



DIRECTORS' REPORT

ON THE OPERATIONS OF THE KRUK GROUP

IN 2018



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TIME TO PURSUE THE MOST AMBITIOUS OBJECTIVES

DEAR ALL,

It is my pleasure to present the Directors' Report
on the operations of the KRUK Group in 2018.
It was a special year for us as we celebrated the 20th anniversary
of our operations. I believe that our 2018 financial performance will
add lustre to this round anniversary.

The KRUK Group reported net profit of PLN 330m, which represents an increase of 12% on 2017 and the Group's best result on record. In Q4 alone, the net profit totalled PLN 51m. At the same time, recoveries from purchased debt portfolios reached PLN 1.6bn, up 15% year on year. We were particularly pleased with the last quarter, which delivered PLN 433m, KRUK's best result to date. We continued to benefit from growing operational efficiency, supported by the improving macroeconomic situation in all markets. The majority of recoveries were reported in Poland and in Romania, accounting for, respectively, almost 50% and 30% of the total. Surely, the Italian market is becoming increasingly important, with a contribution of 126 million in recoveries, or 8% of the total.

In 2018, we made critical investments that will generate higher recoveries in the future. KRUK invested nearly PLN 1.4bn in new debt portfolios with a total nominal value of PLN 8.9bn. The largest amount was invested in Poland – as much as 45% of the total. For more information on the investment environment in Poland please read the section of the report devoted to the Group's business model, but I can already say that the market has become reasonable again. Sellers and competitors allowed us to achieve a market share of almost 30%, close to the figure from a few years ago. We were also active abroad and the investments we made there increased the carrying amount of our debt portfolio by 31%, to PLN 4.1bn, with expected future cash flows (ERC) of PLN 7.2bn.

Debt purchase market in the countries where we operate has grown so much that, for the first time in many years, we had difficulty obtaining financing. The situation was quite the opposite in recent years as it was good investment opportunities that came in short supply. In anticipation of the challenges ahead, in 2018 we worked on securing access to additional external funding. As a result, we increased the total amount of available credit facilities to PLN 2.0bn and issued two series of notes with a total value of PLN 65m. At the same time, we redeemed five series with a total value of PLN 115m, keeping our debt at a conservative level: at the end of 2018, net debt to cash EBITDA ratio was 2.3x.

This year's report is also an opportunity to summarise the work performed over the last four years by the KRUK team in an effort to implement the 2015–2019 strategy. For details, please refer to Section 4. However, I am pleased to announce at this point that in the period covered by the previous strategy, KRUK doubled its net profit from PLN 152m in 2014 to PLN 330m in 2018, delivering an average annualised EPS growth of 18.3%, against the assumed target EPS growth of at least 15% per annum. Concurrently, the average return on equity stood at 22.4%, while the strategy provided for a ROE of above 20%.

We decided to close the 2015–2019 strategy a year earlier, following the completion of a strategic options review. It was an exceptional period for us, marked by hard work, which we devoted to setting the directions of KRUK's further development. We have prepared future growth scenarios which, I believe, are likely to materialise under the existing ownership structure. KRUK has sound business fundamentals and does not require any additional equity to pursue its strategy.

I set a clear objective for the KRUK team: KRUK is to continue to grow dynamically and earn a net profit of PLN 700m in 2024, maintaining debt at a conservative level, and – the financial condition and the environment permitting – to pay dividends to its shareholders. The Management Board and I declare our full commitment to achieving the new objective set out following the review. I can assure you that my vision has an even longer time horizon, and certainly goes beyond the next six years covered by the new strategy.

2018 was a breakthrough year on the Polish market after the last dozen or so months marked by domination of a new entity. As the new entity grew rapidly in Poland, we were trying to answer the question why we had lost our market share looking first and foremost at KRUK itself. We decided to examine all the processes within our organisation and see what improvements can be made to our daily work. Although our competitor's impressive performance seemed beyond belief, we resolved to take up the challenge. Our approach allowed us to discover a certain potential, which today pays off at virtually every stage of the process and will bring benefits for many years to come.

At the same time, Poland's debt purchase market stabilised. The absence of an aggressive competitor and temporary problems facing smaller entities enabled us to beat our historical record for investments made in Poland in 2018. I believe that we have managed to make investments that will make it possible to achieve sound returns in the future. In addition, new legislative changes were made in Poland in 2018 to stabilise the market, encourage banks to sell their debt claims more willingly, and to practically eliminate those entities whose operations were either unprofessional or barely legal.

I encourage you to read this report thoroughly. In my opinion, it does not merely sum up KRUK's financial results for the last year, but also describes our everyday work. The report also mentions the key factor that creates value for KRUK, namely our employees. I know perfectly well that it is people who create or hamper our business. That is why I particularly recommend the section devoted to the organisational culture, prepared by Iwona Słomska, who is in charge of human resources, marketing and PR. She has given a most interesting account of the survey we carried out in 2018, trying to identify our corporate DNA. Today we know that organisational culture can both be measured and defined, but more importantly, it can be the most important source of business successes. To quote Iwona's words: as important as efficient operational processes, superb IT solutions, cheap financing or perfectly executed projects.

[G4-1]

Respectfully yours,
PIOTR KRUPA



2018 PERFORMANCE HIGHLIGHTS



INVESTMENTS IN DEBT PORTFOLIOS

PLN 1,395m
+43%



RECOVERIES

PLN 1,577m
+15%



NET PROFIT

PLN 330m
+12%



ROE*

+19%

	PLNM		CHANGE	IN EUR	
	2018	2017		2018	2017
EXPENDITURE ON DEBT PORTFOLIOS	1 395	977	43%	327	230
GROSS RECOVERIES	1 577	1 369	15%	370	322
CARRYING AMOUNT OF PURCHASED DEBT PORTFOLIOS	4 078	3 121	31%	948	726
PROJECTED FUTURE GROSS CASH FLOWS (120 MONTHS)	7 239	5 704	27%	1 683	1 327
TOTAL REVENUE	1 165	1 055	10%	273	249
REVENUE FROM PURCHASED PORTFOLIOS	1 070	972	10%	251	228
EBIT	478	421	14%	112	99
EBITDA**	498	439	13%	117	103
CASH EBITDA***	1 005	837	20%	236	196
NET PROFIT	330	295	12%	77	70
BASIC EPS (PLN)	17,51	15,74	11%	4,10	3,71
DILUTED EPS (PLN)	17,09	15,31	12%	4,01	3,61
ROE	19%	20%	-	19%	20%
NET DEBT TO EQUITY	1,4	1,2	-	1,4	1,2

* ROE = (NET PROFIT)/(EQUITY AT END OF PERIOD), NET OF DECEMBER'S SHARE CAPITAL INCREASE

** EBITDA = EBIT + DEPRECIATION AND AMORTISATION

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

SOURCE: THE COMPANY.

KRUK GROUP'S BUSINESS MODEL

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

The Group's principal business is the management of debt purchased for the Group's own account as well as credit management services for banks, telecommunication operators, insurance companies, and other external entities. Our efforts are supported by the Group's law firm (Kancelaria Prawna RAVEN) and credit reference agency (ERIF Biuro Informacji Gospodarczej), both wholly-owned by KRUK. We are also developing the NOVUM loan service offered to our best clients.

KRUK's geographical expansion began in 2007, when we established our presence in Romania. Fast business growth and success we achieved there encouraged us to look for growth opportunities in other countries. In 2011, we started operations in the Czech Republic and Slovakia. Three years later, KRUK Deutschland was established, opening our way to Western Europe. In 2015, we established two more companies – in Italy and Spain. We purchased our first debt portfolio on the Italian market in the same year, and on the Spanish market – early in 2016.

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

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

We boosted our newly launched operations in Western Europe (Germany, Italy and Spain) by acquiring local players. In 2016, we acquired 100% equity interests in Grupo Espand of Spain and Credit Base International of Italy. The companies had operated in local markets for many years and we worked with them before on debt valuation and management. In 2017, we successfully completed the integration of both companies within the KRUK Group. In 2018, we invested in 100% of shares in Agecredit, a credit management company operating in Italy.

Our objective is to continue further growth in seven European markets, and a EUR 250m credit facility agreement we signed in 2017 will strongly support us in this pursuit. It is our first agreement with an international bank syndicate, consisting of four banks: DNB Bank of Norway and Polish-based banks Bank Zachodni WBK, mBank, and ING Bank Śląski. This multi-currency facility of up to EUR 250m, with the euro as the base currency, may be used to purchase or refinance the purchase of debt portfolios in European markets other than Poland.

KRUK'S MILESTONES

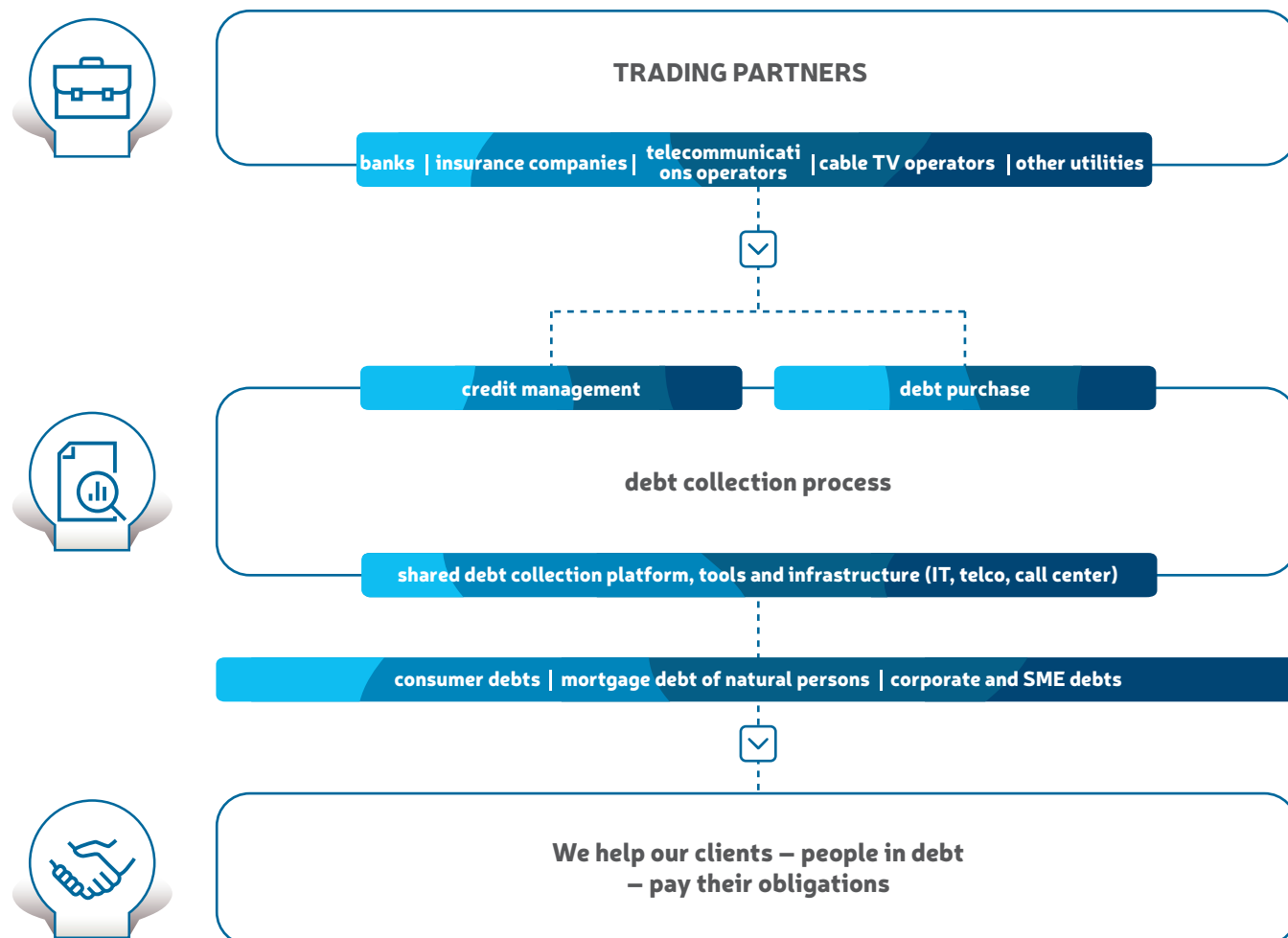
2000	Launch of debt collection activities
2001	Introduction of the success-only fee model in credit management
BEGINNING OF DEBT PORTFOLIO MARKET – DECISION TO RAISE CAPITAL	
2003	KRUK becomes a leader in credit management
	Enterprise Investors invests USD 21m (PEF IV)
	Purchase of the first debt portfolio
2005	First debt securitisation in Poland, operations in Wałbrzych
DECISION TO REPLICATE THE BUSINESS MODEL ABROAD	
2007	Entry into the Romanian market
INNOVATIVE APPROACH TO DEBTORS	
2008	Implementation of a mass amicable settlement strategy (amicable or court settlement)
2010	Changes in legislation – operations of Rejestr Dłużników ERIF (credit reference agency)
	Advertising in the media – a mass communication tool
INCREASED SUPPLY OF NON-PERFORMING DEBT	
2011	KRUK shares floated on the Warsaw Stock Exchange
	Entry into the Czech and Slovak markets
2014	Purchase of the first large mortgage-backed debt portfolio in Poland
	Entry into the German market
2015	Purchase of the first debt portfolios in Germany
	Entry into, and purchase of the first debt portfolio on, the Italian market
	Entry into the Spanish market
2016	Purchase of the first debt portfolio in Spain
	Closing of the acquisition of a debt portfolio from P.R.E.S.C.O.
	Completion of a transaction pursued with the World Bank in Romania
2017	Execution of a EUR 250m revolving facility agreement with a syndicate of four banks to finance further growth in Europe
	Completing the integration of the acquired Italian and Spanish companies within the KRUK Group
2018	Acquisition of Agecredit, a company operating on the Italian credit management market
	20th anniversary of KRUK's operations

UNIQUE 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. However, our main focus is on the banking market, where we rely on long-term relations with our key accounts.



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

In addition, we have been developing the NOVUM loan service, dedicated to our best clients who are regularly repaying or have repaid their debt towards the Group.

WE HELP PEOPLE PAY THEIR DEBTS

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

WHAT SETS US APART

CLIENT FOCUS

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

DEBT REPAYMENT IN INSTALMENTS

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

CASE-BY-CASE APPROACH

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

EDUCATIONAL INITIATIVES

We design materials and run numerous projects to educate Poles about money and debt. We have set up various initiatives, such as the Day without Debts, Poland's largest annual event encouraging people to pay off their debts.

DEBT IS A TEMPORARY PROBLEM

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

We also know that indebtedness is a temporary problem that can be overcome. All that is needed is a little bit of effort, willingness, and an honest talk with the consultant. For this reason we offer

amicable solutions to people who have fallen into debt with no deceitful or fraudulent intentions and who want advice on how to pay it off. In our amicable approach, we propose negotiations and compromise, workable terms, payment instalments adjusted to match a client's ability to pay, without unnecessary pressure, costly court proceedings, enforcement by bailiff or unwanted entries in the credit report. With our assistance, debtors gradually, step by step, get out of the debt trap and regain control of their finances.

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

WE ARE THE MOST POPULAR COMPANY IN THE BUSINESS

We are known for our amicable settlement strategy, supported 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 series shown on Polish public TV, as part of the KRUK Group's idea placement campaign. Over the years, the growing popularity of KRUK's strategy has been enhancing the KRUK brand awareness in Central Europe.

Among debt collection companies operating in Poland and Romania, KRUK is the undisputed leader in terms of brand recognition, as shown by the results of a survey* carried out in January 2019 by Norstat, a research institution: prompted awareness of the KRUK brand (name) was 83% in Poland, 57% in Romania, 7% in the Czech Republic, and 9% in Slovakia.

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

KRUK'S PROMPTED BRAND AWARENESS VS DEBT MANAGEMENT SECTOR COMPETITORS

POLAND		ROMANIA		CZECH REPUBLIC		SLOVAKIA	
Company		Company		Company		Company	
KRUK	83%	KRUK	57%	Competitor 1	11%	Competitor 1	11%
Competitor 1	36%	Competitor 1	27%	KRUK	7%	Competitor 2	11%
Competitor 2	32%	Competitor 3	26%	Competitor 2	6%	KRUK	9%
Competitor 3	13%	Competitor 2	18%	Competitor 3	5%	Competitor 3	7%
Competitor 4	12%	Competitor 4	12%	Competitor 4	5%	Competitor 4	5%
Competitor 5	10%	Competitor 5	9%	Competitor 5	4%	Competitor 5	3%

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

KRUK'S LOGO AWARENESS VS DEBT MANAGEMENT SECTOR COMPETITORS

POLAND		ROMANIA		CZECH REPUBLIC		SLOVAKIA	
Company		Company		Company		Company	
KRUK	73%	KRUK	63%	KRUK	8%	Competitor 1	16%
Competitor 1	31%	Competitor 1	28%	Competitor 1	7%	KRUK	10%
Competitor 2	31%	Competitor 3	25%	Competitor 2	6%	Competitor 2	10%
Competitor 3	15%	Competitor 2	16%	Competitor 3	6%	Competitor 3	9%
Competitor 4	9%	Competitor 4	15%	Competitor 4	5%	Competitor 4	6%
Competitor 5	7%	Competitor 5	13%	Competitor 5	4%	Competitor 5	5%

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

THE MOST EXPERIENCED DEBT BUYER

From 2002 to the end of 2018, the KRUK Group purchased 891 debt portfolios with a total nominal value of approximately PLN 69bn. We purchased debt portfolios in seven geographic markets: Poland, Romania, the Czech Republic, Slovakia, Germany, Italy, and Spain.

Between 2002 and 2018, we acquired 8 million cases, of which approximately 1 million were purchased in 2018 alone.

DEBT PORTFOLIO PURCHASING AND SERVICING PROCESS

Auction to sell a debt portfolio		Banks regularly sell debt portfolios to improve their liquidity or to comply with regulator's requirements and tax law.
Valuation of debt portfolios by KRUK		Valuation based on 15 years of experience in purchasing debt portfolios – nearly 700 portfolios purchased and approximately 3 thousand valuations carried out since the beginning of operations
Winning an auction and purchase of a debt portfolio		The debt is purchased at a high discount, usually for 5%–25% of its nominal amount. Initially low success rate in reaching debtors, around 20% on average.
Commencement of amicable settlement process	Entry into the register of the ERIF credit reference agency and court settlement	Increased debtor reach and recovery at above 2x of the purchase price.

At KRUK, we thoroughly analyse and value each debt portfolio transferred to us, based on detailed information about the debtors, products and related security, debtor behaviour data, as well as based on information on current and expected macroeconomic conditions in a given market. Debt portfolios are valued with the use of advanced statistical tools and debtor behaviour data which the Company has been accumulating since 2003.

In the case of its new markets, i.e. Germany, Italy, and Spain, the Group also draws on the experience of the local companies it acquired: Italy's Credit Base International and Agecredit (acquired in 2018) and Spain's Grupo Espand.

DEBT PORTFOLIOS PURCHASED OVER LAST FIVE YEARS

PLN m	2014	2015	2016	2017	2018
Nominal value of purchased debt portfolios	3 776	4 926	16 440	16 403	8 853
Accumulated nominal value of purchased debt portfolios	21 693	26 619	43 059	59 462	68 315
Cash recoveries	712	826	992	1 369	1 577
Accumulated cash recoveries	2 655	3 481	4 473	5 842	7 419

In purchased debt management, our main strategy provides for out-of-court settlement with debtors based on mutually agreed optimum terms of debt repayment reflecting the debtor's current

financial capabilities. This approach to debt collection is effective as it allows the debtor to make instalment payments in amounts which the debtor is able to pay.

HOW ELSE CAN WE HELP?

KRUK supports debt buying with ancillary activities described below. This comprehensive approach is an important competitive advantage as it offers numerous synergies and helps mitigate the risk related to debt portfolio purchases thanks to additional statistical information.

We provide credit management services in an average of one million cases per year. Many of the portfolios we manage are

then sold. Debt management companies, which are strong in this segment, have the advantage of greater expertise in portfolio buying. KRUK manages all types of debts (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.

Package of non-performing debt

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

Transfer and submission of cases for collection using KRUK tools

Debt collection by KRUK for approximately three months

Transfer of unpaid debt to the client and start of new tender

DEBT MONITORING

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

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

The tools we use include:

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

AMICABLE DEBT COLLECTION

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

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

The purpose of the amicable collection process is to:

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

Advantages of the amicable collection process:

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

COURT PROCEEDINGS

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

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

SPECIALISED SERVICES

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

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

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

ERIF CREDIT INFORMATION AGENCY

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

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

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

The ERIF agency also provides tools supporting debt collection and monitoring processes. The service of adding new negative entries in the database and sending a relevant notice to debtors is an effective tool to 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.

ORGANISATIONAL CULTURE IS ONE OF THE KEY SUCCESS FACTORS FOR KRUK.

It speaks of the differences in behaviour between organisations or the differences occurring within the same organisation (subcultures). Organisational culture is defined as the manner in which the members of an organisation relate to each other, their work and the external world – as compared with other organisations. It may either facilitate or impede the implementation of new strategies or changes in the organisation.

You can say that regardless of whether we are aware of its existence, whether we can diagnose and name it, and whether we manage it or not, some sort of culture exists within every organisation. Every company has its own unique DNA, which in fact is quite easy to identify.

Contrary to what one might expect, culture is something very tangible and noticeable – in fact, it can be seen, heard and felt as soon as you enter a company. It is recognised by a variety of behavioural aspects, e.g. greetings, gestures, how people address each other, how they resolve conflicts, how they react to

mistakes, by the relations between supervisors and subordinates, by the manner of motivating or engaging, by the attitude towards diversity.

Culture is what distinguishes an organisation from other companies – when it is consistent with the values of the team members, it gives them a sense of belonging and security, as well as satisfaction with their work in the place where they feel comfortable.

The diagnosis of organisational culture at the basic level is neither very complicated nor overly expensive – this first step can be performed in most companies by their internal HR teams. The methodology thus far used at KRUK with excellent results was the one developed by a Dutch researcher – Professor Geert Hofstede – a guru in the field of social sciences, who carried out one of the most comprehensive studies on cultural values, forging the term ‘cultural dimension’. His most popular book: ‘Cultures and Organisations’ has been translated into 20 languages.

Culture is measurable and definable. It can also be an important source of business successes (but also failures), as important as efficient operational processes, superb IT solutions, cheap financing or perfectly executed projects. In the case of the KRUK Group, we believe that the culture of our organisation is one of the key success factors – therefore we are committed to fostering it and we manage it as we manage any other essential element of our business.

Cultural research carried out at the KRUK Group has shown that the culture of our organisation is very strong and extremely consistent both across the organisational structure and geographies. The team members, regardless of their nationality or position, also possess high cultural awareness and can rather easily identify the manifestations of its various dimensions. As such, KRUK’s culture makes for a strong organisational identity.

SMALL POWER DISTANCE

Egalitarianism – regardless of the position held, members of the KRUK team are always treated with due respect as partners, as they are involved in decision making and develop the best solutions together with the management. Contacts with employees across all positions are informal, characterised by directness and openness. Any manifestations of the hierarchical approach or superiority are regarded as outdated (partnership 69%, hierarchy 31%).

COLLECTIVISM (WITH RESPECT FOR AN INDIVIDUAL)

We work strongly as a team, although we approach people and their diversity individually. The interests of an individual never prevail over the interests of the group/team/company. We value team players and we are all on the same team since it is the only

way to win championships. We believe in TEAM = Together Everyone Achieves More (collectivism 63%, individualism 37%).

THE VALUES WE BELIEVE IN ARE COMMONLY CONSIDERED ‘FEMININE’

We are committed to: teamwork, mutual assistance, close cooperation, process (rather than siloed) approach, fair play, empathy, experience and knowledge sharing, relationships and fostering of a good atmosphere at work. We believe a good atmosphere makes people more creative and involved – they work with pleasure, which results in efficiency gains for them and the company (femininity 68%, masculinity 32%).

LOW UNCERTAINTY AVOIDANCE, I.E. RISK-TAKING

In these dimensions we remain balanced – on the one hand, we are inclined to take risks, we accept the possibility of mistakes, we do not have reservations about innovative solutions. We are not afraid of experiments and we learn from mistakes. We are convinced that each challenge is an excellent lesson for us. On the other hand though, we try to maintain a healthy balance, plan and prepare properly for changes to mitigate unnecessary risks (risk taking 51%, risk avoidance 49%).

LONG-TERM TIME HORIZON

We plan strategically for a long-term time horizon, spanning several years, and not only for here and now (although we do have short-term action plans). The path/style we take or use to achieve our objective is as important to us as the objective itself, because we want to be here next year, in five years’ time, for the next decade and beyond. We look boldly into the future because... the important days are those which we do not know yet (long-term 64%, short-term 36%).

ACCEPTANCE FOR EMOTIONS

We value a culture based on respect for the emotions and feelings of other people. The members of our team are not indifferent to the emotions of others – we want to rely on one another in good and bad moments. In general, we pay attention to others and their state of mind is equally important to us as the matter-of-fact aspects of our cooperation. We offer support whenever we can. We can see nothing wrong in a joint demonstration of joy or loud laughter. Sometimes we interrupt each other during heated discussions, but it is not a reason for ill feeling. We talk a lot in general (emotionality 69%, restraint 31%).

The results exceeding 60% and coming close to 70% indicate clear dominants in the organisational culture. In the case of the KRUK Group, these are certainly: partnership, collectivism, femininity and openness to the emotions and feelings of others.

KRUK'S MARKETS BY GEOGRAPHY

The KRUK Group remains a key link in the process of NPL reduction in the balance sheets of banks and other institutions. In 2018, the Group's primary markets were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia,

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

POLAND		ROMANIA		ITALY		OTHER	
2017	2018	2017	2018	2017	2018	2017	2018
INVESTMENTS							
275	627	262	148	287	268	152	352
REVENUE							
502	591	427	425	9	69	33	80
PORTFOLIO CARRYING AMOUNT (AT END OF 2018), TOTAL: PLN 4,077M							
1842		932		743		561	
SOURCE: THE COMPANY.							

	POLAND	ROMANIA	THE CZECH REPUBLIC AND SLOVAKIA	GERMANY	ITALY	SPAIN
- NUMBER OF CALL CENTRES	3	1	1	*	2	1
FTEs	1795	585	202	*	336	254

* EMPLOYEES OF THE POLISH-GERMAN ORGANISATION INCLUDED IN TOTAL FOR POLAND.
SOURCE: THE COMPANY.

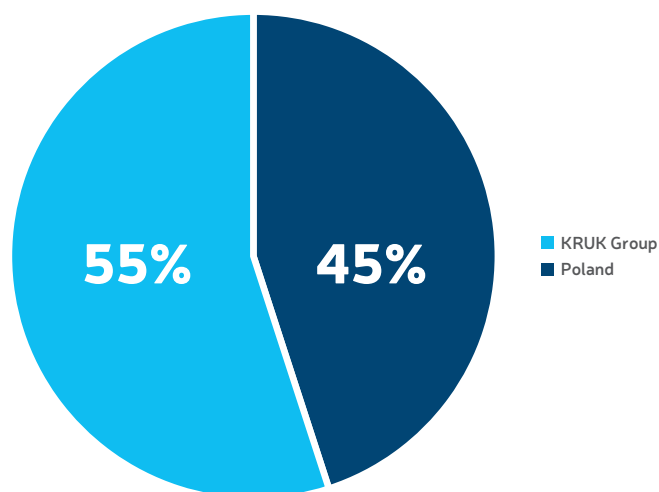


GEOGRAPHICAL SEGMENTS



POLAND

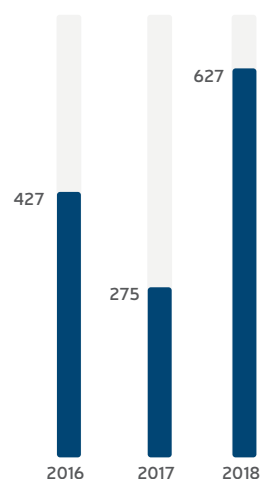
SHARE OF PORTFOLIOS PURCHASED IN POLAND IN THE CARRYING AMOUNT AS AT DECEMBER 31ST 2018



According to the Group's estimates, in 2018 the nominal value of debt sold for collection by third parties in Poland was PLN 11.5bn (2017: PLN 18.8bn).

In 2018, unsecured consumer debt portfolios totalling PLN 6.6bn accounted for the largest share in the nominal value of all debt portfolios totalling PLN 11.5bn. The value fell year on year, from PLN 10.7bn. The second largest group of assets were corporate and SME debts, the supply of which was PLN 2.8bn compared with PLN 7.0bn the year before. Although the market shrank notably, the result of PLN 2.8bn was well above the average from previous years. The supply of secured consumer debt reached PLN 2.1bn vs PLN 1.1bn the year before.

INVESTMENTS IN POLAND (PLNM)



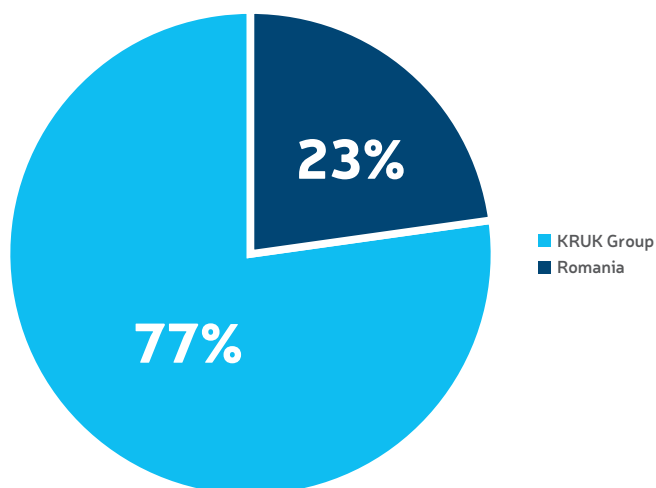
KRUK estimates that auction prices for the entire market were at 16.4% on average, while for unsecured consumer debt, KRUK's preferred asset, the average price was 15.8%. In the case of corporate and SME portfolios, the average stood at 8.9%, and in the case of secured consumer portfolios it reached 28.3%. In the opinion of the KRUK Management Board, Poland's debt purchase market was highly competitive in 2018, but it allowed debt purchase companies to make investments at reasonable rates of return.

The KRUK Group purchased debt portfolios in Poland with a total nominal value of PLN 3.2bn for PLN 626.6m. Unsecured consumer debt accounted for the largest share of the Group's purchases in Poland. KRUK's estimated share in the Polish debt purchase market was 33% in terms of investments, compared with 18% last year.



ROMANIA

SHARE OF PORTFOLIOS PURCHASED IN ROMANIA IN THE CARRYING AMOUNT AS AT DECEMBER 31ST 2018



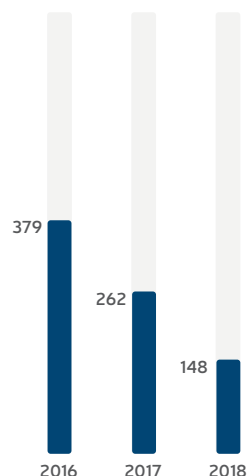
According to the Group's estimates, in 2018 the nominal value of debt sold by Romanian financial institutions for collection by third parties was PLN 1.8bn (2017: PLN 8.9bn). The market significantly shrank due to a fall in the number of transactions completed in the first half of the year, when institutions were busy adapting to new regulations on taxation of debt sales by banks.

Unsecured consumer debts represented the largest share of the total of PLN 1.8bn, accounting for nearly PLN 1.3bn of debt offered for sale, compared with PLN 3.0bn a year earlier. The second largest category were non-performing debts of small and medium-sized enterprises and corporations, which accounted for PLN 0.5bn of debt offered for sale, compared with PLN 5.2bn in 2017. The smallest debt category were secured consumer debt portfolios, with a value of under PLN 0.1bn, compared with PLN 0.6bn in 2017.

Our estimates put the average prices of debt portfolios in Romania at 12.7% in 2018. The prices of unsecured consumer debt, secured retail debt and SME/corporate debt were 16.5%, 9.7% and 3.4%, respectively. No significant change in prices was observed relative to the previous years.

In Romania, KRUK purchased debt portfolios with a total nominal value of PLN 1.1bn for PLN 148m. The year before, the respective amounts were PLN 3.1bn and PLN 262m. KRUK's share in the debt buying market surged from 25% in 2017 to 60% in 2018.

INVESTMENTS IN ROMANIA (PLNM)



TOMASZ IGNACZAK
GENERAL DIRECTOR
– ROMANIA

We had a year ripe of challenges. The supply of debt portfolios was limited in the first six months due to changes in legislation on taxation of bank debt sale transactions. However, the initial freeze reaction thawed quickly, with the second half of the year bringing a marked increase in supply. From the full year's perspective, we met the annual budget for the unsecured retail debt segment, and we consolidated our position as the market leader. We estimate our market share in the segment was just under 70%. We were also an active participant of the corporate and secured debt market, and we successfully closed a number of minor transactions. In parallel with debt purchases, our credit management business expanded, too. We strengthened our operations structure and gained new partners, particularly in the utilities sector. I believe our share in the credit management market grew in 2018.

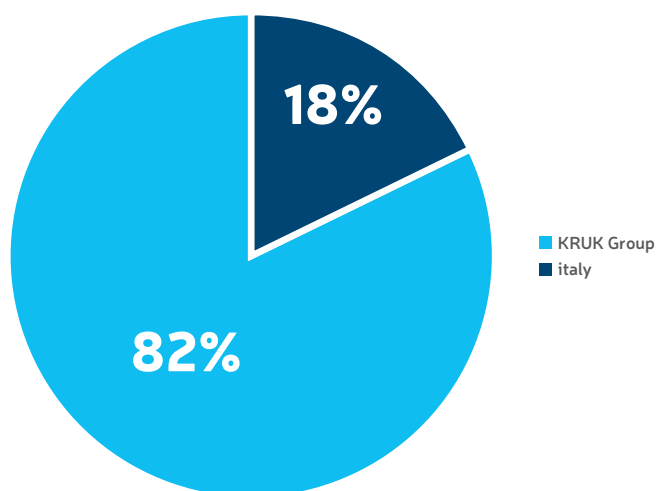
I expect the non-performing debt sale market in Romania will shift towards secured corporate and consumer debt portfolios. We purchased our first portfolios in 2011, stepping up investment in 2015 to 2018 and expanding the Group's operations structure. We believe the secured debt market should expand in 2019. We consider this an opportunity, and we are ready to seize it.

In addition to expanding our secured debt business, we are poised to solidify our position as a buyer of non-performing retail debt. It is worth noting that last year we purchased our first performing debt portfolios, as we had secured the local licence of a non-banking institution. I believe this segment offers additional growth potential. In addition to growing our core debt buying segment, we will also focus on expanding our credit

management business. This is important particularly in the context of a changing legal environment, which may favour this approach to debt collection in the future.



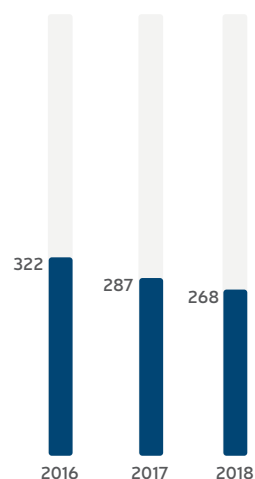
SHARE OF PORTFOLIOS PURCHASED IN ITALY IN THE CARRYING AMOUNT AS AT DECEMBER 31ST 2018



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

Despite its relatively recent character, the Italian unsecured retail debt market is already one of Europe's largest in terms of nominal value. The Italian market is a competitive one, with portfolios purchased both by debt management companies and financial investors. The debt sale market in Italy was around PLN 300bn in 2018, according to our estimates and data available on the market. Most debt portfolios offered by local financial institutions consist of various asset classes, including both unsecured and secured debt.

INVESTMENTS IN ITALY (PLNM)



In 2018, the KRUK Group purchased debt portfolios in Italy with a nominal value of PLN 2.0bn by investing almost PLN 270m. The figures for the preceding year were PLN 5.2bn and PLN 287m, respectively.



TOMASZ KURR,
GENERAL DIRECTOR
– ITALY

In 2018, we saw strong dynamics in the sizeable Italian debt purchase market. Banks continued to provide an ample supply of debts, encouraged by strong competition among investors. As a result, prices reached one of the highest levels in the history of Italian market. At that time, our market approach was selective. We focused on portfolios which we believed offered attractive returns. At the same time, we worked on further development and enhancement of our operations. We built a fully independent

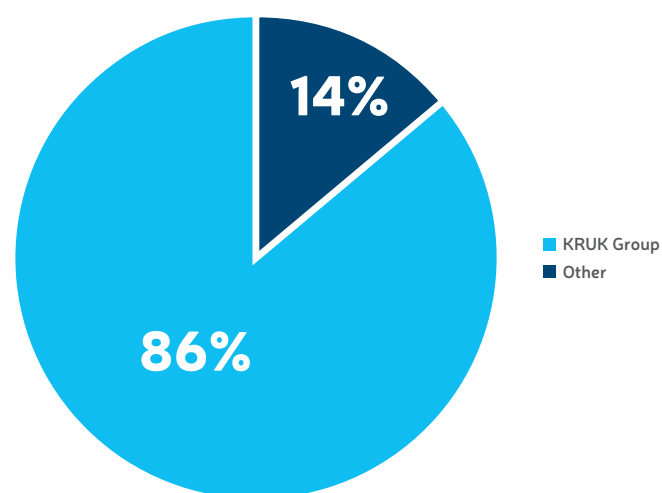
and complete large-scale litigation management system involving 40 lawyers. Last year, nearly 50,000 cases were transferred for collection by way of court proceedings. Although our operations are being continuously improved, I can already say that we know the specifics of the court enforcement process from start to end – as we bring new cases to courts, we receive first repayments under the cases brought to court in the first months of our operations. The court enforcement process is, of course, supported by amicable collection procedures handled by our call centre personnel and field consultants.

I expect that this year the debt purchase market in Italy will continue to grow, but the prices should stay flat as the supply

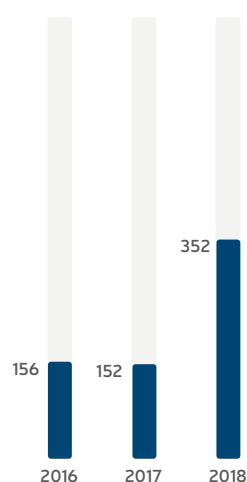
in recent quarters was so high that some companies were not able to develop operational capacities to manage the purchased debt volumes. I expect these cases to resurface on the market, fuelling new supply or providing new opportunities for credit management companies. In addition, access to financing for all industry players is more challenging than in the past, which forces the market to take a more selective approach. KRUK also intends to uphold this strategy in upcoming investments, but with its operations growing stronger and efficiency figures on the rise, the Company will become an increasingly important partner for Italian financial institutions in the coming year. I believe we are now in a better position than most of our competitors.

OTHER

SHARE OF PORTFOLIOS PURCHASED IN POLAND IN THE CARRYING AMOUNT AS AT DECEMBER 31ST 2018



INVESTMENTS IN OTHER MARKETS (PLNM)



SPAIN

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

cooperated with Espand on portfolio valuations and management of purchased debt portfolios. In 2017, we successfully integrated Grupo Espand in our operational structures.

Spain's unsecured retail debt market is one of Europe's largest in terms of nominal transaction value. The main buyers are financial investors, who cooperate with local players in servicing of the purchased debt portfolios.

In 2018, KRUK invested PLN 304m in Spain, acquiring debt portfolios with a nominal value of PLN 2.2bn. A year earlier, the respective amounts were PLN 77m and PLN 2.4bn.



BARTOSZ KOLEK
GENERAL DIRECTOR
- SPAIN

The market in Spain is still following an upward trend, with the number of bank auctions rising. Additional supply in 2018 was generated by other financial institutions, such as lending companies which have entered the Spanish market in recent years and are currently offering their first debt portfolios for sale. Therefore, the market dynamics is positive and is further supported by the supply of non-performing loans, whose share in the banks' balance sheets has been growing for the past eight quarters. This group includes loans granted after 2011, that is in the first years after the crisis. At that time, banks adopted less stringent criteria for borrowers, and today this affects the quality of debt portfolios and fuels the supply for debt collection companies. At the same time, the number of NPLs granted to small and medium enterprises and corporations, including secured loans, remains stable. Therefore, I expect the share of consumer debt portfolios in total sales to grow in the coming year.

In 2018, KRUK focused on the consumer debt market, buying debt portfolios at prices which we believed offered safe returns. In 2019, we will continue this approach. At the same time, we are looking at the market of secured debt portfolios, and I do believe we can make investments in that market on a limited scale in the next few months, either on our own or with a local partner. The market should remain supportive, as demonstrated by the very busy beginning of the year. Much to our surprise, the number of auctions is very high, which in previous years was not seen until the second half of the year. This might be a signal that the supply of portfolios in 2019 will be significantly higher than in previous years.

At the same time, we are working on expanding our operations to be ready to handle and manage new cases. We enhanced our court litigation capabilities significantly – from one person in 2017 to 18 lawyers at the moment. We also seek to optimise and automate the amicable collection process, mainly by introducing new IT tools. We will soon launch the option for our clients to sign a settlement agreement over a smartphone, which will make the visit of a field consultant no longer necessary.



GERMANY

In 2018, a decision was made to substantially reduce our investing and operating activities in Germany. We are currently considering further options.



THE CZECH REPUBLIC AND SLOVAKIA

According to our estimates, the nominal value of consumer debt sold in the Czech Republic and Slovakia in 2018 was PLN 1.9bn. In the previous year, it amounted to PLN 4.8bn. Expenditure on debt portfolios in both markets stood at PLN 398m in 2018 vs. PLN 658m in the previous year.

KRUK invested PLN 44m in the Czech Republic and Slovakia in 2018, PLN 2m more than in 2017.



JAROSLAVA PAENALOVA
GENERAL DIRECTOR
CZECH REPUBLIC AND SLOVAKIA

The supply of debt portfolios in the Czech Republic and in Slovakia remained limited in 2018. The number of non-performing loans on banks' balance sheets has remained flat for years, so there is no sales pressure. In 2018, we focused on relationships with lending companies and we successfully closed a number of transactions. We will continue this approach also in 2019. At the same time, we are faced with strong market competition, which, combined with the limited market size, requires continuous efficiency improvements and optimisation measures in our operations.

Market growth may be fuelled by amendments to the local personal bankruptcy procedure in the Czech Republic. The new procedure is attractive enough to encourage more individuals to declare bankruptcy, which may generate additional supply from banks in the future. We plan to keep an eye on the market and seize opportunities as they arise.

We are going to analyse our processes and continue to optimise them, to reach a cost-to-recovery ratio on a par with the average for the Group. In addition, we intend to launch new initiatives for our clients. We want to motivate them in a positive way to repay their debts regularly.



INTRODUCTION

This Section presents key information on the KRUK Group, its selected consolidated financial and operating data, as well as an overview of the Group's operations in 2018.

GENERAL INFORMATION ON THE PARENT OF THE KRUK GROUP	1.1
CONSOLIDATED FINANCIAL AND OPERATING HIGHLIGHTS	1.2
OVERVIEW OF THE GROUP'S OPERATIONS IN 2018	1.3

| 1.1 |

GENERAL INFORMATION ON THE PARENT OF THE KRUK GROUP

FORM OF INCORPORATION OF THE PARENT

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

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

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

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

PARENT CONTACT DETAILS

Name: KRUK SPÓŁKA AKCYJNA

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

Telephone: 71 79 02,800

Fax: 71 79 02,867

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

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

| 1.2 |

CONSOLIDATED FINANCIAL AND OPERATING HIGHLIGHTS

| 1.2.1 |

KEY CONSOLIDATED FINANCIAL RESULTS

In 2018, the KRUK Group's financial performance continued on an upward trend.



THE GROUP POSTED IN REVENUE

PLN 1,164m
(up 10% year on year)



IN OPERATING PROFIT

PLN 478m
(up 14% year on year)



IN NET PROFIT

PLN 330m
(up 12% year on year)

PERIOD ENDED DEC 31

	2018 R.	2017 R.	CHANGE
	(PLN '000, unless stated otherwise)		
REVENUE	1164 811	1055 453	10%
EBITDA	498 194	439 449	13%
OPERATING PROFIT (EBIT)	478 271	420 771	14%
NET PROFIT FOR PERIOD	330 412	295 198	12%
CASH FLOWS FROM OPERATING ACTIVITIES, INCLUDING	-402 446	-223 365	80%
DEBT PURCHASES	-1 394 581	-976 509	43%
CASH RECOVERIES	1 576 775	1 368 911	15%
CASH FLOWS FROM INVESTING ACTIVITIES	-26 204	-19 520	34%
CASH FLOWS FROM FINANCING ACTIVITIES	402 668	148 784	171%
TOTAL NET CASH FLOWS	-25 982	-94 101	-72%
TOTAL ASSETS	4 482 177	3 560 128	26%
EQUITY	1 732 354	1 460 522	19%
RETURN ON EQUITY (ROE)	19%	20%	—
EARNINGS PER SHARE (PLN)			
BASIC	17,51	15,74	11%
DILUTED	17,09	15,31	12%

SOURCE: KRUK GROUP'S CONSOLIDATED FINANCIAL STATEMENTS.
 RETURN ON EQUITY (ROE) = NET PROFIT FOR THE PERIOD / TOTAL EQUITY

TABLE 1. KRUK GROUP'S FINANCIAL PERFORMANCE IN 2017–2018

PLN '000	
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT JAN 1 2017	2,640,946
PURCHASE OF DEBT PORTFOLIOS	976,509
PURCHASE PRICE ADJUSTMENT FOR DISCOUNT	(634)
CASH RECOVERIES	(1,368,911)
VALUE OF FORECLOSED PROPERTY	(17,805)
INCREASE/(DECREASE) IN LIABILITIES TO DEBTORS DUE TO OVERPAYMENTS	435
VALUATION OF LOYALTY SCHEME	5,795
REVENUE FROM DEBT PURCHASE (INTEREST AND REVALUATION)	971,743
TRANSLATION DIFFERENCES ON DEBT PORTFOLIOS	(87,516)
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT DEC 31 2017	3,120,562
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT DEC 31 2017	3 120 562
IMPACT OF CHANGES IN ACCOUNTING POLICIES FOLLOWING APPLICATION OF IFRS 9	29 582
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT JAN 1 2018	3 150 144
PURCHASE OF DEBT PORTFOLIOS	1 394 581
PURCHASE PRICE ADJUSTMENT FOR DISCOUNT	(245)
CASH RECOVERIES	(1 576 775)
INCREASE/(DECREASE) IN LIABILITIES TO DEBTORS DUE TO OVERPAYMENTS	589
VALUATION OF LOYALTY SCHEME	6 283
PAYMENTS FROM ORIGINAL CREDITOR	(5 452)
REVENUE FROM DEBT PURCHASE (INTEREST AND REVALUATION)	1069 997
TRANSLATION DIFFERENCES ON DEBT PORTFOLIOS	38 596
VALUE OF PURCHASED DEBT PORTFOLIOS AS AT DEC 31 2018	4 077 718

TABLE 2. MOVEMENTS IN PURCHASED DEBT PORTFOLIOS IN 2018

| 1.3 |

OVERVIEW OF THE GROUP'S OPERATIONS IN 2018

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

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

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

The workforce (FTEs) in all (Polish and foreign) Group companies at the end of 2018 totalled 3,184.12, relative to 3,085.59 at the end of 2017.

FTEs*	
2017	2018
3085,59	3 184,12

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

SOURCE: THE COMPANY.

TABLE 3. KRUK GROUP'S WORKFORCE (FTEs*) IN 2017–2018 (DECEMBER 2017 AND DECEMBER 2018, POLISH AND FOREIGN COMPANIES)

| 1.3.1 |

FINANCIAL PERFORMANCE

In 2018, the Group's revenue grew 10% year on year, to PLN 1,165m. In the same period, the KRUK Group reported a net profit of PLN 330m, up 12% year on year. Return on equity (ROE) reached 19%, relative to 20% in the previous year. Detailed analysis of the financial results is presented in Section 3.2 Analysis of the consolidated financial data.

Table 4 presents key elements of the statements of profit or loss for the last five years. The Group's financial results have been steadily improving. From 2014, the Group's revenue rose 139% (CAGR of 24%), and net profit improved 118% (CAGR of 21%). Over the same period, EBIT and EBITDA went up 130% and 127%, respectively.



THE GROUP'S REVENUE

PLN 1,165m
grew 10%



A NET PROFIT

PLN 330m
up 12% year

(PLN '000)	2018	2017	2016	2015	2014	CAGR '18/'14
REVENUE	1164 811	1055 453	783 398	611 234	487 920	24%
EBITDA	498 194	439 449	362 561	261 919	219 519	23%
OPERATING PROFIT	478 271	420 771	349 023	251 379	208 161	23%
PROFIT BEFORE TAX	352 540	335 184	286 348	209 777	152 838	23%
NET PROFIT	330 412	295 198	248 677	204 261	151 802	21%

SOURCE: KRUK GROUP'S CONSOLIDATED FINANCIAL STATEMENTS.

TABLE 4. KRUK GROUP'S FINANCIAL PERFORMANCE IN 2013–2018

| 1.3.2 |

KEY FINANCIAL RATIOS

Table 5 presents key profitability ratios of the KRUK Group for 2014–2018.

	2018	2017	2016	2015	2014
EBITDA MARGIN	43%	42%	46%	43%	45%
EBIT MARGIN	41%	40%	45%	41%	43%
PRE-TAX MARGIN	30%	32%	37%	34%	31%
NET PROFIT MARGIN	28%	28%	32%	33%	31%
RETURN ON ASSETS (ROA)	7%	8%	8%	11%	10%
RETURN ON EQUITY (ROE)*	19%	20%	24% *	26%	26%

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

SOURCE: IN-HOUSE ANALYSIS BASED ON KRUK GROUP'S CONSOLIDATED FINANCIAL STATEMENTS.

TABLE 5. PROFITABILITY RATIOS OF THE KRUK GROUP IN 2014–2018

| 1.3.3 |

OPERATING ACTIVITIES

As at the end of 2018, the KRUK Group managed 7.1 million debt cases (in purchased portfolios and as part of credit management services), compared with 6.1 million at the end of 2017. The nominal value of managed debts as at the end of 2018 was PLN 80.9bn, relative to PLN 70.8bn at the end of 2017.



DEBT CASES

7.1 million

Summary of operating results is presented below.

	31.12.2018	31.12.2017
NUMBER OF MANAGED CASES (MILLIONS)	7,1	6,1
NOMINAL VALUE OF MANAGED CASES (PLNBN)	80,9	70,8

SOURCE: THE COMPANY.

TABLE 6. SUMMARY OF OPERATING RESULTS AS AT THE END OF 2017 AND 2016

| 1.3.4 |

INVESTMENTS IN DEBT PORTFOLIOS

The increase in the nominal value of managed debts in 2018 resulted mainly from significant investments made in 197 debt portfolios with an aggregate nominal value of PLN 8.9bn and a total of 1 million cases. In 2018, KRUK invested PLN 1.4bn in bank and non-bank portfolios, comprising secured and unsecured consumer debts and corporate debts. To compare, in 2017 KRUK purchased 139 debt portfolios with a total nominal value of PLN 16.4bn for PLN 977m.



NOMINAL VALUE

PLN 8.9bn

197 debt portfolios

In 2018, the Group purchased portfolios in Poland and six foreign markets: Romania, the Czech Republic, Slovakia, Germany, and Italy. The expenditure outside Poland amounted to PLN 768m (compared with PLN 701m in 2017). Summary data for debt portfolio purchases in 2017–2018 is presented below.

	2018	2017
NUMBER OF PURCHASED DEBT PORTFOLIOS	197	139
NOMINAL VALUE OF PURCHASED DEBT PORTFOLIOS (PLNM)	8 853	16 403
EXPENDITURE ON DEBT PORTFOLIOS (PLNM)	1 395	977

SOURCE: THE COMPANY.

TABLE 7. SUMMARY OF DEBT PORTFOLIOS PURCHASED IN 2018 AND 2017

KRUK made its largest investments in Poland, representing 45% of total expenditure. Three countries, including Spain and Italy, accounted for 86% of its investments made in 2018.

KRUK also made investments in other countries: Romania, the Czech Republic, Slovakia and Germany. Ultimately, KRUK intends to further diversify its investment portfolio, with Poland accounting for a major portion of total expenditure.

Country	2018	2017
POLAND	627	275
ROMANIA	148	262
THE CZECH REPUBLIC AND SLOVAKIA	44	42
ITALY	268	287
GERMANY	4	32
SPAIN	304	78
TOTAL	1 395	977

SOURCE: THE COMPANY.

TABLE 8. EXPENDITURE IN 2018 AND 2017, BY COUNTRY (PLNM)

| 1.3.5 |

CREDIT MANAGEMENT SERVICES

Throughout 2018, the nominal value of debts outsourced to the Group for collection was PLN 13.8bn (relative to PLN 14.7bn in 2017). In 2018, banks were the main clients of the credit management segment. Credit management services remain an important element of the Group's strategy as they are profitable and generate synergies with the debt purchase segment.

| 1.3.6 |

OTHER PRODUCTS AND SERVICES

As part of its loss prevention services and to support debt management, the KRUK Group operates ERIF Biuro Informacji Gospodarczej (a credit reference agency), which collects both negative and positive consumer and corporate credit histories. ERIF operates under the Act on Access to Business Information and Exchange of Business Information, which defines the rules of operation of a business information exchange system in Poland. ERIF is one of the four business information agencies, but the only such agency in Poland to have its database reviewed quarterly by an independent auditor.

As at January 2nd 2019, the ERIF database contained 53m cases (including 50m positive credit information records), showing debts with a total nominal value of more than PLN 42.6bn. To compare, at the end of 2017 the ERIF database contained 32m records (including 29m positive credit information records), covering debts with a total nominal value of PLN 36bn. Revenue generated from ERIF BIG's information services in 2018 was PLN 11.5m, having grown by 7% year on year.

In order to diversify its revenue sources, in 2018 the KRUK Group also worked on developing a short-term cash loan service for those individuals in Poland and Romania who have a track record of repaying their liabilities to the Group in a timely manner. In 2018, companies of the KRUK Group advanced 7.6 thousand cash loans with a gross value of PLN 53.2m. Revenue from the cash loan service amounted to PLN 14.5m, up 11% year on year.



GENERAL

INFORMATION ABOUT THE GROUP

BUSINESS MODEL		2.1	
STRUCTURE		2.2	
SHARE CAPITAL		2.3	
HUMAN CAPITAL		2.4	

| 2.1 |

BUSINESS MODEL

For detailed information on the Group's business model, see Business model.

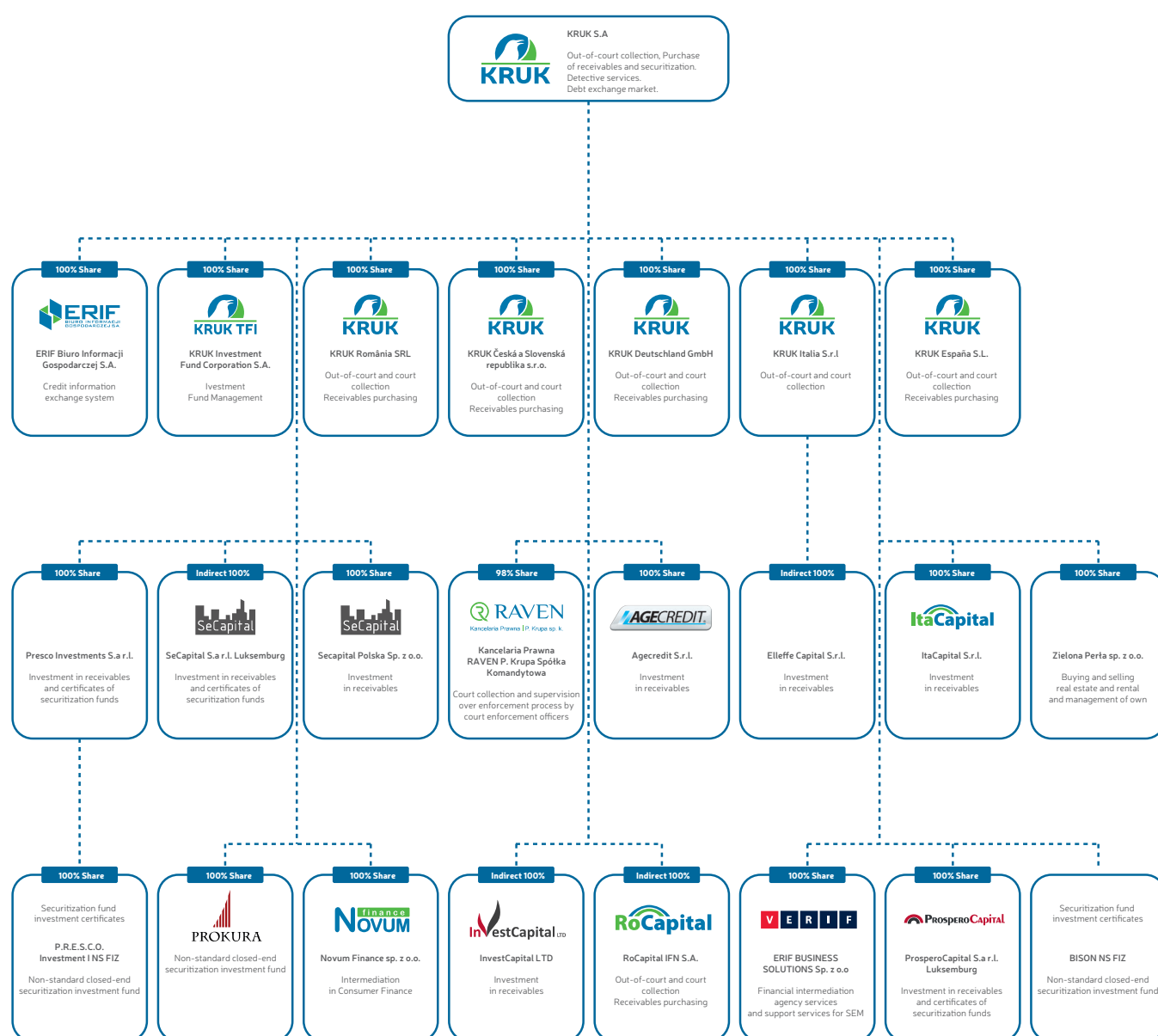
| 2.2 |

STRUCTURE

| 2.2.1 |

DESCRIPTION OF THE GROUP'S STRUCTURE

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



SOURCE: THE COMPANY.

FIGURE 1. STRUCTURE OF THE KRUK GROUP

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

SUBSIDIARY	REGISTERED OFFICE	PRINCIPAL BUSINESS ACTIVITY
KANCELARIA PRAWNA RAVEN P. KRUPA SP.K.	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
ERIF BIURO INFORMACJI GOSPODARCZEJ S.A.	Warszawa	Collection, processing and provision of credit information on natural persons and businesses
KRUK ROMANIA S.R.L.	Bukareszt	Management of debt portfolios purchased by the KRUK Group, credit management services
SECAPITAL S.A R.L.	Luksemburg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
PROKURA NS FIZ SECURITISATION FUND	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by KRUK S.A.
SECAPITAL POLSKA SP. Z O.O.	Wrocław	Management of securitised debt
ERIF BUSINESS SOLUTIONS SP. Z O.O.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE SP. Z O.O.	Wrocław	Granting consumer loans
KRUK ČESKA A SLOVENSKA REPUBLIKA S.R.O.	Hradec Kralove	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.	Wrocław	Management of Prokura NS FIZ, P.R.E.S.C.O. Investment I NS FIZ, and Bison NS FIZ funds
INVESTCAPITAL LTD.	Malta	Investment in equity assets, including shares in KRUK Group companies
ROCAPITAL IFN S.A.	Bukareszt	Purchase and management of mortgage-backed portfolios and lending activities
KRUK DEUTSCHLAND GMBH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK ITALIA S.R.L.	Mediolan	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Italy and other European countries
ITACAPITAL S.R.L.	Mediolan	Investing in debt or debt-backed assets
KRUK ESPANA S.L.	Madryt	Credit management services, collection of debt portfolios purchased by the KRUK Group companies in Spain and other European countries, as well as debt trading

PROSPEROCAPITAL S.À R.L.	Luksemburg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
P.R.E.S.C.O. INVESTMENT I NS FIZ SECURITISATION FUND	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by Presco Investments S.a r.l.
PRESCO INVESTMENTS S.A R.L.	Luksemburg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
ELLEFFE CAPITAL S.R.L.	La Spezia	Investing in debt or debt-backed assets
ZIELONA PERŁA SP. Z O.O.	Wrocław	The company's principal business activity consists in buying and selling of own real estate and renting and operating of own or leased real estate.
AGECREDIT S.R.L.	Cesena	A credit management company operating in Italy.
BISON NS FIZ (CLOSED-END INVESTMENT FUND)	Wrocław	Fund employing professional risk assessment and credit management methodologies; all certificates issued by the fund are held by KRUK S.A.

SOURCE: THE KRUK GROUP

TABLE 9. KRUK S.A. SUBSIDIARIES

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

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

By the date of authorisation of this Report, the composition of the KRUK Group and the above information on the Group companies had not changed.

By the date of authorisation of this Report, the composition of the KRUK Group and the above information on the Group companies had not changed.

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

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

| 2.2.2 |

CHANGES IN THE GROUP'S STRUCTURE IN 2018

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

| 2.2.3 |

CHANGES IN THE GROUP'S SIGNIFICANT MANAGEMENT POLICIES

In 2018, there were no changes to any significant policies of managing the Parent and its subsidiaries.

| 2.2.4 |

CONSOLIDATED ENTITIES

All Group entities are fully consolidated.

| 2.2.5 |

COMPANY BRANCHES

The Company has no branches.

| 2.3 |

SHARE CAPITAL

| 2.3.1 |

SHARE CAPITAL STRUCTURE

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

| 2.3.2 |

CHANGES IN THE SHARE CAPITAL AND CONDITIONAL SHARE CAPITAL

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

SERIES	NUMBER OF BEARER SHARES
Series A	2 692 220
Series AA	11 366 600
Series B	1 250 000
Series C	491 520
Series D	1 100 000
Series E	843 876
Series F	142 645
Series G	1 000 000
TOTAL	18 886 861

ŹRÓDŁO: SPÓŁKA

TABLE 10. THE COMPANY'S SHARE CAPITAL AS AT DECEMBER 31ST 2018 AND THE ISSUE DATE OF THIS REPORT

DATE OF REGISTRATION OF THE SHARES WITH THE CSDP	NUMBER OF NEW SHARES	SERIES	BASIS FOR THE INCREASE	SHARE CAPITAL AFTER THE CHANGE (NUMBER OF SHARES)	DETAILS
May 23rd 2018	63 691	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	18 871 591	Issue as part of a conditional share capital increase
November 6th 2018	15 270	Series F	Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014	18 886 861	Issue as part of a conditional share capital increase

TABLE 11. CHANGES IN THE SHARE CAPITAL OF KRUK S.A. IN 2018

| 2.4 |

HUMAN CAPITAL

| 2.4.1 |

QUALIFIED PERSONNEL

A key success factor for the KRUK Group is its highly qualified staff. The Group employs specialists with extensive debt management experience. The table below presents the Management Board of KRUK S.A.



PIOTR KRUPA

CEO AND PRESIDENT
OF THE MANAGEMENT BOARD

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

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

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



AGNIESZKA KUŁTON

MEMBER OF THE MANAGEMENT
BOARD

With KRUK since 2002. Member of the Management Board since 2006.

Graduate of the Faculty of National Economy at the University of Economics in Wrocław (1995). In 2013, she completed MBA studies at the School of Banking in Wrocław, organised in partnership with Franklin University Ohio.

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



IWONA SŁOMSKA

MEMBER OF THE MANAGEMENT BOARD

With KRUK since 2004. Member of the Management Board since 2009. Graduate of the Faculty of Social Sciences of the University of Wrocław (1995). In 2000, she completed Polish-American Studies in Social Communication in Organisation and Management at the Wrocław University of Technology, and in 2010 – MBA studies at the School of Banking in Wrocław, organised in partnership with Franklin University Ohio. At the KRUK Group, she is responsible for human resources, marketing and PR, legal services and compliance, as well as security of personal data.



URSZULA OKARMA

MEMBER OF THE MANAGEMENT BOARD

With KRUK since 2002. Member of the Management Board since 2006. In 1998, she graduated from the Faculty of National Economy at the University of Economics in Wrocław, with a degree in finance and banking. At the KRUK Group, she is responsible for strategic transactions, relations with trading partners and credit management services.



MICHAŁ ZASEPA

MEMBER OF THE MANAGEMENT BOARD

Member of the Supervisory Board of KRUK S.A. from 2005 to 2010, member of the Management Board since 2010. In 2000, he graduated from the Warsaw School of Economics, with a degree in management and marketing. In 1996-1997, he studied at the University of Wisconsin as part of the Batory Foundation Scholarship, and in 1999 at the Stockholm School of Economics. At the KRUK Group, he is responsible for finance, risk, portfolio valuations and investor relations.

SOURCE: THE COMPANY.

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

Members of the Company's Management Board and other key personnel of the Group are a strong team of over one hundred experts in such areas as credit management, finance, high-volume process management, debt portfolio valuation, legal support, sales, HR management, IT, marketing, and public relations. The stability of the Group's management team, manifest in low staff turnover, combined with extensive expertise developed over the years, are a source of major competitive advantage for the Group. The Management Board and key managers are also covered by an attractive incentive scheme. More than 11% of the shares are held by Management Board members. There are no employee shares at the Company.

Group employees are particularly interested in efforts to promote KRUK as an employer. Recruitment and employer branding efforts are aimed at reaching the largest possible group of potential employees, informing them about the Group's operations and increasing their awareness of opportunities for professional growth within the Group. An excellent illustration of such efforts is our participation in a campaign promoting employers from the Wrocław Province: RELIABLE EMPLOYER – Wrocław Province employs! organised by the Gazeta Wyborcza daily. In 2017, the KRUK Group continued its cooperation with the academic community, participating in numerous meetings with students of higher education institutions based in Wrocław and other cities, both as part of job fairs and projects organised jointly with student career centres. As part of this cooperation, the KRUK Group employees also provided courses and theme lectures for students/members of academic societies.

In addition, the Group took the first place in the fourth edition of HR INNOVATOR 2017, a nationwide HR competition for companies that implement innovative HR management projects. The award was granted for the KRUKLIGON project (a tool supporting the development of field employees). KRUK is also a signatory of the Diversity Charter.

Table 14 sets out the Group's employment data (full- and part-time positions under employment contracts) as at the dates indicated.

Number of employees by type of employment and gender

TYPE OF EMPLOYMENT	WOMEN	MEN	TOTAL
INTERNSHIPS	20	7	27
CONTRACT OF EMPLOYMENT	1969	1259	3228
COOPERATION AGREEMENT	34	26	60
MANAGEMENT CONTRACT	17	25	42
SELF-EMPLOYMENT	3	4	7
TOTAL	2043	1321	3364

FTEs	
2018	2017
3 184,12	3 085,59

SOURCE: THE COMPANY.

TABLE 13. GROUP'S WORKFORCE AS AT DECEMBER 2018 AND 2017 IN FTEs*

Table 15 presents the Group's employment data in FTEs (employment contracts and other forms of employment or cooperation) by key geographical regions of the Group's operations.

GEOGRAPHICAL REGIONS	2018	2017
Poland **	1 795,00	1 773,79
Foreign markets ***	1 389,12	1 311,80
TOTAL	3 184,12	3 085,59

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

** INCLUDING KRUK DE, POLISH BRANCH.

*** WITHOUT KRUK DE, POLISH BRANCH.

SOURCE: THE COMPANY.

TABLE 14. GROUP'S WORKFORCE (FTE*) BY GEOGRAPHICAL REGION IN DECEMBER 2018 AND DECEMBER 2017

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

TYPE OF EMPLOYMENT	WOMEN	MEN	TOTAL
CONTRACT OF EMPLOYMENT	1345	894	2239
COOPERATION AGREEMENT	14	10	24
TOTAL	1359	904	2263
RAZEM	17	25	42

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

TYPE OF EMPLOYMENT	WOMEN	MEN	TOTAL
MANAGERS, DIRECTORS, PRESIDENT OF THE MANAGEMENT BOARD	231	194	425
OTHER	1810	1129	2939
TOTAL	2041	1323	3364

TABLE 15.

[G4-10]

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

In 2018, the Group operated:

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

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

| 2.4.2 |

INCENTIVE SCHEME

INCENTIVE SCHEME FOR 2015–2019

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

It is the second incentive scheme operated by the KRUK Group. Details of the previous 2011–2014 Plan can be found in the Directors' Report on the operations of the KRUK Group in 2015. The 2015–2019 Plan is addressed to the key management personnel of KRUK S.A. and the other Group companies. In accordance with its terms, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution.

For the purposes of the 2015–2019 Plan, the General Meeting approved a conditional increase in the Company's share capital by up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

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

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

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

TRANCHE 1

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

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

On this basis, on June 22nd 2016, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 1 subscription warrants. As a result, 86,435 subscription warrants were delivered to the eligible persons on July 1st 2016.

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

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

TRANCHE 2

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

On June 20th 2017, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015–2019 Plan. On this basis, on July 4th 2017, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 2 subscription warrants. As a result, 91,467 subscription warrants were delivered to the eligible persons on July 7th 2017.

On August 10th 2017, the Management Board passed a resolution to determine the list of Management Board members eligible to acquire Tranche 2 subscription warrants for 2016 under the 2015–2019 Plan. On this basis, the Supervisory Board invited the Management Board members to acquire Tranche 2 subscription warrants under the 2015–2019 Plan. On August 24th 2017,

50,480 subscription warrants were delivered to the eligible Management Board members.

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

TRANCHE 3

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

On May 15th 2018, the Company's Management Board passed a resolution to determine the list of persons other than Management Board members who were eligible to acquire Tranche 3 Subscription Warrants for 2017 under the 2015–2019 Scheme. On this basis, on June 20th 2018, the Management Board invited the eligible persons other than Management Board members to acquire Tranche 3 subscription warrants. As a result, 85,853 subscription warrants were delivered to eligible persons on July 3rd 2018.

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

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

TABLE 16. NUMBER OF SUBSCRIPTION WARRANTS HELD BY MANAGEMENT BOARD MEMBERS AS AT DECEMBER 31ST 2018



OPERATING AND FINANCIAL

REVIEW

POLICIES APPLIED IN THE PREPARATION OF FULL-YEAR CONSO LIDATED FINANCIAL	3.1
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| 3.1 |

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

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

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

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

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

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

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

Debt portfolios are measured at amortised cost, using the effective interest rate method. Debt portfolios are initially recognised on their purchase date at cost, i.e. the fair value of the consideration transferred increased by any material transaction costs.

The amortised cost of an asset is the amount at which the asset is measured on initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash flow projections that take into account the acquisition price, and remains unchanged throughout the life of a portfolio.

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

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

| 3.2 |

ANALYSIS OF THE CONSOLIDATED FINANCIAL DATA

| 3.2.1 |

REVENUE BY PRODUCT

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

Table 16 presents historical cash recoveries from purchased debt portfolios according to their share in the expenditure incurred on their purchase.

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	TOTAL
CASH RECOVERIES IN EACH OF THE YEARS AS % OF FUNDS SPENT	15%	34%	33%	32%	32%	32%	31%	30%	31%	25%	20%	20%	22%	10%	358%

SOURCE: THE COMPANY.

TABLE 17. WEIGHTED AVERAGE RECOVERY CURVE IN 2005–2018*

* - The assumed recovery amount for portfolios purchased in 2005–2018 relative to the expenditure incurred during that period is 2.3x. The recovery amount is the aggregate of historical recoveries and forecast future recoveries, presented in Note 16 'Investments' to the financial statements.

The Group's total revenue for 2018 was PLN 1,165m, up 10% on 2017. The Group continued to pursue the strategy of consolidating its lead in the growing debt collection market. In 2018, the Group focused on collection of debts purchased for the Group's own account. As a consequence, revenue from debt purchase in 2018 reached PLN 1,070m. In 2018, revenue from credit management amounted to PLN 67m.

The performance of each reporting segment is discussed below. The key performance metric for each reporting segment is gross profit.

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2018	POLAND	ROMANIA	ITALY	OTHER FOREIGN MARKETS	TOTAL
REVENUE	591 085	424 688	68 929	80 109	1 164 811
PURCHASED DEBT PORTFOLIOS	537 972	413 947	57 866	60 212	1 069 997
CREDIT MANAGEMENT SERVICES	26 123	10 320	11 063	19 897	67 403
OTHER PRODUCTS	26 990	421	—	—	27 411
DIRECT AND INDIRECT COSTS					(500 918)
PURCHASED DEBT PORTFOLIOS	—	—	—	—	(437 328)
CREDIT MANAGEMENT SERVICES	—	—	—	—	(52 602)
OTHER PRODUCTS	—	—	—	—	(10 988)
GROSS PROFIT (*)					663 893
PURCHASED DEBT PORTFOLIOS	—	—	—	—	632 669
CREDIT MANAGEMENT SERVICES	—	—	—	—	14 801
OTHER PRODUCTS	—	—	—	—	16 423
ADMINISTRATIVE EXPENSES	—	—	—	—	(160 981)
DEPRECIATION AND AMORTISATION	—	—	—	—	(19 923)
OTHER INCOME	—	—	—	—	4 876
OTHER EXPENSES (UNALLOCATED)	—	—	—	—	(9 594)
FINANCE INCOME/COSTS	—	—	—	—	(125 731)
PROFIT BEFORE TAX	—	—	—	—	352 540
INCOME TAX	—	—	—	—	(22 128)
NET PROFIT	—	—	—	—	330 412
CARRYING AMOUNT OF DEBT PORTFOLIOS	1 841 927	932 228	742 915	560 648	4 077 718
CASH RECOVERIES	767 508	527 700	126 021	155 546	1 576 775

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2017	POLAND	ROMANIA	ITALY	OTHER FOREIGN MARKETS	TOTAL
REVENUE	551 925	311 917	9 073	38 642	1 055 453
PURCHASED DEBT PORTFOLIOS	501 693	307 058	9 073	38 133	971 743
CREDIT MANAGEMENT SERVICES	25 751	4 859	—	509	59 102
OTHER PRODUCTS	24 481	—	—	—	24 608
DIRECT AND INDIRECT COSTS					(466 034)
PURCHASED DEBT PORTFOLIOS	—	—	—	—	(412 505)
CREDIT MANAGEMENT SERVICES	—	—	—	—	(44 210)
OTHER PRODUCTS	—	—	—	—	(9 319)
GROSS PROFIT (*)					589 419
PURCHASED DEBT PORTFOLIOS	—	—	—	—	559 238
CREDIT MANAGEMENT SERVICES	—	—	—	—	14 892
OTHER PRODUCTS	—	—	—	—	15 289
ADMINISTRATIVE EXPENSES	—	—	—	—	(147 910)
DEPRECIATION AND AMORTISATION	—	—	—	—	(18 677)
OTHER INCOME	—	—	—	—	5 896
OTHER EXPENSES (UNALLOCATED)	—	—	—	—	(7 957)
FINANCE INCOME/COSTS	—	—	—	—	(85 587)
PROFIT BEFORE TAX	—	—	—	—	335 184
INCOME TAX	—	—	—	—	(39 987)
NET PROFIT	—	—	—	—	295 198
CARRYING AMOUNT OF DEBT PORTFOLIOS	1 434 171	857 117	534 377	294 897	3 120 562
CASH RECOVERIES	632 573	533 089	80 397	122 852	1 368 911

SOURCE: THE COMPANY.

* MARŻA POŚREDNIA – PRZYCHODY, POMNIEJSZONE O KOSZTY BEZPOŚREDNIE I POŚREDNIE

TABLE 18. PERFORMANCE OF INDIVIDUAL REPORTING SEGMENTS

In 2018, the Group's gross profit was PLN 664m, having risen by PLN 74m, or 13%, on 2017. This strong growth in gross profit was attributable to the result on purchased debt portfolios, with the key contributing factor being high investments made in this market segment both in 2018 and in previous years (in total, over the last five years the Group invested PLN 4.7bn in new debt portfolios). Revenue derived from purchased debt portfolios rose by 10%, which translated into improved gross profit of the debt purchase segment (up 13% year on year).

Gross profit earned by the credit management segment remained relatively unchanged on 2017.

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

| 3.2.2 |

GEOGRAPHICAL STRUCTURE OF SALES

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

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

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

In 2018, the KRUK Group's revenue rose significantly in Italy, Poland, and other markets.

In value terms, the largest increase in revenue was seen in Italy and Poland. Revenue generated on the Italian market in 2018

was PLN 56m, or 419%, higher year on year, while revenue in Poland grew PLN 39m, or 7%, on the year before, mainly on the back of strong recovery rates recorded in these markets and debt portfolio purchases made by the Group in 2018 and previous years. In addition, in its new markets (including Italy, where revenue growth was the strongest) the Group focused on developing its operations, improving processes and enhancing efficiency.

| 3.2.3 |

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

The Group's total assets were PLN 4,482m, having grown 26% relative to the end of 2017.

As at December 31st 2018
PLN '000

ASSETS	NOTE	DEC 31 2018	DEC 31 2017
CASH AND CASH EQUIVALENTS	20	147 302	173 284
TRADE RECEIVABLES	19	28 143	16 623
INVESTMENTS	16	4 156 970	3 169 303
OTHER RECEIVABLES	19	23 088	64 244
INVENTORIES	18	197	494
PROPERTY, PLANT AND EQUIPMENT	13	26 354	28 669
GOODWILL	15	62 010	54 003
OTHER INTANGIBLE ASSETS	14	33 877	26 830
OTHER DERIVATIVES	25	1 450	8 637
OTHER ASSETS	21	2 786	18 042
TOTAL ASSETS		4 482 177	3 560 128
SOURCE: THE COMPANY.			

TABLE 19. GROUP'S ASSETS

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

instruments (up by PLN 603m). In 2018, the Group purchased debt portfolios for a total of PLN 1,395m, which means that 57% of the purchases were financed with the Group's own funds.

AS AT DECEMBER 31ST 2018 PLN '000	NOTE	DEC 31 2018	DEC 31 2017
EQUITY AND LIABILITIES			
LIABILITIES			
OTHER DERIVATIVES	25	3 870	1 375
TRADE AND OTHER PAYABLES	27	176 054	143 449
EMPLOYEE BENEFIT OBLIGATIONS	26	44 678	28 715
INCOME TAX PAYABLE		15 600	14 401
LIABILITIES UNDER BORROWINGS AND OTHER DEBT INSTRUMENTS	24	2 500 043	1 897 223
DEFERRED TAX LIABILITY	18	9 182	14 444
TOTAL LIABILITIES		2 749 427	2 099 607
EQUITY			
SHARE CAPITAL	23	18 887	18 808
SHARE PREMIUM		300 097	293 581
CASH FLOW HEDGING RESERVE		(3 869)	5 882
TRANSLATION RESERVE		(53 769)	(56 619)
OTHER CAPITAL RESERVES		94 924	86 805
RETAINED EARNINGS		1 376 084	1 111 961
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		1 732 354	1 460 418
NON-CONTROLLING INTERESTS		396	104
TOTAL EQUITY		1 732 750	1 460 522
TOTAL EQUITY AND LIABILITIES		4 482 177	3 560 128

SOURCE: THE COMPANY.

TABLE 20. GROUP'S EQUITY AND LIABILITIES

| 3.2.4 |

FINANCIAL PERFORMANCE

There are no material risks to the KRUK Group's current or future financial position. In 2018, the Group's net profit was PLN 330m, up PLN 35m (12%) year on year.

In 2018, the Group invested PLN 1,395m in the debt purchase segment.

FOR THE YEAR ENDED DECEMBER 31ST 2018 PLN '000	NOTE	JAN 1 2018 - DEC 31 2018	JAN 1 2017 - DEC 31 2017
CONTINUING OPERATIONS			
REVENUE	5	1 164 811	1 055 453
including interest income on debt portfolios calculated using the effective interest rate method		873 403	n/a
including interest income on other financial instruments calculated using the effective interest rate method		14 459	n/a
OTHER INCOME	6	4 876	5 896
		1 169 687	1 061 349
MERCHANDISE AND MATERIALS SOLD			
EMPLOYEE BENEFITS EXPENSE	9	(309 694)	(257 013)
DEPRECIATION AND AMORTISATION	13,14	(19 923)	(18 677)
SERVICES	7	(152 035)	(134 462)
OTHER EXPENSES	8	(209 764)	(230 426)
		(691 416)	(640 578)
OPERATING PROFIT		478 271	420 771
FINANCE INCOME	10	148	310
FINANCE COSTS	10	(125 879)	(85 897)
NET FINANCE COSTS		(125 731)	(85 587)
PROFIT BEFORE TAX		352 540	335 184
INCOME TAX	11	(22 128)	(39 987)
NET PROFIT ATTRIBUTABLE TO:		295 198	248 677
OWNERS OF THE PARENT		330 016	295 095
NON-CONTROLLING INTERESTS		396	103
NET PROFIT FOR PERIOD		330 412	295 198
SOURCE: THE COMPANY.			

TABLE 21. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| 3.2.5 |

CASH FLOWS

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

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

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

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

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

| 3.2.6 |

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

The KRUK Group did not have any material off-balance sheet items in 2018.

| 3.2.7 |

FINANCIAL RATIOS

| 3.2.7.1 |

PROFITABILITY RATIOS

Table 21 below presents the key profitability ratios of the KRUK Group.

PERIOD ENDED

PROFITABILITY RATIOS	DEC 31 2018	DEC 31 2017
EBITDA MARGIN	43%	42%
EBIT MARGIN	41%	40%
PRE-TAX MARGIN	30%	32%
NET MARGIN	28%	28%
RETURN ON ASSETS (ROA)	7%	8%
RETURN ON EQUITY (ROE)	19%	20%

SOURCE: THE 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

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

TABLE 22. PROFITABILITY RATIOS

In 2018, the KRUK Group's EBITDA and EBIT grew 1pp year on year, while its net margin remained unchanged. This improved profitability was primarily an effect of higher revenue earned by the Group: in 2018, revenue increased 10% year on year, while expenses grew 8%. ROA and ROE declined 1pp, and pre-tax margin fell 2pp. The decrease in ROA was caused by a 26% year-

on-year growth in assets with a concurrent 12% growth in net profit. The largest increase in assets was seen in investments (up PLN 988m, or 31%) and was attributable to the purchase of new debt portfolios. In 2018, the Group purchased debt portfolios for a total of PLN 1,395m.

| 3.2.7.2 |

DEBT RATIOS

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

PERIOD ENDED

	DEC 31 2018	DEC 31 2017
TOTAL DEBT RATIO	61%	59%
DEBT TO EQUITY RATIO	159%	143%
NET DEBT TO EQUITY RATIO	1,4X	1,2X
NET DEBT TO CASH EBITDA RATIO	2,3X	2,1X
CURRENT RATIO	8,2	7,7
QUICK RATIO	8,2	7,7

SOURCE: THE 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

TABLE 23. DEBT RATIOS

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

In 2018, the ratios changed only slightly and, in the Management Board's opinion, remained at safe levels. For instance, debt ratios measured for the entire Group, specified in the Terms and Conditions of Bonds, were as follows: the net debt to equity ratio stood at 1.4 (the maximum levels are 3.0x for the majority

of private placements and 2.5x for issues with a total nominal value of PLN 45m maturing in 2020), while the net debt to cash EBITDA ratio was 2.3 (the maximum level is 4.0x).

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

| 3.3 |

SECURITIES IN ISSUE

| 3.3.1 |

COMPANY SHARES

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

| 3.3.2 |

COMPANY BONDS

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

BOND SERIES	NOMINAL VALUE	ISSUE	REDEMPTION	INTEREST RATE	INTEREST PAYMENT
AE3	PLN 35m	October 2018	October 2023	3M WIBOR + margin of 3.50%	every 3 months
AG1	PLN 30m	November 2018	November 2023	3M WIBOR + margin of 3.50%	every 3 months
TOTAL	PLN 65m				

SOURCE: THE COMPANY.

TABLE 24. BOND ISSUES IN 2018

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

REDEMPTION OF BONDS

In 2018, the Company redeemed the debt securities specified in Table 24 on the maturity dates set forth in the terms and conditions of the relevant series.

BOND SERIES	REDEEMED	NUMBER OF BONDS REDEEMED	NOMINAL VALUE
R2	June 2018	15 000	PLN 15m
R3	August 2018	50 000	PLN 50m
R4+S1	October 2018	40 000	PLN 40m
U1	December 2018	10 000	PLN 10m
		TOTAL	PLN 115M

SOURCE: THE COMPANY.

TABLE 25. BONDS REDEEMED BY THE COMPANY IN 2018

LIABILITIES UNDER BONDS

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

| 3.4 |

FINANCIAL INSTRUMENTS

| 3.4.1 |

USE OF FINANCIAL INSTRUMENTS

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

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

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

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

DERIVATIVES

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

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

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

- Two currency interest rate swaps (CIRS). The contracts hedge both the currency and the interest rate risk as they effectively replace the Company's debt contracted in PLN with EUR-denominated liabilities:
- contract hedging the 3M WIBOR-linked coupon on Series Z1 bonds with a nominal value of PLN 100m. The Company pays at a fixed rate of 3.06%, while Santander Bank Polska S.A. pays at a floating rate equal to 3M WIBOR plus a margin of 3.10%. Interest payments are made every three months

(interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on June 4th 2021. On that day, the Company will receive PLN 100m from Santander Bank Polska S.A. and will pay EUR 22.8m to Santander Bank Polska S.A.

- contract hedging the 3M WIBOR-linked coupon on Series AA1 bonds with a nominal value of PLN 90m. The Company pays at a fixed rate of 2.97%, while Santander Bank Polska S.A. pays at a floating rate equal to 3M WIBOR plus a margin of 3.00%. Interest payments are made every three months (interest period). Settlement of the contract will involve exchange of the hedged nominal amount and will be made on November 10th 2021. On that day, the Company will receive PLN 90m from Santander Bank Polska S.A. and will pay EUR 20.6m to Santander Bank Polska S.A.
- Two interest rate swaps (IRS):
 - contract hedging the 3M WIBOR-linked portion of the coupon on Series AA2 bonds with a nominal value of PLN 150m. The Company pays at a fixed rate of 2.50%, while Santander Bank Polska S.A. pays at a floating rate equal to 3M WIBOR. Payments are made every three months (interest period). The contract will end on March 2nd 2022.
 - contract hedging the 3M WIBOR-linked portion of the coupon on Series AC1 bonds with a nominal value of PLN 50m. The Company pays at a fixed rate of 2.50%, while Santander Bank Polska S.A. pays at a floating rate equal to 3M WIBOR. Payments are made every three months (interest period). The contract will end on May 4th 2022.

After the reporting date, on February 28th 2019 KRUK S.A. and Santander Bank Polska S.A. entered into an FX forward contract to hedge the Group's currency risk by hedging the PLN value of a part of net assets in InvestCapital Ltd., ensuring an agreed forward rate of exchange, set at 4.3127. Under the contract, the Company is obliged to sell EUR 65,000,000.00 for PLN 280,325,500.00 on March 29th 2019. The Company intends to extend the hedge for subsequent periods, or to settle the contract with foreign exchange differences, without delivering the currency.

| 3.4.2 |

FINANCIAL INSTRUMENT RISK EXPOSURE

| 3.4.2.1 |

CREDIT RISK

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

| 3.4.2.2 |

LIQUIDITY RISK

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

| 3.4.2.3 |

MARKET RISK

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

CURRENCY RISK

Exposure to currency risk is identified by the Group in connection with its intensive foreign expansion and growing investments in portfolios denominated in foreign currencies. If there is no

access to financing denominated in a given currency, such investment may partly be financed with debt contracted in a different currency. In such circumstances, there is a risk that the Group may incur additional costs related to currency conversion or the Group's liquidity may deteriorate due to adverse changes in foreign exchange rates. The Group is also exposed to the risk of deterioration in its financial results due to unhedged currency exposures (the risk of incurring foreign exchange losses).

INTEREST RATE RISK

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

| 3.4.3 |

OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

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

PLN '000

	NOTE	DEC 31 2018	DEC 31 2017
FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	16	-	518 963
FINANCIAL ASSETS AT AMORTISED COST	16	4 077 718	2 601 599
LOANS	16	44 064	24 872
RECEIVABLES	21	51 231	80 867
		4 173 013	3 226 301
SOURCE: THE COMPANY.			

TABLE 26.ASSETS RELATING TO CREDIT RISK

| 3.4.3.1 |

CREDIT RISK

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

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

| 3.4.3.2 |

LIQUIDITY RISK

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

Liquidity risk management tools used at the Group include:

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

| 3.4.3.3 |

MARKET RISK

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

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

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

In the process of market risk management, the Group selects optimum financing sources for its planned investment projects, analyses macroeconomic trends and monitors changes in its key currency exchange and interest rates. The Group monitors

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

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

| 3.5 |

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

| 3.5.1 |

MATERIAL EVENTS DURING THE FINANCIAL YEAR

Events and circumstances which had a significant effect on the operations of the Parent and its subsidiaries in the financial year 2018 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 executed by companies of the KRUK Group'.

| 3.5.2 |

NON-RECURRING FACTORS AND EVENTS

In 2018, the Company's business was not affected by any non-recurring factors or events.

| 3.6 |

ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

| 3.6.1 |

FINANCIAL FORECASTS

The KRUK Group did not publish any financial forecasts for 2018.

| 3.6.2 |

ASSESSMENT OF FUTURE FINANCIAL STANDING

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

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

| 3.7 |

DIVIDEND POLICY

| 3.7.1 |

HISTORICAL DATA ON DIVIDEND PAYMENTS

Information on dividend payments in the last five financial years is presented in Table 27.

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

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

TABLE 27. HISTORICAL INFORMATION ON DIVIDENDS PAID OUT TO SHAREHOLDERS

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

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

SOURCE: THE COMPANY.

TABLE 28. CALENDAR OF EVENTS RELATED TO DIVIDEND PAYMENT IN 2018

In the reporting period and as at the date of authorisation of this Report, the following profit distributions were made by KRUK S.A.'s subsidiaries: (i) SeCapital S.à r.l. of Luxembourg: PLN 4.33m in aggregate to KRUK S.A., and PLN 317.15m to InvestCapital Ltd., and (ii) Presco Sarl: PLN 69.59m to KRUK S.A.

| 3.7.2 |

DIVIDEND POLICY

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

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

| 3.8 |

AUDITORS

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



THE GROUP'S OPERATIONS

AND DEVELOPMENT DIRECTIONS

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| 4.1 |

STRUCTURE AND DESCRIPTION OF THE DEBT MANAGEMENT MARKET

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

MANAGEMENT OF PURCHASED DEBT PORTFOLIOS

Management of purchased debt portfolios is the principal area of the KRUK Group's activities. The Group has an extensive knowledge base, specialised methods of valuation, access to financing and appropriate transaction structures, which allow it to purchase debt portfolios on all seven markets in which it is present. The Group is prepared to invest in debts of all types: secured and unsecured consumer debts, including mortgage debts, as well as SME and corporate debts, but the preferred category are unsecured consumer debt portfolios. The nominal value of the portfolio of debts purchased by the Group since 2007 is PLN 68,3bn.



THE NOMINAL VALUE OF THE PORTFOLIO OF DEBTS

PLN 68,3bn
purchased by the Group since 2007

CREDIT MANAGEMENT SERVICES

The KRUK Group manages receivables of banks, loan brokers, insurers, leasing companies, landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector. The Group focuses on the banking market and relies on long-term relations with key accounts. In 2018, the Group managed a portfolio of debts with a nominal value of PLN 13.9bn.



In 2018

PLN 13.9bn
THE GROUP MANAGED A PORTFOLIO OF DEBTS WITH A NOMINAL VALUE

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

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

The Group's primary markets in 2018 were the markets of unsecured and secured debt to banks in Poland and Romania, as well as unsecured debt to banks in the Czech Republic, Slovakia, Germany, Italy, and Spain. The KRUK Group also purchased corporate debt.

The situation in the debt management industry in the countries where the Group operates depends on the prevailing macroeconomic conditions. The key factors which may affect the Group's financial performance include in particular 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 population result in a higher loan repayment rate, which improves recoveries from debt portfolios purchased by the Group and, in the subsequent periods, reduces the number of collection cases sold or outsourced to debt collection agencies, unless the effect is compensated by an increase in the overall debt level in the economy.

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

- Deteriorating loan repayment rates in the economy translate into a greater number of cases being processed on the non-performing debt management market; Increase in the number of outsourced credit management cases follows with a lag of several months, whereas an increase in the stream of debt coming up for sale follows the trend up to a few years later;

- Reduction of lending activity by banks translates into a lower number of new debtors in the banking sector;
- Growing unemployment rate and a decrease in people's incomes is followed by deteriorating loan repayment rates, and thus may adversely impact the recoverability of debt portfolios held by the Group;
- Any increase or decrease in the exchange rate of the currency in which debts are denominated and repaid in foreign markets may increase or decrease the amount of payments expressed in the Polish zloty or the fair value of debt portfolios denominated in foreign currencies.

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

The Group's 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. Debt portfolios are purchased in auctions, where the primary award criterion is the price. The Group's key competitors in the debt purchase segment include trade investors (credit management companies), and financial investors (investment and hedge funds).

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

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

| 4.2 |

LEGAL AND REGULATORY ENVIRONMENT

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

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

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

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

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

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

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

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



ROMANIA

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



THE CZECH REPUBLIC AND SLOVAKIA

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



GERMANY

In 2017, the regulatory environment in Germany did not change significantly. Currently, the only regulatory authority is Kammergericht Berlin, which supervises credit management activities and companies.



ITALY

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



SPAIN

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

| 4.2.1 |

SECURITISATION FUNDS

Operations of the Group's securitisation funds (Prokura NS FIZ, 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 PFSA, which has extensive powers and legal instruments to supervise them.

The PFSA's powers include: granting permits to manage securitised receivables of a securitisation fund by an entity other than an investment fund company; supervising entities that manage securitised receivables of a securitisation fund, including with regard to compliance of their securitised debt management activities with the law, the fund's articles of association, the agreement concluded with the investment fund company and the authorisation granted; and imposing penalties and applying other measures in the event of violation of the laws governing the operations of investment funds, including fines and withdrawal of the permit.

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

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

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

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

| 4.2.2 |

OUTSOURCING OF DEBT COLLECTION BY BANKS

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

| 4.2.3 |

EXCHANGE OF BUSINESS INFORMATION

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

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

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

| 4.2.4 |

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

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

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

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

- In Romania: The financial sector in Romania is governed by numerous regulations, covering the exercise of supervision over and control of operations conducted by banking and non-banking financial institutions. Non-banking financial institutions (IFNs) are subject to supervision by the National Bank of Romania (NBR). The NSC mentioned above in Section 4.2 is the capital market regulator. NAPC is the supervision authority responsible for protection of consumer rights, maintaining a register in which any entity looking to launch debt collection operations must be entered.
- In Germany: Kammergericht Berlin is the authority overseeing the credit management sector and activities of credit management companies.
- In the Czech Republic: The Czech Commercial Inspection Authority is competent for protection of consumers, including supervision of the debt recovery business; other relevant authorities include the body responsible for supervising compliance with personal data protection regulations and the 'financial arbitrator' responsible for settling disputes between consumers and financial institutions on an out-of-court basis.
- In Slovakia: The National Bank of Slovakia is the competent authority with respect to consumer lending and protection of consumers with respect to financial matters; Trade Inspection is responsible for protection of consumers, including in the area of debt collection activities; there is also a body with supervision powers in the area of personal data protection;
- In Italy: The Bank of Italy is the competent market regulator with respect to purchases of debt portfolios; ACGM is responsible for overseeing compliance with the principles set forth in Codice di Condotta; Questura is the licensing authority for entities looking to conduct debt collection activities; and Garante della Privacy is responsible for personal data protection;
- In Spain, there is the Spanish Personal Data Protection Agency.

| 4.2.5 |

PERSONAL DATA PROTECTION

As part of their day-to-day operations the Group companies process large amounts of natural persons' data, therefore personal data protection laws are particularly important in the Group's operations. Personal data may only be processed 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 (General Data Protection Regulation) (GDPR). Personal data must be processed in compliance with the relevant laws and with the use of technical and organisational measures which ensure personal data protection, in particular against disclosure to unauthorised individuals. In addition, data subjects should be provided with a range of information, including:

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

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

| 4.2.6 |

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

Below are described some of the changes in the laws and regulations applicable to the Group companies which took effect in 2017. Selected examples:

- a. Changes with respect to personal data protection – on May 25th 2018, the GDPR entered into force, introducing a number of new rules for the processing of personal data, for example:
 - direct responsibility of the entity processing personal data,
 - controllers' obligation to notify the competent supervisory authority, within 72 hours of detection, of a personal data breach which might result in a risk to the rights and freedoms of the persons whose data has been breached,
 - new and extended rights of data subjects, such as the 'right to be forgotten', the right to request data portability, extended right to access and consult the data,
 - restrictions on profiling,
 - new, extended regulations concerning the provision of information,
 - data inventory requirements and documentation requirements,
 - the requirement to carry out data protection impact assessment.

Since the new data protection laws were introduced by the EU regulation, they are applicable to and affect the activity of all entities of the Group.

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

In Germany, the Czech Republic and Italy, there were no legislative changes other than those resulting from the GDPR (as discussed above) that would significantly affect the Group's operations.

- Similarly, no significant new regulations came into force in Romania, but two new bills that could potentially affect the financial sector were being debated by the Romanian parliament in 2018. They were eventually passed by the parliament, but they have not entered into force – they were not signed into law by the President of Romania because their conformity with the Romanian Constitution was challenged before the Romanian Constitutional Court. The court's ruling is expected by mid-2019 and, if the bills

are found unconstitutional, they will be returned to the parliament to have the provisions infringing the principle of economic freedom, the European principles and EU directives amended.

The first bill concerns the loss of bank enforcement orders issued in connection with loan agreements concluded by banks after the bill enters into force. This could influence future assignments of receivables under non-performing loans. Therefore, the bill would not affect the debt portfolios already purchased by the KRUK Group.

The other bill concerns purchasers of claims arising from loans granted to consumers under Special Government Decree No. 50/2010 on Consumer Credit Agreements. It prohibits demanding that the debtor pay back amounts exceeding twice the price paid to the seller (bank) for a debt claim.

As mentioned above, the two acts have not yet come into force and are highly likely to be found unconstitutional, in which case they may never be signed into law.

- In Slovakia, the following legislative change should be mentioned: on December 5th 2018, the Act amending the Civil Code (No. 434/2018) entered into force. It introduced a ban on the recovery of time-barred claims in Slovakia. According to an explanatory note attached to the act, the recovery of time-barred claims should be understood as their recovery through court, enforcement or arbitration proceedings.
- In Spain, the main legislative changes in 2018 were: (i) Royal Decree 11/2018 of August 31st, transposing Directive 2015/849/EU on the prevention of money laundering; (ii) the Spanish Personal Data Protection Act (Organic Law 3/2018), transposing the GDPR and repealing the existing Personal Data Protection Act. A novelty is the regulation on digital rights (rights in the Internet). The Spanish legislation on mortgages, 'Property-backed credit agreements', to enter into force in 2019, was also finalised. It includes a specific sectoral regulation 'Code of Conduct of the Spanish National Association for Recovery of Claims'.
- KRUK S.A. has brought its operations into compliance with the above regulations. However, as at the date of this Report, the regulations' overall effect on the Company's operations cannot be reliably quantified. The initial expectation is that they will not have a significant impact.

| 4.3 |

DEVELOPMENT DIRECTIONS AND PROSPECTS OF THE GROUP

| 4.3.1 |

STRATEGY FOR 2019–2024

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

MISSION:

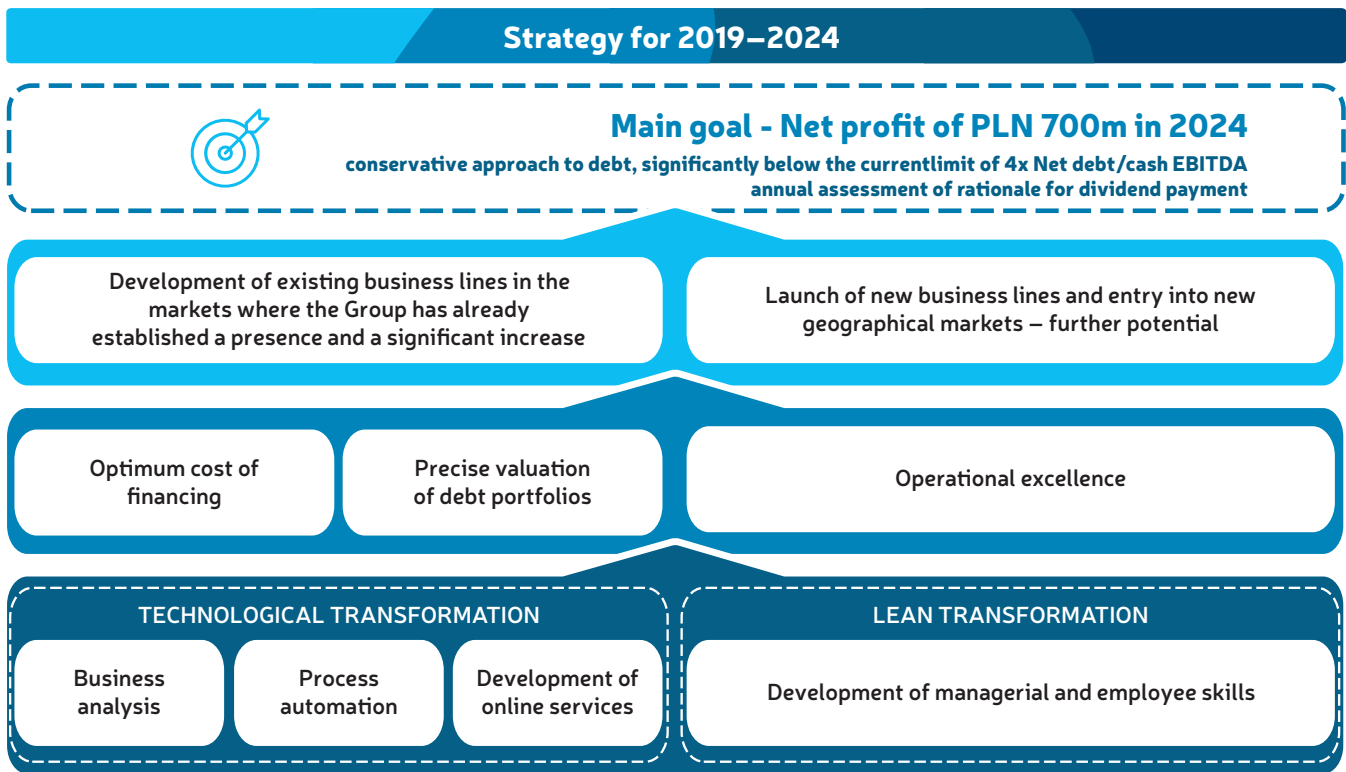
Our client base includes individuals and businesses facing the problem of excessive debt.
We build positive relations and help our clients regain creditworthiness.
We safeguard compliance with social norms and legal rules requiring that liabilities incurred must be settled.

VISION:

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

KEY OBJECTIVE FOR 2019–2024:

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



| 4.3.2 |

STRATEGY IMPLEMENTATION PROGRESS 2015–2018

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



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

The average EPS growth in 2015–2018 was 18.3%, which is above the target set in the Strategy (at least 15% annually). In 2017 and 2018, the EPS growth was below the strategic growth rate, amounting to 11.8% and 11.3%, respectively. In 2015–2018, average ROE stood at 22.4%, while the Strategy assumed a ROE of above 20%. ROE fell slightly below the level provided for in the Strategy only in 2018, when it came in at 19.1%.

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

	2015	2016	2017	2018	Średnia*
EPS GROWTH RATE	32,3%	18,9%	11,8%	11,3%	18,3%
ROE	26,0%	24,3%*	20,1%	19,1%	22,4%

* GEOMETRIC MEAN WAS USED FOR EPS GROWTH, AND ARITHMETIC MEAN FOR ROE.

** ROE FOR 2016 EXCLUSIVE OF THE SHARE ISSUE IN DECEMBER 2016.

TABLE 29

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

PRODUCT RANGE DEVELOPMENT AND GROWTH IN GEOGRAPHICAL REGIONS

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

Business lines		Poland	Romania	Czech Republic	Slovakia	Germany	Spain	Italy
Debt portfolio purchases	Unsecured consumer debt	●	●	●	●	●	●	●
	Mortgage consumer debt	●	●					
	Corporate and SME debt	●	●				●	●
Credit management		●	●	●	●		●	●
Consumer loans		●	●					
Credit reference		●						

● Business lines operating in 2014 ● Business lines launched in 2015–2018

* WITH REGARD TO CREDIT MANAGEMENT, THE LINE WAS NOT ACTIVE IN 2018 IN THE CZECH REPUBLIC AND SLOVAKIA.

** THE GROUP DECIDED TO SIGNIFICANTLY SCALE DOWN ITS OPERATIONS IN GERMANY.

SOURCE: THE COMPANY.

FIGURE 2. DEGREE OF GEOGRAPHICAL AND PRODUCT DEVELOPMENT IN 2015–2018

IMPROVEMENT OF MANAGEMENT EFFICIENCY

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

- Expanding expertise in tender procedures and maintaining lasting relations with trading partners;
- Increasing the reach of clients (debtors);

- Development of customer experience processes;
- Development of online services (e-Kruk);
- Continuous improvement of data analysis methods,
- Optimisation measures, including those based on lean management tools;
- Improvement of the systematic approach to risk management;
- Creating an excellent and effective working environment for positive and passionate people.

| 4.4 |

THE GROUP'S INVESTMENT PROGRAMME

| 4.4.1 |

CAPITAL EXPENDITURE

In 2018, the main items of capital expenditure made by the Group included PLN 4m spent on new vehicles (including under finance lease agreements) and PLN 4.4m spent on plant and equipment. The Company also made material investments of PLN 15m in licences and software, including PLN 6.1m invested in proprietary software.

| 4.4.2 |

INVESTMENTS WITHIN THE GROUP

In 2018, KRUK increased or reduced the share capitals of its subsidiaries:

SPÓŁKA	Action	Amount
SECAPITAL S.À R.L.	Share capital reduction	PLN 2.2m
INVESTCAPITAL LTD.	Share capital increase	PLN 71m
INVESTCAPITAL LTD.	Share capital reduction	PLN 950m
KRUK ČESKÁ A SLOVENSKÁ REPUBLIKA S.R.O.	Conversion of loans (excluding interest) to capital – contribution to capital other than the share capital	PLN 15.88m*
KRUK DEUTSCHLAND GMBH	Additional contributions to statutory reserve funds	PLN 0.45m**
KRUK ESPANA S.L.	Additional contributions to statutory reserve funds	PLN 25.3m**
KRUK ITALIA S.R.L.	Additional contributions to statutory reserve funds	PLN 45.1m**
AGECREDIT S.R.L.	Additional contributions to statutory reserve funds	PLN 2.1m**
ITACAPITAL S.R.L.	Additional contributions to statutory reserve funds	PLN 0.65m**
PROSPEROCAPITAL S.À R.L.	Additional contributions to statutory reserve funds	PLN 0.1m**

*TRANSLATED AT THE MID-EXCHANGE RATE QUOTED BY THE NBP FOR THE DAY OF SIGNING THE CONTRACT, I.E. DECEMBER 20TH 2018.

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

SOURCE: THE COMPANY.

TABLE 30. INCREASE AND REDUCTION OF THE SHARE CAPITALS OF THE GROUP'S SUBSIDIARIES

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

ESTABLISHMENT OF NEW COMPANIES

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

ACQUISITION OF SHARES IN FOREIGN COMPANIES

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

| 4.4.3 |

INVESTMENT PROGRAMME FINANCING SOURCES

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

| 4.4.4 |

ASSESSMENT OF THE FEASIBILITY OF INVESTMENT PLANS

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

| 4.5 |

RISK FACTORS – INTERNAL FACTORS

| 4.5.1 |

MATERIAL RISK FACTORS

[G4-2]

| 4.5.1.1 |

RISK OF FAILURE TO ACHIEVE THE GROUP'S STRATEGIC OBJECTIVES

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

- Errors of persons responsible for the implementation and execution of the strategy;
- Market situation, business environment and competitors' activities;
- Lower availability of external financing;
- Incorrect valuation of investments, including debt portfolios purchased;
- Changes to legal regulations and their interpretation and actions of regulatory authorities;
- Unfavourable decisions of Company shareholders;
- Force majeure events.

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

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

| 4.5.1.2 |

RISK OF ERROR IN ESTIMATING THE FAIR VALUE OF ACQUIRED DEBT PORTFOLIOS

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

| 4.5.1.3 |

OPERATIONAL RISK RELATED TO THE GROUP'S BUSINESS

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

(including errors in registering economic events or amendments to legal regulations); fraud and embezzlement. [G4-14]

| 4.5.1.4 |

RISK OF INCREASED COSTS OF THE GROUP'S OPERATING ACTIVITIES

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

| 4.5.1.5 |

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 held no single debt whose non-payment could have a material adverse effect on the Group's liquidity, but no assurance can be given that such situation will not occur in the future.

| 4.5.1.6 |

CREDIT RISK

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

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

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

| 4.5.1.7 |

DEBT RISK

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

| 4.5.1.8 |

RISK OF LOSING EXPERIENCED MANAGEMENT STAFF

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

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

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

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

| 4.5.1.9 |

RISK OF IT FAILURE

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

No assurance can be given that all or part of the IT system or IT equipment will not be affected by a failure making it difficult

for the Group to conduct operations or achieve its strategic objectives. Security of the operational systems is also important to the Group in view of the need to ensure personal data protection.

| 4.5.1.10 |

RISK CONNECTED WITH RELATED-PARTY TRANSACTIONS

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

| 4.5.1.11 |

RISK RELATING TO LARGE-SCALE PERSONAL DATA PROCESSING BY THE GROUP

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

| 4.5.1.12 |

RISK OF CHANGES IN THE LEGAL ENVIRONMENT

Laws and regulations applicable to the Group, including those governing debt collection, the operation of companies and corporate governance, trade and business activities, including consumer bankruptcy, as well as tax reliefs and privileges available to investment funds, have been and may be subject to amendments. No assurance can be given by the Company that unfavourable legislative amendments directly affecting the Group's debt collection business, or having an adverse impact on that area of the Group's business, will not be introduced in jurisdictions in which the Group operates. Amendments to the laws governing the Group's business or their incorrect interpretation by the Group may result in civil-law, administrative or criminal sanctions being imposed on the Group, may require the Group to change its practices, may result in administrative or court decisions adverse to the Group, may expose the Group to liability to pay damages or to unpredictable costs, including the

cost of bringing the Group's business into compliance with legal requirements, or may necessitate organisational restructuring of the Group.

| 4.5.1.13 |

SOCIAL RISK ASSOCIATED WITH A LOW LEVEL OF FINANCIAL EDUCATION

Low level of financial literacy may lead to erroneous interpretations of the law, especially when the laws and regulations change frequently and people do not know how they operate and do not understand their effects and implications. This also applies to the awareness of how debt management works and of the related regulatory changes. Lack of sufficient knowledge may lead to popularisation of the belief that debts do not need to be repaid. Such misconceptions may have a negative impact on the public's perception of activities conducted by professional debt management companies, which operate in accordance with the applicable laws and social norms, resulting in negative perception of the debt management industry and potentially affecting debtors' willingness to pay their debts. Consequently, this may lead to violating social norms, one of which is the rule that services must be paid for and debts need to be repaid.

| 4.5.1.14 |

RISK OF NEGATIVE PR IN RELATION TO THE GROUP

The nature of the KRUK Group's business exposes it to the risk of spreading untrue information about dealings with the KRUK Group or information that is detrimental to the Group's image. Negative publicity may undermine the Group's credibility in the eyes of its current or potential trading partners, and consequently may have a negative effect on its financial performance. As the leader of the debt management market, the KRUK Group is also exposed to the consequences of unethical practices of other debt management companies, which tend to be attributed to the entire industry, in particular the most recognisable operators on the market.

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

| 4.5.2 |

RISK MANAGEMENT SYSTEM

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

- Identify and analyse the risks to which the Group is exposed;

- Define appropriate limits and procedures;
- Control and monitor the risk level and suitability of the risk management tools.

The risk management policies in place at the Group are regularly reviewed to ensure that they reflect the market trends and developments at a given time, as well as changes within the Group. The Management Board is responsible for defining risk management procedures and overseeing their implementation. Using such tools as training, management standards and procedures, the Group seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

| 4.5.2.1 |

MANAGING THE RISK OF ERROR IN ESTIMATING THE FAIR VALUE OF ACQUIRED DEBT PORTFOLIOS

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

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

Having acquired by the end of 2017 as many as 694 debt portfolios and having carried out over 2,800 debt portfolio valuations, the KRUK Group has gained extensive experience in estimating the fair values of such portfolios. The information base it has compiled helps mitigate the risk of incorrect estimate of the fair value of purchased debt portfolios.

| 4.5.2.2 |

MANAGING THE OPERATING RISK INHERENT IN THE GROUP'S OPERATIONS

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

| 4.5.2.3 |

MANAGING CREDIT RISK

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

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

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

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

| 4.5.2.4 |

MANAGING THE RISK OF INCREASED COSTS OF THE GROUP'S OPERATING ACTIVITIES

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

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

| 4.5.2.5 |

MANAGING THE RISK OF MATERIAL DECLINE IN RECOVERIES FROM PURCHASED DEBT PORTFOLIOS

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.

| 4.5.2.6 |

MANAGING LIQUIDITY RISK

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

Liquidity risk management tools used at the Group include:

- Regular monitoring of cash 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 bond

| 4.5.2.7 |

MANAGING THE RISK OF LOSS OF EXPERIENCED MANAGEMENT STAFF

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

| 4.5.2.8 |

MANAGING THE RISK OF IT SYSTEMS' FAILURE

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

| 4.5.2.9 |

MANAGING THE RISK CONNECTED WITH RELATED-PARTY TRANSACTIONS

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

| 4.5.2.10 |

MANAGING THE RISK OF CHANGES IN THE LEGAL ENVIRONMENT

The Group has no control over changes in the legal environment, but it has developed and implemented a procedure for monitoring such changes.

| 4.5.2.11 |

MANAGING THE RISK CONNECTED WITH PERSONAL DATA PROCESSING

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

| 4.5.2.12 |

MEASURES TO PREVENT SOCIAL RISK ASSOCIATED WITH A LOW LEVEL OF FINANCIAL EDUCATION

To prevent violating social norms, the KRUK Group actively engages in initiatives aimed at raising the level of the public's financial literacy through:

- publishing consumer advice articles in the press and on the Internet;
- provision to various social groups of educational materials on household budget planning and ways to get out of debt (in 2018 the Group prepared a free-of-charge 'Live Debt-Free' course, designed in particular to show debtors how to repay excessive debts);
- participating in social initiatives aimed at promoting financial education
- awareness campaigns and educational comments in the media, including the Internet;
- liaising with various independent experts, institutions and social welfare centres as well as non-profit organisations to promote financial education among the public

Provision of free financial advice, including advice on how to get out of debt in the Czech Republic and Slovakia;

| 4.5.2.13 |

MANAGING THE RISK OF NEGATIVE PR IN RELATION TO THE GROUP

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

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

| 4.6 |

AGREEMENTS EXECUTED BY COMPANIES OF THE KRUK GROUP

| 4.6.1 |

MATERIAL AGREEMENTS

Below is presented an overview of agreements, annexes and transactions executed by the KRUK Group in 2018 which may be considered material to the Group's operations.

| 4.6.1.1 |

AGREEMENTS EXECUTED WITH NON-GROUP COMPANIES**EXECUTION OF DEBT ASSIGNMENT AGREEMENT WITH BGŻ BNP PARIBAS S.A. IN POLAND**

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

EXECUTION OF DEBT ASSIGNMENT AGREEMENTS IN POLAND

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

EXECUTION OF DEBT ASSIGNMENT AGREEMENT WITH A MEMBER OF THE CARREFOUR GROUP IN SPAIN

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

EXECUTION OF DEBT ASSIGNMENT AGREEMENT IN ITALY

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

EXECUTION OF DEBT ASSIGNMENT AGREEMENTS IN POLAND

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

EXECUTION OF DEBT ASSIGNMENT AGREEMENT IN SPAIN

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

| 4.6.1.2 |

AGREEMENTS EXECUTED WITH GROUP COMPANIES

In 2018, KRUK S.A. did not execute any agreements with Group companies that could be considered material to the operations of the KRUK Group.

| 4.6.2 |

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

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

| 4.6.3 |

LOAN AGREEMENTS

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

BORROWINGS AT THE KRUK GROUP (PLNM)

Bank	Borrower	Agreement date	Final repayment date	Facility type	Limit as at the agreement date, as amended	Limit as at Dec 31 2018	Collateral and other security	Value of collateral as at Dec 31 2018
Santander Bank Polska S.A.	KRUK S.A.	April 2011	Credit facility (PLN 65m): October 2023 Additional credit facility (PLN 55m): October 2021	Revolving credit facility	120	120	- registered pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - surety under civil law issued by KRUK S.A. - power of attorney over PROKURA NS FIZ's selected account	274,4
Santander Bank Polska S.A.	PROKURA NS FIZ	February 2013	October 2023	Revolving credit facility	20	20	- power of attorney over KRUK S.A.'s selected account - notarised declaration of PROKURA NS FIZ on submission to enforcement - notarised declaration of KRUK S.A. on submission to enforcement	
BGŻ BNP Paribas S.A.	KRUK S.A.	October 2014	December 2020	Revolving credit facility	120	68	- registered pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - power of attorney over KRUK S.A.'s selected account - notarised declaration of KRUK S.A. on submission to enforcement	167,2
Getin Noble Bank S.A.	KRUK S.A.	March 2014	May 2024	Revolving credit facility	260	260	- pledge over KRUK S.A.'s ownership interest in a specific compartment of SeCapital Sarl - power of attorney over KRUK S.A.'s selected account - declaration of KRUK S.A. on submission to enforcement	435,2
mBank S.A.	PROKURA NSFIZ	July 2015	July 2023	Revolving credit facility	140	140	- registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account	142,6
PKO BP S.A.	PROKURA NSFIZ	June 2016	December 2020	Non-revolving credit facility	35	16	- registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of PROKURA NS FIZ on submission to enforcement - notarised declaration of KRUK S.A. on submission to enforcement	47,5
PKO BP S.A.	PROKURA NS FIZ	December 2016	June 2021	Non-revolving credit facility	27	16	- registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of PROKURA NS FIZ on submission to enforcement - notarised declaration of KRUK S.A. on submission to enforcement	13,2

Bank Pocztowy S.A.	KRUK S.A.	December 2018	December 2023	Revolving credit facility	50	50	- financial pledge over PROKURA NS FIZ investment certificates held by KRUK S.A. - financial pledge over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of KRUK S.A. on submission to enforcement	78,2
ING Bank Śląski S.A.	PROKURA NS FIZ	December 2018	December 2023	Revolving credit facility	200	200	- registered pledge over selected portfolios held by PROKURA NS FIZ - surety under civil law issued by KRUK S.A. - financial and registered pledge over PROKURA NS FIZ's selected account - financial pledge over PROKURA NS FIZ's selected account - power of attorney over KRUK S.A.'s selected account - notarised declaration of KRUK S.A. on submission to enforcement - notarised declaration of PROKURA NS FIZ on submission to enforcement	
DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A., mBank S.A.	Invest Capital LTD, Kruk Romania S.R.L.	July 2017	July 2023	revolving credit facility, syndicated credit facility	1 075	1 075	- pledge over borrowers' selected portfolios - pledge over selected bonds issued by ItaCapital S.r.l. - pledge over borrowers' selected accounts - surety under civil law issued by KRUK S.A. - surety under civil law issued by KRUK Romania S.r.l. - notarised declaration of KRUK S.A. on submission to enforcement	1 152
					2 047	1 964		2 310,3

TABLE 31. BORROWINGS AT THE KRUK GROUP (PLNM)

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

- After the reporting date, on January 4th 2019, PROKURA NS FIZ and ING Bank Śląski S.A. executed an agreement on a registered and financial pledge over receivables under a bank account agreement. On January 17th 2019, an application was filed with the court to enter the pledge in the pledge register. As at February 28th 2019, the Company did not receive the court's decision on registration of the pledge. The registered pledge will secure claims up to a maximum amount of PLN 240m.
- After the reporting date, on January 15th 2019, PROKURA NS FIZ and ING Bank Śląski S.A. executed an agreement on a registered pledge over a set of rights (a debt portfolio owned by PROKURA NS FIZ). On January 17th 2019, an application was filed with the court to enter the pledge in the pledge register. As stated in a notification received, the pledge was entered in the pledge register on February 19th 2019. The registered pledge secures claims up to a maximum amount of PLN 240m. As at December 31st 2018, the carrying amount of the pledged assets in KRUK S.A.'s accounting books was PLN 97.8m. Following the execution on July 3rd 2017 of a revolving multi-currency credit facility agreement (later amended) between KRUK

S.A., InvestCapital LTD and Kruk Romania S.R.L. as the borrowers, and DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. and mBank S.A., in order to establish security for the liabilities arising under the agreement:

- After the reporting date, on January 4th 2019, InvestCapital LTD, DNB Bank ASA, ING Bank Śląski S.A., Santander Bank Polska S.A. and mBank S.A. signed agreements under Spanish law to create a pledge over portfolios purchased by InvestCapital LTD on the Spanish market.

As at December 31st 2018, the total value of portfolios pledged under those agreements was PLN 137.3m.

In connection with the execution on July 2nd 2015 of a revolving credit facility agreement (later amended) between Prokura NS FIZ, the Company and mBank S.A., in order to secure the liabilities under the agreement:

- After the reporting date, on January 23rd 2019, Prokura NS FIZ and mBank S.A. signed agreements to create a registered pledge over portfolios purchased by Prokura NS FIZ.

As at December 31st 2018, the total value of portfolios pledged under those agreements was PLN 67.32m.

Termination of credit facility and loan agreements

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

| 4.6.4 |

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

| 4.6.4.1 |

LOANS ADVANCED BY KRUK S.A. TO ITS SUBSIDIARIES

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

- KRUK ROMANIA S.R.L z siedzibą w Bukareszcie,
- RoCapital I.F.N. z siedzibą w Bukareszcie,
- KRUK Česká a Slovenská republika s.r.o. z siedzibą w Hradec Kralove,
- Agecredit S.r.l z siedzibą w Cesenie,
- Novum Finance Sp. z o.o. z siedzibą we Wrocławiu,
- Secapital Polska Sp. z o.o. z siedzibą we Wrocławiu;
- Zielona Perła Sp. z o.o. z siedzibą we Wrocławiu.

The interest rates were set at 1M or 3M WIBOR (for PLN loans), 1M or 3M PRIBOR (for CZK loans), 1M or 3M EURIBOR (for EUR loans) and 1M or 3M ROBOR (for RON loans) plus margin. The agreed maturities of the loans financing the companies' operating activities ranged from 350 days to one year. The agreed maturities of the loans financing the companies' investing activities ranged from one to six years.

LOANS ADVANCED TO KRUK ROMANIA S.R.L. OF BUCHAREST

The loans were granted to KRUK ROMANIA S.r.l of Bucharest to finance its investing activities. The loans granted in 2018 totalled PLN 9m (as translated into PLN at the mid-exchange rates quoted by the NBP for the loan grant dates).

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

LOANS ADVANCED TO ROCAPITAL I.F.N.

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

As at December 31st 2018, the liabilities of RoCapital I.F.N towards KRUK S.A. under loans (principal and interest) totalled

PLN 4.7m (translated into PLN at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2018).

LOANS ADVANCED TO KRUK ČESKÁ A SLOVENSKÁ REPUBLIKA S.R.O. OF HRADEC KRÁLOVÉ

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Králové were intended for the financing of the company's operating and investing activities. The loans granted in 2018 totalled PLN 23.9m (as translated into PLN at the mid-exchange rates quoted by the NBP for the loan grant dates). Some of the loans granted in 2017 and 2018, of PLN 15.9m (as translated into PLN at the mid-exchange rate quoted by the NBP for December 20th 2018), were converted into capital – contribution to capital reserves other than the share capital. Interest on these loans was paid.

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

LOANS ADVANCED TO AGECREDIT S.R.L OF CESENA

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

LOANS ADVANCED TO ERIF BUSINESS SOLUTIONS SP. Z O.O. OF WROCŁAW

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

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

LOANS ADVANCED TO NOVUM FINANCE SP. Z O.O. OF WROCŁAW

In 2018, KRUK S.A. granted Novum Finance Sp. z o.o. of Wrocław loans of PLN 2.4m, intended for the financing of the company's operating activities. As at December 31st 2018, the company's outstanding liabilities towards KRUK S.A. under the loans (principal and interest) amounted to PLN 20.8m.

LOANS ADVANCED TO SECAPITAL POLSKA SP. Z O.O. OF WROCŁAW

Loans advanced to Secapital Polska Sp. z o.o. of Wrocław were intended for the financing of the company's operations. In 2018, the loans totalled PLN 0.03m. As at December 31st 2018, outstanding liabilities of Secapital Polska Sp. z o.o. towards KRUK S.A. the loans (principal and interest) totalled PLN 0.1m.

LOANS ADVANCED TO ZIELONA PERŁA SP. Z O.O. OF WROCŁAW

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

| 4.6.4.2 |

LOANS RECEIVED BY THE COMPANY FROM SUBSIDIARIES

LOANS RECEIVED FROM ROCAPITAL I.F.N. OF BUCHAREST

In 2018, the Company did not receive any loans from RoCapital I.F.N. However, the Company settled its liabilities (principal and interest) towards RoCapital I.F.N. under loans received in previous years.

As at December 31st 2018, the Company had no outstanding liabilities towards RoCapital I.F.N. under loans.

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

Loans received from ERIF BIG S.A. of Warsaw were intended for the financing of the Company's operating activities. Loans received in 2018 totalled PLN 3.2m.

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

| 4.6.4.3 |

NOVUM LOANS ADVANCED BY THE KRUK GROUP

In 2018, the KRUK Group advanced 8.8 thousand cash loans under the NOVUM service in Poland and Romania, with a total gross value of PLN 59.4m. As part of the NOVUM business line, consumer loans of up to PLN 10,000 were granted for periods from 3 to 30 months. The NOVUM service is mainly addressed to the KRUK Group's debtors who have repaid their debts or are repaying their debts in a timely manner, but are excluded from the banking market. In 2018, NOVUM loans were also offered in Poland to natural persons who had not been the KRUK Group's clients. Revenue from the NOVUM business line reported by the Group in 2018 was PLN 14.9m, up 14% year on year.

LOANS ADVANCED BY SUBSIDIARIES TO OTHER SUBSIDIARIES LOANS ADVANCED BY INVESTCAPITAL LTD. TO ITACAPITAL S.R.L.

In 2018, InvestCapital Ltd. of Malta advanced to ItaCapital S.r.l. of Milan a loan of PLN 220.4m (as translated at the exchange rate quoted by the NBP for the loan grant date), which was intended

for the financing of the company's investing activities. As at December 31st 2018, ItaCapital S.r.l. had no outstanding liabilities towards InvestCapital Ltd. under loans.

LOANS ADVANCED BY ROCAPITAL I.F.N. TO INVESTCAPITAL LTD.

In 2018, RoCapital I.F.N. of Bucharest advanced to InvestCapital Ltd. of Malta a loan of PLN 2.17m (as translated at the exchange rate quoted by the NBP for the loan grant date), which was intended for the financing of the company's investing activities. As at December 31st 2018, InvestCapital Ltd. had no outstanding liabilities towards RoCapital I.F.N. under loans.

LOANS ADVANCED BY ROCAPITAL I.F.N. TO KRUK ČESKÁ A SLOVENSKÁ REPUBLIKA S.R.O.

In 2018, RoCapital I.F.N. of Bucharest advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Kralove loans totalling PLN 7.72m (as translated at the exchange rates quoted by the NBP for the loans grant date), which were intended for the financing of the company's investing activities. As at December 31st 2018, the outstanding liabilities of KRUK Česká a Slovenská republika s.r.o. towards RoCapital I.F.N. under loans (principal) stood at PLN 7.72m (as translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2018).

LOANS ADVANCED BY ROCAPITAL I.F.N. TO KRUK ROMANIA S.R.L.

In 2018, RoCapital I.F.N. of Bucharest advanced to KRUK ROMANIA S.R.L. of Bucharest a loan of PLN 2.8m (as translated at the exchange rate quoted by the NBP for the loan grant date), which was intended for the financing of the company's investing activities. As at December 31st 2018, the outstanding liabilities of KRUK ROMANIA S.R.L. towards RoCapital I.F.N. under loans (principal) stood at PLN 2.54m (as translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2018).

| 4.6.4.4 |

GUARANTEES

GUARANTEES RECEIVED

On December 7th 2018, Santander Bank Polska S.A. (formerly Bank Zachodni WBK S.A.) issued annex 4 to the bank guarantee dated December 17th 2014 issued to secure the payment of all liabilities towards DEVCO Sp. z o.o. under a lease contract for a part of an office building, executed between the Company and DEVCO Sp. z o.o. Under the annex, the guarantee was extended until December 30th 2019. The guarantee amount is EUR 282,872.29 and PLN 190,030.02. The guarantee is secured by a power of attorney over the Company's bank accounts held with Santander Bank Polska S.A.

GUARANTEES ISSUED

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

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

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

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

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

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

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

| 4.6.4.5 |

SURETIES

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

On June 21st 2018, annex No. 3 was signed to the framework agreement on the procedure for executing and settling transactions, signed on June 13th 2013 between KRUK S.A. and Santander Bank Polska S.A. (formerly: Bank Zachodni WBK S.A.). Under the annex, InvestCapital LTD became a party to the agreement. In connection with the annex, on June 21st 2018 the Company concluded a surety agreement with Santander Bank Polska S.A., whereby the Company became a joint and several debtor with respect to InvestCapital LTD's liabilities under the framework agreement. The surety was provided for up to PLN 162.4m and will expire on or before October 31st 2021.

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

On December 20th 2018, Prokura NS FIZ, the Company and ING Bank Śląski S.A. signed a revolving credit facility agreement referred to in Section 4.6.3. The Company provided surety in respect of Prokura NS FIZ's liabilities under the agreement, thus becoming a joint and several debtor in respect of the liabilities. The surety was provided for up to PLN 240m. It will expire on or before December 20th 2026. In accordance with the agreement, on January 17th 2019, the Company (in connection with the surety provided) and Prokura NS FIZ made declarations on submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to PLN 240m, which will expire on or before December 20th 2026.

| 4.7 |

COURT, ADMINISTRATION AND ARBITRATION PROCEEDINGS

| 4.7.1 |

GENERAL INFORMATION

In the ordinary course of their business, the Company and its subsidiaries are parties to court and enforcement proceedings concerning their operations. In 2018, the Company and its subsidiaries were plaintiffs or participants in 180,018 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 8,281,691,681.00. Furthermore, in 2018, 1,161,796 enforcement proceedings were pending upon motions filed by the Company and its subsidiaries, with a total value of claims being enforced of approximately PLN 11,182,433,153. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and its subsidiaries.

In 2018, the Company and its subsidiaries were defendants in 12,651 court proceedings, with a total value of claims of PLN 1,116,712,877.00. They were chiefly proceedings against enforcement instigated in connection with the Company's or its subsidiaries' operating activities involving debt recovery. The Company and its subsidiaries believe the claims to be without merit and expect them to be dismissed.

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

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| 4.7.2 |

MATERIAL PROCEEDINGS

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

| 4.8 |

MATERIAL EVENTS AFTER DECEMBER 31ST 2018

On January 14th 2019 The Management Board of KRUK S.A. passed a resolution on the issue of Series AG2 bonds and determination of their final terms and conditions. The issue will comprise up to 250,000 unsecured bearer Bonds in book-entry form. The Bonds will be offered at the issue price equal to their nominal value of PLN 100 per bond, and that their total nominal value will not exceed PLN 25m. The Bonds will bear interest at a variable rate equal to 3M WIBOR (the rate charged for three-month borrowings denominated in PLN on the Polish interbank market) plus a fixed margin of 3.50 percentage points. The Company will redeem the Bonds on 6th February 2024.

| 4.9 |

MAJOR RESEARCH AND DEVELOPMENT ACHIEVEMENTS

In 2018, research and development work focused on:

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

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



CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS	5.1
SHAREHOLDING STRUCTURE	5.2
GOVERNING BODIES	5.3
RULES GOVERNING AMENDMENTS TO THE COMPAN Y'S ARTICLES OF ASSOCIATION	5.4
KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE PROCESS OF PREPARATION OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS	5.5
THE COMPAN Y'S DIVERSITY POLICY	5.6

| 5.1 |

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

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

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

| 5.1.1 |

ADOPTED CODE OF CORPORATE GOVERNANCE

In 2018, the Company applied the corporate governance standards described in the Best Practice for WSE Listed Companies 2016 (Corporate Governance Principles, the Code of Best Practice), which constitutes an appendix to the WSE Supervisory Board's Resolution No. 26/1413/2015 of October 13th 2015. The document is available on the Warsaw Stock Exchange website dedicated to corporate governance (<http://www.corp-gov.gpw.pl>).

| 5.1.2 |

CORPORATE GOVERNANCE STANDARDS WHICH THE COMPANY ELECTED NOT TO COMPLY WITH

As per the Management Board's statement, in 2016 the Company declared compliance with corporate governance standards set forth in the Best Practice for WSE Listed Companies 2016, save for the exceptions described below. This statement remains valid also for corporate governance standards complied with in 2018.

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.

| 5.2 |

SHAREHOLDING STRUCTURE

| 5.2.1 |

SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY MAJOR HOLDINGS IN KRUK S.A.

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

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	1 963 407	110,44
NN PTE*	2 100 000	11,17
Aviva OFE*	1 149 000	6,11

(*) DATA BASED ON THE LIST OF SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL VOTING RIGHTS AT THE EXTRAORDINARY GENERAL MEETING OF KRUK S.A. HELD ON MAY 15TH 2017.

SOURCE: THE COMPANY.

TABLE 32. MAJOR HOLDINGS IN KRUK S.A AS AT JANUARY 1ST 2018

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

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	1 931 666	10,23
NN PTE*	2 000 000	10,59
Aviva OFE*	1 319 000	6,98

(*) DATA BASED ON THE LIST OF SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL VOTING RIGHTS AT THE ANNUAL GENERAL MEETING OF KRUK S.A. HELD ON APRIL 18TH 2018.

SOURCE: THE COMPANY.

TABLE 33. MAJOR HOLDINGS IN KRUK S.A AS AT DECEMBER 31ST 2018

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

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	1 931 666	10,23
NN PTE*	2 000 000	10,59
Aviva OFE*	1 319 000	6,98

(*) DATA BASED ON THE LIST OF SHAREHOLDERS HOLDING 5% OR MORE OF TOTAL VOTING RIGHTS AT THE ANNUAL GENERAL MEETING OF KRUK S.A. HELD ON APRIL 18TH 2018.

SOURCE: THE COMPANY.

TABLE 34. MAJOR HOLDINGS IN KRUK S.A AS AT THE REPORT ISSUE DATE

| 5.2.2 |

CHANGES IN THE SHAREHOLDING STRUCTURE IN THE REPORTING YEAR

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

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

| 5.2.3 |

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's own shares listed on the main market of the WSE, in the period from June 1st 2018 to May 31st 2021, with the proviso that the total par value of the shares so purchased may not exceed PLN 3,761,580, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 500m, including the share price and transaction costs. The price at which the Company may buy back its own shares may not be higher than PLN 250 or lower than PLN 1. Own shares may not be bought back in block transactions. Shares acquired by the Company as part of the buy-back programme may be used to cancel the Company's own shares and reduce its share capital.

The Management Board may, depending on the Company's interests, finish the buy-back of shares before May 31st 2021 or before all funds intended to be spent on the buy-back programme are used up, or may altogether abandon the buy-back of shares in whole or in part.

In 2018, the Company did not buy back any of its shares.

| 5.2.4 |

HOLDERS OF SECURITIES CONFERRING SPECIAL CONTROL POWERS

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

| 5.2.5 |

LIMITATIONS ON THE EXERCISE OF VOTING RIGHTS

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

| 5.2.6 |

LIMITATIONS ON TRANSFER OF OWNERSHIP OF SECURITIES

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

| 5.2.7 |

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

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

| 5.3 |

GOVERNING BODIES

[G4-34] [G4-38]

| 5.1.1 |

MANAGEMENT BOARD

| 5.3.1.1 |

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

The Company's management body is the Management Board. In the period January 1st – December 31st 2018, the Management Board consisted of five members.

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

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

NAME AND SURNAME	POSITION
Piotr Krupa	CEO and President of the Management Board
Agnieszka Kulon	Member of the Management Board
Urszula Okarma	Member of the Management Board
Iwona Stomska	Member of the Management Board
Michał Zasępa	Member of the Management Board

SOURCE: THE COMPANY.

TABLE 35. COMPOSITION OF THE MANAGEMENT BOARD OF Kruk S.A. IN 2018

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

The President of the Management Board is appointed and removed by the Supervisory Board. The other members of the Management Board are also appointed and removed by the Supervisory Board, following a request by the President of the Management Board.

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

The mandate of a member of the Management Board expires on or before the date of the General Meeting approving the financial statements for the last full financial year in which the member held the office.

| 5.3.1.2 |

POWERS OF THE MANAGEMENT BOARD

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

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

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

By virtue of Resolution No. 20/2018 of the Annual General Meeting of KRUK S.A. of Wrocław, held on April 18th 2018, the General Meeting authorised the Management Board to

purchase the Company's own shares listed on the main market of the WSE, i.e. the official stock exchange market, in accordance with the procedure and on the terms provided for in the resolution.

| 5.3.1.3 |

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

Table 36 presents Company shares or rights to Company shares held by Management and Supervisory Board members as at January 1st 2018.

NAME AND SURNAME	POSITION	NUMBER OF SHARES HELD	TOTAL PAR VALUE (PLN)
Piotr Krupa	CEO and President of the Management Board	1 963 407	1 963 407
Agnieszka Kutton	Member of the Management Board	45 000	45 000
Urszula Okarma	Member of the Management Board	107 001	107 001

Iwona Słomska	Member of the Management Board	36 750	36 750
Michał Zasępa	Member of the Management Board	32 191	32 191
Tomasz Bieske	Member of the Supervisory Board	1 222	1 222
SOURCE: THE COMPANY.			

TABLE 36. KRUK S.A. SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS AS AT JANUARY 1ST 2018

Apart from the changes in the number of shares held by Piotr Krupa, President of the Management Board, described in the Section entitled Shareholding structure, in the period from January 1st 2018 to the date of issue of this Report there were also changes in the holdings of Company shares held by Iwona Słomska and Michał Zasępa, as described below.

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

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

NAME AND SURNAME	POSITION	NUMBER OF SHARES HELD	TOTAL PAR VALUE (PLN)
Piotr Krupa	CEO and President of the Management Board	1 931 666	1 931 666
Agnieszka Kutton	Member of the Management Board	45 000	45 000
Urszula Okarma	Member of the Management Board	107 001	107 001
Iwona Słomska	Member of the Management Board	40 000	40 000
Michał Zasępa	Member of the Management Board	30 441	30 441
Tomasz Bieske	Member of the Supervisory Board	1 222	1 222
SOURCE: THE COMPANY.			

TABLE 37. KRUK S.A. SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS AS AT DECEMBER 31ST 2018

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

PIOTR KRUPA – SUMMARY OF NOTIFICATIONS IN 2018

DATE OF NOTIFICATION	DATE OF TRANSACTION	VOLUME	TRANSACTION TYPE	AVERAGE PRICE	PLACE OF TRANSACTION
September 13th 2018	September 10th 2018	1 000	Sale	PLN 190.33	WSE
	September 11th 2018	10 000	Sale	PLN 184.00	WSE
	September 12th 2018	5 511	Sale	PLN 183.33	WSE
December 14th 2018	December 12th 2018	5 230	Sale	PLN 163.90	WSE
	December 13th 2018	10 000	Sale	PLN 164.12	WSE

MICHAŁ ZASĘPA – SUMMARY OF NOTIFICATIONS IN 2018

DATE OF NOTIFICATION	DATE OF TRANSACTION	VOLUME	TRANSACTION TYPE	AVERAGE PRICE	PLACE OF TRANSACTION
May 23rd 2018	May 23rd 2018	3 250	Purchase	PLN 83.52	Outside a trading venue
November 2nd 2018	October 30th 2018	418	Sale	PLN 182.70	WSE
	October 31st 2018	4 582	Sale	PLN 183.24	WSE

IWONA SŁOMSKA - SUMMARY OF NOTIFICATIONS IN 2018

DATE OF NOTIFICATION	DATE OF TRANSACTION	VOLUME	TRANSACTION TYPE	AVERAGE PRICE	PLACE OF TRANSACTION
May 23rd 2018	May 23rd 2018	3 250	Purchase	PLN 83.52	Outside a trading venue

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

NAME AND SURNAME	POSITION	NUMBER OF SHARES HELD	TOTAL PAR VALUE (PLN)
Piotr Krupa	CEO and President of the Management Board	1931 666	1931 666
Agnieszka Kulton	Member of the Management Board	45 000	45 000
Urszula Okarma	Member of the Management Board	107 001	107 001
Iwona Słomska	Member of the Management Board	40 000	40 000
Michał Zasępa	Member of the Management Board	30 441	30 441
Tomasz Bieske	Member of the Supervisory Board	1 222	1 222
SOURCE: THE COMPANY.			

TABLE 38. KRUK S.A. SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS AS AT THIS REPORT ISSUE DATE

5.3.1.4 | REMUNERATION, BONUSES AND EMPLOYMENT CONTRACT TERMS OF THE MANAGEMENT BOARD MEMBERS

Pursuant to Article 7.8 of the Company's Articles of Association, the rules of remuneration of the Management Board members and the amount of remuneration of the President of the Management Board are determined by the Supervisory Board. The amounts of remuneration of the individual Management Board members other than the President are determined by the Supervisory Board, based on proposals submitted by the President of the Management Board and in line with the remuneration rules defined by the Supervisory Board. Under the managerial contracts that have been in force since January 1st 2017, the Management Board members are entitled to monthly remuneration in the amounts specified therein. Irrespective of their salary, they may receive discretionary bonuses. The decision on the award and amounts of discretionary bonuses rests with the Supervisory Board. The terms of the managerial contracts correspond to the terms of mandates of the Management Board members: they expire with the expiry of a given mandate, including as a result of

removal or resignation from office of the Management Board member. Furthermore, a managerial contract may be terminated by its parties on six months' notice, or on three months' notice, without compensation, in the event of liquidation or dissolution of the Company, long sick absence of the Manager, or other kind of inability to perform his or her duties in the period covered by the contract. Managerial contracts may also be terminated by its parties without notice and compensation, with immediate effect, in circumstances indicated in the contracts.

In accordance with the executed contracts, in the event of termination or rescission of a contract by the Company, unless termination takes place in circumstances where the contract may be terminated with immediate effect, without notice or compensation and except where a Management Board member is removed for reasons attributable to that member, the Management Board member is entitled to additional remuneration.

The contracts executed with the Management Board members contain provisions prohibiting the members from engaging in,

participating or taking an interest in any commercial or business activities without notifying the Supervisory Board (in the case of the President of the Management Board) or without the President of the Management Board's written consent (in the case of other Management Board members), as well as non-compete clauses effective during the contract term and for 2 (two) years from the day on which a given person ceases to be a member of the Management Board of KRUK S.A. The contracts with the Management Board members provided for relevant compensation in respect of the prohibitions. The compensation is payable in monthly instalments for 24 months from the contract termination date, and will amount to 80% of the person's remuneration over the first 12 months, and 60% over the next 12 months.

Furthermore, the contracts concluded with the Management Board members impose contractual penalties in the amounts specified therein for violation of the non-compete provisions. The tables below present the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2018) from the Company and its subsidiaries for 2017 and 2018.

NAME AND SURNAME	REMUNERATION FROM THE COMPANY FOR 2018	ADDITIONAL BENEFITS* FROM THE COMPANY FOR 2018	REMUNERATION FROM THE SUBSIDIARIES FOR 2018	ADDITIONAL BENEFITS* FROM THE SUBSIDIARIES FOR 2018
	(PLN '000)		(PLN '000)	
Piotr Krupa	2400	6,28	—	—
Agnieszka Kul-ton	768	6,28	—	—
Urszula Okarma	768	5,20	—	—
Iwona Słomska	768	5,20	—	—
Michał Zasępa	768	68,15	—	—

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

TABLE 39. REMUNERATION OF THE MANAGEMENT BOARD MEMBERS IN 2018

NAME AND SURNAME	REMUNERATION FROM THE COMPANY IN 2017	ADDITIONAL BENEFITS* FROM THE COMPANY FOR 2017	REMUNERATION FROM THE SUBSIDIARIES IN 2017	ADDITIONAL BENEFITS* FROM THE SUBSIDIARIES IN 2017
	(PLN '000)		(PLN '000)	
Piotr Krupa	2400	6,18	—	—
Agnieszka Kul-ton	768	6,18	1,89	—
Urszula Okarma	768	5,1	5,53	—
Iwona Słomska	768	5,1	—	—
Michał Zasępa	768	68,57	—	—

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

TABLE 40. REMUNERATION OF THE MANAGEMENT BOARD MEMBERS IN 2017

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

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

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

In line with the terms of the 2015–2019 Plan, the number of subscription warrants to be granted to Management Board members in each year of the Stock Option Plan may not exceed 50% of the total number of subscription warrants offered for subscription by eligible persons as part of a given tranche. For detailed information on the incentive schemes operated by the Company, see the Incentive scheme Section.

| 5.3.2 |

SUPERVISORY BOARD

| 5.3.2.1 |

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

The Supervisory Board shall consist of five or seven members. The number of Supervisory Board members is each time determined by the General Meeting. Members of the Supervisory Board are appointed for a joint term of office of three years. As at the date of authorisation of this Report, the Company's Supervisory Board is composed of seven members. The Supervisory Board is appointed and removed by the General Meeting, with the proviso that if Mr Piotr Krupa holds shares in the Company representing 8% or more of the total vote at its General Meeting, he has the right to appoint and remove:

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

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

Board member.

From January 1st 2018 to December 31st 2018, the KRUK Supervisory Board consisted of seven members. Composition of the Supervisory Board of KRUK S.A. remained unchanged and is presented below.

NAME AND SURNAME	POSITION
Piotr Stępnia	Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Tomasz Bieske	Member of the Supervisory Board
Arkadiusz Orlin Jastrzębski	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Robert Koński	Member of the Supervisory Board
Józef Wancer	Member of the Supervisory Board

SOURCE: THE COMPANY.

TABLE 41. COMPOSITION OF THE SUPERVISORY BOARD OF KRUK S.A. IN 2018

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

WOMEN	14%
MEN	86%

SOURCE: THE COMPANY.

TABLE 42. GENDER DIVERSITY ON THE SUPERVISORY BOARD OF KRUK S.A. IN 2018

| 5.3.2.2 |

OPERATION OF THE SUPERVISORY BOARD

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

- Assessing the financial statements and the Directors' Report on the Company's operations for the previous financial year in terms of their consistency with the accounting books, relevant documents and with the facts, and assessing the Management Board's recommendations concerning distribution of profit or coverage of loss;

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

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

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

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

| 5.3.2.3 |

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

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

| 5.3.2.4 |

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

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

Table 40 presents the amounts of remuneration received by the Supervisory Board members from the Company and its subsidiaries for 2018 and 2017.

Surname, first name	Remuneration from the Company for 2017 (PLN '000)	Remuneration from the Company for 2018 (PLN '000)
Beuch Katarzyna	98,91	98,91
Bieske Tomasz	98,91	98,91
Jastrzębski Arkadiusz	98,91	98,91
Kawalec Krzysztof	98,91	98,91
Koński Robert	98,91	98,91
Stępiak Piotr	197,83	197,83
Wancer Józef	98,91	98,91

SOURCE: THE COMPANY.

TABLE 43. REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

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

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

As at the date of this Report, there were no contingent or deferred benefits payable to members of the Supervisory Board by the Company or the subsidiaries.

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

| 5.3.2.5 |

SUPERVISORY BOARD COMMITTEES

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

Supervisory Board:

- Audit Committee,
- Remuneration and Appointment Committee,
- Finance and Budget Committee.

Members of the committees are appointed by the Supervisory Board from among its members.

AUDIT COMMITTEE

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

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

Ms Katarzyna Beuch graduated from the Faculty of Management and Computer Science of the Wrocław University of Economics. She also completed a postgraduate USAID programme on asset and liability management and banking risk at the Warsaw Institute of Banking. She started her professional career in 1992 at the Assets and Liabilities Management Department of Bank Zachodni S.A. of Wrocław. In 1996–2006, she worked at the Audit Department of Ernst & Young Audit sp. z o.o., where she was responsible for auditing financial statements, due diligence projects and accountancy consulting at financial institutions, such as banks, leasing and insurance companies, pension and investment funds, and non-financial enterprises. From 2006 to 2012, she served as a member of the Management Board and CFO at Getin Holding S.A. She was Head of the Accounting

Department at Santander Consumer Bank. In 2016–2018, she held the position of Chief Executive Officer for Controlling and Economic Analyses at KGHM Polska Miedź S.A. She has had ACCA qualification since 2000 (and FCCA professional title since 2005). She is the author of publications on the application of International Financial Reporting Standards. She has sat on the Supervisory Board of KRUK S.A. since 2013.

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

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

The Audit Committee's responsibilities include in particular:

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

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

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

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

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

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

- Review of the debt portfolio valuation process and impact of planned legislative changes on debt portfolio valuation;
- Review and summary of asset reorganisation at the Group;
- Tax management at the Group;
- Currency and interest rate risk management at the Group, updating of the Currency Risk Management Policy;
- Review of the internal liquidity management policy at the Company and the Group.

In line with KRUK S.A.'s policy for the provision of permitted non-audit services by the auditing firm carrying out the audit, entities related to the auditing firm or a member of the auditing firm's network, permitted non-audit services provided for all members of the KRUK Group are monitored and assessed for independence. In 2018, such services cost PLN 190 thousand. All of them were pre-approved by the Audit Committee, in accordance with relevant proposal submitted to the Committee. Members of the Audit Committee performed their duties during the Committee's meetings and the Supervisory Board's meetings. In 2018, the Committee held four meetings. The Audit Committee's meetings were also held in the form of teleconferences.

Remuneration and Appointment Committee

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

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

The Remuneration and Appointment Committee's responsibilities include in particular:

- Planning of the remuneration policy for the Management Board members;
- Alignment of the Management Board members' remuneration with the Company's long-term interests and its financial performance;
- Recommendation of candidates to the Management Board to the Supervisory Board;
- Periodic assessment of the structure, number of members, composition and performance of the Management Board, and, where needed, recommendation of changes in this respect to the Supervisory Board, and submission of a periodic assessment of the skills, knowledge and experience

of the individual Management Board members to the Supervisory Board.

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

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

As at the issue date of this Report, the composition of the Remuneration and Appointment Committee did not change. In 2018, the tasks of the Committee included issuing opinions on changes to the list of persons eligible to participate in the Management Stock Option Plan for 2015–2019.

Matters within the remit of the Remuneration and Appointment Committee were discussed during the Committee's meetings, teleconferences and Supervisory Board meetings.

Finance and Budget Committee

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

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

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

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

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

- Drafting budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board on matters related to the Company's finances,
- Supporting the oversight of the performance of the Company's budget;
- On-going analysis of the Company's financial performance and condition,
- Matters related to the operation of the Company's cash, credit and tax systems, as well as its financial plans, budgets and property insurance contracts.

In 2018, the Finance and Budget Committee focused primarily on matters related to the Company's and the Group's budgets, as well as financial matters related to the Company's operations. Matters within the remit of the Finance and Budget

Committee were discussed during the Committee's meetings and Supervisory Board's meetings. The Committee also held consultations in the form of teleconferences.

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

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

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

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

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

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

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

- services performed in connection with the prospectus of an audited entity, carried out in accordance with the national standard for related services and consisting in carrying out agreed procedures:
 - conducting due diligence procedures with respect to the entity's economic and financial standing;
 - issuing comfort letters;
- assurance services with regard to pro forma financial information, profit forecasts or estimates, included in the prospectus of the audited entity;
- audit of historical financial information to be included in the prospectus, as referred to in Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements;
- verification of consolidation packages;
- confirmation of compliance with covenants under credit facility agreements based on the analysis of financial information sourced from the financial statements audited by the auditing firm;

- assurance services with regard to reporting on corporate governance, risk management and corporate social responsibility;
- services consisting in the assessment of compliance of information disclosed by financial institutions and investment firms with the disclosure requirements concerning capital adequacy and variable remuneration components;
- assurance concerning financial statements or other financial information for regulatory authorities, the supervisory board or other supervisory body of the company or its owners, going beyond the scope of a statutory audit and designed to assist those authorities and bodies in fulfilling their statutory duties.

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

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

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

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

APPOINTMENT OF AN AUDITOR

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

| 5.3.3 |

GENERAL MEETING

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

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

- Consideration and approval of the Directors' report on the Company's operations and financial statements for the previous financial year;

- Adopting a resolution on the distribution of profit or coverage of loss;
- Granting discharge to the members of the Company's governing bodies in respect of performance of their duties.

An Extraordinary General Meeting is convened by the Management Board on its own initiative or at the request of shareholders representing at least a half of the share capital or a half of total voting rights in the Company, by the Supervisory Board if it considers it appropriate, or by shareholders authorised by the registry court pursuant to Art. 400.3 of the Commercial Companies Code.

Shareholders representing at least one-twentieth of the share capital may request that an Extraordinary General Meeting be convened and that certain matters be placed on its agenda. The request should be submitted to the Management Board in writing or in electronic form. The Extraordinary General Meeting should be convened within two weeks of the Management Board's receipt of the request.

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

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

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

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

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

The powers and responsibilities of the General Meeting 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;
- Amendments to the Company's Articles of Association;
- Increase or reduction of the share capital;
- Merger, transformation and demerger of the Company;
- Dissolving the Company and opening liquidation proceedings with respect to the Company;
- Adopting the Rules of Procedure for the General Meeting and for the Supervisory Board;
- Consideration and resolution of proposals put forward by the Supervisory Board;
- Other matters reserved for the General Meeting under the Articles of Association or applicable laws.

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

| 5.4 |

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.

| 5.5 |

KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS USED IN THE PROCESS OF PREPARATION OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Company has in place a suitable and effective internal control system, which ensures safe operations in compliance with applicable laws, adopted strategy and internal procedures. The internal control system is comprised of:

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

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

| 5.6 |

THE COMPANY'S DIVERSITY POLICY

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

KRUK S.A. operates an Internal Mediation Policy to prevent discrimination or bullying in the workplace. The Group's objective is to implement the Internal Mediation Policy across the Group. To detect any instances of discrimination or bullying, the Group

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



NON-FINANCIAL
INFORMATION

CATEGORY: ECONOMIC		6.1	
CATEGORY: ENVIRONMENTAL		6.2	
CATEGORY: SOCIAL		6.3	
GRI INDEX		6.4	

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

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

[G4-28]

This non-financial report has been published for the second time.

[G4-22][G4-23][G4-29]

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

[G4-30]

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[G4-31]

ORGANISATION'S VALUES

MISSION OF THE KRUK GROUP

Our client base includes individuals and businesses facing the problem of excessive debt. We build positive relations and help our clients regain creditworthiness. We safeguard compliance with social and legal norms requiring that everyone must fulfil their obligations.

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

These are also the personal values of Piotr Krupa, President of the Management Board of KRUK S.A.

Each employee has access to relevant rules, instructions and procedures, which are available on a designated intranet site. Additionally, the Compliance Department was established in 2016 to provide assistance in such issues as interpreting the applicable laws and implementing changes in our processes. This makes it easier to adapt our operations to the evolving legal framework. Furthermore, in 2018 the Compliance Committee was appointed; for more information on its tasks, see below in this section.

The values of the KRUK Group apply not only in the relations between all its employees, but also in contacts with customers (debtors), trading partners, suppliers and other market participants.

DOCUMENTS THAT HELP US MAINTAIN OUR CORE VALUES

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

Client	Trading partner	Shareholder	Employees
We treat debtors with respect.	We do not make promises we cannot keep.	In communication with shareholders, the following are critical to us: <ul style="list-style-type: none"> • Truth • Complete information • Continuity • Speed of operation • Clarity 	We respect all our employees' opinions.
We help them escape the debt trap.	We approach our trading partners' needs on a case-by-case basis.		We all take care to protect the Company's reputation.
We ensure personal data protection.	We respect our competitors.		We build good rapport within the Group and listen to all our employees.
We render convoluted and incomprehensible legalese plain and readily understandable to all our customers.	We maintain the confidentiality of information.		We help each other.
	We avoid conflicts of interest.		We are tolerant.
	We work with transparency and integrity.		We build relations on mutual respect and partnership.
	We build long-term and lasting relationships.		We provide our employees with ample opportunity to improve their qualifications.

SOURCE: THE COMPANY.

TABLE 44. KEY ETHICAL VALUES AND PRINCIPLES OF THE KRUK GROUP

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

KRUK GROUP'S ORGANISATIONAL CULTURE

In 2018, we carried out a second organisational culture survey based on the cultural dimensions defined by Geert Hofstede. The first such survey was undertaken in 2016 and covered 1,541 our employees, including 236 managers. In 2018, the survey was completed by 2,070 employees, of which 1,205 were women and 865 men, including a total of 250 managers.

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

The survey confirmed once again that the organisational culture across the KRUK Group is robust and clearly defined, and elicits strong identification with the organisation. It is shared by all employees regardless of the position held or country of operation.

Each employee has access to publications showing cultural differences between the countries where we operate.

The survey covered employees in Poland, Romania, the Czech Republic, Slovakia, Spain and Italy. Its findings indicate that the Group-wide organisational culture is expressed mainly through partnership, cooperation and freedom of expression. Which has not changed since 2016.

This means that our employees:

- are able to build partnership-based relations regardless of their job title or position at the company, which creates room for open discussions, trust and efficient cooperation between them;
- like cooperating and supporting one another: team's result is more important than individual success;
- value friendly working atmosphere, which they believe is just as important as business objectives;
- quickly respond to changes, and adopt a long-term perspective in their work;
- respect the emotions and opinions of others – they allow free expression of emotions and opinions, approach them with understanding, and foster interpersonal relations.

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

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

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

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

2018	KRUK S.A.	KRUK GROUP
Number of suggestions	1291	2392
Number of implemented suggestions	208	495
ŹRÓDŁO: SPÓŁKA		

TABLE 45. EMPLOYEE SUGGESTIONS SUBMITTED AND IMPLEMENTED IN 2018

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

[G4-15] [G4-16]

LEGAL AND SOCIAL STANDARDS

At the KRUK Group we ensure compliance with the code of ethics and legal standards that regulate the activities of debt management companies. We also adhere to social standards based on integrity, responsibility and mutual respect. Furthermore, we give opinions and comment on the relevant legal matters and amendments to legal acts relating to the development of the debt management market and business information market. We are involved in those activities as a member of non-profit organisations acting towards the development of that industry. These organisations represent,

among others, the interests of the financial market in relations with the lawmakers, market regulators, public administration and public opinion. They also engage in promoting financial education of the general public.

The KRUK Group is a member of the following organisations:

- ACA International
- Asociácia Slovenských Inkasných Spoločností
- Asociație Inkasnic Agentur
- Asociatia De Management Al Creantelor Comerciale
- Bundesverband Deutscher Inkasso-Unternehmen
- Bundesverband Credit Management
- Bundesvereinigung Kreditankauf Und Servicing
- Conference of Financial Companies in Poland
- Polish Association of Listed Companies
- PKPP Lewiatan (Polish Confederation of Polish Employers)

As a member of the Conference of Financial Companies in Poland, KRUK S.A. complies with the Code of Best Practice for the Businesses Associated in the Conference of Financial Companies in Poland, which can be found, among others, at: http://www.kpf.pl/pliki/etyka/zasady_dobrych_praktyk_01.09.2017.pdf.

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

At the time of preparation of this Report, KRUK S.A. held a valid Ethics Audit Certificate for 2017, Which can be accessed at: https://pl.kruk.eu/media/content/certyfikaty/certyfikat_kpf_2.jpg.

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

In 2018, the Company was awarded the 'Ethical Company 2017' title by the Puls Biznesu daily and PwC.

KRUK S.A., as a company listed on the Warsaw Stock Exchange, complies with the Code of Best Practice for WSE Listed Companies 2016.

Our clients incur debts for various reasons, which include unforeseen fortuitous events. If necessary, we provide them with psychological support. As we have partnered with a non-profit organisation which offers advice and assistance to debtors who struggle with depression or suicidal thoughts. We have also established internal procedures to deal with situations where a client reports a threat to health or life. Our motivation was to take care of our clients who deal with numerous problems.

[G4-56]

MATERIAL ASPECTS AND INDICATORS

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

[G4-33]

Material aspects include:

- With regard to economic indicators:
 - Economic performance
 - Market presence
 - Indirect economic impacts
 - Procurement practices
- With regard to environmental performance indicators:
 - Materials
 - Energy consumption
 - Emissions
- With regard to society performance indicators:
 - Employment
 - Occupational health and safety
 - Training and education
 - Diversity and equal opportunities
 - Non-discrimination
 - Human rights grievance mechanisms
 - Anti-corruption
 - Compliance with regulations
 - Product and service labelling
 - Marketing communications
 - Compliance with regulations concerning marketing communications

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

MATERIAL STAKEHOLDERS

Based on our activities to date, we have identified the key groups of internal and external stakeholders. These groups can affect one another, both in terms of pursuit of our business strategy and corporate social responsibility. To prepare this Non-Financial Statement for 2018, the KRUK Group has identified material economic, environmental, and social aspects. To this end, we organised meetings with internal stakeholders, including

employees, managers and Management Board members.
Following those meetings, our key external stakeholders were identified, including:

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

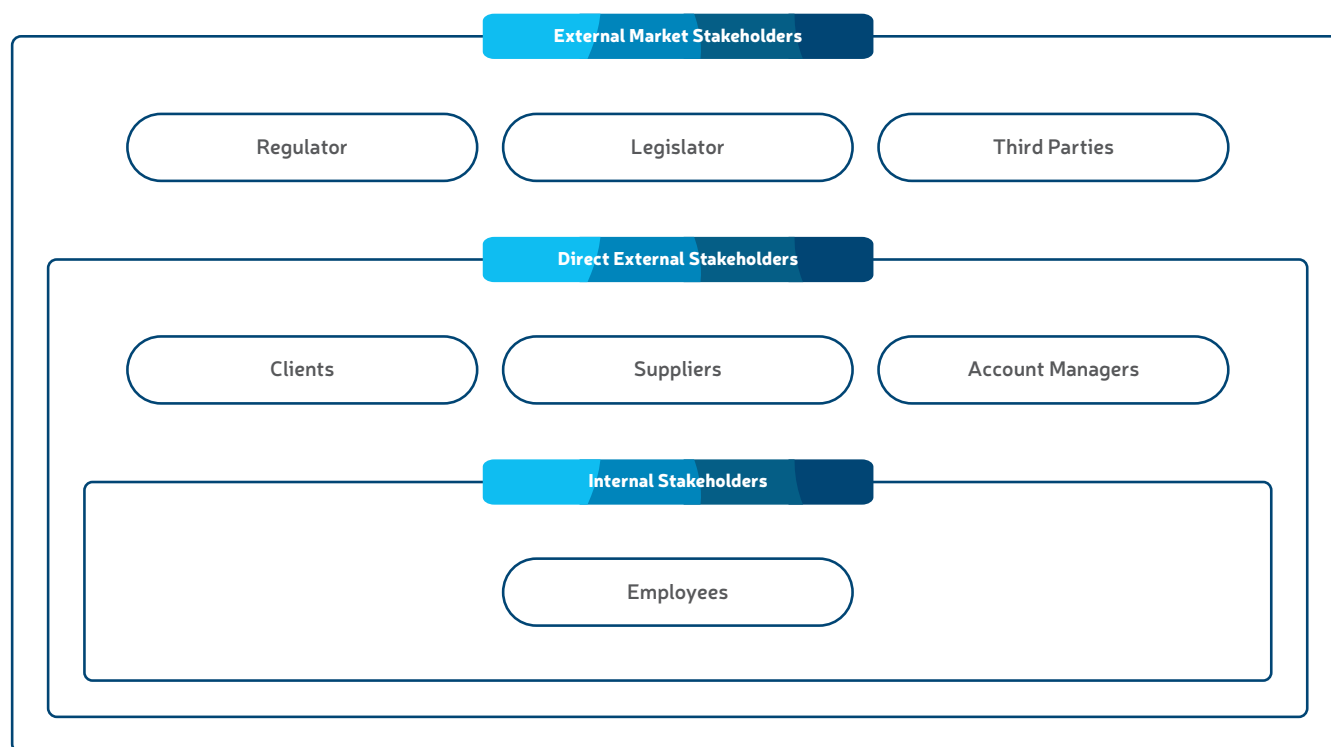


FIGURE 3. OUR STAKEHOLDER MAP

[G4-24]

The significance of stakeholder groups was verified based on:

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

Stakeholder	Form of dialogue	Frequency
Regulators and industry associations	Participation in issuing opinions on new regulations and acts of law (in working groups appointed when and as needed)	Ongoing
Competitor debt management companies	Participation in talks on how to improve the image of the entire debt management industry in Poland (in a working group set up by the Conference of Financial Companies in Poland) Participation in industry conferences in countries where we operate	Ongoing
Non-profit organisations	Participation in financial education events and charitable initiatives	As needed
General public	Social surveys regarding financial education, budget planning, financial behaviour, and attitudes to debt and saving	At least once a year
	Workshops and training	As needed
	Press materials, radio and TV advertising campaigns	As planned in communication strategy
Trading partners	Trading partner satisfaction survey	Once a year
Clients – debtors	Client satisfaction survey	Ongoing
	e-kruk.pl platform	Ongoing
	Face-to-face and telephone conversations with KRUK consultants	Ongoing
Suppliers	Face-to-face meetings, phone calls, emails	As needed
Employees	Employee Suggestion Scheme for employees to propose their ideas, e.g. for making improvements in the workplace	Ongoing
	An Employee Forum, with members elected by the Group employees in a secret ballot from among proposed candidates	Four meetings in calendar year
	Employee surveys, including a questionnaire surveying satisfaction with participation in various events organised by the KRUK Group	As needed
	Internal communication, including in-house competitions, invitation to various employee initiatives and charity projects including the Szlachetna Paczka (Noble Package) and Talent Miłosierdzia (Talent for Charity) campaigns	As needed
	Whistleblowing, i.e. the procedure of reporting irregularities using an anonymous form available on the Company's website	As needed
	Whistleblowing to the Consultation and Mediation Team	As needed
	In-house events for employees	At least once a year
	Employee Assessment System	Since 2018, employees have been regularly assessing their colleagues on a yearly basis.
	Programme to support employees in difficult life situations, with full confidentiality guaranteed	As needed by employee
	Direct meetings with management staff	As needed
SOURCE: THE COMPANY.		

TABLE 46. KEY STAKEHOLDERS IN THE KRUK GROUP DIALOGUE

[G4-18] [G4-20]

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

- a public survey for debtors commissioned by the KRUK Group over the Ariadna online research panel; the survey covered about 400 debtors and was carried out using a web form (CAWI);
- a public survey 'How Poles Feel about Debt' conducted in cooperation with the WSB University of Wrocław among 1,200 persons, of whom 50% were debtors. It was an online survey. In a similar survey, a questionnaire form with identical questions was presented to residents of Romania, the Czech Republic, Slovakia, Italy and Spain.
- A satisfaction survey among the KRUK Group's business partners, carried out using questionnaires and in-depth interviews among 28 partner companies;
- a satisfaction survey among KRUK Group's clients, conducted through telephone interviews and including both open- and closed-ended questions; Over 31,000 clients participated in the survey in 2018, which is 11,000 more than a year earlier. This year, satisfaction surveys were also conducted by our Romanian subsidiary.

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

| 6.1 |

CATEGORY: ECONOMIC

We are the leader of the debt management market in Central Europe. In accordance with its vision, the Company aspires to be one of the world's largest companies working with individuals facing the problem of excessive debt. We strive to achieve this objective step by step, by setting trends on the market and expanding our operations abroad. In our day-to-day work, we focus mainly on customers. With them in mind, KRUK has developed its amicable collection strategy, now being emulated by other debt collection companies. In addition, every person, including KRUK's clients, may check their credit information at ERIF BIG S.A., a member of the KRUK Group.

The amicable collection strategy enables KRUK's clients to spread the debt repayment into instalments in line with their individual needs, allowing them to restore their financial credibility and return to the financial market. This is why we survey the needs and expectations of our customers and trading partners on a regular basis. We help people find solutions to debt but also offer them cash loans and services of the ERIF credit reference agency.

| 6.1.1. |

ECONOMIC PERFORMANCE

PLNM	2018	2019
REVENUE	1170	1061
OPERATING EXPENSES	(691)	(641)
SALARIES, WAGES AND EMPLOYEE BENEFITS	(316)	(265)
PAYMENTS TO PROVIDERS OF CAPITAL	(190)	(109)
PAYMENTS TO GOVERNMENT	(26)	(21)
COMMUNITY INVESTMENTS	0	0
ECONOMIC VALUE RETAINED	262	291

SOURCE: THE COMPANY.

TABLE 47. KRUK GROUP ECONOMIC PERFORMANCE IN 2017 AND 2018

[G4-EC1]

| 6.1.2 |

EMPLOYEE COMPENSATION

The Company makes every effort to provide its employees with comfortable working conditions and satisfying compensation. The employee compensation rules applied at all Group companies are set out in the HR and Payroll Policy. They apply to all employees regardless of their gender, age, nationality or other differences. Salaries of men and women in the same positions are on a par. Differences, if any, may result from a different scope of work performed. In the departments where the pay is significantly higher (such as the IT department), the majority of employees are men, while women are the majority of the Group's administrative units or call centres.

KRUK Group	2017	2018
WOMEN	236%	213%
MEN	272%	273%

SOURCE: THE COMPANY.

TABLE 48. RATIO OF STANDARD ENTRY LEVEL SALARY BY GENDER TO MINIMUM PAY

[G4-EC5]

MARKET PRESENCE

KRUK activities cover different markets. The Group is currently present in nine European countries and has operations in seven. Most of the KRUK Group companies' employees are local citizens, but to ensure uniform values and standards of conduct are upheld

across the organisation, Poles and other foreign nationals also work at our foreign branches. Some employees, who often have extensive experience and knowledge gained while working for the KRUK Group, have decided to work for Group companies operating abroad under a dedicated relocation programme. As expats, they can share their unique know-how with colleagues in other countries.

[G4-EC6]

| 6.1.3. |

INDIRECT ECONOMIC IMPACTS

WHY IS FINANCIAL EDUCATION SO IMPORTANT?

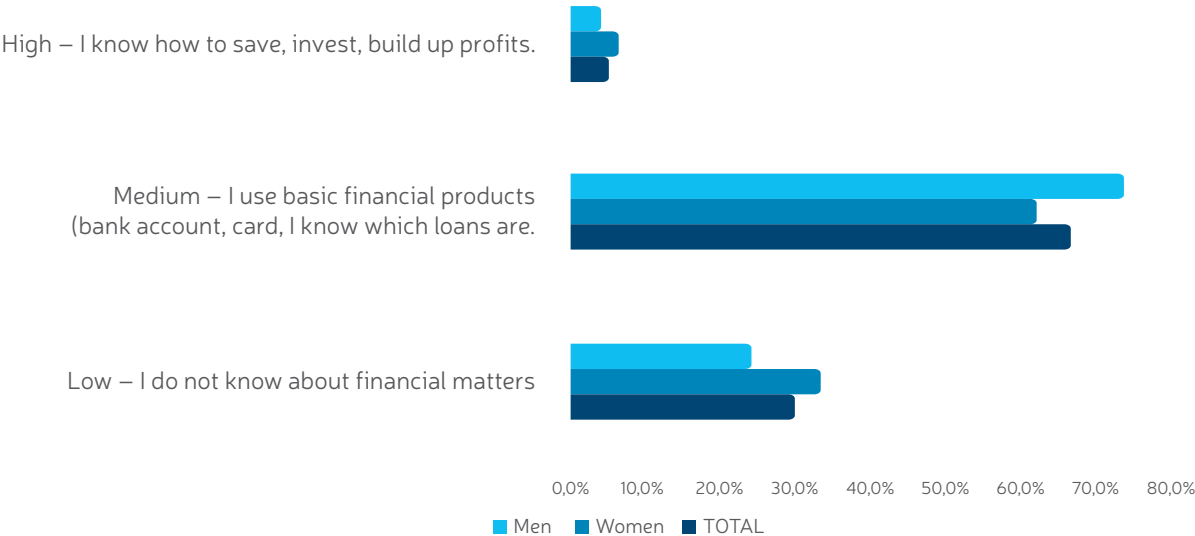
The KRUK Group engages in various initiatives driven by the needs of both our employees and external stakeholders, mainly residents of countries where we operate. Financial education is one of the most important needs of the public which we have identified. Such education is relevant to the whole society, both in Poland and abroad. Journalists are a group of external stakeholders who contribute to the promotion of financial education. According to various public surveys, mass media are the main source of financial knowledge for many people. That is why companies representing the debt management industry which are members of the Conference of Financial Companies in Poland have established a working group to carry out a joint project 'Debt Collection? Everything Clear!'. The project is designed to educate people on the laws and regulations governing debt recovery

in Poland. The task of the working group is also to educate journalists who prepare press articles and programmes dedicated to debt management in Poland. As a member of the project, we and other market players build a positive image of the industry. We know how important it is to clarify the evolving legal regulations governing the activities of companies like ours, and to this end we try to correct any potentially misleading information published in the media. On behalf of the project's participants, the Conference of Financial Companies in Poland also prepares educational press materials, for instance on the stereotypes or myths surrounding the debt management industry. This industry dialogue, which produced the 'Debt Collection? Everything Clear!' campaign, proves how important it is to carry out educational initiatives on finance and debt management business. The project website can be found at: <http://wjs.kpf.pl/>.

RESEARCH INTO PUBLIC KNOWLEDGE ON FINANCE

Many years of public research carried out by the KRUK Group have shown that both financial literacy and financial education still require improvement. We engage in various CSR and educational projects to enhance the level of public financial knowledge. Surveys carried out by the Group in the last four years have confirmed the validity of our CSR strategy. For example, in our public survey conducted in 2018, the majority of Poles believed that their financial knowledge was either low or average. This means that most of them use basic financial products and know how they work. Only a small percentage of respondents rated their financial literacy as high – namely, they knew how to save and make profit on investing their assets.

What is the level of your financial knowledge?



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

ANALYSIS OF SOURCES OF POLES' INDEBTEDNESS

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

The 2018 survey revealed the most common causes why Poles go into debt.

The top reason, cited by almost 36% of respondents, is not enough money to pay bills on time and buy the common necessities. The second most frequent reason was a job loss, closely followed by spending beyond one's means. Presented below are all the answers to the question: "How did you fall into debt?". It should be noted that each respondent could choose more than one answer.

HOW DID YOU FALL INTO DEBT?

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

SOURCE: SURVEY COMMISSIONED BY THE KRUK GROUP AND CARRIED OUT OVER THE ARIADNA PANEL ON A TARGET SAMPLE OF DEBTORS
PERIOD: JULY–AUGUST 2018, METHOD: ONLINE INTERVIEWS (CAWI).

TABLE 49

ANALYSIS OF POLES' ATTITUDES TOWARDS BORROWING MONEY

The 'How Poles Feel about Debt' survey, which we conducted in partnership with the WSB University of Wrocław, has shown the Poles' general attitude to borrowing money. Its results are also a source of knowledge on the purposes for which people in debt

borrow money compared with those who have never had any problems with timely repayment of their liabilities. The most significant differences between indebted individuals and those who pay their liabilities as they fall due are as follows:



Debtors are more likely to take out loans to settle their earlier liabilities (28.6%), pay their regular bills (17.7%), do everyday shopping (24%), and pay for medical treatment (15.8%).



In contrast, non-debtors are more likely to contract a loan to renovate their house or flat (46.5%), purchase a house or a flat, make a down payment to a housing cooperative (22.6%), and purchase durable goods (43.4%).

The worrying thing is the high percentage of debtors taking out loans to repay their earlier liabilities (close to 29% of the respondents), as this may mean that they have already fallen, or are about to fall, into a debt trap. Therefore, our public surveys set the directions we follow in the area of corporate social responsibility.

THE 'LIVE DEBT-FREE' COURSE

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

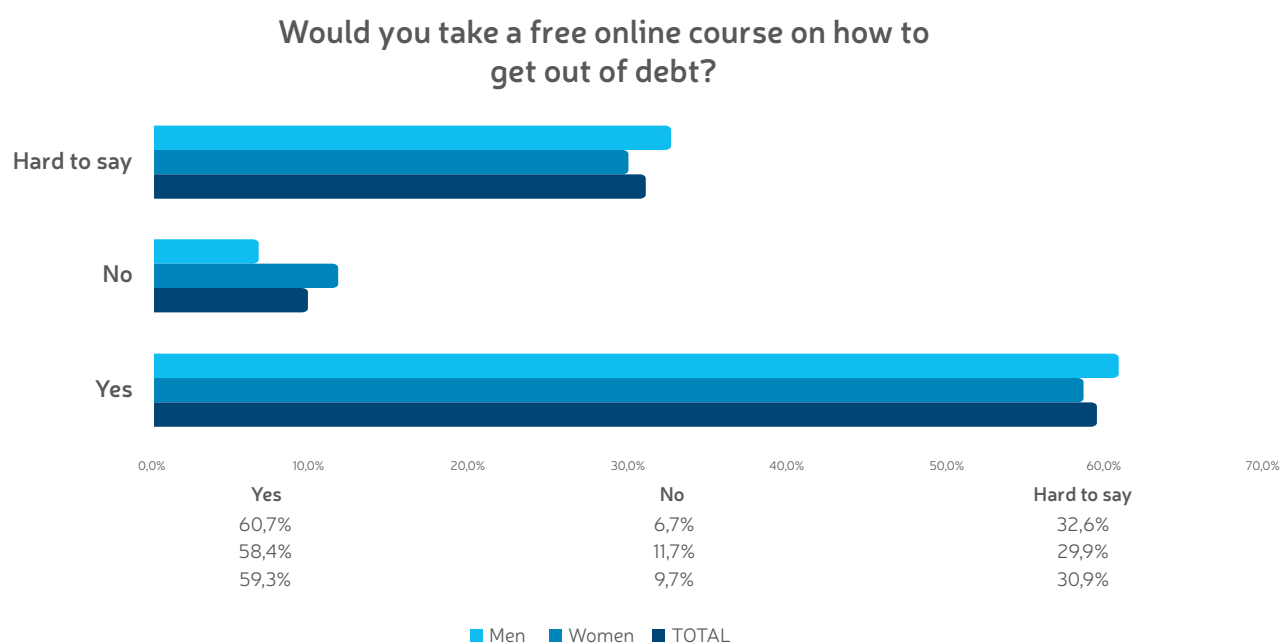
'LIVE DEBT-FREE' was prepared in collaboration with Tomasz Jaroszek, a financial blogger, and is available at www.kurs.kruk.pl. It consists of 12 lessons on how to start repaying debts, manage household budgets, start saving, change habits and

similar topics. Each lesson is a video recording, which the users can listen to or read as a transcript. In addition, the course offers numerous spreadsheets, exercises, articles, and tools to calculate the financial cushion, household budget, spending money, etc. The course is addressed not only to debtors, but to anyone who wants to manage their financials more efficiently. It is available with no time or other limitations. We hope that in this way we can help more people compared with traditional face-to-face training.

While working on the course contents, we used the survey based on the Ariadna research panel, where we asked debtors whether they would take a free course on how to get out of debt if they had a chance.

The vast majority said such an initiative would be useful for them and specified the most problematic issues.

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



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

various marketing materials prepared by KRUK S.A. We perceive it as a tool to be built on a long-term basis and intend to develop it further by organising webinars on finance.

Each participant decides on their own when to do the next lesson or exercise. We do not verify their knowledge, and we do not organise final tests or examinations. In fact, the only metric relevant for us is the number of participants who have signed up. The course was launched on November 13th 2018 and had 374 registered participants as at January 4th 2019. The figure far exceeded our initial expectations and targets.

To compare, in 2017, the 'Small Step, Giant Chance' workshops attracted a total of 241 participants: employees of social and family welfare centres and people struggling with debt. 'LIVE DEBT-FREE' may also be a useful tool for employees of Municipal Social Welfare Centres and Municipal Family Welfare Centres, as they can recommend the course to people under their care.

DAY WITHOUT DEBTS

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

In 2018, the event was held for the eighth time in Romania, for the seventh time in the Czech Republic, and for the sixth time in Slovakia. The Day without Debts also includes numerous educational and marketing initiatives, aligned with the current trends and cultural environment of each country.

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

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

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

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

During the 'Day without Debt' event held in the Czech Republic and Slovakia, information points where debtors could receive advice on how to get out of debt again proved to be a very successful initiative. In 2018, such points were set up in 22 towns and cities in the Czech Republic and 5 in Slovakia. The towns and cities selected were those whose populations were the most debt-ridden in their respective countries. In addition, in both the Czech Republic and Slovakia, we offered personal finance workshops, dedicated to improving the financial literacy of their attendees, including elderly people. Both projects were organised in partnership with NGOs and job centres. The information points attracted a total of 200 visitors.

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

is to educate consumers and raise their awareness of their rights and obligations.

CONFERENCES AND MARKET EVENTS

In 2018, KRUK S.A. was actively involved in trade conferences and events. In this way we can influence the development of the debt management market and the business information market in Poland. Knowledge and experience sharing helps the Group tailor its services not only to the needs of individual clients, but also its trading partners and the changing market landscape. 2018 was an exceptional year for our Company, as KRUK S.A. celebrated its 20th anniversary. It was an opportunity to meet with existing trading partners and representatives of various regional organisations, and to thank them for the cooperation so far. In addition, to keep in touch with trading partners and market participants, our representatives took part in trade conferences both in Poland and abroad, either as expert partners or as participants.

The most important conferences attended by the KRUK Group in 2018 are presented below.

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

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

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

In 2018, for the third time ERIF BIG S.A. became an official partner of the Loan Magazine Awards Gala 2017. In addition, ERIF BIG S.A. was one of the sponsors of the Loan Sector Congress of the Conference of Financial Companies in Warsaw and the Consumer Finance Congress, participated in the 9th International Factoring Congress and November Credit & Collection Days, and was the General Partner of the Congress of Polish Self-Government Treasurers during the 16th Self-Government Capital and Finance Forum.

In the Czech Republic, KRUK Česká a Slovenská republika s.r.o. was actively involved in the 'Fórum inkasního trhu', a conference during which it delivered a customer experience-related presentation. It also sponsored the Forum of debt collection business.

In Romania, KRUK Romania was among the sponsors of the Creditors' Challenges conference and Bailiff Romania 2018.

In Spain, KRUK España was a partner of the NPL Iberian Forum and Credit National Congress.

In Italy, KRUK Italia was the main sponsor of the Banking

Conference in Rome. It also sponsored the CV Spring Day (NPL Investing & Collection summit), an event which was held on the Italian Stock Exchange in Milan.

CHARITABLE SPONSORSHIP

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

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

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

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

Apart from the charitable assistance, the idea behind the Business Run is to promote healthy rivalry, team cooperation and physical activity among employees of, inter alia, Lower Silesian companies: both small enterprises and international corporations. As part of the sponsorship package, we paid participation fees for 150 employees of the KRUK Group. It was also an opportunity to build good relations between the employees. A total of 6,500 people, representing companies from the Wrocław region, took part in the event, contributing PLN 180,130 to the Foundation's charitable initiatives. We also joined the third edition of the Talent for Charity (Talent Miłosierdzia) social initiative for entrepreneurs, organised by the Caritas organisation of Wrocław. As part of the campaign, employees of various companies collected food products for those in need. KRUK managed to collect over 345 kg of food and 32 kg of cleaning supplies.

We try to offer help in many ways. We supported a number of families as part of the Noble Package (Szlachetna Paczka) project, and one beneficiary of the Academy of the Future (Akademia Przyszłości), who received a 'success package', that is co-financing of the future carrier and development. We have selected a boy who struggles with adaptation problems at school and plans to work in the debt collection industry in the future. KRUK was also a partner in the 'Finansomania' Financial Knowledge Competition organised by the Faculty of Economics of the Poznań University of Economics, with the aim of disseminating general knowledge on finance. The final gala event took place in Poznań.

Moreover, in 2018 KRUK S.A. sponsored an Easter breakfast for patients of the Cape of Hope, a supra-regional paediatric oncology centre in Wrocław, where treatment is given to the

youngest oncological patients living in the Lower Silesia and other regions. With our support, the centre organised an Easter meeting and purchased small gifts for its patients.

In Romania, we engage with NGOs and jointly pursue CSR initiatives. We support those who are socially disadvantaged. We also help young adults to adapt to their economic environment. Our employees volunteered to conduct educational classes on financial management in ten Romanian high schools in Bucharest, Pitesti, Ploști, Constanța and Iași. The classes had a total attendance of 1,600 students.

We are also a partner of the United Way Romania Foundation, which is dedicated to supporting young people in their further education or enabling them to start their adult lives if they are no longer covered by the child protection system. 21 of our employees were involved in the programme, teaching various practical skills, including how to plan a household budget using simple tools and how to improve one's communication skills which are key to successful job hunting. The training sessions were attended by 21 young adults.

In 2018, in Romania we engaged with 'Hope and Homes for Children', a not-for-profit organisation which is part of a global movement for the eradication of orphanages. Its efforts are geared towards preventing separation of children from parents, supporting their social and professional development and training volunteers on the child protection system. As part of that cooperation, 20 children will receive support and will stay with their families, 20 persons who are no longer covered by the child protection system will benefit from a social and professional integration programme, and 60 of our employees will receive specialist training.

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

- supported again, as a partner, the 'Pohárek' swimming competition for disabled children in the Czech Republic;
- co-financed the activities of amateur sports teams in Poland and Romania,
- actively participated in blood donation sessions held in association with regional blood donation and haemotherapy centres in Poland and Romania. In 2017, we donated over 40 litres of blood. In 2018, the figure doubled.

In accordance with its sponsorship policy, the KRUK Group is also engaged in employee sponsorship: it supports employees who participate in amateur sports, by co-financing their starter kits, professional sports equipment or sports clothes. In exchange, the employees represent KRUK during various tournaments and competitions.

This way, the Group is not only building a positive image of its organisation, but also helps its employees become engaged in sports or social lives of their local communities.

In 2018, the following projects received financial support from the KRUK Group:

- participation of a company football team from Poland in the fourth-league Śląsk Wrocław PRO competition; KRUK S.A. came in second and won silver medals, thus advancing the third league of Śląsk Wrocław PRO;

- participation of a company football team from Bucharest in the Sports Events championships – the team won fourth place in first league games,
- participation of a company football team from Târgoviște in the championships of companies and institutions from the Dâmbovița County – the team is ranked fifth there in the general classification,
- participation in the Christmas Season Charity Cup – the funds raised were used to buy gifts for children from poor families.
- four KRUK employees participated – and won medals – in the Cross Duathlon Mogosoia event (a 4.5 km run/ a 13 km bike race/ a 3 km run),
- three employees took part in the Bucharest marathon,
- six employees competed in 'Run the Street', a 5 km run held in the Herăstrău Park in Bucharest,
- ten employees took part in the Night Cross Bucharest, also known as the 'Betano Night RUN' held in the Herăstrău Park,
- one employee took part in the 'First Escape' cycling competition,

- six employees took part in the cycling competition held in the Cernica forest, near Bucharest,
- the team's sports activities in connection with the National Mini-Football Championship in Târgoviște, Romania.

[G4-EC7]

| 6.1.4 |

PROCUREMENT PRACTICES

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

[G4-12]

PROCUREMENT PROCEEDINGS

In 2018, the KRUK Group carried out 122 procurement processes, 19 more than in 2017.

COUNTRY	TOTAL NUMBER OF SUPPLIERS	PERCENTAGE SHARE OF FOREIGN SUPPLIERS IN THE LOCAL MARKET	TOTAL NUMBER OF SUPPLIERS	PERCENTAGE SHARE OF FOREIGN SUPPLIERS IN THE LOCAL MARKET
	2017 r.	2017 r.	2018 r.	2018 r.
POLAND	1071	1%	1103	3%
ROMANIA	807	4%	945	3%
CZECH REPUBLIC	584	21%	573	30%
SLOVAKIA	32	9%	30	37%
SPAIN	374	34%	253	3%
ITALY	-	-	899	2%

SOURCE : THE COMPANY .

TABLE 50. NUMBER OF THE KRUK GROUP'S SUPPLIERS IN 2017 AND 2018, BY COUNTRY AND PERCENTAGE SHARE OF FOREIGN SUPPLIERS IN A GIVEN COUNTRY

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

COLLABORATION WITH EXTERNAL SUPPLIERS

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

1. selection of the supplier of goods or services in a procurement process is based on: pre-defined criteria and necessary requirements, a request for proposals, comparison and evaluation of bids, negotiations, selection of the best bid and qualification of the recommended supplier,
2. purchase order is approved in keeping with the Group's expenditure approval processes,

3. a contract or order is signed,
4. contract is performed or order is sent to the supplier,
5. delivery is collected,
6. invoice is accepted,
7. payment is approved,
8. payment is made,
9. suppliers are assessed on an annual basis.

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

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

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

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

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

The suppliers we cooperate with are chosen:

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

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

Therefore, we ask questions about their best practices in CSR with respect to:

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

In 2018, 90% of all suppliers taking part in our procurement processes completed the CSR questionnaire.

[G4-EC9]

| 6.2 |

CATEGORY: ENVIRONMENTAL

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

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

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

| 6.2.1 |

RAW MATERIAL AND CONSUMABLES USED

Consumption of paper in 2017 224.74 tonnes | Consumption of paper in 2018: 151.79 tonnes
Disposal of waste paper in 2017: 221.76 tonnes | Disposal of waste paper in 2018: 206.34 tonnes
The above is aggregate data relating to all Group companies.

[G4-EN1]

| 6.2.2 |

ENERGY CONSUMPTION

ANNUAL CONSUMPTION	2017 ROK	2018 ROK
TOTAL CONSUMPTION OF ELECTRICITY [MWH]	4805,38	5357,74
TOTAL CONSUMPTION OF ENERGY FROM NON-RENEWABLE SOURCES [MWH]	279266,37	17686,19
INCLUDING GASOLINE [MWH]	1431,20	1175,12
INCLUDING DIESEL OIL [MWH]	10861,54	12245,83
INCLUDING NATURAL GAS [MWH]	266973,64	4265,24
GASOLINE [M3]	154,20	126,61
DIESEL OIL [M3]	1111,03	1252,63
NATURAL GAS [M3]	28334,56	474,32

SOURCE: THE COMPANY.

TABLE 51. TOTAL CONSUMPTION OF ELECTRICITY

In 2018, we significantly reduced our overall consumption of energy from non-renewable sources, because we cut our natural gas consumption owing to the change the main headquarters of KRUK Romania. In the new location, the company consumes much less natural gas. As a result, consumption of natural gas fell by 27,860.24 cubic metres. Concurrently, total consumption of energy from non-renewable sources dropped by 261,580.18 MWh, reducing the KRUK Group's total CO2 emissions by 52,301.97 tonnes.

[G4-EN3]

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

| 6.2.3 |

EMISSIONS

Zużycie papieru w 2017 roku: 224,74 tony | Zużycie papieru w 2018 roku: 151,79 tony

ANNUAL CO2 EMISSIONS AT THE KRUK GROUP	2017	2018
CO2 emissions from electricity purchased for the building's needs [tonnes]	3995,67 tCO2e	4454,96 tCO2e
CO2 emissions related to transport and fuel combustion in the engines of company vehicles [tonnes]	57185,07 tCO2e	4423,82 tCO2e
Total CO2 emissions at the organisation	61180,75 tCO2e	8878,78 tCO2e

SOURCE: THE COMPANY.

TABLE 52. TOTAL CO2 EMISSIONS

[G4-EN15][G4-EN16]

| 6.3 |

CATEGORY: SOCIAL

| 6.3.1 |

EMPLOYMENT

2017

Total number and rate of new hires during the reporting period by age group, gender and region – 2017

GENDER	NEW HIRES IN AGE GROUP ≤ 30	EMPLOYMENT RATE IN AGE GROUP ≤ 30	NEW HIRES IN AGE GROUP ≥ 50	EMPLOYMENT RATE IN AGE GROUP ≤ 50	NEW HIRES IN AGE GROUP 3,050	EMPLOYMENT RATE IN AGE GROUP 30-50	TOTAL
WOMEN	271	0,10	18	0,01	301	0,11	590
MEN	171	0,06	32	0,01	233	0,09	436
TOTAL	442	0,16	50	0,02	534	0,2	1026

Total number and rate of employee turnover during the reporting period by age group, gender and region – 2017

GENDER	NUMBER OF DEPARTURES IN AGE GROUP ≤ 30	EMPLOYEE TURNOVER IN AGE GROUP ≤ 30	NUMBER OF DEPARTURES IN AGE GROUP ≥ 50	EMPLOYEE TURNOVER IN AGE GROUP ≤ 50	NUMBER OF DEPARTURES IN AGE GROUP 30-50	EMPLOYEE TURNOVER IN AGE GROUP 30-50	TOTAL
WOMEN	163	0,06	29	0,01	209	0,08	401
MEN	140	0,05	35	0,01	149	0,06	324
TOTAL	303	0,11	64	0,02	358	0,13	725

2018

Total number and rate of new hires during the reporting period by age group, gender and region – 2018

GENDER	NEW HIRES IN AGE GROUP ≤ 30	EMPLOYMENT RATE IN AGE GROUP ≤ 30	NEW HIRES IN AGE GROUP ≥ 50	EMPLOYMENT RATE IN AGE GROUP ≤ 50	NEW HIRES IN AGE GROUP 30 - 50	EMPLOYMENT RATE IN AGE GROUP 30 - 50	TOTAL
WOMEN	160	0,05	13	0,00	159	0,05	332
MEN	91	0,03	5	0,00	115	0,03	211
TOTAL	251	0,08	18	0	274	0,08	543

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

GENDER	NEW HIRES IN AGE GROUP ≤ 30	EMPLOYMENT RATE IN AGE GROUP ≤ 30	NEW HIRES IN AGE GROUP ≥ 50	EMPLOYMENT RATE IN AGE GROUP ≤ 50	NEW HIRES IN AGE GROUP 30 - 50	EMPLOYMENT RATE IN AGE GROUP 30 - 50	TOTAL
WOMEN	114	0,03	4	0,001	155	0,05	273
MEN	71	0,02	11	0,003	84	0,02	166
TOTAL	185	0,05	15	0,00	239	0,07	439

SOURCE: THE COMPANY.

[G4-LA1]

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

Our employees can:

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

[G4-LA2]

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

We respect all regulations applying to new parents in every country where we operate.

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

Women	43
Men	5

Total number of employees who took maternity/paternity leaves, by gender

Women	43
Men	5

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

Women	37
Men	6

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

Women	16
Men	7

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

Return rate for female employees	86,05
Return rate for male employees	120,00
Employment maintenance rate for women	37,21
Employment maintenance rate for men	140,00

TABLE 53. EMPLOYEES WHO TOOK MATERNITY/PATERNITY LEAVES IN 2018

[G4-LA3]

| 6.3.2. |

OCCUPATIONAL HEALTH AND SAFETY

At KRUK, we pay special attention to occupational health and safety. We analyse incidents and threats to safety for each employee group on an ongoing basis. One risk faced by KRUK field consultants, who visit clients at their homes, is being attacked by pets (mainly dogs). Therefore, both in 2017 and 2018, each field consultant, during the induction training, was shown an instructional video on how to act in such situations. As a standard, each employee undergoes OHS training as required by applicable laws and regulations. At KRUK S.A., a four-person Occupational Health and Safety Committee has been established, which monitors OHS programmes, controls workstations, collects feedback and provides advice on occupational safety. The Committee supports the entire organisation and cooperates with two regional Health and Safety Inspectors and with the Company management.

Types of accidents and injuries reported by the KRUK Group in 2017	
– fall from heights	1
– road traffic accident	1
– fall on a flat surface	3
– injury while getting out of the car	1
– dog bite	2
Injuries of cervical spine, ankle sprain, shoulder sprain, muscle tear, laceration from a dog bite.	
Total number of accidents – 8, of which:	
Men	7
Women	1
Accident rates (all accidents at work in 2017):	
a) severity rate:	
Men	56,14
Women	38
b) frequency rate:	
Men	4,2
Women	0,6
Occupational disease rate	0
Lost day rate (i.e. number of calendar days from the date of receiving sickness leave):	

Men	393
Women	38
Number of fatal accidents	0

SOURCE: THE COMPANY.

TYPES OF ACCIDENTS AND INJURIES REPORTED BY THE KRUK GROUP IN 2018

fall from heights	5
road traffic accident	5
fall on a flat surface	5
injury while getting out of the car	1
dog bite	0

Injuries of cervical spine, ankle sprain, shoulder sprain, muscle tear, laceration from a dog bite.

Total number of accidents – 16, of which:

Men	6
Women	10

Accident rates (all accidents at work in 2018):

a) severity rate:

Men	32
Women	33,31

b) frequency rate:

Men	3,64
Women	5,99

Occupational disease rate

	0
--	---

Lost day rate (i.e. number of calendar days from the date of receiving sickness leave):

Men	192
Women	334
Number of fatal accidents	0

SOURCE: THE COMPANY.

TABLE 54

The KRUK Group's system for reporting and recording accident statistics covers all locations where we operate. Employees report accidents at work to the Group OHS officer and to their immediate superiors. Accident documentation is prepared within 14 days from reporting the accident, and all accidents are entered in the accident register and reported to the Statistical Office.

[G4-LA6]

| 6.3.3 |

EMPLOYEES WITH HIGH INCIDENCE OR HIGH RISK OF DISEASES RELATED TO THEIR OCCUPATION

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

| 6.3.4 |

DEVELOPMENT AND EDUCATION OF EMPLOYEES

Individual development of each member of our team contributes

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

Year-on-year comparative data is presented below.

	2017	2018	2017	2018
Gender	Percentage of persons		Hours/person	
Women	61%	63%	20,6 h/os	18,65 h/os
Men	39%	37%	21,5 h/os	20,95 h/os

TABLE 57. AVERAGE HOURS OF TRAINING PER EMPLOYEE IN 2017 AND 2018, BY GENDER

Type of training	Number of training courses	Number of persons trained				
		total	Women		Men	
Face-to-face training	649		4059	61%	2632	39%
E-learning training	20	6874	4451	65%	2419	35%

TABLE 55. ORGANISATION OF TRAINING AND PARTICIPATION OF EMPLOYEES AT POLISH-BASED KRUK GROUP COMPANIES

	Women	Men	Total
Face-to-face training	3,3	3,8	3,5
E-learning training	3,6	3,5	3,6

TABLE 56. AVERAGE NUMBER OF TRAINING COURSES PER PERSON
[G4-LA9] [G4-LA10] [G4-LA11]

Our employees can participate in specialist and managerial training, and each newly recruited person completes a full cycle of induction training where they learn, among other things, about the core values and ethical principles applicable across the Group. In addition, we have a managerial skills development programme in place, which supports professional advancement of our management staff.

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

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

	PERCENTAGE OF EMPLOYEES WHO RECEIVED REGULAR PERFORMANCE EVALUATION IN 2017	WOMEN	MEN
KRUK GROUP	99,05%	61%	39%
MANAGERIAL STAFF	12%	57%	43%
OTHER EMPLOYEES	88%	62%	38%
KRUK S.A.	99,6 %	59%	41%
MANAGEMENT STAFF	12%	58%	42%
OTHER EMPLOYEES	88%	60%	40%

TABLE 58. PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT EVALUATION, BY GENDER AND BY EMPLOYEE CATEGORY DATA FOR 2017 AND 2018

	PERCENTAGE OF EMPLOYEES WHO RECEIVED REGULAR PERFORMANCE EVALUATION IN 2018	WOMEN	MEN
KRUK GROUP	90,9%	63%	37%
MANAGEMENT STAFF	11%	57%	43%
OTHER EMPLOYEES	89%	62%	38%
KRUK S.A.	93,4 %	60%	40%
MANAGEMENT STAFF	12%	58%	42%
OTHER EMPLOYEES	88%	60%	40%
SOURCE: THE COMPANY.			

TABLE 59.

[G4-LA11]

| 6.3.5 |

HUMAN RIGHTS

As in the previous year, in 2018, we devoted around 80 hours to train our employees in procedures and regulations that promote respect for human rights. These were mainly induction training courses on our core values. In 2018, all our new hires received such training.

[G4-HR2]

DIVERSITY AND EQUAL OPPORTUNITY

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

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

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

HOW DO WE MANAGE DIVERSITY AND ENSURE EQUAL OPPORTUNITIES?

The Group has career and development paths that every employee can read at any time, as they are available from the Company’s intranet. We operate in a number of countries, therefore we adjust our working style and expectations regarding business relations to the rules applicable in foreign markets. We also follow the

suggestions of our foreign employees; for this reason, we respect the festivities and bank holidays celebrated in their respective countries. In addition, all employees are informed monthly of the days off of their foreign colleagues celebrating local public holidays.

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

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

Each employee has access to an online language learning platform.

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

2017

GENDER	Number of persons on supervisory bodies in the age group ≤ 30	Percentage of persons on supervisory bodies in the age group ≤ 30	Number of persons on supervisory bodies in the age group ≥ 50	Percentage of persons on supervisory bodies in the age group ≥ 50	Number of persons on supervisory bodies in the age group 30-50	Percentage of persons on supervisory bodies in the age group 30-50	TOTAL
Women	0	0%	2	7%	11	38%	13
Men	0	0%	5	17%	11	38%	16
TOTAL	0	0%	7	24%	22	76%	29

2018

Women	0	0%	0	0%	14	54%	14
Men	0	0%	4	15%	8	31%	12
TOTAL	0	0%	4	15%	22	85%	26

SOURCE: THE COMPANY.

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

GENDER	Number of employees in the age group ≤ 30	Percentage of employees in the age group ≤ 30	Number of employees in the age group ≥ 50	Percentage of employees in the age group ≥ 50	Number of employees in the age group 30-50	Percentage of employees in the age group 30-50	TOTAL
Women	724	22%	68	2%	1228	37%	2020
Men	370	11%	113	3%	832	25%	1315
TOTAL	1094	33%	181	5%	2060	62%	3335

2018

Women	660	19%	89	3%	1307	39%	2056
Men	328	10%	120	4%	885	26%	1333
TOTAL	988	29%	209	6%	2192	65%	3389

SOURCE: THE COMPANY.

TABLE 60. COMPOSITION OF GOVERNANCE BODIES AND BREAKDOWN OF EMPLOYEES ACCORDING TO GENDER, AGE GROUP, MINORITY GROUP MEMBERSHIP, AND OTHER INDICATORS OF DIVERSITY COMPARATIVE DATA FOR 2017 AND 2018

[G4-LA12]

| 6.3.6 |

EQUAL REMUNERATION FOR WOMEN AND MEN

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

Manager / other employees	Ratio of average remuneration of women to men in 2017	Ratio of average remuneration of women to men in 2018
manager	82%	92%
other employees	86%	81%

TABLE 61. RATIO OF AVERAGE REMUNERATION IN 2017 AND 2018, BY GENDER AND POSITION

[G4-LA13]

| 6.3.7 |

NON-DISCRIMINATION

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

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

Apart from the aforementioned Diversity Charter, which we have subscribed to and we comply with, we also have in place the Internal Mediation Policy.

It contains detailed instructions on how to resolve conflicts in the workplace, and is also used to prevent workplace bullying.

In 2018, we expanded the Mediation Policy, which allowed us to

take the following measures:

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

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

Each employee may lodge a complaint:

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

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

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

[G4-HR3]

| 6.3.8 |

HUMAN RIGHTS GRIEVANCE MECHANISMS

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

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

Reported conflicts or cases of bullying are considered within five business days. The Mediation Policy precisely describes the measures to be taken to resolve such cases on an amicable basis. In the reporting period, there were no employment-related grievances.

[G4-HR12] [G4-11]

| 6.3.9 |

ANTI-CORRUPTION

In 2017, all KRUK Group companies implemented the Misconduct Prevention Policy and the Instruction for Dealing with Suspected Corruption Incidents, which have continued in force since 2018.

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

[G4-HR12] [G4-SO3] [G4-58]

DATA SECURITY

Our business involves contacts with our clients (debtors). We receive their personal data from our trading partners, pursuant to applicable legal regulations (assignment of receivables) or cooperation agreements. All related activities are carried out in accordance with the applicable legal regulations. Moreover, ERIF BIG S.A. maintains a database of consumers and businesses. Their data is provided by creditors in accordance with the Resolution on disclosure of business information and exchange of business data and in accordance with the Data Management Rules approved by the Minister of Economy, after obtaining a favourable opinion of the President of the Personal Data Protection Office. Therefore, data processing is of particular importance to all our employees, especially those working

directly with personal data. Each employee is required to undergo training in information security and in protection and circulation of inside information at the KRUK Group, which includes price-sensitive information related to KRUK S.A.'s listing on the Warsaw Stock Exchange. The training covers confidentiality of inside information and restricted periods in which disclosure of any inside information is strictly prohibited.

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

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

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

At our 26 companies, including those based abroad, we thoroughly checked if all documents, procedures and measures applied comply with the requirements stipulated under the Personal Data Protection Regulation (GDPR), and we implemented the necessary changes.

All our Polish and foreign subsidiaries have appointed data protection officers, who have received relevant training.

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

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

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

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

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

The Committee's primary tasks are as follows:

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

[G4-SO4] [G4-SO5]

| 6.3.10 |

PRODUCT AND SERVICE LABELLING

DIALOGUE WITH CLIENTS AND TRADING PARTNERS

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

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

CLIENTS - DEBTORS ARE AT THE HEART OF THE KRUK GROUP

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

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

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

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

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

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

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

- monitoring of arrangements: 70% (2017: 67%)

In 2018, KRUK Romania SRL conducted the first such survey on the Romanian market, covering more than 10,000 of the Group's Romanian clients.

An analysis of the responses received showed that in 2018 KRUK Romania SRL had the following NPS:

- cooperation with field consultants: 96%,
- cooperation with call centre consultants: 85%,
- amicable settlement process: 83%,
- monitoring of arrangements: 79%.

We achieved high NPS levels in Poland and Romania, which may be explained both by our unique approach to client service and debt, as well as the very nature of our industry.

We carried out an NPS survey in the Czech Republic in late 2018, but reliable results will only be available for 2019. We plan to launch customer satisfaction surveys in the other countries where we operate.

The change in approach to and perception of debt we initiated was – and by some clients still is – seen as unusual and unexpected.

TRADING PARTNERS

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

for which we use such tools and methods as:

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

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

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

[G4-PR5]

MARKETING AND PR COMMUNICATIONS OF THE KRUK GROUP AND ITS COMPLIANCE WITH REGULATIONS

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

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

Our goal has always been to help our clients understand the legal aspects of the debt recovery process but also to help them get out of debt and re-establish creditworthiness.

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

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

Presented below is the number of media publications featuring the KRUK Group in the markets where we operate.

	POLAND	ROMANIA	CZECH REPUBLIC	SLOVAKIA	SPAIN	ITALY
INTERNET	4712	212	262	272	259	231
PRESS	471	-	386	26	13	41
RADIO	50	14	22	2	4	1
TELEVISION	55	18	18	3	-	1
TOTAL	5288	244	689	303	276	274

TABLE 62.

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

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

[G4-PR7] [G4-PR9] [G4-008]

GRI INDEX

OKRES ZAKOŃCZONY 31 GRUDNIA

INDICATOR	INDICATOR DESCRIPTION	REFERENCE IN THE REPORT (PAGE NUMBER)	EXTERNAL ASSURANCE
Strategy and analysis			
G4-1	Statement from the President of the Management Board on the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability	9	
G4-2	Description of key impacts, opportunities, risks	72	
Organisational profile			
G4-3	The name of the organisation	29	
G4-4	Primary brands, products, and services	39	
G4-5	Location of headquarters	29	
G4-6	Number of countries where the organisation operates, and names of these countries	39	
G4-7	Nature of ownership and legal form	29	
G4-8	Markets served, including geographic breakdown, sectors served, and types of clients and beneficiaries	29	
G4-9	Scale of the organisation	29	
G4-10	Total number of employees by employment type, employment contract and region, broken down by gender	44	
G4-11	Percentage of employees covered by collective bargaining agreements	126	
G4-12	Description of the supply chain	116	
G4-13	Significant changes in the reporting period regarding the size, structure, ownership form or value chain	Nie dotyczy	
G4-14	Application of the precautionary principle in the KRUK Group	73	
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the Group subscribes or which it endorses.	106	
G4-16	Membership of associations, national or international organizations	106	
G4-17	Entities included in the consolidated financial statements	39	

G4-18	Process of defining the report content	110	
G4-19	Identified material aspects of environmental and social impact	107	
G4-20	Relevance of identified aspects of the environmental and social impact of the KRUK Group	110	
G4-21	Limitations of the report regarding material aspects of environmental and social impact outside the organisation	107	
G4-22	Effect of any restatements of information provided in previous reports	105	
G4-23	Changes in relation to previous periods covered by the report regarding the scope and boundaries relating to the engagement of external stakeholders	105	

Stakeholder engagement

G4-24	List of stakeholder groups engaged by the organisation	108	
G4-25	The basis for identification and selection of stakeholders with whom the Group engages	110	
G4-26	The Group's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	110	
G4-27	Key topics and concerns that have been raised through stakeholder engagement and how the Group has responded	110	
G4-28	Reporting period	105	
G4-29	Date of most recent previous report (if any)	105	
G4-30	Reporting cycle	105	
G4-31	Contact person	105	
G4-32	GRI Content Index	132	
G4-33	Policy and practice with regard to seeking external assurance for the report	107	

Governance

G4-34	Governance structure of the organisation, including committees of the highest governance body responsible for decision-making on economic, environmental and social impacts	90	
G4-38	Number and gender of members of the highest management and supervisory body	90	
Ethics			
G4-56	The values of the KRUK Group, its principles, standards and norms of behaviour and ethics	107	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity	126	

ECONOMIC INDICATORS

Aspect: Economic performance

G4-DMA	Management of material aspects or their impacts		
G4-EC1	Direct economic value generated and distributed	110	

Aspect: Market presence

G4-EC5	Ratio of the entry level wage by gender at significant locations of operation to the minimum wage	110	
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Aspect: Indirect economic impacts

G4-EC7	Development and impact of infrastructure investments and services supported	116	
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Aspect: Procurement practices

G4-EC9	Percentage of the procurement budget of significant locations of operation spent on local suppliers	117	
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ENVIRONMENTAL INDICATORS

Aspect: Materials

G4-EN1	Used materials and (or) raw materials by mass or volume	117	
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Aspect: Energy consumption

G4-EN3	Energy consumption within the organisation	118	
G4-EN29	Compliance with regulations		

Aspect: Emissions

G4-EN15	Direct greenhouse gas emissions	118	
G4-EN16	Indirect greenhouse gas emissions	118	

SOCIAL INDICATORS

Aspect: Employment

G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	120	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	120	
G4-LA3	Return to work and retention rates of employees who took parental leave, by gender	120	

Aspect: Occupational Health and Safety

G4-LA6	Types of injury, injury rate, occupational diseases, lost day rate, absentee rate and work-related fatalities, by region and gender	122	
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Aspect: Training and education

G4-LA9	Average hours of training per year per employee by gender and employee category	122	
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G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	122	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	122	
Aspect: Diversity and equal opportunity			
G4-LA12	Composition of governance bodies and breakdown of employees according to gender, age group, minority group membership, and other indicators of diversity	125	
Aspect: Equal remuneration for women and men			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	125	
Aspect: Non-discrimination			
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	123	
G4-HR3	Total number of incidents of discrimination and corrective actions taken	125	
Aspect: Human rights grievance mechanisms			
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	126	
Aspect: Anti-corruption			
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	126	
G4-SO4	Communication and training on anti-corruption policies and procedures	127	
G4-SO5	Confirmed incidents of corruption and actions taken	127	
Aspect: Compliance			
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		
Aspect: Product and service labelling			
G4-PR5	Results of surveys measuring customer satisfaction	128	
Aspect: Marketing communications			
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	128	
Aspect: Compliance with marketing communications regulations			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	128	

SOURCE: THE COMPANY.

TABLE 63

[G4-32]



OTHER INFORMATION

PERFORMANCE OF COMPANY SHARES ON THE WARSAW STOCK EXCHANGE	7.1
INVESTOR RELATIONS	7.2
GLOSSARY OF TERMS	7.3

| 7.1 |

PERFORMANCE OF COMPANY SHARES ON THE WARSAW STOCK EXCHANGE

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

DATE	KRUK	WIG	mWIG40
RATE OF RETURN	-38,8 proc.	-9,5 proc.	-19,3 proc.

SOURCE: GPW.PL

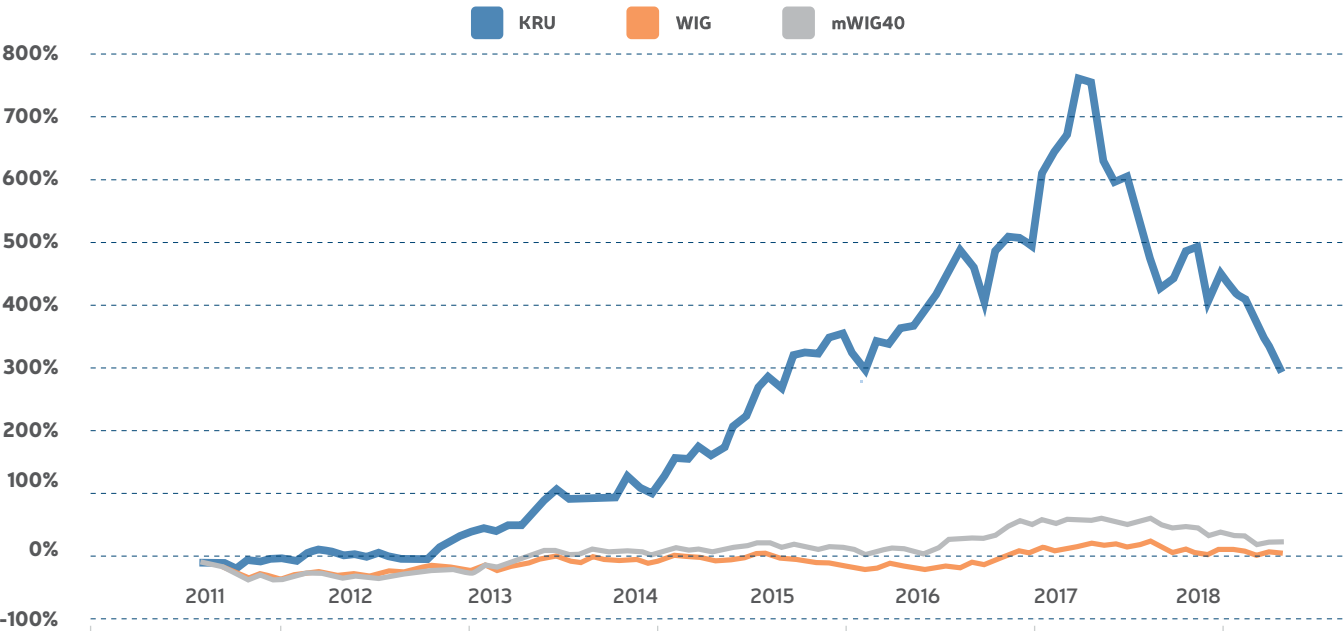
TABLE 64 . RATES OF RETURN ON KRUK S.A. STOCK, WIG AND MWIG40 IN 2018 – CLOSING PRICES

| 7.1.1 |

SHARE PRICE

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

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



SOURCE: IN-HOUSE ANALYSIS, BASED ON STOOQ.PL

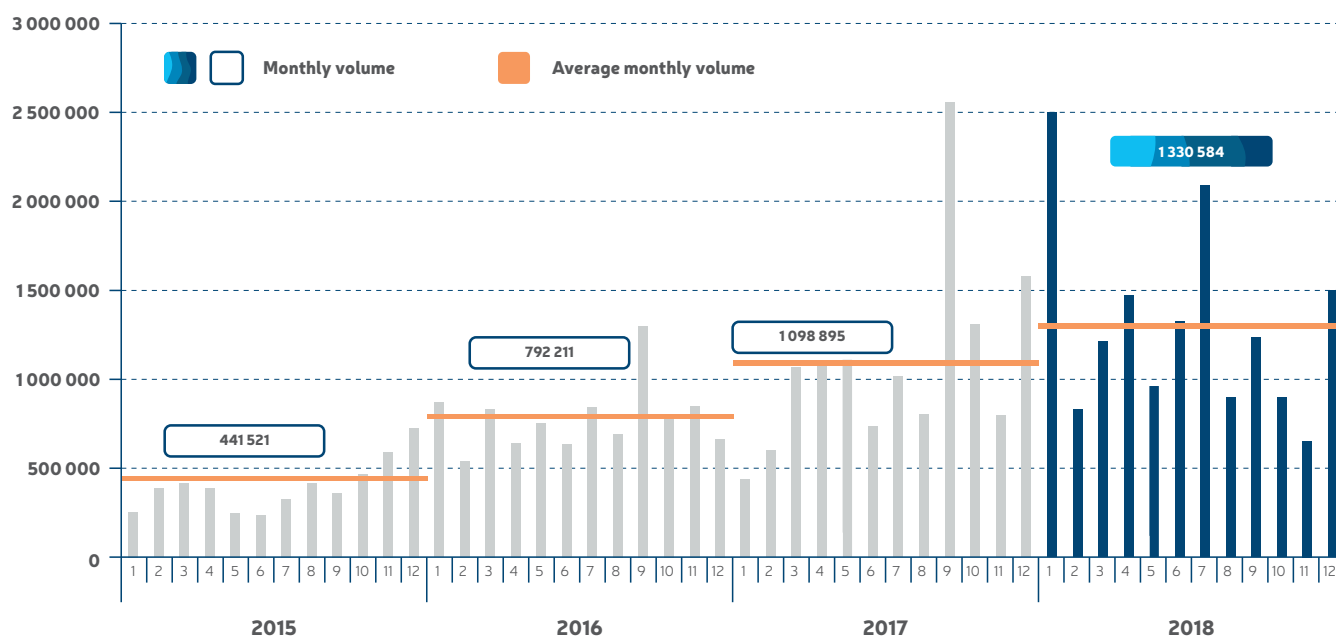
CHART 2. PERFORMANCE OF KRUK STOCK AGAINST WIG AND MWIG40 FROM THE COMPANY’S IPO ON THE WSE IN MAY 2011 TO THE END OF 2018

| 7.1.2 |

LIQUIDITY

The total volume of KRUK S.A. shares traded in 2018 was 16.0m, and the total value of trading reached PLN 3.3bn. To compare, the total volume of KRUK S.A. shares traded in 2017 stood at 13.8m, and the total value of trading was PLN 3.7bn. The average daily trading volume of KRUK shares in 2018 was 64.1 thousand shares, and the average daily trading value stood at PLN 13.5m.

In 2018, KRUK was the 17th most liquid company on the WSE (in terms of the total annual trading volume).



SOURCE: IN-HOUSE ANALYSIS BASED ON WWW.GPW.PL

CHART 3. MONTHLY VOLUMES IN EACH MONTH AND THE YEAR'S AVERAGE MONTHLY VOLUME OF TRADING IN KRUK SHARES IN 2015–2018

| 7.2 |

INVESTOR RELATIONS

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

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

For more information on key investor relations activities in 2018, see Table 65.

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

SOURCE: IN-HOUSE ANALYSIS.

TABLE 65 KEY INVESTOR RELATIONS ACTIVITIES IN 2018

POLISH INSTITUTIONAL STOCK AND BOND INVESTORS

- Four conferences organised following the publication of results for 2017, Q1 2018, H1 2018 and Q1–Q3 2018
- Participation in the Trigon Investor Day 2018 conference in Warsaw in January 2018
- Participation in the Wood Emerging Europe Financials Conference in Warsaw in June 2018
- Participation in the Pekao IB Emerging Europe Investment Conference in September 2018
- Participation in the mBank European Financials Conference in October 2018
- Participation in the Financial Sector conference organised by Santander for Polish institutional investors in November 2018
- Mailing to investors on material events at the Company
- Ongoing contacts with investors

POLISH RETAIL STOCK AND BOND INVESTORS

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

FOREIGN INSTITUTIONAL STOCK INVESTORS

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

BROKERAGE HOUSE AND INVESTMENT BANK ANALYSTS

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

The table below lists analysts covering the Company.

Company	Analyst	Contact details
BDM DM	Maciej Bobrowski	bobrowski@bdm.pl
BZ WBK DM	Dariusz Górski	dariusz.gorski@bzwbk.pl
Erste Group DM	Mateusz Krupa	mateusz.krupa@erstegroup.com
Ipopema DM	Łukasz Jańczak	lukasz.janczak@ipopema.pl
JP Morgan	Michał Kuzawiński	michal.kuzawinski@jpmorgan.com
mBank DM	Michał Konarski	michal.konarski@mdm.pl
PKO BP DM	Jaromir Szortyka	jaromir.szortyka@pkobp.pl
Pekao IB	Kamil Stolarski	kamil.stolarski@pekaoib.pl
Trigon DM	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
Vestor DM	Michał Fidelus	michal.fidelus@vestor.pl
Wood & Co.	Marta Jeżewska-Wasilewska	marta.jezewska-wasilewska@wood.com

SOURCE: IN-HOUSE ANALYSIS.

TABLE 66.

FINANCIAL JOURNALISTS

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

THE KEY THEMES OF THE COMPANY'S 2018 MARKET COMMUNICATION INCLUDED:

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

| 7.3 |

GLOSSARY OF TERMS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31st 2018

Auditor	– KPMG Audyt Sp. z o.o. of Warsaw – the Company's auditor
CAGR	Compound Annual Growth Rate
Catalyst	Bond market operated by the Warsaw Stock Exchange
CZK	Czech koruna
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
Cash EBITDA	Profit/(loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months.
EPS	Earnings per share
EUR	Euro
FMCG	Fast Moving Consumer Goods
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
The Group, the KRUK Group	The Company as the Parent along with its subsidiaries and Non-Standard Securitisation Closed-End Investment Funds
ItaCapital	ItaCapital S.r.l of Milan, Italy
Kancelaria Prawna RAVEN	Kancelaria Prawna RAVEN P. Krupa spółka komandytowa of Wrocław
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
KRUK Česká a Slovenská republika	KRUK Česká a Slovenská republika s.r.o. of Hradec Králové
KRUK Espana	KRUK Espana S.L. of Madrid, Spain
KRUK Italia	KRUK Italia S.r.l of Milan, Italy
KRUK ROMANIA	KRUK Romania s.r.l of Bucharest, Romania
KRUK TFI	KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław
ERIF BIG, ERIF	ERIF Biuro Informacji Gospodarczej S.A.
IAS	International Accounting Standards as endorsed by the European Union
IFRS	International Financial Reporting Standards endorsed by the European Union, including International Accounting Standards, International Financial Reporting Standards and related Interpretations endorsed by the European Union

NBP	National Bank of Poland
Non-Standard Securitisation Closed-End Investment Funds	Prokura NS FIZ, 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 Plan	An incentive scheme for 2015–2019 implemented by the Company for the Management Board members, selected employees of the Company and selected members of the management boards and employees of the subsidiaries, under which up to 847,950 registered subscription warrants will be issued, conferring the right to subscribe for a total of 847,950 ordinary bearer shares issued as part of a conditional share capital increase.
Prokura NS FIZ	Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura Non-standard securitisation closed-end investment fund)
Prokulus NS FIZ	Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus Non-standard securitisation closed-end investment fund)
Supervisory Board	The Company's Supervisory Board
ROE	Return on Equity, computed as the ratio of consolidated net profit to equity as at the end of period
RON	Romanian leu
Regulation on current and periodic information	The Polish Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009, No. 209, item 1744, as amended)
SeCapital Luksemburg	SeCapital S.à.r.l. (Luxembourg)
SeCapital Polska	SeCapital Polska Sp. z o.o. of Warsaw
Consolidated financial statements	The Group's consolidated financial statements for the reporting period ended December 31st 2015, prepared in accordance with the IFRS
Company KRUK Issuer	KRUK S.A. of Wrocław
Subsidiaries	The Company's subsidiaries, as defined in the Polish Accounting Act, and Kancelaria Prawna RAVEN
Articles of Association	The Company's Articles of Association
UOKiK	The Polish Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
USD	US dollar
General Meeting	The Company's General Meeting
Management Board	The Company's Management Board
Financial liabilities	<p>Total financial liabilities under:</p> <ul style="list-style-type: none"> • 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 in 2018 is presented by the Company's Management Board, consisting of the following members:

PIOTR KRUPA

CEO AND PRESIDENT OF THE MANAGEMENT BOARD

URSZULA OKARMA

MEMBER OF THE MANAGEMENT BOARD

AGNIESZKA KUŁTON

MEMBER OF THE MANAGEMENT BOARD

IWONA SŁOMSKA

MEMBER OF THE MANAGEMENT BOARD

MICHAŁ ZASĘPA

MEMBER OF THE MANAGEMENT BOARD

Wrocław, March 7th 2019



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