <p>To this end, the Group follows and periodically reviews its foreign exchange risk 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>
<p>Liquidity risk</p>	<p>Debt portfolio purchases involve making large one-off payments. To secure the necessary funding for its debt portfolio</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,</p>

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.

without exposing the Group to a risk of loss or damage to its reputation.

Liquidity risk management tools used at the Group include:

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

Risk relating to large-scale personal data processing by the Group

The Group's business involves processing of personal data transferred to the Group by creditors who outsource credit management services or sell their debts to the Group. This means that in accordance with applicable regulations and agreements in force, the Group receives customer data from third parties, 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 potentially 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.

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. The Group fulfils all disclosure obligations under applicable personal data protection laws and regulations towards data subjects whose data has been obtained by Group entities acting as personal data controllers. Any information of a potential error is verified and the data is corrected.

Risk of losing key employees

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

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.

The KRUK Group continuously engages in initiatives to advance professional development of its management staff and specialists in various

	<p>pace of implementation of its strategic plans.</p>	<p>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).</p> <p>Moreover, an incentive scheme for key management staff has been put in place to ensure employee retention.</p>
<p>Risk related to related-party transactions</p>	<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>
<p>Compliance risk (risk of failure to comply with laws or regulations, internal policies, or market standards in performance of operational or business processes)</p>	<p>The nature of the KRUK Group's business requires that we monitoring changes in the legal and regulatory environment on an ongoing basis. Legislative and regulatory activity in the markets where the KRUK Group operates may give rise to both opportunities for and threats to individual Group companies, and failure to ensure compliance with new or amended laws or regulations, or to do so in a timely manner, may result in a violation of legal or regulatory requirements.</p>	<p>The KRUK Group has developed and implemented policies, procedures and mechanisms to manage and mitigate compliance risk. These include:</p> <ul style="list-style-type: none"> • monitoring proposed draft legislation and prevailing interpretations of existing laws and regulations by public authorities, including courts and other tribunals; • monitoring regulators' opinions, guidelines and recommendations;

	<p>Relations with customers (indebted persons) are at the core of the KRUK Group companies' business, from the debt collection process to marketing activities intended to promote KRUK products and services or further improve the Group's image. Given the nature of the Group's business, there exists a risk that a competent local consumer protection authority finds KRUK practices to infringe on collective consumer interests or be otherwise unfair.</p> <p>In view of the number of our customers and the load of both purchased and outsourced debt cases that we handle, it is necessary to ensure that processes run by Group companies are standardised and to mitigate the risk of arbitrariness in the treatment of customers. Any biased treatment of a customer or unwarranted deviation from a standard process may give rise to grievances or complaints as well as customer dissatisfaction, which may lead to the Group being unable to attain its strategic or business objectives.</p> <p>Failure to identify, or take action to manage, potential conflicts of interest may have negative consequences if such conflict actually arises or continues.</p>	<ul style="list-style-type: none"> • a process to evaluate communication with customers; • monitoring KRUK Group companies' activities to identify practices which may be considered as unfair or as infringing collective consumer interests; • standardised procedures for handling particular situations and cases, whose observance by employees is monitored for any indications of non-compliance or mistakes; • managing potential conflicts of interest and corruption-related issues.
<p>Reputational risk</p>	<p>The KRUK Group's business involves a risk of damage to or loss of reputation among customers, trading partners, shareholders, and investors, which may affect the organization's current or future ability to generate revenue and result in a negative public image. Negative publicity may undermine the Group's credibility in the eyes of its current or potential trading partners, and consequently may have a negative effect on its financial performance and ability to pursue strategic objectives.</p> <p>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.</p> <p>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</p>	<p>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:</p> <ul style="list-style-type: none"> • information and media campaigns targeted at indebted individuals and companies, • 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

health or experience problems in their families or work. Among indebted persons that the KRUK Group deals with are people going through a mental health crisis, including some who may indicate that they are contemplating suicide. All this gives rise to the risk of bad publicity around debt collection activities carried out by the KRUK Group.

- assistance, e.g. by partnering the Business Run charity event,
- training courses, educational materials and press articles addressed to 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 manage, prevent and mitigate the risk of illegal processing of personal data, and its effects should it materialise, 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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8 CORPORATE GOVERNANCE

8.1 Statement of compliance with corporate governance standards

Until July 25th 2021, the Company and its governing bodies complied with the corporate governance principles set out in the Best Practice for WSE Listed Companies 2016 adopted by the WSE Supervisory Board by way of Resolution No. 26/1413/2015 of October 13th 2015. 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.

Following adoption by the WSE Supervisory Board, by way of Resolution No. 13/1834/2021 of March 29th 2021, of the Best Practice for WSE Listed Companies 2021, the Management Board of the Company adopted, by way of Resolution No. 142/2021 of July 26th 2021, a statement of compliance with the Best Practice for WSE Listed Companies 2021 at KRUK S.A. By Resolution No. 41/2021 of July 29th 2021, the Company's Supervisory Board also adopted the Best Practice for WSE Listed Companies 2021.

The scope of application by the Company of the corporate governance standards set forth in the document was also specified in EBI Report No. 1/2021, dated July 29th 2021.

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://en.kruk.eu/investor-relations/kruk-group>.

Adopted code of corporate governance

Until July 25th 2021, the Company applied the corporate governance standards described in the Best Practice for WSE Listed Companies 2016, as attached to the WSE Supervisory Board's Resolution No. 26/1413/2015 of October 13th 2015.

Since July 26th 2021, the Company has been required to apply new corporate governance rules for companies listed on the WSE Main Market, i.e. the 'Best Practice for WSE Listed Companies 2021' ("Best Practice 2021" or the "Code"), as attached to WSE Supervisory Board Resolution No. 13/1834/2021 of March 29th 2021.

The document is available for download on the WSE corporate governance website (<https://www.gpw.pl/best-practice2021>).

Corporate governance standards which the Company elected not to comply with

In the period from January 1st 2021 to July 25th 2021, as per the Management Board's statement expressed in 2016, the Company continued to comply with corporate governance standards set forth in the Best Practice for WSE Listed Companies 2016, save for the exceptions described below.

Accordingly, the said statement remained valid for corporate governance standards complied with in that period.

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-life broadcast of general meetings and real-time bilateral communication, where shareholders may take the floor during a general meeting from a location other than the general meeting and to exercise voting rights during a general meeting either in person or through a proxy. 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.

Notwithstanding the declared non-compliance with principle IV.Z.2 and recommendation IV.R.2, in view of the pandemic situation in Poland and around the globe, when holding the Annual General Meeting on June 16th 2021, the Company offered the option to attend the General Meeting using electronic means of communication, enabling the shareholders to participate in real-time two-way communication and real-time transmission of the General Meeting.

As of July 26th 2021, the Company declared compliance with corporate governance standards set forth in the Best Practice for WSE Listed Companies 2021, save for the exceptions described below.

The Company does not fully comply with principle 1.3, whereby companies are required to integrate ESG factors in their business strategy, including in particular: 1.3.1. environmental factors, including measures and risks relating to climate change and sustainable development; 1.3.2. social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities,

customer relations. In the clarification provided on its statement of compliance, the Management Board explains that the Company has long been running projects and initiatives related to environmental issues (joining the Ecological Debt Day initiative, eco-webinars), social issues (KRUK is the initiator of the Day Without Debt and also runs financial education initiatives) and employee issues. The Company is a signatory to the Diversity Charter and a member of the United Nations Global Compact. The efforts undertaken by KRUK S.A. support the delivery of Sustainable Development Goals (Goal 3 Good Health and Well-being, Goal 4 Quality Education, Goal 5 Gender Equality, Goal 8 Decent Work and Economic Growth, Goal 11 Sustainable Cities and Communities, Goal 12 Responsible Consumption and Production, Goal 17 Partnerships for the Goals). The Company has prepared integrated reports incorporating non-financial data compliant with the GRI standard since 2017. The Company has not yet included ESG topics in its business strategy, but it is the Management Board's intention to apply the principle in 2022.

With respect to compliance with principle 1.4., the Company elected not to apply Sections 1.4.1 and 1.4.2, whereby information provided on the Company's ESG strategy should: 1.4.1. explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks; 1.4.2. present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target. The Company has published a clarification, explaining that KRUK S.A.'s business strategy, including quantifiable targets, actions planned and progress against the strategy, is available on its corporate website. Also, information on the progress in implementing the strategy is discussed in the Directors' Reports and posted on the website. At the same time, the Company intends to incorporate ESG aspects into its business strategy in 2022.

The Company elected not to comply principle 2.1, whereby companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%. In the clarification on non-compliance with principle 2.1, the Company explains that in 2010–2020, women held 60% of the Management Board seats. The Company is a signatory to the Diversity Charter and a member of the United Nations Global Compact. In 2021, women represent 28% of all Supervisory Board members and 20% of all Management Board members.

For the same reasons, the Company elected not to comply with principle 2.2, whereby decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

According to the Company's statement of compliance, in 2021 the Company elected to not comply with principle 6.3, whereby if companies' incentive schemes include a stock option programme for managers, the implementation of the stock option programme should depend on the beneficiaries' achievement, over a period of at least three years, of pre-defined, realistic financial and non-financial targets and sustainable development goals adequate to the company, and the share price or option exercise price for the beneficiaries cannot differ from the value of the shares at the time when such programme was

approved. In the clarification on non-compliance with the principle, the Company explains that the management option scheme does not include non-financial or sustainable development objectives.

8.2 Shareholding structure

8.2.1 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 2021, based on shareholder notifications received by the Company.

Table 34. Major holdings of KRUK S.A. shares as at January 1st 2021

Shareholder	Number of shares/voting rights	Ownership interest (%)
NN PTE	2,457,398	12.95
PZU OFE*	1,856,437	9.79
Piotr Krupa	1,827,613	9.63
Aviva OFE*	1,788,000	9.42
Allianz OFE	1,009,299	5.32

(*) 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 16th 2021. Source: Company

The table below presents the shareholders holding directly or indirectly major holdings of KRUK S.A. shares as at December 31st 2021

Table 35. Major holdings in KRUK S.A as at December 31st 2021

Shareholder	Number of shares/voting rights	Ownership interest (%)
NN PTE	2,802,261	14.74
PZU OFE*	1,650,000	8.68
Piotr Krupa	1,771,463	9.32
Aviva OFE*	1,726,000	9.08
Aegon OFE	959,254	5.05
Allianz OFE*	1,007,672	5.30

(*) 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 16th 2021.

Source: Company

The table below presents the shareholders holding directly or indirectly major holdings of KRUK S.A. shares as at March 15th 2022

Table 36. Major holdings of KRUK S.A shares as at the report issue date

Shareholder	Number of shares/voting rights	Ownership interest (%)
NN PTE	2,802,261	14.74

PZU OFE*	1,650,000	8.68
Piotr Krupa	1,766,463	9.29
Aviva OFE*	1,726,000	9.08
Aegon OFE	959,254	5.05
Allianz OFE*	1,007,672	5.30

(*) 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 16th 2021. Source: Company

8.2.2 Changes in major holdings of shares in the reporting period

The following changes in major holdings of KRUK S.A. shares took place in 2021:

- On June 1st 2021, the Company received a notification from Aegon Powszechne Towarzystwo Emerytalne S.A. concerning acquisition of Company shares, reading as follows: "NOTIFICATION OF INCREASE IN TOTAL VOTING RIGHTS AT KRUK S.A. ISIN: PLKRRK0000010 This notification is given pursuant to Art. 69.1.1 of the Act of July 29th 2005 on public offering, conditions governing the introduction of financial instruments to organised trading and public companies. Aegon Powszechne Towarzystwo Emerytalne S.A. of Warsaw, with its registered office at ul. Wołoska 5, 02-675 Warsaw, Poland, registered with the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, under entry No. KRS 0000028767, representing Aegon Otwarty Fundusz Emerytalny, entered in the Register of Pension Funds maintained by the Regional Court in Warsaw, 7th Civil and Registry Division, under entry No. RFe 13, hereby notifies the market that as a result of a transaction to purchase shares executed on May 28th 2021 and settled on June 1st 2021 Aegon Otwarty Fundusz Emerytalny increased its holding of shares of KRUK S.A. (the "Company") above 5% of total voting rights in the Company. This is to notify you that as at May 28th 2021 Aegon Otwarty Fundusz Emerytalny held 959,254 shares in the Company representing 5.05% of the share capital and 959,254 voting rights attached to the shares held, and constituting 5.05% of the total number of voting rights in the Company. Prior to the transaction, Aegon Otwarty Fundusz Emerytalny held 944,254 shares of the Company representing 4.97% of the share capital and 944,254 voting rights attached to the shares held, and constituting 4.97% of the total number of voting rights in the Company. There are no subsidiaries of the notifying shareholder which would hold Company shares. With respect to the shareholder there are no persons referred to in Article 87.1.3.c of the Act of July 29th 2005 on public offering, conditions governing the introduction of financial instruments to organised trading and public companies (the "Act"). Aegon Otwarty Fundusz Emerytalny does not hold any financial instruments referred to in Art. 69b.1.1 and 69b.1.2 of the Act."
- On October 7th 2021, KRUK S.A. was notified by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A., with its registered address at ul. Topiel 12, 00-342 Warsaw, Poland, that the funds managed by it had increased their total holdings of shares in the Company by 2% of total voting rights at the Company's General Meeting, with the notice reading as follows: Pursuant to Art. 87.1.2b of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (Dz.U. of 2009, No. 185, item 1439, as amended), we hereby notify you that following the registration of a share capital reduction at Kruk S.A. (the "Company"), on which the Company reported in Current Report No. 41/2021 on October 5th 2021, the following funds managed by Nationale-

Niderlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2025, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2030, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2035, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2040, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2045, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2050, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2055, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2060, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2065 increased their aggregate holding of Company shares by 2% of total voting rights held by them at the Company's General Meeting above 2%. The table below presents the number of shares and voting rights held before and after the share capital reduction was registered.

ALL FUNDS	BEFORE		AFTER	
	number	%	number	%
Voting rights	2,802,261	14.74	2,802,261	14.95
Share capital	2,802,261	14.74	2,802,261	14.95"

- On November 18th 2021, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 2,961 shares in KRUK S.A. for the average price of PLN 363.21 per share on November 15th 2021, 6,823 shares in KRUK S.A. for the average price of PLN 356.31 per share on November 16th 2021, and 1,875 shares in KRUK S.A. for the average price of PLN 350.07 per share on November 17th 2021.
- On November 23rd 2021, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 9,966 shares in KRUK S.A. for the average price of PLN 333.49 per share on November 18th 2021, 726 shares in KRUK S.A. for the average price of PLN 330.02 per share on November 19th 2021, and 7,424 shares in KRUK S.A. for the average price of PLN 330.47 per share on November 22nd 2021.
- On November 24th 2021, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, on November 23rd 2021 Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 10,375 shares in KRUK S.A. at the average price of PLN 330.00 per share.
- On December 9th 2021, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 10,000 shares in KRUK S.A. for the average price of PLN 336.26 per share on December 6th 2021 and 6,000 shares in KRUK S.A. for the average price of PLN 349.34 per share on December 7th 2021.

In addition, subsequent to the reporting date:

- On February 11th 2022, the Company received a notification from Piotr Krupa, given under Article 19 of the MAR. According to the notification, Mr Krupa had sold, in ordinary session trades on the Warsaw Stock Exchange, 1,000 shares in KRUK S.A. for the average price of PLN 311 per share on February 9th 2022 and 4,000 shares in KRUK S.A. for the average price of PLN 304.77 per share on February 10th 2022.

8.2.3 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's authorisation expired on May 31st 2021 before the Management Board had purchased any Company shares thereunder.

Share buy-back pursuant to Resolution No. 7/2020 of the Annual General Meeting of KRUK S.A. of August 31st 2020

Acting pursuant to Resolution No. 7/2020 of KRUK S.A.'s Annual General Meeting of August 31st 2020 concerning allocation of KRUK S.A.'s net profit, authorising the Management Board to buy back Company shares for cancellation, and creation of a capital reserve to finance the share buyback, as well as the Management Board Resolution No. 187/2020 of October 13th 2020 concerning invitation to KRUK S.A. shareholders to tender shares, the Company acquired 271,000 own shares as part of a buy-back of Company shares for cancellation.

On June 16th 2021, the Annual General Meeting of KRUK S.A. passed a resolution to cancel treasury shares bought back by the Company. The General Meeting resolved to voluntarily cancel 271,000 book-entry ordinary bearer shares in the Company, with a par value of PLN 1.00 per share and the total par value of PLN 271,000.00, assigned ISIN code PLKRK0000010 by the Central Securities Depository of Poland.

Accordingly, the Annual General Meeting of KRUK S.A. resolved to reduce the Company's share capital by PLN 271,000.00, i.e. from PLN 19,011,045.00 to PLN 18,740,045.00, through voluntary cancellation of 271,000 shares in KRUK S.A. with a par value of PLN 1 per share, having book-entry form and assigned ISIN code PLKRK0000010, by way of amendments to the Company's Articles of Association. The share capital reduction took effect upon registration by the competent registry court on October 1st 2021.

The cancelled treasury shares were deregistered by the Central Securities Depository of Poland on October 19th 2021.

Holders of securities conferring special control powers

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

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.

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.

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.

8.3 Governing bodies

Management Board

8.3.1 Composition of the Management Board, changes therein and rules of appointment

In the period January 1st–December 31st 2021, the composition of the Company's Management Board was as follows:

Table 37. Composition of the KRUK S.A. Management Board

Name and surname	Position
Piotr Krupa	President of the Management Board
Piotr Kowalewski	Member of the Management Board
Adam Łodygowski	Member of the Management Board
Urszula Okarma	Member of the Management Board
Michał Zasepa	Member of the Management Board

On March 25th 2021, in view of the expiry of the Management Board's term of office, the Company's Supervisory Board passed resolutions, effective from March 25th 2021, reappointing all the Company's Management Board for a new joint three-year term. From March 25th 2021 to December 31st 2021 and as at the date of this Report, the composition of the Management Board did not change.

Table 38. Gender diversity on the Management Board of KRUK S.A. in 2021

Women	20%	1
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Men	80%	4
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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.

For more information on members of the Company's Management Board, including their expertise, expertise, functions and responsibilities, see Section 2.6.1. *Qualified Personnel*.

8.3.2 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.

Declarations 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. That authorisation remained in force until May 31st 2021.

8.3.3 Shares in the Company and in its related entities held by members of the Management Board or Supervisory Board

The table below presents Company shares or rights to Company shares held by Management and Supervisory Board members as at January 1st 2021.

Table 39. KRUK S.A. shares held by management and supervisory personnel as at January 1st 2021

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	President of the Management Board	1,827,613	1,827,613
Piotr Kowalewski	Member of the Management Board	7,875	7,875
Urszula Okarma	Member of the Management Board	105,325	105,325
Adam Łodygowski	Member of the Management Board	-	-
Michał Zasepa	Member of the Management Board	19,687	19,687
Tomasz Bieske	Member of the Supervisory Board	733	733

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 2021 to the date of issue of this Report (i.e. subsequent to the reporting date) there were also changes in the holdings of Company shares held by Piotr Kowalewski, Tomasz Bieske and Michał Zasepa as described below.

On March 31st 2021, the Company received a notification from Tomasz Bieske, given under Article 19 of the MAR. According to the notification, on March 31st 2021 Mr Bieske had bought, in ordinary session trades on the Warsaw Stock Exchange, 400 shares in KRUK S.A. at the average price of PLN 182 per share.

On November 25th 2021, the Company received a notification from Piotr Kowalewski, given under Article 19 of the MAR, to the effect that on November 25th 2021 Piotr Krupa had purchased, outside a trading venue, 5,000 KRUK S.A. shares for the average price of PLN 83.52 per share.

Table 40. KRUK S.A. shares held by management and supervisory personnel as at December 31st 2021

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	President of the Management Board	1,771,463	1,771,463
Piotr Kowalewski	Member of the Management Board	12,875	12,875
Urszula Okarma	Member of the Management Board	105,325	105,325
Adam Łodygowski	Member of the Management Board	-	-
Michał Zasepa	Member of the Management Board	19,687	19,687
Tomasz Bieske	Member of the Supervisory Board	1,133	1,133

Source: Company

List of notifications received from the management and supervisory personnel in 2021.

Piotr Krupa – summary of notifications in 2021

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
November 18th 2021	November 15th 2021	2,961	Sale	363,21zł	WSE
	November 16th 2021	6,823	Sale	PLN 356.31	WSE
	November 17th 2021	1,875	Sale	PLN 350.07	WSE
November 23rd 2021	November 18th 2020	9,966	Sale	PLN 333.49	WSE
	November 19th 2021	726	Sale	PLN 330.02	WSE
	November 22nd 2021	7,424	Sale	PLN 330.47	WSE
November 24th 2021	November 23rd 2021	10,375	Sale	PLN 330.00	WSE
December 9th 2021	December 6th 2021	10,000	Sale	PLN 336.26	WSE
	December 7th 2021	6,000	Sale	PLN 349.34	WSE

Piotr Kowalewski – summary of notifications in 2021

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
November 25th 2021	November 25th 2021	5,000	Purchase	PLN 83.52	Outside a trading venue

Tomasz Bieske – summary of notifications in 2021

Date of notification	Date of transaction	Volume	Transaction type	Average price	Place of transaction
March 31st 2021	March 31st 2021	400	Purchase	PLN 182.00	WSE

Subsequent to the reporting date, apart from the notification received from Piotr Krupa, President of the Management Board, on change in his holding of Company shares (see the *Shareholding structure* section), the Company received the following notifications from Management and Supervisory Board members:

- On February 3rd 2022, the Company received a notification from Michał Zasepa, given under Article 19 of the MAR. According to the notification, Mr Zasepa had sold, in ordinary session trades on the Warsaw Stock Exchange, 1,759 shares in KRUK S.A. for the average price of PLN 327.53 per share on January 31st 2022, 4,322 shares in KRUK S.A. for the average price of PLN 324.10 per share on February 1st 2022, and 6,737 shares in KRUK S.A. for the average price of PLN 321.48 per share on February 3rd 2022.

- On February 15th 2022, the Company received a notification from Tomasz Bieske, given under Article 19 of the MAR. According to the notification, on February 14th 2022 Mr Bieske had bought, in ordinary session trades on the Warsaw Stock Exchange, 250 shares in KRUK S.A. at the average price of PLN 302 per share.

Table 41. KRUK S.A. shares held by management and supervisory personnel as at the report issue date

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	President of the Management Board	1,766,463	1,766,463
Piotr Kowalewski	Member of the Management Board	12,875	12,875
Urszula Okarma	Member of the Management Board	105,325	105,325
Adam Łodygowski	Member of the Management Board	-	-
Michał Zasępa	Member of the Management Board	6,869	6,869
Tomasz Bieske	Member of the Supervisory Board	1,383	1,383

Source: Company

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

On August 31st 2020, acting pursuant to Article 90d.1 of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading and on Public Companies, the Annual General Meeting of KRUK S.A. adopted the Remuneration Policy for Management Board and Supervisory Board Members of KRUK S.A. of Wrocław (the "Remuneration Policy"). Subsequently, on June 16th 2021, the General Meeting passed Resolutions No. 28/2021 and 29/2021 approving the amended Remuneration Policy. The Remuneration Policy sets out the rules of remuneration for Management and Supervisory Board Members. Any amendment to the rules of remuneration for Management Board or Supervisory Board Members requires the Policy to be amended and must be approved by the General Meeting prior to taking effect.

The Remuneration Policy is the principal document governing the remuneration rules applying to KRUK S.A. Management Board and Supervisory Board Members, and it applies to them regardless of their form of employment. In accordance with the Remuneration Policy, remuneration is determined on the basis of the function performed as well as the business scale, complexity of corporate design and operational complexity of the Company.

With respect to remuneration of Management Board members, Section 5 of the Remuneration Policy differentiates between fixed and variable components of remuneration. In accordance with Section 7 of the Remuneration Policy, the fixed components of remuneration include both monetary and non-monetary benefits, such as accident insurance, directors and officers liability insurance, participation in employee benefit schemes, private use of company cars, reimbursement of apartment rental costs for Management Board Members residing outside the Company's home municipality, and participation in Employee Capital Plans ("PPK").

In accordance with the provisions of the Remuneration Policy and Article 7.8 of the Company's Articles of Association, the remuneration principles applying to Management Board Members and the salary of the President of the Management Board are decided 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.

In accordance with the Remuneration Policy and the management service contracts in force, Management Board members are entitled to a fixed monthly base pay in the amounts specified in their contracts. Irrespective of their remuneration, they may receive discretionary bonuses. The decision on the award and amounts of discretionary bonuses rests with the Supervisory Board. In accordance with Section 9 of the Remuneration Policy, Management Board Members may receive a variable remuneration component in the form of subscription warrants as part of the incentive scheme in place at the Company.

The terms of the management service 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 service contract may be terminated by its parties on six months' notice, or on three months' notice by the Company, 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 2021) from the Company and its subsidiaries for 2021 and 2020.

Piotr Krupa	2021	2020
(on a gross basis in PLN '000)		
Fixed remuneration components, including:	2,743,092.27	2,258,685.00
- Contract remuneration	2,720,000.00	2,250,000.00
- Company car*	4,800.00	4,800.00
- Medical package	339.04	322.86
- Medical package for close persons	1,220.24	1,162.14
- NNW (automobile accident insurance) premium	15,733.41	2,400.00
- D&O liability insurance premium	999.58	-
Variable remuneration components, including bonuses	-	-

Piotr Kowalewski	2021	2020
(on a gross basis in PLN '000)		
Fixed remuneration components, including:	735,006.20	346,638.01
- Contract remuneration	716,800.00	336,516.13
- Company car*	4,800.00	2,746.67
- Medical package	339.04	189.84
- Medical package for close persons	1,220.24	683.34
- Participation in an employee capital plan (PPK)	10,847.34	5,102.03
- NNW (automobile accident insurance) premium	2,400	1,400.00
- D&O liability insurance premium	999.58	-
Variable remuneration components, including bonuses	-	-

Adam Łodygowski	2021	2020
(on a gross basis in PLN '000)		
Fixed remuneration components, including:	785,735.74	119,993.53
- Contract remuneration	768,000.00	117,333.33
- Company car*	4,800.00	466.67

- Medical package	339.04	27.12
- participation in an employee capital plan (PPK)	11,597.12	1,766.41
- NNW (automobile accident insurance) premium	2,400	400.00
- D&O liability insurance premium	999.58	-
Variable remuneration components, including bonuses	-	-

Urszula Okarma	2021	2020
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(on a gross basis in PLN '000)

Fixed remuneration components, including:	876,538.62	727,522.86
- Contract remuneration	870,400.00	720,000.00
- Company car*	4,800.00	4,800.00
- Medical package	339.04	322.86
- NNW (automobile accident insurance) premium	2,400.00	2,400.00
- D&O liability insurance premium	999.58	-
Variable remuneration components, including bonuses	-	-

Michał Zasępa	2021	2020
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(on a gross basis in PLN '000)

Fixed remuneration components, including:	896,437.58	803,708.73
- Contract remuneration	870,400.00	720,000.00
- Company car*	4,800.00	4,800.00
- Medical package	4,640.40	4,640.40
- Participation in an employee capital plan (PPK)	13,197.60	11,842.00
- Flat rental	-	60,026.33
- NNW (automobile accident insurance) premium	2,400.00	2,400.00
- D&O liability insurance premium	999.58	-
Variable remuneration components, including bonuses	-	-

*The monetary value of the allowance for the use of a company car for private purposes is set as income within the meaning of Article 12.2a of the PIT Act of July 26th 1991.

Moreover, in 2021, as part of the 2015–2019 Incentive Scheme, members of the Management Board were offered Subscription Warrants for 2019 in the number specified in the Management Board's Resolution of June 2nd 2021 and Supervisory Board's Resolution of June 4th 2021, 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 Scheme, the number of Subscription Warrants to be granted to Management Board members in each year of the Plan may not exceed 50% of the total number of Subscription Warrants offered for subscription by Eligible Persons as part of a given Tranche.

For detailed information on the incentive scheme operated by the Company and the number of warrants granted to Management Board Members thereunder, see the “Incentive Scheme” Section.

Supervisory Board

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

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

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

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

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

In 2021, the KRUK Supervisory Board was composed of the following seven members:

Table 42. Composition of the KRUK Supervisory Board in 2021

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
Krzysztof Kawalec	Member of the Supervisory Board
Mateusz Melich	Member of the Supervisory Board
Ewa Radkowska-Świętoń	Member of the Supervisory Board
Piotr Szczepiórkowski	Member of the Supervisory Board

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

Table 43. Gender diversity on the Supervisory Board of KRUK S.A. in 2021

Women	29%	2
Men	71%	5

Source: Company

Expertise, experience and employment history of members of the Company's Supervisory Board

Piotr Stępniak graduated from Guelph University, Canada as BA, double major in Economics, Management; ESC Rouen, France; Purdue University, U.S., as EMBA and Purdue University, U.S., as MSM. Mr Stępnia 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 was President of the Management Board of Getin Holding S.A. Currently, he is member of the Board of Directors of BFF Banking Group and Chairman of the Supervisory Board of BFF Polska S.A. He also serves as member of the Supervisory Board of VRG S.A. and its subsidiaries W. Kruk S.A. and Deni Cler S.A., as well as Chairman of the Supervisory Board of Grupa Kęty S.A. Since 2008, he has been member of the Supervisory Board of KRUK S.A., and since 2013 he has served as Chairman of the Company's Supervisory Board.

Ms Katarzyna Beuch graduated from the Management and Computer Science Faculty of the Wrocław University of Economics and Business, and completed a post-graduate programme in financial risk, assets and liabilities management organised by USAID and the University of South Karolina at the Warsaw Institute of Banking. She has held ACCA qualifications since 2000 (FCCA since 2005). She began her professional career at Bank Zachodni at the Assets and Liabilities Management Department, and then worked at Ernst & Young Audyt for almost ten years. In 2006–2012, she worked at Getin Holding S.A., including as CFO, where she gained extensive experience in integration and transformation processes as well as acquisitions, mergers and demergers in the period of the group's intensive growth. In 2014–2016, she managed the Accounting Department of Santander Consumer Bank S.A., and in 2016–2018 she served as Head of Corporate Control and Economic Analyses at KGHM S.A. Since 2020, she has been the CFO at Benefit Systems S.A. Ms Beuch 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, at the same time chairing the Audit Committee.

Tomasz Bieske graduated from the Faculty of Economics of the University of Cologne in Germany. He holds a qualified auditor licence. He completed the following training: INSEAD in France, Euromoney in England, IESE/Harvard in Barcelona, as well as Fintech and Venture Finance programmes at the Oxford University. In 2011, he was presented with a gold medal from the Polish Bank Association for his contribution to the development of banking in Poland in 1991–2011. He worked at Dresdner Bank AG in Frankfurt am Main in Germany. He was also a partner and co-founder of Arthur Andersen in Poland. His largest projects included the public offering of PKO BP S.A. and Kredyt Bank S.A. shares; audits of the financial statements of National Bank of Poland, Pekao S.A., Getin Holding, and the Social Insurance Institution (ZUS); developing a concept for the privatisation of the WSE; preparation of a strategy for Bank Poczty and proposed operational changes at the Ministry of Finance; as well as the merger of Grupa Pekao S.A. with Pomorski Bank Kredytowy, Bank Depozytowo - Kredytowy S.A. and Powszechna Bank Gospodarczy S.A. Following the merger with Ernst&Young in 2002, he continued his work as partner, management board member and director of the group of financial markets, audit and business advisory of the merged companies. He participated in audits of the financial statements of leading Polish banks, consultancy projects for financial institutions, the sale of non-performing bank loan portfolios, valuation of shares in private banks in Poland, and due diligence studies at the request of foreign investors, and was part of a team working on changes to laws and business regulations governing the

cooperative banking sector; he also cooperated with the Polish Bank Association and the National Association of Cooperative Banks.

Currently, he is a member of the Supervisory Board of mBank S.A. (Chairman of the Audit Committee), and since 2013 he has also served as a member of the Supervisory Board of Kruk S.A. and at the same time Chairman of the Remuneration and Appointment Committee.

Krzysztof Kawalec graduated from the Faculty of Organisation and Management at the Łódź University of Technology (having earned a Master of Science/Engineer degree in Business Administration); he completed a post-graduate Enterprise Value Management programme at the Warsaw School of Economics, and a post-graduate course in Management Accounting and Controlling at the same school; he also completed an MBA programme at PAM Center of the University of Łódź, University of Maryland. In 1998–2001 he was employed as Manager at IFFP Sp. z o.o. (International Fast Food Polska Sp. z o.o.) of Warsaw. In 2001–2002, he headed the Contracts Department at Magellan S.A. In 2002–2003 he was a Member of the Company's Management Board and the CFO. In 2003, he was appointed Vice President of the Company's Management Board and Chief Operating Officer, and he served as President of the Management Board of Magellan S.A. from July 1st 2008 and as President of the Management Board of BFF Polska S.A. from 2018. Currently, he also serves as Head of the BFF Bank SpA Branch, whose group is a member of the BFF Banking Group listed on Borsa Italiana. He is a member of the Supervisory Boards of BFF Slovakia s.r.o. and BFF MedFinance s.r.o. operating in Slovakia and the Czech Republic. Since 2009, he has been involved in KRUK S.A. and the KRUK Group as a member of the Supervisory Board of KRUK S.A. and a member of the Supervisory Board of KRUK TFI S.A.

Mateusz Melich holds a degree in Finance and Banking from the Warsaw School of Economics. He also studied economics at the Ludwig Maximilian University of Munich. He started his professional career in 2003 with the transaction advisory arm of Ernst & Young in Berlin. From 2004 to 2013, he worked at the Capital Markets Department of IPOPEMA Securities S.A. as a manager responsible for carrying out ordinary bond issues, convertible bond issues as well as initial and secondary public offerings for a number of companies listed on the Warsaw Stock Exchange. In 2014–2019 he served as the President of the Management Board of Dom Inwestycyjny ZENITH S.A., a corporate financial advisory firm (among other positions held in that period). Since 2021, he has been running his own business in the renewable energy sector, focusing on end-to-end construction of photovoltaic farms. He also runs training courses in company valuations for postgraduate students at the Warsaw School of Economics. Since 2019, he has served as member of the Supervisory Board of KRUK S.A., and at the same time as Chairman of the Finance and Budget Committee.

Ewa Radkowska-Świętoń graduated from the Warsaw School of Economics and holds CFA (Chartered Financial Analyst) and FRM (Financial Risk Manager) certificates. In 2008–2017, she served as member of the Management Board and then as Vice President of Nationale Nederlanden Powszechnie Towarzystwo Emerytalne S.A., where she was responsible for investments and corporate governance of the largest Polish open-end pension fund with more than PLN 70 billion worth of assets under management. She also worked as fund manager at Aviva Investors Polska S.A. and ING TFI S.A. (currently NN Investment Partners), and as equity analyst at Bank Handlowy S.A.'s Capital Operations Centre. Currently, she is independent member of the Supervisory Board and the Audit Committee at Kruk S.A. and an independent member of the Supervisory Board and Chair of the Audit Committee at Ipopema Securities S.A. She is also a member of the Capital Market Benchmarks Supervisory Committee at GPW Benchmark S.A. and a member of the Risk Committee at KDPW_CCP S.A. Ewa Radkowska-Świętoń also serves as President of the Association of Independent Supervisory Board Members and an expert at the Institute for Sustainable Development and Environment at Lazarski

University. In the past, she was President of the Management Board of Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A. and Vice President and then President of the Management Board of Skarbiec Holding S.A. (a company listed on the WSE). She has sat on the Supervisory Board of KRUK S.A. since 2019.

Piotr Szczepiórkowski is a graduate of the Faculty of Chemical and Process Engineering at the Warsaw University of Technology and an expert in pension systems, asset management and capital markets. He holds an investment adviser licence (No. 136) and ACCA qualifications; he is also a member of the Polish Association of Actuaries and CFA Society Poland (CFA Charterholder). He completed the Executive Management Development courses organised by Ashridge Management School, CEDEP (Fontainebleau), Columbia University and Wharton School of Business. He worked in the Ministry of Finance (Department of Financial Institutions) and at Bank Gospodarstwa Krajowego (Treasury Department). In 1993–2016, he worked for the Commercial Union Polska Group (Aviva Polska) as an accountant, Deputy Finance Director and Deputy Investment Director, and then at Commercial Union PTE as Chief Investment Officer and Vice President of the Management Board. Since 2001, President of the Management Board of PTE. In 2008–2016, he was Vice President of the Management Board of Aviva Towarzystwo Ubezpieczeń na Życie. At present, he serves on supervisory boards of the following WSE-listed companies: FM Forte S.A., Decora S.A., ZEW Kogeneracja S.A., Octava S.A., and is a Member of the Supervisory Board and Chairman of the Audit Committee at Ipopema TFI S.A. and Deputy Chairman of the Supervisory Board at Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych na Życie. He has served as a Member of the Supervisory Board of KRUK S.A. since 2019.

8.3.6 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.

In 2021, the Supervisory Board acted in accordance with the remit and procedures provided for the Commercial Companies Code, the Company's Articles of Association, and the Rules of Procedure for the Supervisory Board. In 2021, the Supervisory Board met five times – in March, May, September, November and December. All the meetings were held using means of remote communication or in a hybrid format. In addition, the Supervisory Board met on an as-needed basis via conference calls to discuss the regular agenda. In the financial year 2021, all Supervisory Board members were engaged in the work of the Supervisory Board, attending all meetings and teleconferences without exception. The Supervisory Board maintained regular contact with the Company's Management Board and the auditor.

At least once a year, members of the Supervisory Board submit to the other members of the Supervisory Board and to the Management Board representations on meeting the independence criteria as specified in Annex II to the European Commission Recommendation No. 2005/162/EC of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the board, on meeting the criteria defined in Act of May 11th 2017 on Statutory Auditors, Audit Firms, and Public Oversight (Dz. U. of 2017, item 1089, as amended; the "Statutory Auditors Act"), and on the absence of any actual and material links between them and any shareholders holding 5% or more of total voting rights in the Company.

According to the representations completed and submitted by the members of the Supervisory Board, the following members meet the independence criteria stipulated by the EC Recommendations:

- Katarzyna Beuch,
- Tomasz Bieske,
- Mateusz Melich,
- Ewa Radkowska-Świętoń,
- Piotr Szczepiórkowski.

Piotr Stępnik and Krzysztof Kawalec submitted representations to the effect that they did not fulfil the independence criteria specified in the document.

The independence criteria laid down in the Statutory Auditors Act are met by the following members of the Supervisory Board:

- Katarzyna Beuch,
- Tomasz Bieske,
- Mateusz Melich,
- Ewa Radkowska-Świętoń,
- Piotr Szczepiórkowski.

According to representations submitted by Piotr Stępnik and Krzysztof Kawalec, they do not meet the independence criteria specified in the Statutory Auditors Act.

8.3.7 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 8.3 *Shares in the Company and in its related entities held by members of the Management Board or Supervisory Board*.

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

The remuneration principles applying to Supervisory Board Members are set out in the Remuneration Policy for Management Board and Supervisory Board Members of KRUK S.A. of Wrocław (the "Remuneration Policy"), adopted by the Annual General Meeting of KRUK S.A. on August 31st 2020, in accordance with Article 90d.1 of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading and on Public Companies, and subsequently amended by General Meeting Resolutions Nos. 28/2021 and 29/2021 on June 16th 2021.

The Remuneration Policy is the principal document governing the remuneration rules applying to KRUK S.A. Management Board and Supervisory Board Members, and it applies to them regardless of their form of employment.

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. In accordance with the Remuneration Policy, the remuneration for Supervisory Board Members is not split into variable and fixed components. Furthermore, the remuneration for Supervisory Board Members is not determined in the form of options or other derivatives or any other variable components, and it is not linked to KRUK S.A.'s performance.

In accordance with the Remuneration Policy, the remuneration of Supervisory Board members covers their service on the Supervisory Boards of the KRUK Group companies.

Members of the Supervisory Board, in accordance with Section 12 of the Remuneration Policy, are eligible for participation in the PPK.

The table below presents the amounts of remuneration received by the Supervisory Board members from the Company for 2021 and 2020.

	in 2021	in 2020
	(on a gross basis in PLN '000)	(on a gross basis in PLN '000)
Piotr Stępniaik		
Fixed remuneration components, including:	234,865.10	219,981.22
- Base pay	232,909.92	218,353.05
- Reimbursement of costs related to participation in the work of the Supervisory Board	955.60	1,628.17
- D&O liability insurance premium	999.58	-
Katarzyna Beuch	in 2021	in 2020

	(on a gross basis in PLN '000)	(on a gross basis in PLN '000)
Fixed remuneration components, including:	117,454.54	109,176.54
- Base pay	116,454.96	109,176.54
- Reimbursement of costs related to participation in the work of the Supervisory Board	-	-
- D&O liability insurance premium	999.58	-
	in 2021	in 2020
Tomasz Bieske	(on a gross basis in PLN '000)	(on a gross basis in PLN '000)
Fixed remuneration components, including:	119,203.55	111,218.48
- Base pay	116,454.96	109,176.54
- Reimbursement of costs related to participation in the work of the Supervisory Board	1,749.01	2,041.94
- D&O liability insurance premium	999.58	-
	in 2021	in 2020
Krzysztof Kawalec	(on a gross basis in PLN '000)	(on a gross basis in PLN '000)
Fixed remuneration components, including:	141,454.54	133,176.54
- Base pay	116,454.96	109,176.54
- Reimbursement of costs related to participation in the work of the Supervisory Board	-	-
- Remuneration from KRUK TFI	24,000	24,000
- D&O liability insurance premium	999.58	-
	in 2021	in 2020
Mateusz Melich	(on a gross basis in PLN '000)	(on a gross basis in PLN '000)
Fixed remuneration components, including:	120,349.96	112,985.28
- Base pay	116,454.96	109,176.54
- Reimbursement of costs related to participation in the work of the Supervisory Board	1,131.61	2,138.99
	1,763.81	1,669.75
- D&O liability insurance premium	999.58	-

Ewa Radkowska-Świętoń	in 2021	in 2020
	(on a gross basis in PLN '000)	(on a gross basis in PLN '000)
Fixed remuneration components, including:	119,206.15	112,156.18
- Base pay	116,454.96	109,176.54
- Reimbursement of costs related to participation in the work of the Supervisory Board	1,751.61	2,979.64
- D&O liability insurance premium	999.58	-

Piotr Szczepiórkowski	in 2021	in 2020
	(on a gross basis in PLN '000)	(on a gross basis in PLN '000)
Fixed remuneration components, including:	120,979.26	113,601.53
- Base pay	116,454.96	109,176.54
- Reimbursement of costs related to participation in the work of the Supervisory Board	1,751.61	2,746.14
- Participation in an employe capital plan (PPK)	1,773.11	1,678.85
- D&O liability insurance premium	999.58	-

Source: Company

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 does not have any liabilities arising from pensions or similar benefits to former members of management or supervisory bodies or former members of administrative bodies, or any liabilities incurred in connection with such pensions.

8.3.9 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–December 31st 2021, the Audit Committee was composed of:

- Katarzyna Beuch – Chairperson of the Audit Committee,
- Ewa Radkowska-Świętoń – Member of the Audit Committee,
- Piotr Stępiak – Member of the Audit Committee,

- Piotr Szczepiórkowski – 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.

Three of the four members of the Audit Committee, i.e. Ms Katarzyna Beuch, who chairs the Audit Committee, and members of the Committee, Ms Ewa Radkowska-Świętoń and Mr Piotr Szczepiórkowski, meet the independence criteria under the Act of Statutory Auditors, Audit Firms, and Public Oversight and under Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. All members of the Audit Committee have knowledge and skills in accounting or auditing as well as the knowledge of and skills relevant for the industry in which the Company operates, which they gathered in the course of education and professional career.

The Audit Committee's responsibilities include in particular:

1. monitoring of:
 - the financial reporting process;
 - the effectiveness of internal control and risk management systems as well as internal audit systems in place at the Company, including effectiveness of the financial reporting process,
 - performance of financial audit tasks, including the audit of financial statements performed by an audit firm, with account taken of all conclusions and findings from an inspection of the audit firm by the Polish Audit Oversight Commission;
2. controlling and monitoring of the independence of the statutory auditor and the audit firm, in particular when the audit firm provides non-audit services;
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 the role of the Audit Committee in the audit process was;
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. defining the procedure for selecting an audit firm by a public-interest entity;
8. presenting to the Supervisory Board the recommendation referred to in Article 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 2021 the Audit Committee dealt in particular with:

- analysis of the results of the audit of the 2020 full-year report;
- discussion of a supplementary report for the Audit Committee for 2020;
- analysis of the results of review of the interim financial statements;
- analysis and evaluation of the Company's internal control and internal audit system, including a summary of internal audit findings from 2020;

- discussion of the Company's Internal Audit Charter and analysis of the extent to which internal audit recommendations had been implemented, and setting an audit plan for 2021;
- analysis of the Company's Assessment Report, including an assessment of its risk management, compliance, information security and internal audit systems in 2020;
- discussion of compliance area's objectives at the KRUK Group;
- analysis of the current portfolio valuation policy/methodology for accounting purposes, including information on possible changes made to the methodologies in 2018–2019;
- discussion of portfolio revaluation and the valuation methodology;
- pre-authorisation of non-audit services for 2021 and approval of the non-audit service report for 2020;
- analysis of how the Company Management handled operational incidents and events;
- discussion of the results of implementing the Dynamics 365 ERP system;
- analysis of the structure of the Company's accounting department, including an analysis of the operating systems that are interfaced with the accounting systems,
- selection of the auditor of the Company's and Group's financial statements for 2022–2024,
- analysis of the method applied to account for the valuation of the Group's incentive scheme,
- analysis and discussion of various tax-related matters and reviewing amendments to laws and regulations,
- periodic assessment of related-party transactions.

In accordance with KRUK S.A.'s policy and procedure for the acquisition of non-audit services, the independence of the services permitted by the auditor, performed for the benefit of all KRUK Group members, is monitored and evaluated. In 2021, the cost of such services was PLN 270 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 2021, the Committee held four meetings. The meetings were attended by all Committee members. 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–December 31st 2021, the Remuneration and Appointments Committee was composed of:

- Tomasz Bieske – Chairman of the Remuneration and Appointments Committee
- Mateusz Melich – Member of the Remuneration and Appointments Committee
- Piotr Szczepiórkowski – Member of the Audit 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 independence criteria under the Act on Statutory Auditors, Audit Firms and Public Oversight and under 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 2021, members of the Committee were primarily engaged in preparing the Report on Remuneration of the Management Board and the Supervisory Board of KRUK S.A. for 2019–2020 and in drafting amendments to the Company's Remuneration Policy. To this end, members of the Committee held meetings and conference calls with the Company's Management Board and a legal advisor. Afterwards, they presented their position to all members of the Supervisory Board. Furthermore, the members of the Committee issued opinions on the proposed allotment of subscription warrants to members of the Management Board under the 2015–2019 Management Stock Option Plan and participated in drafting the new Incentive Scheme for 2021–2024, and following its adoption by the General Meeting, they worked on compiling a list of persons eligible for participation in the Scheme throughout its duration, including in particular members of the Management Board

Matters within the remit of the Committee were discussed during the Committee's meetings held as conference calls and during Supervisory Board meetings, also held through means of remote communication. All members of the Committee were involved in the Committee's work, attending meetings and conference calls.

Finance and Budget Committee

The Supervisory Board appoints members of the Finance and Budget Committee from among its members.

In the period January 1st–December 31st 2021, the Finance and Budget Committee was composed of:

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

By the issue date of this report, the composition of the Finance and Budget Committee did not change.

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

- Drafting budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board on matters related to the Company's finances,

- Supporting the oversight of the performance of the Company's budget;
- Ongoing analysis of the Company's financial performance and condition,
- Matters related to the operation of the Company's cash, credit and tax systems, as well as its financial plans, budgets and property insurance contracts.

In 2021, 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. The Members of the Finance and Budget Committee, acting within their remit, monitored and reviewed the Company's and the Group's financial performance on an ongoing basis. In addition, they were involved in evaluating the Company's and the Group's draft budget for 2022. The Finance and Budget Committee held meetings using means of remote communication as well as holding consultations in the form of conference calls. All members of the Committee were involved in the Committee's work, attending meetings and conference calls.

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 appointment of the auditor of financial statements of the KRUK Group, Procedure for appointment of the auditor of financial statements of the KRUK Group, and Policy and procedure for procurement of non-audit services, governing 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:

- 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.
- 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.
- 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.

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:

- the Auditor's fulfilment of the independence criteria with respect to all Group members whose financial statements are to be audited and reviewed
- 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)
- the ability to perform the audit on the dates specified by the Parent
- experience in the auditing of international groups (experience in partnering with foreign auditors)
- experience in the auditing of securitisation funds

- experience in the auditing of public-interest entities
- experience in the auditing of companies operating in the same industry as the KRUK Group
- professional qualifications and experience of the auditor and other persons directly involved in the audit
- the price proposed for the audit
- reputation of the entity qualified to perform the audit

The auditor is selected for a period not shorter than two years and not longer than ten years, provided that the uninterrupted audit engagement may not be longer than five years. 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. Cooperation with the newly appointed auditing firm begins with a review of the interim financial statements and ends with the issuance of an audit opinion on the full-year financial statements.

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:
 - a) conducting due diligence procedures with respect to the entity's economic and financial standing;
 - b) 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:

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

In connection with non-audit services provided by the auditor, the Audit Committee assessed the independence of the auditing firm and approved the provision of those services. In line with the above Policy, in 2021 non-audit services provided by the auditor and approved by the Audit Committee related to:

- verification 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 the correctness of the database operated by ERIF BIG S.A., a subsidiary.

For information on the auditor's fees, see Note 32 to the consolidated financial statements.

Appointment of the auditor

On February 3rd 2020, by Resolution No. 2/2020, the Company's Supervisory Board, acting upon the Audit Committee's recommendation, appointed KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa of Warsaw, entered in the list of qualified auditors of financial statements under Reg. No. 3546, as the auditor 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.

In the process of selecting the auditor to audit the financial statements for the financial years 2020–2021, the Audit Committee and the Company complied with the 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.

On November 18th 2021, by Resolution No. 47/2021, the Company's Supervisory Board, acting upon the Audit Committee's recommendation, appointed PricewaterhouseCoopers Polska sp. z o.o. Audyt sp.k. of Warsaw, entered in the list of qualified auditors of financial statements under Reg. No. 144, as

the auditor to audit the financial statements of KRUK S.A. and the consolidated financial statements of the KRUK Group for the financial years 2022–2024.

In the process of selecting the auditor to audit the financial statements for the financial years 2022–2024, the Audit Committee and the Company complied with the 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.

General Meeting

The General Meeting is the highest governing body of the Company. 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 Company's Articles of Association are available under 'Corporate documents' in the 'About Company' section of KRUK S.A.'s website at <https://pl.kruk.eu/relacje-inwestorskie/o-spolce#dokumenty-korporacyjne>

No Rules of Procedure for the General Meeting are in place at the Company.

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 shall 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;
- amending the Company's Articles of Association;
- increasing or reducing the share capital;
- merger, transformation, or 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.

General Meetings in 2021

On June 16th 2021, the Annual General Meeting of KRUK S.A. was held at the Company's registered office. The Company offered the option to attend the General Meeting using electronic means of communication, enabling the shareholders to participate in real-time two-way communication and real-time transmission of the General Meeting. The key matters included in the AGM agenda, apart from those provided for in Art. 395.2 of the Commercial Companies Code, were:

- 1) determining the rules for the Company's Incentive Scheme for 2021–2024 (for details, see the Section 'Incentive Scheme' Section);
- 2) amending the Remuneration Policy for Members of the Management Board and Supervisory Board of KRUK S.A.;
- 3) amending the Rules of Procedure for the Supervisory Board of KRUK S.A. so as to define the rules for carrying out activities using means of remote communication;
- 4) cancellation of Company shares acquired by the Company and reduction of the Company's share capital following the cancellation (for details, see the Sections 'Treasury shares' and 'Changes in the share capital and conditional share capital')

The resolutions passed by the Annual General Meeting were published in Current Reports Nos. 23/2021, 24/2021 and 26/2021.

All the documents are available in the Investor Relations/Current Reports section of the Company's website at <https://pl.kruk.eu/relacje-inwestorskie/raporty/raporty-biezace>.

8.4 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.

8.5 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 put in place an adequate and effective internal control and risk management system, which is designed to ensure the fulfilment of adopted objectives regarding operational efficiency and effectiveness, reliability of financial reporting, and compliance with applicable laws, regulations and internal policies. The risk management system in place ensures identification, analysis, assessment and monitoring of non-financial risks, supports decision-making processes and increases safety of operations. Responsibility for defining risk management procedures, ensuring their implementation and overseeing their application lies with the Management Board. For the risk management system and the internal control system to function effectively, responsibilities and tasks have been identified and assigned to three independent lines of defence within these systems:

1. 1st line of defence – All Operational Units as Risk Owner
2. 2nd line of defence: Compliance Area, Security and Operational Risk Management Area, Legal Area (including GDPR and Legal), Corporate Governance Area;
3. 3rd line of defence – Internal Audit Area.

The Company monitors the emerging risks with a view to eliminating threats to the Company's operations and financial position or mitigating their impact and preventing materialisation of the risk in the future. The current concept of the risk management system is adequate to the Company's needs in this area.

8.6 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 European 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.

As at the date of this Report, the Company did not have in place a diversity policy that would be directly applicable to members of its Management or Supervisory Board. In 2021, out of the 12 members of those bodies, three were women, representing 25% of their total composition.

However, it is worth noting that, in line with the principles of gender equality and equal employment opportunity, women are at the helm of the Company's subsidiaries in five out of its six European geographies (except Poland), representing 66% of their senior management. At the same time, women represent 50% of the management boards of the Company's five Poland-based subsidiaries, with three of them led exclusively by women and one having one woman on its management board. Also, at KRUK S.A., out of 26 Heads of the Departments, 17 are women (65% of the total).

8.7 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.

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9 ADDITIONAL INFORMATION

9.1 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.

What matters most for KRUK in its communication with the market is to provide it with fair, consistent and timely information on all material aspects of the KRUK Group's business, including the impact of external factors on its operations.

The key themes of the Company's 2021 market communication included:

- The Group's financial results for 2020, Q1 2021, H1 2021 and Q1–Q3 2021;
- Quarterly information on the Group's investments and recoveries
- Estimated remaining collections (ERC) and extension of recovery curves to 15 years;
- Sharing the 2020 profit with shareholders through payment of dividend;
- Adoption of the Dividend Policy;
- Impact of the COVID-19 pandemic on the Group's business and performance;
- Impact of proposed amendments to legislation on the Group's business and performance;
- Eighth public bond issue programme;
- Further expansion into the new markets – Italy and Spain.

KRUK communicated with the market on an ongoing basis, including through:

- Conferences held following release of earnings reports for 2020, Q1 2021, H1 2021 and Q1–Q3 2021;
- Emailing and distributing a newsletter addressing key developments and events at the Group;
- Chats with retail investors;
- Interviews and comments by Company representatives in financial media (such as Parkiet, Puls Biznesu, Forbes, Stockwatch or Biznes24 tv);
- Running an investor relations subpage at <https://en.kruk.eu/investor-relations> ;
- All press releases were published at <https://en.kruk.eu/investor-relations/news> ;
- while periodic reports, including the Directors' Report for 2021, were published at <https://en.kruk.eu/investor-relations/reports/interim-reports> ;
- Telephone numbers, email address and the Investor Relations Area contact form are available to market participants at <https://en.kruk.eu/investor-relations/contact> ;
- Continuous dialogue with investors, analysts, and finance journalists.

Due to the spread of the COVID-19 pandemic, all meetings and conferences were held using remote communication tools. Some of the previously planned industry events were either cancelled or rescheduled. For safety reasons, as in 2020, KRUK decided against organising the Investor Day and held all the earnings conferences remotely. The KRUK Management Board also held a remote meeting with stock market analysts. Given the pandemic situation, KRUK did not embark on a traditional annual roadshow; instead, a virtual roadshow was organised in June 2021 for investors from Western European countries and the US.

KRUK met with investors, analysts and journalists during a number of events, including:

- Conferences held following release of earnings reports for 2020, Q1 2021, H1 2021 and Q1–Q3 2021;
- Arctic Nordic Debt 2021 in January 2021;
- J. P. Morgan CEEMEA Opportunities Conference 2021 in January 2021;
- ERSTE CONVICTION EQUITY INVESTORS CONFERENCE 2021 in January 2021;
- Carnegie Debt Purchase Seminar in May 2021;
- Wood EME Financials & Real Estate in June 2021;
- BM PEKAO_EMERGING EUROPE INVESTMENT CONFERENCE 2021 in September 2021;
- PKO BP Virtual Investor's Day: CEE Financials in September 2021;
- mBank/Commerzbank European Financials Conference in September 2021;
- TRIGON Investor Week in October 2021;
- TRIGON GPW Innovation Day in October 2021;
- ERSTE The finest CEElection 2021 w October 2021;
- Santander 2021 Financial Sector Conference in November 2021;
- WOOD's Winter in Prague 2021 in December 2021.

Recommendations on KRUK shares issued by brokerage houses are published by the Company at <https://pl.KRUK.eu/relacje-inwestorskie/raporty/raporty-analityczne>.

Table 44. Most recent recommendations on KRUK shares issued by brokerage houses

Issue date	Brokerage house	recommendation	Price target (PLN)
January 2022	DM mBanku	buy	435.55
January 2022	Bank Pekao BM	buy	406.00
December 2021	DM PKO BP	hold	378.00
October 2021	DM Trigon	buy	365.00
June 2021	DM mBanku	accumulate	295.77

Table 45. Research coverage

Company	Analyst	Contact details
BDM	vacancy	
CITI	Andrzej Powierża	andrzej.powierza@citi.com
DM Erste Group	Łukasz Jańczak	lukasz.janczak@erstegroup.com

DM mBank	Michał Konarski	michal.konarski@mdm.pl
DM PKO BP	Jaromir Szortyka	jaromir.szortyka@pkobp.pl
DM Pekao	Jerzy Kosiński	jerzy.kosinski2@pekao.com.pl
Santander BM	Kamil Stolarski	kamil.stolarski@santander.pl
DM Trigon	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
Wood & Co.	Marta Jezewska-Wasilewska	marta.jezewska-wasilewska@wood.com

Source: in-house analysis.

9.2 Auditors

By resolution of February 3rd 2020, the Company's Supervisory Board appointed an auditor to audit the financial statements of KRUK S.A. and the consolidated financial statements of the KRUK Group for the financial years 2020–2021. On July 10th 2020, the Company signed an agreement for the audit of the separate and consolidated financial statements for the periods ended December 31st 2020 and December 31st 2021 and review of the interim separate financial statements and interim consolidated financial statements for the six months ended June 30th 2020 and 2021 with KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw, entered in the list of qualified auditors of financial statements under Reg. No. 3546. The fees for the audit of financial statements were PLN 1,867 thousand (1,832 thousand in 2020); for other assurance services, including review of financial statements – PLN 270 thousand (2020: PLN 352 thousand). The separate and consolidated financial statements for 2021 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k.

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10 NON-FINANCIAL STATEMENT

10.1 Business model and key non-financial indicators

10.1.1 Business model and offering

Professional and ethical organisations that enable the provision of financial services in a responsible manner are the cornerstone of a sustainable economic system. A strong believer in business integrity, the KRUK Group operates a business model that takes into account the diversity of customers and counteracts financial exclusion. For more information on the Group's business model, see Section 1.2.

10.1.2 Key stakeholders of the KRUK Group

Stakeholders of the KRUK Group can be divided into several key groups:

- employees,
- customers (i.e. consumers, including indebted persons and persons using services offered by KRUK Group companies),
- SMEs (indebted companies),
- business partners (large corporations and institutions providing services to mass-market clients, such as banks, loan providers, insurance companies, leasing and factoring companies, telecoms),
- supervision authorities,
- industry associations
- shareholders,
- suppliers,
- competitors.
- financial institutions,
- social organisations,
- market regulators,
- the media.

The materiality of stakeholder groups was verified based on:

- internal analysis of the groups and communities where the KRUK Group's departments and divisions operate,
- public surveys conducted at least once a year,
- individual customer satisfaction surveys carried out on an ongoing basis.

Forms and frequency of dialogue with KRUK Group stakeholders

Stakeholder	Form of dialogue	Frequency
Employees	The Employee Forum, with the members elected by the Group employees in a secret ballot from among proposed candidates	Four meetings in calendar year As needed – at least once a month during the pandemic.
	Employee surveys, including surveys on employee well-being and satisfaction with remote work	As needed
	Internal communication, including in-house competitions, invitation to various employee initiatives. Communication building environmental awareness	As needed
	Whistleblowing, i.e. the procedure of reporting irregularities at the KRUK Group using an anonymous form available on the Company's website at https://pl.KRUK.eu/zglos-naduzycie ,	Once a month As needed
	Monthly 'Co nowego' briefings at Wonga for all employees, covering the most important developments at the company	At least once a year
	Whistleblowing to the Consultation and Mediation Team	As needed by employee
	In-house events for employees	
	Direct meetings with management staff Social benefits offered by KRUK Group companies to employees in difficult situations while maintaining full confidentiality	As needed
Clients/consumers – including indebted persons, borrowers, persons checking their credit standing in the BIG database	The e-KRUK.pl platform and other websites operated by different KRUK Group companies	Ongoing Ongoing
	Face-to-face and telephone conversations with KRUK advisors, and consultations through chat bots.	
Business partners Suppliers	Business partner satisfaction surveys	Once a year
	Face-to-face meetings, phone calls, e-mails	As needed
Competitors	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); Cooperation between credit reference agencies and non-banking consumer lending companies Participation in industry conferences in countries where the KRUK Group operates	Ongoing
Non-profit organisations	Participation in financial education events and various charitable and philanthropic initiatives.	As needed

General public	Public surveys regarding financial literacy, budget planning, financial behaviour, attitudes to debt and saving, knowledge of financial matters, borrowing, repayment or debt, and reviewing financial information.	At least once a year
	Workshops and training	As needed
	Press materials, awareness campaigns in the press, internet, radio and TV.	As planned in the communication and marketing strategies of individual KRUK Group companies
Regulators and industry associations	Participation in issuing opinions on new regulations and acts of law (in working groups appointed when and as needed).	Ongoing

10.1.3 Membership of organisations and industry associations

The KRUK Group shares its experience and best practices through membership in various organisations and industry associations. As the parent of the Group, KRUK S.A., using the forum provided by the associations it is a member of (including the Association of Financial Companies in Poland and the Lewiatan Confederation), expresses its opinions on proposed draft legislation that may affect the development of the debt management, credit reference and consumer lending industries or the protection of consumer rights.

KRUK Group companies are also members of

- PKPP Lewiatan (KRUK S.A. and ERIF BIG S.A.),
- Association of Financial Companies in Poland (KRUK S.A., ERIF BIG S.A. and Wonga.pl sp. z o.o.),
- ACA International (KRUK Ceska a Slovenska Republika S.R.O.),
- Asociácia Slovenských Inkasných Spoločností (KRUK Ceska a Slovenska Republika S.R.O.),
- Asociace Inkasních Agentur (KRUK Ceska a Slovenska Republika S.R.O.),
- Asociatia De Management Al Creantelor Comerciale (KRUK Romania S.R.L.),
- Association of Securities Issuers (KRUK S.A.),
- ACCIS (ERIF BIG S.A.),
- Foundation for Financial Market Development (ERIF BIG S.A.),
- UNIREC, the National Italian Association (KRUK Italia),
- ANGEKO - Asociacion Nacional de Entidades de Gestion de Corbo (KRUK Espana).

10.2 Responsible debt collection/ Responsible debt management

10.2.1 Sustainability approach

The KRUK Group's sustainability agenda is implemented in line with corporate governance principles and is built around three pillars: economic responsibility, social responsibility and environmental responsibility.

- The **economic responsibility** is about supporting the national economy by helping to restore financial liquidity on the market. Acting fairly, openly and ethically, the Group provides consumers with knowledge related to debt, which is recovered in compliance with the law and the Group's best practices, with due respect for customers. The KRUK Group is also involved in

cooperation with organisations and associations that are committed to sustainable and ethical economic growth.

- The KRUK Group’s **social responsibility** is built through relations with employees and local communities.
 - KRUK fosters partner relations with its employees, cherishes workplace diversity and provides opportunities for professional development. Employee rights and the Declaration of Human Rights are fully respected. The Group’s organisational culture is based on partnership, cooperation and freedom of expression.
 - The KRUK Group carries out large-scale social educational initiatives highlighting the importance of social standards related to debt settlement. KRUK strengthens the public awareness of being responsible for one’s debt and of the consequences of non-payment. As part of its initiatives, the Group explains in plain language the elements of the debt collection process.
- The Group’s **environmental responsibility** is about environmentally-friendly behaviour and zero-waste approach. Also, in the course of its financial education activities, the Group seeks to raise public awareness of excessive consumption and points out that by curbing consumerism we help the natural environment.

The KRUK Group’s responsible activities contribute to the following Sustainable Development Goals:



The KRUK Group is preparing a full sustainability report for 2021 based on the Global Reporting Initiative Standards, to be published in mid-2022.

10.2.2 Responsible debt management

Service quality and customer service standards

The service quality and customer service standards of the KRUK Group are intrinsically related to its values and mission that guide the organisation on a daily basis. In their work employees safeguard compliance with social and legal norms requiring that everyone must fulfil their obligations. Respect for customers at every stage of the operational process remains the KRUK Group's core value. KRUK employees approaches every customer individually, with due regard and respect paid to their particular circumstances – customers are persons facing the problem of debt which KRUK helps to repay. In cooperation with customers, we focus on high quality of service.

Customers are informed of the obligation to pay and of the consequences of non-payment. The available debt settlement options are presented in each case.

KRUK contacts its customers by phone, in writing, online and in person. Communication with customers complies with applicable ethical and legal standards and principles. The service quality and customer service standards are monitored and refined on the basis of customer satisfaction surveys, social research and market needs.

The Group counters financial exclusion and helps customers to understand their situation and the effects of debt by communicating with them in plain and understandable language. Correspondence addressed to customers is written in simple language (Polish or other local languages) so that everyone, regardless of their educational background or age, can understand the message. With inclusivity, service transparency and better alignment to customer needs in mind, up-to-date online solutions have been put in place, enabling customers, also those in Poland, to manage debt via the e-KRUK platform, collect ERIF credit reference reports and take out a loan with Wonga.

A standard practice at KRUK S.A. is customer voice examination and analysis. The level of satisfaction of indebted persons have been measured through a continuous research process for many years now. The different points of interaction between KRUK S.A. employees and indebted persons are analysed. The customer's voice is increasingly listened to when a product or service is being designed or prepared for implementation. An Operational Marketing team regularly provides customer insights. The team comprises research and analytics specialists, but also people working on new products and services. This combination of customer experience and opinions with employee knowledge helps to translate the customer voice obtained during the research process into real solutions, which are subsequently tested with customers. It is the customer that evaluates the solution, and this approach helps to better tailor our offering to changing customer needs and reduce the costs of testing new solutions in a regular process. Only solutions that meet customer expectations and facilitate delivery of business objectives are launched on the market.

We continue to gauge customer satisfaction in three communication channels through telephone surveys. In 2020, we shifted from typical NPS surveys to relationship satisfaction rating. Respondents rate the relationship on a scale of 1 to 6, where 6 means they are very satisfied and 1 – that they are very dissatisfied with its quality. The change of scale allowed us to avoid cognitive errors made by

customers, who thought 6 to be positive, whereas in fact NPS's methodology considers it negative. Approximating the perception of customers allowed us to better understand customers' views and obtain more reliable results.

In 2021, we continued to measure the process of signing settlement agreements via e-kruk.pl. Respondents rate how easy it was for them to conclude the agreement online on a scale of 1 to 5, where 5 means easy and 1 means very difficult. Getting to know customers' opinions on the process helps to identify and remedy the difficulties encountered by customers. 2021 witnessed changes in the online world of KRUK customers. Following the implementation of a new version of the debt management platform at KRUK S.A., users were asked their opinion on the platform. Almost two thousand respondents participated in the survey, with the overall rating of the new platform at 4.5 on a five-point scale. The highest ratings were assigned by respondents using the mobile version of the website. The changes primarily make it easier for customer to use the platform in a more intuitive way, and the number of people who log in to the platform is growing every day.

Evaluation of relationship with KRUK across communication channels

Throughout 2021 we collected feedback from our customers through various channels. Regular surveys provided insights into how customers view our customer service. In Poland, the following results were achieved for each communication channel:

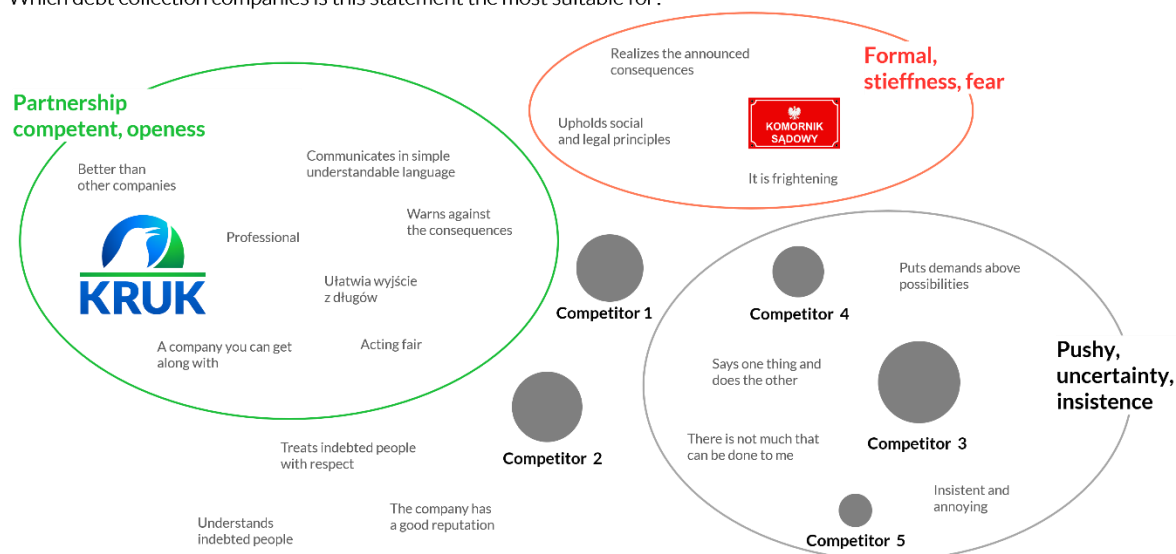
Communication channel	Rating 2020	Rating 2021
Satisfaction rating for the interaction with a field consultant	5,8/6	5,9/6
Satisfaction rating for the interaction with a call centre consultant	5,6/6	5,7/6
Satisfaction rating for the settlement process	4,8/5	4,8/5
Satisfaction rating for the online settlement process via e-kruk.pl	4,4/5	4,4/5

In the debt collection process, KRUK applies debt monitoring, the amicable process, legal and enforcement proceedings, and the hybrid process (enabling amicable settlement of debt after legal proceedings have been opened). For more information on these processes, see Section 1.5.3. Operating tools.

KRUK S.A. is positively viewed by customers. Correspondence analysis of data collected on the basis of a regular survey programme conducted by the Ariadna Nationwide Research Panel in partnership with the research consultancy Maison&Partners among a representative sample of indebted people in Poland shows the company is recognised for partner relations, professionalism, and openness. Correspondence analysis is a statistical technique analysing the relationship between variables, in this case awareness of the brand and attributes assigned to it. In market research in 2021, KRUK S.A. was rated higher than its peers.

The image of debt collection agencies among the general public. Competition analysis *

Which debt collection companies is this statement the most suitable for?



*Statistical analysis to assess the relationship of various elements to each other, e.g. brands and attributes. The closer the objects are to each other on the map, the greater the relationship between them. At the same time, the closer the objects are to the center of the map, the less they stand out, and the closer they are to the mean.



Psychological assistance

The social research commissioned by KRUK shows that more than 95% of the population think debt can trigger other problems in life, such as a low mood, the sense of helplessness and depression. Working with indebted persons on a daily basis, KRUK S.A. considers their mental wellbeing as key. In 2014, the Company launched the Psychological Assistance Centre staffed with educated and qualified psychologists with experience in working with various groups of people in a mental health crisis who need support. The psychologists working with indebted persons have received regular induction training that covered relevant legal knowledge, enforcement rules (based on the Company's materials) and procedures for cooperation with KRUK S.A. They have also participated in the general training course 'Working with an indebted person – Indebted Person Support in Practice Programme'. Regular training and supervision meetings are held every quarter. In 2021, the meetings focused on crisis issues: 'Crisis, crisis intervention in telework' and were based on materials provided by the Polish Association of Suicidology. The cooperation with the Psychological Assistance Centre is also an important element of the Company's social engagement and sponsorship policy.

Initiatives designed to support disadvantaged people are also run in the Czech Republic and Italy. A special support protocol for people experiencing a mental health crisis has been launched in Italy. In the Czech Republic, a free hotline is available to people in need of psychological assistance.

Personal data security

The KRUK Group's business consists essentially in communicating with customers (indebted persons). The Group companies process large amounts of natural persons' data received from business partners under assignment and debt collection services agreements, therefore personal data protection laws and personal data breach risk management are particularly important in the Group's operations. The Group has implemented a personal data breach risk management system to identify, analyse, review and

monitor the risk. The system is improved on an ongoing basis. Risk mitigation controls are also reviewed and monitored, and the incident management process in place enables the organisation to quickly identify potential violations and implement response measures to remedy the incident and prevent similar occurrences in the future.

The Group places strong emphasis on high standards of conduct and personal data security awareness among employees. It is mandatory for every employee to participate in data security training, newsletters devoted to the topic are distributed on a regular basis, and regular internal audits of selected processes are conducted to check whether the processes comply with relevant personal data protection laws. Considering the constant drive for self-improvement and the weight of the topic, an internal audit of the data security risk management function was also carried out in 2021. Depending on their size and scale of operations, the KRUK Group companies have either teams of data protection inspectors and specialists or independent Data Protection Officers.

The Group has implemented tools to monitor the number of personal data processing complaints and procedures to enable data subjects to exercise their rights under the GDPR. All personal data requests and complaints are thoroughly analysed to determine whether the submitting party's claim is valid and can be satisfied.

Presented below are identified complaints lodged with local personal data protection authorities against unlawful processing of data by the Group companies:

KRUK Group	2021	2020
Number of complaints received by local personal data protection authorities	20	19

Relevant explanations and all information requested by the authorities were provided in each case. Proceedings in most of these cases are pending. As regards proceedings that have been closed, none of the complaints was granted. Despite the constantly expanding scale of operations and, thus, the growing risk of error necessitating admission of complaints against improper personal data processing, the number of such complaints is not rising thanks to sustainable, standardised processes and highly experienced specialists.

10.3 Risk management system

Since 2021, the KRUK Group companies have had in place the new Risk Management System Policy, defining non-financial risk management policies and responsibilities. The risk management system is a set of rules and mechanisms relating to decision-making and business assessment processes. The system operates on the basis of the management strategy, policies and instructions, and is monitored and evaluated by the Supervisory Board in line with the Best Practice for WSE Listed Companies.

The KRUK Group manages risks by:

- identification, analysis, evaluation and monitoring of risks;
- monitoring the use, effectiveness and efficiency of the controls in place;

- reporting of risks as part of the management reporting system supporting the risk management decision-making process;
- defining and implementing risk management strategies.

The following non-financial risks relevant to the KRUK Group's business have been identified:

- HR risk;
- outsourcing risk;
- risk related to the processing of data in a cloud computing environment;
- physical security risk;
- IT risk;
- risk related to deliberate and unintentional human actions;
- business continuity risk;
- legal risk;
- compliance risk;
- personal data protection risk;
- governance risk.

10.4 Environmental responsibility

The KRUK Group, as an employer and a market participant operating in the European Union and managing nearly 8 million cases in 2021, is aware of its potential to enhance public awareness and promote education in the area of environmental responsibility.

The Group strives to minimise its environmental footprint and to deploy environmentally friendly technologies, and supports educational initiatives that raise awareness of the negative impact of consumerism on resource availability and climate change. To that end, we implement various solutions, including an electronic document workflow (to the extent permitted by law). In addition, to facilitate electronic communication with customers (including indebted persons), the e-KRUK online platform was launched in Poland in 2017. It also helps reduce the amount of traditional, paper-based correspondence. Various online services dedicated to customer care are made available across all KRUK Group companies. Thanks to those technologies, in 2019–2021 the Group managed to save a total of 550 thousand paper sheets in all of its geographies.

To meet stakeholder expectations, the Group actively engages in planet-friendly initiatives, supporting projects important for its employees and addressing the needs of local communities. On the International Earth Day, KRUK S.A., in partnership with the 'Fundacja EkoRozwoju' charitable trust, delivered a dedicated webinar to its employees: 'Climate to change, or how to save the climate and improve the quality of our lives'. The purpose of the meeting was to raise employee awareness of the need to take care of the environment and to improve the quality of life both for us and for future generations.

The KRUK Group engages in educational activities to enhance public awareness of not only complex finance and debt-related issues, but also of the climate crisis. Drawing on the Company's know-how and expertise in debt, since 2019 KRUK has been taking consistent measures to draw public attention to the problem of ecological debt and excessive consumption, highlighting the analogy between financial and ecological debts. A good occasion to raise this problem is the Earth Overshoot Day, on which KRUK

issues various press releases concerning the consequences of Poles' excessive consumerism, based on public surveys conducted at the Company's request.

In 2021, close to 300 employees participated in environmental initiatives, with the awareness raising campaign reaching an audience of 100,000 across the Group's markets.

In 2021, the Group celebrated the sixth anniversary of KRUK Italia by planting 60 trees in Italy. KRUK Italia also participated in the Plastic Free Walk in La Spezia, an event promoting reduction in plastic consumption.

10.4.1 Environmentally sustainable business

Total energy consumption from non-renewables by source (in joules or multiples thereof)

	2021
Gasoline (m ³)	328.85
Diesel (m ³)	452.14
Natural gas (m ³)	47,230.44
hard coal (GJ)	705.08
lignite (GJ)	120.80
natural gas [m ³]	9,991.42
other (GJ)	12.14

Total consumption (in joules or kWh):

	2021
electricity (kWh)	1,628,470.48
heat (GJ)	5,507.00
cooling (GJ)	4,913.00

Taxonomy

In accordance with Article 8 of EU Regulation 2020/852 (Taxonomy), information is presented below on how and to what extent the KRUK Group's activities are associated with economic activities that qualify as environmentally sustainable. Key performance indicators were prepared in accordance with the requirements outlined in Commission Delegated Regulation (EU) 2021/2178. Pursuant to Article 10 thereof, the KRUK Group, whose principal business activities are classified as a non-financial undertaking, discloses the proportion of Taxonomy-eligible and Taxonomy non-eligible economic activities in its total turnover, capital and operational expenditure and the qualitative information referred to in Section 1.2 of Annex I of the Regulation relevant for this disclosure.

Key performance indicators related to turnover (turnover KPI)

Percentage of Taxonomy-eligible economic activities in total turnover	0%
Percentage of Taxonomy non-eligible economic activities in total turnover	100%

Accounting policies

The KRUK Group did not identify any turnover from products or services associated with Taxonomy-eligible economic activities.

The corresponding item of the Group's consolidated financial statements was used to calculate turnover. Different categories of revenue were analysed in terms of their eligibility for the Taxonomy. Based on that analysis, no portion of the Group's revenue was identified as eligible for the Taxonomy under Regulation (EU) 2020/852 of the European Parliament and of the Council.

Key performance indicators related to capital expenditure (CapEx KPI)

Percentage of Taxonomy-eligible economic activities in total capital expenditure	0.21%
Percentage of Taxonomy non-eligible economic activities in total capital expenditure	99.79%

Accounting policies

Capital expenditure was calculated on the basis of capital expenditure recognised in the financial statements in accordance with the applicable International Financial Reporting Standards. Different categories of capital expenditure were analysed in terms of their eligibility for the Taxonomy under EU Regulation 2020/852 and delegated regulations EU 2021/2139 and EU 2021/2178. As a result, expenditure incurred to acquire part of the Group's car fleet was determined to be Taxonomy-eligible.

Key performance indicators related to operating expenditure (OpEx KPI)

Percentage of Taxonomy-eligible economic activities in total operating expenditure	0.08%
Percentage of Taxonomy non-eligible economic activities in total operating expenditure	99.92%

Accounting policies

Total operating expenditure was calculated based on the amount of direct, non-capitalised costs related to:

- research and development,
- building renovation measures,

- short-term leases,
- maintenance and repair, and
- any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

Different categories of operating expenditure were analysed in terms of their eligibility for the Taxonomy under EU Regulation 2020/852 and delegated regulations EU 2021/2139 and EU 2021/2178. As a result, part of the expenditure incurred to maintain the Group's infrastructure was determined to be Taxonomy-eligible.

Assessment of compliance with Regulation (EU) 2020/852

Nature of the Group's Taxonomy-eligible economic activities

The Group does not conduct any Taxonomy-eligible economic activities.

In order to avoid double counting in the allocation in the numerator of CapEx and OpEx KPIs across economic activities, different categories of capital or operating expenditure were allocated exclusively to a single economic activity.

10.5 Ethics and anti-corruption policies and performance

10.5.1 Ethics

The code of ethics in place at the KRUK Group is based on social norms as well as internal regulations, instructions and procedures, which are derived inter alia from the Universal Declaration of Human Rights, meant to protect human dignity and to ensure fair treatment of every person regardless of their sex, language, race, religion, political views or nationality. Ethical principles underlie both interactions between the KRUK Group employees and their relationships with clients, business partners, suppliers, shareholders and other stakeholders.

MISSION

We uphold the social and legal norms of debt repayment, always with respect for the people that we cooperate with.

VISION: VALUES-PEOPLE-LEAN

Values	No matter what we do, we stand up for our values.
People	We want to attract people who share our values and believe that the need to progress goes on no matter the circumstances, even when we succeed.
Lean	We believe in the ongoing improvement of our processes. We do not hesitate to call problems by their name and seek optimum solutions for their solving.

VALUES

Respect	Mutual respect is the foundation of our business. We treat everyone as we would like to be treated.
Cooperation	Together we achieve more. We build partner relationships based on transparent rules. We call things by their name.
Responsibility	Everyone is accountable for one's decisions, actions or negligence and their consequences.
Development	We constantly grow. Our inner need to progress goes on under any circumstances, even when we achieve success.
Simplicity	Simple is beautiful. We simplify our processes and eliminate waste. Done is better than perfect.

The Group's values, including any related policies, codes and procedures, are available to all employees in our internal IT systems. The Group makes every effort to promote an organisational culture that enables its employees to identify with the organisation and that is practised across all geographies and all levels of organizational hierarchy. Our organisational culture is defined by the values of partnership, cooperation and freedom to expression emotion.

As its code of ethics, KRUK S.A. has adopted the Code of Best Practice for members of the Association of Financial Companies in Poland, which is cascaded down to the other Group companies. KRUK S.A. and ERIF BIG S.A. undergo an annual ethics audit carried out by the Association of Financial Companies in Poland (ZPF). Certificates confirming successful passage of the audit are issued by ZPF for the previous calendar year at the end of the first quarter of the current year. In 2021, both KRUK S.A.'s and ERIF BIG S.A.'s adherence to ethical standards and principles in 2020 was confirmed in the course of yet another successfully completed audit. The Group has also adopted the Canons of Best Financial Market Practice, which are a set of 16 general and universal principles, based on fundamental ethical values and ideals guiding financial companies. The Canons were defined as a result of collaboration between 30 associations of financial companies, organisations and institutions representing consumer interests, and other market participants, as well as academics. The application of the Canons is recommended by the Polish Financial Supervision Authority, i.e. the main financial market regulation in Poland.

The consolidated text of the Code of Best Practice of the Association of Financial Companies in Poland is published, inter alia, on KRUK S.A.'s and ERIF BIG S.A.'s websites and is available at

<https://en.kruk.eu/investor-relations/code-of-the-best-practices-of-companies-listed-on-the-warsaw-stock-exchange#best-practices-of-companies-listed-on-the-warsaw-stock-exchange>

Wonga also has in place the Internal Code of Ethics.

KRUK S.A. ranks among Superethical Companies, i.e. companies that have been awarded the Ethical Company title in a competition held by *Puls Biznesu* and PwC Legal Żelaźnicki for three consecutive years. Wonga was also among the winners of the 2020 edition of the 'Ethical Company' competition. Companies taking part in the 'Ethical Company' competition must satisfy very strict criteria for ethical conduct both vis-à-vis their clients as well as their employees and business partners.

The following internal documents in place at the Group companies govern adherence to core values and principles of ethics and ensure compliance:

- Compliance Risk Management Policy – this policy defines the mission, objectives, responsibilities and powers of the Compliance Area and its employees, as well as compliance-related rules and responsibilities, including in relation to ensuring compliance and managing compliance risk across various processes. Instructions issued under the Compliance Risk Management Policy are its implementing regulations.
- Risk Management System Policy – this policy sets out the rules and scope of responsibilities for non-financial risks management.
- Internal Mediation Policy – this policy fosters positive relations between employees, prevents conflicts, workplace bullying and discrimination.
- Rules of Procedure for the Risk Monitoring Committee – the Risk Monitoring Committee is a collective body whose primary role is to provide opinions in order to monitor the level of financial and non-financial risks.
- Code of Practice for Issuing and Monitoring Compliance Recommendations – this documents governs the manner in which compliance recommendations are issued and monitored to ensure that any required changes in processes and products are implemented within the prescribed time limits.
- Regulatory Inspections and Criminal Proceedings Manual – this document governs the conduct of KRUK S.A.'s employees in case of inspections by regulatory bodies (Office of Competition and Consumer Protection, Polish Financial Supervision Authority, Personal Data Protection Office), assigning specific powers to the company's authorised representatives and defining tasks for individual employees to ensure that inspections are carried out in compliance with law.
- Management of Changes in Law and Regulatory Guidelines Manual – this documents describes the process of monitoring and announcing any relevant changes in laws, regulations and regulatory guidelines and of their implementation in KRUK S.A.'s internal policies and practices.
- Compliance Monitoring Manual – this document governs the monitoring and testing of compliance of KRUK S.A.'s processes with law, regulatory guidelines and official interpretative rulings.
- Conflicts of Interest Management Policy – this document defines the rules of disclosure of conflicts of interest identified at the Company, as well as appropriate measures to protect the Company against their potential consequences. The Conflicts of Interest Management Policy includes the Gift Policy – this document governs the acceptance and reporting of gifts by the Company employees and members of its statutory bodies.

- Compliance Risk Maps Manual – this document helps Company employees understand compliance risk mapping and the risk controls embedded in the processes they own or are involved in.
- Compas Compliance Management Policy at Wonga.pl sp. z o.o. – Wonga has in place mechanisms designed to address the risk of non-compliance with the rules of ethical business conduct. The underlying principle of Wonga's compliance culture is that every employee should be guided by the highest ethical standards in performing their duties. The Compas Policy is primarily focused on preventing, detecting and responding adequately to any non-compliance with laws, internal regulations or generally accepted ethical standards.
- As a company listed on the Warsaw Stock Exchange, KRUK S.A. also complies with the Code of Best Practice for WSE Listed Companies.

Employees of the KRUK Group may report any instances of workplace discrimination or bullying (mobbing). Each such report triggers an inquiry, which must commence within a maximum period of five business days. The Internal Mediation Policy describes in detail the procedures for dealing with any reported incidents. All employees are required to complete anti-mobbing training.

KRUK S.A. also has in place a whistleblowing and whistleblowing protection policy. The document governs reporting of any irregularities and managing such reports. The policy ensures anonymous submission of irregularity reports and confidentiality of information contained therein.

At the KRUK Group, any employee, or in fact any stakeholder, may report misconduct using the form available at <https://pl.kruk.eu/zglos-naduzycie>.

Employees reporting misconduct or other irregularities in good faith are assigned the status of a Corporate Whistleblower and as such are afforded an adequate level of protection against retaliation, discrimination, violation of their equal treatment rights or any other types of mistreatment. The protection also extends to indirect reprisals, such as blocking promotion opportunities, changing the scope of responsibilities, refusing requests for participation in training, or exclusion from or refusing admission to the team.

With regard to protecting the rights of customers, most of whom are indebted persons, a complaints and requests handling process has been implemented, which is compliant with standards arising under any applicable laws or regulations. Complaints of a complex nature involving important legal or regulatory issues, as well as grievances submitted via the Polish Financial Ombudsman or any of the Consumer Ombudsmen, are reviewed with the Compliance Area.

KRUK S.A. and KRUK Italia have also established Employee Forums to consider various initiatives proposed by employees and any grievances concerning employment or working conditions. Apart from the Forum, there are no other collective agreements in place at the Group.

The KRUK Group's ethical standards are also appreciated outside Europe. KRUK is working with the IFC, the World Bank Group's private sector development arm in Morocco, to address the problem of non-performing loans. Drawing on its know-how, KRUK S.A. shared its experience with the Central

Bank of Morocco (Bank Al-Maghrib) to support its efforts in developing a code of ethics and best compliance practice for bank and non-bank debt collection.

10.5.2 Anticorruption

In 2021, no incidents of corruption were reported at the KRUK Group. The organization has in place an Anti-Fraud Policy and a Policy for Handling Incidents of Corruption or Suspected Corruption.

KRUK S.A. employees are required to take steps to prevent and detect fraud. All employees and associates are required to report any incidents of corruption or suspected corruption, whether they have participated in such incident or have only learnt of it. The President of the Management Board is responsible for conducting an inquiry in response to such report. The management is responsible for supporting and supervising measures taken by employees and associates to prevent corruption.

10.5.3 Supply chain

The rules governing the KRUK Group's procurement process are defined the Procurement Policy and the Procurement Policy Implementation Guidelines. The documents set out the standards for the selection of suppliers and ensuring the best possible benefit-cost ratio of any procured goods and services. In its procurement activities, the Group takes measures to ensure business confidentiality, prevent any form of corruption, guarantee equal opportunity, and avoid conflicts of interest.

Additional regulations that apply during the procurement process are also laid down in the Misconduct Prevention Policy, the Conflicts of Interest Management Policy and the 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.

In procurement procedures held in Poland, where the transaction value exceeds PLN 100 thousand, each supplier is obliged to complete a CSR survey and disclose the best practice it applies to local communities, its employees and the workplace, its markets and clients, and the natural environment. Based on the survey, suppliers are evaluated in terms of their environmental, social and economic ethics. In 2021, 130 suppliers taking part in the procurement processes completed the CSR questionnaire, declaring their engagement in:

- dialogue with local communities,
- organisation of internship programmes,
- charity projects,
- implementation of a transparent, regulation-compliant and development-oriented HR management policy,
- continuous improvement of customer service quality standards,
- ensuring compliance with ethical standards,
- measures to reduce the consumption of raw materials.

The Group selects suppliers through competitive bidding, direct negotiation, contract renegotiation, or under master agreements. The basis for building credibility and trust in relations with our suppliers is zero tolerance for any form of misconduct or fraud, including corruption, which is why our contracts with suppliers always include anti-corruption clauses.

KRUK Group's supply chain structure

Country	Total number of suppliers	% of local suppliers in total number of suppliers by geography	% of foreign suppliers in total number of suppliers by geography
Poland	1,152	94%	6%
Romania	789	96%	4%
Czech Republic	619	55%	45%
Slovakia	8	87.5%	12.5%
Spain	210	88%	12%
Italy	877	94%	6%

In most of the markets where the KRUK Group operates, local suppliers make up the majority of all suppliers to the Group companies. In Poland, local suppliers account for as much as 94% of all our suppliers.

10.6 Employee-related policies and performance

10.6.1 Employment

The KRUK Group employs more than three thousand people and is committed to ensuring a safe and inclusive workplace, which is conducive to professional development and contributes to employee satisfaction. This is achieved, among other things, through promoting diversity and strict adherence to the Declaration of Human Rights.

The Supervisory Board has a Remuneration and Nomination Committee, appointed from among its members. The Committee's responsibilities include defining the remuneration policy of Management Board members in line with the Company's long-term interests and performance. The Committee also recommends to the Supervisory Board candidates for members of the Management Board and presents a periodic appraisal of the expertise and performance of individual Management Board members. The Remuneration Policy for Members of the Management Board and Supervisory Board of KRUK S.A. regulates matters related to determining the remuneration of the Group's top management. In accordance with the Policy, remuneration is determined on the basis of the function performed as well as the business scale, complexity of corporate design and operational complexity of the Company. For more information on the Remuneration Policy, see Section 8.5.4. Remuneration, bonuses and employment contract terms of the Management Board members

Remuneration calculation process

The amounts of fixed salaries and wages (base pay) at the KRUK Group are determined in compliance with labour law based on internal policies and regulations. The Group conducts regular market surveys with respect to salaries and wages and reviews their results twice a year.

Unit responsible for determining amounts of salaries and wages

The units responsible for determining the amounts of salaries and wages are the Central and Local Human Resources Management Teams. The ultimate decision-making body is the Company's Management Board.

Apart from competitive salaries and wages, the Group offers its employees a wide range of other benefits. KRUK Group employees may:

- use the Company Social Benefits Fund, including in the form of non-cash financial assistance, non-repayable allowances for persons in particularly difficult life situations, or holiday allowances;
- 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;
- 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 (in Poland);
- participate in internal and external training courses provided to enhance the professional skills and qualifications (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);
- use employee libraries (in Poland);
- purchase computer hardware being disposed of by the Group;
- receive funding for team-building events;
- use flexible work options;
- work out of office occasionally, in accordance with internally agreed rules and conditions.

The Group's employees in Poland and other geographies may also participate in a range of team-building and cultural events organised by the Group, including:

- online quizzes and mystery games, in which teams of employees compete against each other,
- running events,
- blood donation events,
- meetings with inspiring coaches, psychologists and trendsetters,
- football tournaments,
- cooking events,

- activities organised for employees' children.

Headcount at the KRUK Group as at December 31st 2021, by type of contract and working time arrangement

	Women	Men	Total
Contract of employment	1,942	1,175	3,117
Full-time contract	1,877	1,156	3,033
Half-time contract	7	4	11
Other	101	27	128
Service contract/short-time contract/self-employment	45	66	111
Management service contract	7	14	21
Internships	16	9	25
TOTAL	2,010	1,264	3,274

In 2021, the KRUK Group employed 430 new hires, while 476 staff left the organization. The employee turnover (17%) is relatively low, i.e. in the lower range of the average for the financial market in the KRUK Group's geographies (15–25%).

Total number of new hires at the KRUK Group in the reporting period, by gender:

	Men	Women
Number of new hires	146	287

Total number of new hires at the KRUK Group in the reporting period, by age:

	<30 years of age	30–50 years of age	50+ years of age
Number of new hires	208	204	21

Total number of staff who left the KRUK Group in the reporting period, by gender

	Men	Women
Number of employees who left the organisation	196	295

Total number of staff who left the KRUK Group in the reporting period, by age

	<30 years of age	30–50 years of age	50+ years of age
Number of employees who left the organisation	161	296	34

10.6.2 Occupational health and safety

The KRUK Group creates a safe working environment. The Group continuously ensures and monitors compliance with OHS rules and standards. OHS codes, policies and procedures are reviewed and updated on a regular basis in line with the organisation's profile. Regular inspections are held to check adherence to OHS regulations and working conditions standards. Dedicated OHS units conduct proper inquiries into any work-related accidents, handle any reports of suspected occupational, and carry out occupational risk assessments in accordance with applicable regulations on an ongoing basis.

Training and webinars are provided on a regular basis to help educate staff on OHS-related issues and foster a safety culture across the organisation. Upon commencement of employment with a Group company, each person is required to read and learn general and job-specific OHS rules. In addition, the OHS team runs a dedicated online OHS News channel, which delivers valuable OHS information and guidance, including on accident and disease prevention, to employees.

OHS policies and regulations in place at the Group are based on the ISO 45001 guidelines. In the unlikely event of a workplace accident, measures are taken to prevent its recurrence, including informing staff of the causes and circumstances of the accident. In 2021, no occupational diseases were identified among employees.

Work-related injuries	19
Main causes of work-related injuries	Slipping, tripping, falling (8), dog bite (3), fainting, impact (1), traffic accident (1), attack by a customer (1), motor vehicle accident (4), other (1)

In partnership with the Psychological Support Centre, the KRUK Group runs the 'Ramię w ramię' Employee Support Programme, an initiative designed to support employees going through various personal challenges, also those resulting from involvement in individual talks about financial problems of the Company's clients.

The Psychological Supports Centre draws on the know-how and experience of the Indebted Persons Support Programme Association, which set up an group of educators to support persons who faced debt problems, including through educational activities and training addressed to both indebted persons and social service workers who came across such persons in their work. In carrying out its projects, the Association partnered with a number of financial and local government institutions, including: the Social Policy Department of the Provincial Office in Poznań and the Centre for Economic Security and Support of Indebted Persons, which was established in 2016 by the Gdańsk City Council.

10.6.3 Diversity management

The KRUK Group has put in place a Diversity Policy to foster a diverse, multi-cultural workplace. The Group is committed to ensuring 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. has been a signatory to the Diversity Charter since 2013. The Charter is an international initiative of the European Commission, intended to promote social cohesion and equality. The fundamental principle of the Charter is non-discrimination in the workplace and recognising and promoting diversity in all areas of activity. The provisions of the Charter apply across the KRUK Group and are taken into account in various processes, including recruitment.

Ensuring equal opportunities at the KRUK Group starts with the commencement of the recruitment process – equal treatment of candidates is also embedded in the recruitment process standards. The Group has in place standards that govern recruitment and creation of teams that are diverse in terms of gender, age, experience, lifestyle, etc.

The KRUK Group provides equal opportunity to all male and female candidates to apply for managerial positions, and successful candidates are selected solely on the basis of their expertise and merit.

Position	Percentage of women representing the position
Management and Supervisory Board members	25%
Chief Executive Officers	66%
Heads of Departments (at head office)	65%

In 2021, KRUK Italia ran a press campaign to draw attention to the important roles played by women at the organization. The campaign featured the company's female managers to inspire and encourage other women to pursue managerial careers.

KRUK España has adopted a four-year plan dedicated to promoting gender equality, diversity, and inclusiveness.

The Group has career and development paths, which are regularly reviewed and updated. It has set up promotion paths and salary scales applicable to each employee within a given area. Employees also have equal access to knowledge and qualification improvement opportunities in the form of an open range of training experience, with equal participation rules for all employees in individual posts. Particular importance is attached to enabling employees to maintain a work-life balance by ensuring transparent work-time settlement rules and facilitating return to work after maternity leave.

10.6.4 Employee education and development

As part of its skills development initiatives, the KRUK Group offers employees a wide range of internal and external training opportunities reflecting their position and length of service. Our employees participate in specialist training, and each newly recruited person completes a full cycle of induction training.

Selected training programmes at the KRUK Group:

- Coaching – a one-to-one training method dedicated to supporting development of individual skills and competences. It helps achieve career goals and go through challenging transition periods. It is available to all employees.
- The ‘Akademia Trenera’ knowledge sharing and skills exchange initiative addressed to the Group's employees. As part of the project, various specialists from within the organisation deliver training to other employees in areas they work and have expertise in.
- The Advisor Academy (started in 2022) is a series of training sessions for the best field advisors, designed to develop their competences through acquisition of useful practical knowledge and skills that they have not applied yet in their work. The project also serves as an incentive.

Each employee may also apply for financing or co-financing of external training, including undergraduate and graduate university programmes, legal profession qualification programmes, and specialist courses. Such applications are granted on condition that training is related to the employee’s work responsibilities and his or her line manager endorses the application.

The Company also has a management skills development programme (‘Manager’s Debut – the First 100 Days’), which supports the development of skills of the management staff.

The objective of the programme is to support and develop the managerial skills of persons who debut as managers during the first few months in their new role.

In 2019, Wonga.pl launched the Manager Academy skills development programme, which has been implemented in three groups. Two comprise senior manager, and the third comprises lower-level managers as well as project and product managers.

Since 2016, the KRUK Group has been developing a range of training options available on the e-learning platform, which allows employees to quickly improve their competencies. The platform 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 offering also includes courses for management staff, combined with traditional training.

10.7 Social policies and performance in the social area

The charitable sponsorship policy is in place at all of the KRUK Group companies. The document defines the scope of charitable activities that the organization may undertake to offer financial and in-kind support to non-profit organizations and the Group's customers and employees, and their families.

The Group's charitable and sponsorship activities are intended to help the needy and to promote healthy financial and environmental attitudes in the context of excessive consumption. Such activities are always carried out in accordance with applicable environmental protection laws, regulations and standards.

The implementation of the charitable sponsorship policy in a given geography is the responsibility of the Chief Executive Officer charged with supervising the Group’s activities in that geography and of the persons designated by him or her. In accordance with this policy, the Group supports:

- events involving amateur physical activity which aim to provide financial or in-kind assistance for the most needy,
- projects implemented by public benefit institutions or associations aimed at supporting those most in need,
- organisations that support financial education and psychological or legal assistance to people struggling with financial or personal difficulties,
- CSR initiatives that seek to strengthen the processes of civic development, equality and tolerance,

Financial education of people

Given its business profile, the KRUK Group is particularly committed to raising public awareness of various financial matters. The Group's strategic approach to education in this area is reflected in its propriety project 'Day without Debts'. The initiative is carried out not only in Poland, but also in Romania, the Czech Republic and Slovakia. Initiated over a decade ago, it is traditionally held on November 17th each year with a view to drawing public attention to the problem of indebtedness, raising awareness of the benefits of voluntary repayment of debt liabilities, and promoting general household budget management skills.

As part of the Group's educational activities in Poland, Wonga also runs the 'Kapitalni' online platform at <https://kapitalni.org>, which was created in response to the low level of the Polish society's financial knowledge. Its purpose is to provide, on a continuous basis, financial education that can have a transformative effect on consumer behaviours and attitudes. The content of the platform, which includes more than 600 specialist articles, has been authored by various respectable experts, journalists and bloggers and is arranged into special learning paths. To date, 2,700 users have completed at least one full path, while the total number of unique users of Kapitalni.org is over 60,000.

In Romania, the Group has implemented the 'Credite Inteligente' (Smart Loans) educational project, which is dedicated to teaching young people how to manage their budgets responsibly. Apart from workshops delivered by the Group's employees on a volunteer basis, the project also involves distribution of video content, articles and workbooks. In 2021, more than 1,500 students from 110 secondary schools in 49 towns and cities participated in the project, improving their financial knowledge. In Romania, KRUK also runs a parallel financial education programme in the form of workshops delivered to teachers and other school staff. The Group also carries out various initiatives under the 'Responsible' financial education programme, which is addressed to young people from underprivileged backgrounds.

KRUK also pursues educational projects for young people in the Czech Republic. In addition, in each of its geographies, the Group publishes extensive specialist content via traditional and social media outlets.

Activities promoting environmental awareness

One of the KRUK Group's top priorities is protection of the natural environment, which is reflected in our continuously evolving business processes as well as in sponsorship and other activities organised by individual Group companies, including:

- in Poland – the Earth Overshoot Day, which addresses the issues created by excessive consumerism and its environmental impact;
- in Italy – the ‘Plastic-free Walk’ event, which KRUK held in 2021 in partnership with Italy’s best know NGO Plastic Free and which resulted in collection of 80 kg of plastic waste;
- in Spain – a social media survey on climate change.

Other activities

As part of its business, the KRUK Group supports customers who are in a difficult situation due to outstanding debts, which gives us a sense of enormous responsibility, continuously motivating us to seek the most suitable solutions in a given set of circumstances. Since our mission to support people in hardship makes KRUK Group employees particularly attentive to social problems, they often initiate various sponsorship projects. The KRUK Group remains open to and supports such smaller-scale grass-roots initiatives. Given their nature, their catalogue varies greatly depending on the country and the needs of the environment where they are undertaken. Their examples include charitable running events and concerts, financial support for selected non-profit and/or non-governmental organisations, and projects run in partnership with various welfare institutions.

In 2021, KRUK S.A. allocated a total of PLN 274 thousand to charitable activities.

Charitable activities	PLN 165 thousand
Financial education	PLN 99 thousand
Environment protection	PLN 10 thousand
Total	PLN 274 thousand

The KRUK Group did not provide any financial or in-kind support to political causes or organizations in 2021.

For KRUK, sustainable business also means not being indifferent to the humanitarian crisis caused by Russia's aggression against Ukraine. Therefore, the KRUK Group will donate EUR 320,000 (approximately PLN 1.5m) to support Ukrainian refugees in the countries bordering Ukraine where the KRUK Group operates.

11 GLOSSARY OF TERMS

Auditor	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw
CAGR	Compound Annual Growth Rate
Catalyst	Bond market operated by the Warsaw Stock Exchange
CZK	Czech koruna
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
Cash EBITDA	represents profit (/loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months.
EPS	Earnings per share
ERIF BIG, ERIF	ERIF Biuro Informacji Gospodarczej S.A.
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
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 Issuer Company	KRUK S.A. of Wrocław
KRUK Česká a Slovenská republika	KRUK Česká a Slovenská republika s.r.o. of Hradec Kralove
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
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.
2021-2024 Scheme	An incentive scheme for 2021–2024 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 950,550 registered subscription warrants will be issued, conferring the right to subscribe for a total of 950,550 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)
Total revenue	Operating income including gain or loss on expected credit losses, fair value measurement, and other income/expenses from purchased debt portfolios including other income
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	Polish Minister of Finance's Regulation of March 29th 2018 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 (Dz.U. of 2018, item 757, as amended).
SeCapital Luksemburg	SeCapital S.à.r.l. (Luxembourg)
Consolidated financial statements	The Group's consolidated financial statements for the reporting period ended December 31st 2021, 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 P. Krupa Spółka komandytowa
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	The Management Board of KRUK S.A.

Financial Liabilities

Total financial liabilities under:

- bonds or other similar debt securities; or
- non-bank borrowings; or
- bank borrowings; or
- finance leases; or
- promissory notes issued by way of security for liabilities of non-KRUK Group entities; or
- guarantees or sureties provided in respect of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- accession to debt owed by non-KRUK Group entities under bank non-bank borrowings, finance leases, bonds or other similar debt securities; or
- assumption of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- concluded derivative transactions.

The Directors' Report on the operations of the KRUK Group and KRUK S.A. in 2021 is presented by the Company's Management Board, consisting of the following members:

Piotr Krupa

President of the Management Board

Urszula Okarma

Member of the Management Board

Piotr Kowalewski

Member of the Management Board

Adam Łodygowski

Member of the Management Board

Michał Zasepa

Member of the Management Board

Wrocław, March 15th 2022