



# **HALF-YEAR REPORT – PART III** **DIRECTORS' REPORT ON THE KRUK GROUP'S** **OPERATIONS**

for the period January 1st –  
June 30th 2020

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## 1. Financial and operating highlights for H1 2020

Portfolio investments	Recoveries	Net profit/(loss)	Cash EBITDA		
PLN 80m	PLN 894m	PLN -19m	PLN 591m		
-74%	+2%	-111%	+5%		
	PLNm			EURm	
	Jun 30 2020	Jun 30 2019	change	Jun 30 2020	Jun 30 2019
Expenditure on debt portfolios	80	309	-74%	17	72
Gross recoveries	894	874	2%	201	203
Carrying amount of purchased portfolios	3,873	4,048	-4%	867	951
Gross estimated remaining collections (120 months)	7,017	7,162	-2%	1,571	1,682
Total revenue	456	622	-27%	103	145
Revenue from purchased portfolios	379	564	-33%	85	131
<i>including revaluation of debt portfolios</i>	-200	31	-745%	-45	7
EBIT	52	232	-78%	12	54
EBITDA*	76	253	-70%	17	59
Cash EBITDA**	591	564	5%	133	132
Net profit/(loss)	-19	167	-111%	-4	39
Basic EPS (PLN)	-1,02	8.83	-111%	-0.23	2.06
Diluted EPS (PLN)	-1,00	8.65	-111%	-0.23	2.02
ROE***	-1%	9%	-	-	-
Interest-bearing net debt to equity ratio	1.1	1.3	-	-	-
Interest-bearing net debt to cash EBITDA ratio	1.9	2.1	-	-	-

\* EBITDA = EBIT + depreciation and amortisation

\*\* Cash EBITDA = EBITDA – revenue from purchased portfolios + recoveries

\*\*\* ROE = (net profit)/(equity at end of period)

## 2. The Group's material achievements or failures in the reporting period, along with the most significant events related to such achievements or failures

### Performance in H1 2020

The KRUK Group's performance figures for H1 2020 reflect its best knowledge at the time of their preparation, with the reservation that the spreading COVID-19 pandemic and its consequences carry a number of risks and uncertainties which the KRUK Group may not have been able to predict at the time of preparing its H1 2020 results.

For H1 2020 the KRUK Group posted a loss of PLN 19m, but for Q2 alone it booked a net profit of PLN 43m. Key drivers of the Q2 performance included:

- a PLN -74m revaluations on portfolios (PLN -200m in total for H1 2020);
- cost savings achieved in Q2 2020 of PLN 41m relative to the budget and PLN 26m relative to Q1 2020, and they were in line with the savings target;
- partial impairment loss recognised on the acquired Spanish company (Espand, currently renamed to KRUK España) of PLN -25m (non-cash component).

At the same time, cash EBITDA for H1 came in at PLN 591m, having improved 5% on H1 2019.

During the first half of 2020, the KRUK Group invested PLN 80m to purchase debt portfolios worth nominally over PLN 692m, with less than a third of that amount invested in Q2. The Group intentionally scaled down its investment activity over the period of material uncertainty triggered by the coronavirus pandemic and its consequences. Limited debt supply and a reduced number of transactions in the wake of the COVID-19 outbreak in Q2 2020 were seen on virtually every market of the KRUK Group's operations.

The amount of recoveries from purchased debt portfolios in H1 2020 was PLN 894m, an increase of 2% on the same period last year. Ultimately, the Group achieved 93% of its overall operational target set in the 2020 budget for H1 2020 (Operational Target consists of the forecast made in the budget for 2020 (portfolio purchases until 10.2019) and pre-purchase valuations for portfolios purchased from 11.2019). In Q1 2020, recoveries reached 99% of the Operational Target, but in Q2 they fell off 13% quarter on quarter, coming in 13% below the Operational Target. The weakest month was April 2020, with only 85% of the Operational Target achieved, but then recoveries slowly rebounded in May and June (coming to 86% and 89%, respectively, of the Operational Target). The deterioration in recoveries over Q2 2020 was attributable to the coronavirus spread and its impact across the countries where the KRUK Group operated. Anticipating a deterioration in recoveries based on the March and April 2020 figures, the Group wrote off the value of its portfolios as at the end of Q1 2020, which contributed to a deeper write-off in Q2 2020 alone.

### COVID 19 – operational measures taken

The physical safety of personnel and continuity of the KRUK Group's operations became key challenges in the face of the coronavirus pandemic. These goals were achieved on all markets with remote work and preventive measures designed to protect clients' and employees' health in line with recommendations from local sanitary units.

The KRUK Group's IT systems used in remote work made it possible to maintain the continuity of operations with technical efficiencies uncompromised. This applies both to the purchased portfolio operations and services provided to business partners. The Group is now ramping up the use of its online tools, including

online payments and the e-kruk platform enabling remote settlements. Depending on the market and on government measures implemented on each such market to curb the pandemic spread, courts and bailiffs were made to partly change their mode of operation. Both out-of-court and court procedures are carried on, albeit in changed conditions, in each country where the Group has its operations.

### Operating performance by segment

(PLNm)	Poland		Romania		Italy		Other		Head Office	Total		
	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019		H1 2020	H1 2019	
Expenditure on debt portfolios	64	118	14	147	0	0	1	44	N/A	80	309	
Recoveries	425	400	251	270	121	85	97	118	N/A	894	874	
Carrying amount of purchased debt portfolios (PLNbn)	1.8	1.9	0.9	1.0	0.7	0.7	0.5	0.5	N/A	3.9	4.1	
Revenue	285	320	115	186	19	66	37	50	N/A	456	622	
Purchased debt portfolios	224	284	109	179	14	59	32	42	N/A	379	564	
Credit management services	11	13	6	6	5	7	5	8	N/A	27	34	
Wonga	38	10							N/A	38	10	
Other activities	12	14	0.8	0.4	0.0	0	0.0	0	N/A	12	14	
EBITDA	120	190	71	135	-58	-18	-37	-15	-20	-39	76	253
Cash EBITDA	320	307	213	227	49	8	28	58	-20	-39	591	564

### Poland

In line with its adopted investment policy and decision to curtail investments due to COVID-19, the KRUK Group's expenditure on portfolio purchases in Poland reached PLN 64m, representing 80% of all funds invested by the Group in H1 2020. Almost 90% of the expenditure made in Poland was on unsecured retail portfolios.

In H1 2020, recoveries from purchased debt portfolios amounted to PLN 425m, up 6% year on year. Despite a challenging environment caused by the pandemic spread, record-high recoveries were recorded in Q1 2020, but in Q2 2020 they fell 6% year on year. Recoveries in Q2 came in below the Operational Target, with the deviation less pronounced than the Group-wide undershoot in percentage terms. The main reason was the Group's failure to achieve target recoveries from secured corporate and mortgage debt portfolios. Lower recoveries of corporate and mortgage debts were primarily an effect of restrictions imposed on the enforcement against real property (with evictions suspended for the duration of the state of epidemic/epidemic emergency) and temporary disruption in court work. Throughout the period under review, amounts recovered on the Polish market represented 47% of the Group's total recoveries.

The portfolio write-offs in H1 2020 totalled PLN -45m, with:

- write-offs in Q1 of PLN -31m reflecting an expected deterioration in future recoveries due to the epidemic crisis,
- write-offs in Q2 of PLN -14m prompted by a downward revision of projected recoveries from secured portfolios, mainly of corporate debt, due to the factors described above.

Listed below are material legislative changes attributable to COVID-19, as identified by KRUK at the date of issue of this report (August 27th 2020), which may affect the value of its debt portfolios:

- Pursuant to the Act on Special Solutions Related to Prevention, Counteracting and Combating of COVID-19, Other Infectious Diseases and Emergencies Caused by them and Certain Other Acts of March 31st 2020, which entered into force on April 1st 2020 ('Shield 1.1.'):
  - the running of procedural/court time limits was suspended until May 16th 2020,
  - court work was reorganised, e.g. open court hearings were limited to urgent cases (mainly criminal),
  - evictions were suspended for the duration of the epidemic/epidemic emergency;

The estimated loss of recoveries resulting from the aforementioned changes was reflected in the accounting estimate as at the end of Q1 2020.

- Pursuant to the Act Amending Certain Acts on Protective Measures in Connection with the Spread of SARS-COV-2 of May 14th 2020, which entered into force on May 15th 2020 ('Shield 3.0'):
  - the amount free from bailiff seizure was increased by 25% (per each non-income earning family member that is the employed person's dependant) for persons who, due to measures taken in Poland to prevent the spread of SARS-CoV-2, have had their wages reduced (or whose family member has lost their source of income). The solution is temporary, but no end date of its effective period has yet been indicated.

As announced on the date of its Q1 report, KRUK was analysing a potential impact of that legislative change on its recoveries, but for the time being it has not identified any. Therefore, no such impact was reflected in the accounting estimate prepared as at the end of Q2 2020.

- Pursuant to the Act on Interest Subsidies for Bank Loans Advanced to Ensure Liquidity to Business Undertakings Affected by COVID-19 and Amending Certain Other Acts of June 19th 2020, which entered into force on June 24th 2020 ('Shield 4.0'):
  - certain simplifications were introduced with respect to a restructuring process – the new regulations permit enforcement against a debtor to be stayed for five months if such restructuring procedure is resorted to.

KRUK has not recorded any cases of initiating simplified restructuring process and sees no impact of the introduced change. Therefore The solution did not affect the accounting estimates prepared by KRUK.

- repayment holidays were introduced – whereby, in accordance with the provisions of Shield 4.0, repayment of both interest and principal of settlement instalments must be suspended at a customer's request for a period of three months.

The impact of this solution and KRUK's voluntary granting of customer requests for repayment holidays reflecting its generally amicable approach was reflected in the accounting estimate as at the end of Q2 2020.

The above revisions coupled with the absence of any significant new investments affected the carrying amount of purchased debt portfolio, which as at June 30th 2020 amounted to PLN 1.8bn, down from nearly PLN 1.9bn as at June 30th 2019.

Total revenue in Poland came to PLN 285m (down 11% year on year), with the purchased debt portfolio business as the largest contributor, accounting for 79% of the figure, and 62% of the Group-wide revenue. The main factor behind the worse top-line performance were the portfolio write-offs.

In the other business lines (ERIF and Novum), revenue fell 15% year on year, reflecting largely limited product sales at both entities. Revenue from credit management services amounted to PLN 11m, a 15% decline year on year.

EBITDA on the Polish market was PLN 120m, down 36% year on year due to the portfolio write-offs. At the same time, PLN 320m was posted in cash EBITDA, a 4% year-on-year increase, on the back of higher recoveries and cost savings.

### **Consumer loans in Poland**

In connection with the COVID-19 pandemic and the related uncertainty, and the introduction, pursuant to the Act of March 8, 2020, on special solutions related to the prevention, counteraction and combating of COVID-19, other infectious diseases and the emergencies caused by them, and certain other acts (Journal of Laws. 2020 item 568), a temporary reduction in the limit of non-interest costs of consumer loans, Wonga and Novum temporarily limited the sale of loans while introducing additional changes and restrictions in the process of assessing customer creditworthiness. The cap is valid until March 8, 2021. For loans lasting longer than March 8<sup>th</sup> 2021, Wonga and Novum calculates the limit of non-interest costs in accordance with the guidelines included in the Regulatory Impact Assessment prepared by the Ministry of Development during the legislative process.

In H1 2020, the KRUK Group recognised an allowance for expected credit losses reflecting an anticipated adverse impact of COVID-19 on the repayment of loans totalling PLN 7.4m, including PLN 6.8m for the Wonga portfolio.

The enacted legislative changes are undermining the profitability of products offered by Wonga and Novum. At the same time, Wonga enjoys a strong brand recognition and has its own acquisition channels, marked by a low loss ratio and low lending costs (mainly the cost of data required for the credit analysis process, the lending process at Wonga being fully automated) compared with the broad consumer loan market.

### **Romania**

As in each of the markets, also in Romania debt supply and demand were heavily limited in the wake of COVID-19.

Investments made by the KRUK Group on the Romanian market in H1 2020 comprised retail portfolios purchased for over PLN 14m, representing 18% of the Group's total expenditure and 98% when combined with its investments in Poland.

The amount recovered in H1 2020 was PLN 251m, down by PLN 19m year on year. Recoveries in Q1 and Q2 2020 amounted to PLN 137m and PLN 114m, respectively. Starting from April, a decline in recoveries was recorded, leading to an overall decline of 17% for the entire Q2 2020 versus Q1 2020. Recoveries in Q2 came in below the Operational Target, with the deviation similar to the Group-wide undershoot in percentage terms. The deterioration was mainly due to restrictions imposed in relation to enforcement against disability and old-age pensions as well as furlough benefits (paid by the state as a form of support for employees), effective from March 30th to July 15th. KRUK expects recoveries to improve in the coming months as certain effects of the economic lockdown subside.

As at the date of issue of this report, the following material legislative changes were identified by the KRUK Group in Romania in connection with the coronavirus pandemic that could affect the value of the Group's debt portfolios:

- Special regulation no. 32 amending and supplementing special regulation no. 30/2020 and establishing an additional social protection measure, promulgated and entered into force on March 30th 2020, which prohibits enforcement against pensions until the state of exception is lifted and for 60 days thereafter (i.e. until July 15th 2020).
- Special regulation no. 53/2020 amending and adding regulations establishing social protection measures, promulgated and entered into force on April 21st 2020, which prohibits attachment of furlough benefits during the state of exception and for 60 days after it is lifted (i.e. until July 15th 2020).

The estimated loss of court enforced collections due to the two regulations was reflected in the estimate made as at the end of Q1 and upheld at the end of Q2 2020.

- Unconstitutional Act no. 143/2020 concerning amendments to special regulation no. 37, which prohibits any enforcement until December 31st 2020 – on July 14th 2020, the Act was declared unconstitutional.

In its report for Q1 2020, KRUK assessed the probability of the Act's entry into force as low, disregarding its potential impact on the value of assets.

Write-offs on portfolios recognised by KRUK in Romania in H1 2020 totalled PLN 40m, including PLN 6.5m in Q2. The write-offs made in Q2 were related to SME/corporate debt portfolios.

Given the factors discussed above, the carrying amount of purchased debt portfolios as at June 30th 2020 was PLN 909m, down 7% year on year. Romanian portfolios account in total for 23% of the carrying amount of all debt portfolios held by the KRUK Group.

Revenue derived from the Romanian market amounted to PLN 115m, down 38% year on year. The largest contributor to top-line performance was the purchased portfolio business, which also recorded a 39% year-on-year revenue decline. In the credit management business, nearly PLN 6m was booked in revenue, down 8% year on year.

EBITDA on the Romanian market was PLN 71m, down 47% year on year on the portfolio write-offs. As a result of poorer recoveries, cash EBITDA came in 6% below the previous year's cash result.



## Italy

In the first half of 2020, the KRUK Group scaled down its investment activity due to COVID-19, not purchasing any new debt portfolios on the Italian market.

The Group recorded PLN 121m in total recoveries over H1 2020, up 42% year on year. However, recoveries in Q2 2020 were 22% lower than in the previous quarter, reflecting the COVID-19-induced lockdown measures, including a reduction in court work. Due to the deteriorated recoveries in Q2, the percentage missed on the Operational Target in Italy was deeper than the Group-wide undershoot.

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

During H1 2020, the Group recognised portfolio write-offs of PLN 76m, of which PLN 42m was written down in Q2 2020. The write-offs reflected mainly an anticipated deterioration in future recoveries due, among other factors, to the epidemic crisis, in particular the speed and timing of recoveries enforced through courts.

The largest portion of revenue on the Italian market was derived from purchased debt portfolios (PLN 14m of the total Italian revenue of PLN 19m). The business of credit management services posted revenue of PLN 5m, down 26% year on year. The decrease was mainly attributable to decisions by primary creditors to temporarily discontinue debt outsourcing and to temporary suspension of debt collection activities due to COVID-19.

As in the same period of the year before, EBITDA on the Italian market was a loss of PLN -58m, down by over PLN 40m, driven by the portfolio write-offs. At the same time, cash EBITDA came in at PLN 49m, a six fold increase over the year before, led by a year-on-year improvement in recoveries.

## Other markets

The other markets are Spain, the Czech Republic/Slovakia and Germany. As in Italy, the KRUK Group curtailed its investment activity in the wake of COVID-19 also on the other markets, purchasing retail portfolios in the Czech Republic for PLN 1.5m.

During H1 2020, recoveries from the other markets totalled PLN 97m, down 18% year on year. Repayments in Q2 2020 were 15 % lower than in Q1 2020, reflecting the COVID-19-induced crisis in Spain. Recoveries in Q2 2020 were far below the Operational Target, the deviation much deeper than the Group-wide undershoot in percentage terms, both in the case of unsecured consumer and corporate debts. The Group expects recoveries to improve in the coming months as the lockdown measures are lifted.

As at the date of issue of this report, the following legislative change attributable to the coronavirus pandemic was identified by the KRUK Group as material: prohibition on business bankruptcies in Spain until the end of 2020. The change was enacted by Royal Decree-Law 16/2020 of April 28th on procedural and organisational measures to address COVID-19 in the administration of justice from March 14th (retrospectively) to the end of 2020. Over the state of alert period declared in Spain (in Q2 2020), some ongoing bankruptcy processes were additionally suspended. The impact of both issues was reflected by KRUK in its accounting estimate as at the end of Q2 2020.

Given the pandemic crisis and impact of the severe social and economic lockdown measures, in Spain the KRUK Group booked a portfolio write-off of PLN 37m, with PLN 39m for the entire 'other markets' segment. The reason for the PLN 25m write-off on the Spanish portfolios in Q1 2020 was an anticipated epidemic-related deterioration in future recoveries. In Q2 2020, the amount written down was PLN 11m, involving mainly corporate debt portfolios.

Revenue from the other markets amounted to PLN 37m, representing 8% of the Group's overall revenue. As at the entire Group, revenue from purchased debt portfolios, which came to PLN 32m, was the key contributor.

The Spanish credit management business recorded revenue of nearly PLN 5m, down 38% year on year.

In H1 2020, EBITDA on the other markets was a loss of PLN -37m, compared with PLN -15m in the corresponding period of the year before. This result was affected by a partial impairment loss on the acquired Spanish company (Espand, currently renamed to KRUK España) of PLN -25m (non-cash component). The partial impairment loss was prompted by the company's unsatisfactory performance against forecasts, despite plans to improve its performance in the future. The other markets generated positive cash EBITDA of PLN 28m, down 52% year on year as a result of lower recoveries relative to H1 2019.

### Financial and liquidity position

The Group's financial and liquidity position remained stable as at the end of H1 2020 and the date of issue of this report.

As at June 30th 2020, the KRUK Group's cash and cash equivalents amounted to PLN 251m, up by PLN 15m on March 31st 2020. The undrawn amount of lines of credit was PLN 910m as at June 30th 2020, having grown by PLN 198m compared with March 31st 2020. As at June 30th 2020, the Group's debt portfolio investments accounted for 85% of its assets. The Group's equity accounted for 43% of its financing sources.

The KRUK Group's liquidity risk is managed by pursuing the following objectives:

- to protect the KRUK Group against the loss of ability to pay its liabilities,
- to secure funds to finance the Group's day-to-day operations and growth,
- to effectively manage the available financing sources.

In the opinion of the KRUK Management Board, a measure helpful to assess the liquidity risk is the ratio of liabilities maturing within 12 months to cash EBITDA (debt maturing within 12 months/LTM cash EBITDA). As at June 30th 2020, the ratio stood at 0.57, reflecting the Group's strong ability to cover its maturing debt.

**As at Jun 30 2020**

PLN '000

Debt maturing within 12 months	654,830
LTM cash EBITDA	1,149,179
<b>Maturing debt/cash EBITDA</b>	<b>0.57</b>

Source: Company

As at June 30th 2020, defined financial ratios were as follows:

1.1 – Debt Ratio

1.9 – Net Financial Debt / Cash EBITDA Ratio;

where:

**Debt Ratio** means: Net Financial Debt to Equity;

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

**Equity** means the KRUK Group's equity;

**Financial Liabilities** means total financial liabilities under:

- bonds or other similar debt securities; or
  - non-bank borrowings; or
  - bank borrowings; or
  - finance leases; or
  - promissory notes issued by way of security for liabilities of non-KRUK Group entities;
- or
- guarantees or sureties provided in respect of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
  - accession to debt owed by non-KRUK Group entities under bank non-bank borrowings, finance leases, bonds or other similar debt securities; or
  - assumption of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
  - concluded derivative transactions.

**Cash EBITDA** represents profit (/loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months.

### 3. Dividends paid (or declared)

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, 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.

On July 27th 2020, the Management Board of KRUK S.A. resolved to recommend to the General Meeting that a portion of the Parent's net profit for 2019 be allocated either to buy back Parent shares for cancellation at a price of PLN 350 per share or to pay out dividend of PLN 5 per share. In 2019, the KRUK Group's consolidated net profit was PLN 277m, while KRUK S.A.'s separate profit came in at PLN 387m, of which PLN 95m is intended by the Parent's Management Board for distribution among shareholders. In recommending partial distribution of the Company's net profit for 2019, the Parent's Management Board took into account, in particular, the Parent's current financial and liquidity position, its reduced investment activity during 2020, the Group's strategic objectives, as well as the situation prevailing in Poland and globally in the wake of the COVID-19 epidemic.

Following legislative amendments under the government's anti-crisis shield package, public companies are allowed to hold annual general meetings by August 31st 2020. Such postponement of the annual general meeting applies to all matters referred to in Art. 395.2 of the Commercial Companies Code, i.e. to resolutions on the distribution of profit/coverage of loss and liability discharge for members of the company's governing bodies.

KRUK intends to avail itself of the amendments provided for under the COVID-19 legislation and to hold its Annual General Meeting on August 31st 2020. A notice of the Annual General Meeting was published by the Company on August 4th 2020 in Current Report No. 22/2020.

### 4. Changes in the KRUK Group's structure

On April 27th 2020, Secapital Polska Sp. z o.o. of Wrocław, wholly-owned by KRUK S.A., sold one share in InvestCapital LTD of San Ġwann, Malta, to ERIF Business Solution Sp. z o.o. of Wrocław. KRUK S.A. holds directly 100% of shares in ERIF Business Solutions Sp. z o.o. and – indirectly – in InvestCapital LTD.

After the reporting period, on July 1st 2020 the Extraordinary General Meeting of Secapital Polska Sp. z o.o. of Wrocław decided to dissolve the company through liquidation. Piotr Krupa, an existing member of the company's Management Board, was appointed its liquidator.

## 5. Changes on the Management Board of KRUK S.A.

In Q2 2020, there were changes on the Management Board of KRUK S.A., the Parent of the KRUK Group.

Until May 28th 2020, the Parent's Management Board had consisted of:

Piotr Krupa	President of the Management Board
Agnieszka Kułton	Member of the Management Board
Urszula Okarma	Member of the Management Board
Iwona Słomska	Member of the Management Board
Michał Zasępa	Member of the Management Board.

Following Agnieszka Kułton's resignation as member of the Management Board with effect from May 28th 2020, on May 29th 2020 the Supervisory Board appointed Piotr Kowalewski as a new member of the Management Board of KRUK S.A. As a result, as at June 30th 2020 the Management Board of KRUK S.A. was composed of the following persons:

Piotr Krupa	President of the Management Board
Piotr Kowalewski	Member of the Management Board
Urszula Okarma	Member of the Management Board
Iwona Słomska	Member of the Management Board
Michał Zasępa	Member of the Management Board.

Following Iwona Słomska's resignation as member of the Management Board with effect from July 31st 2020, as at the date of issue of this report for H1 2020, the composition of the Management Board of KRUK S.A. was as follows:

Piotr Krupa	President of the Management Board
Piotr Kowalewski	Member of the Management Board
Urszula Okarma	Member of the Management Board
Michał Zasępa	Member of the Management Board.

## 6. Related-party transactions concluded by the Parent

In the period January 1st–June 30th 2020, the Parent executed related-party transactions. For details, see the *condensed interim separate financial statements for the period January 1st–June 30th 2020, section 12.*

### **Related-party transactions concluded by the Parent**

All transactions in H1 2020 between the Group companies were executed at arm's length.

## 7. Sureties for repayment of loans and guarantees issued by KRUK S.A. or its subsidiary

In the reporting period, KRUK S.A. and the Group companies issued sureties for repayment of loans and guarantees. For details, see the *condensed interim separate financial statements for the period January 1st–June 30th 2020, section 16. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year*

## 8. Assessment of financial resources management

### 8.1 Financial forecasts

The Management Board of KRUK S.A. did not publish any forecasts of KRUK S.A.'s or the KRUK Group's results.

### 8.2 Assessment of future financial condition

The KRUK Group's business is being continued across all markets and business lines. However, the spread of the coronavirus and its impact in the countries where the Group operates are bound to adversely affect its performance in 2020. The impacts will be particularly pronounced in the Group's principal business of purchased debt management:

- the epidemic and its consequences set to bear adversely on the amount of recoveries in the coming months of 2020. As a result, in H1 the Group wrote off a total of PLN 200m off the value of its debt portfolios, which was directly reflected in the H1 2020 performance figures. The downward revaluation represents the Management Board's best estimate, but further COVID-related portfolio write-offs cannot be ruled out;
- a 74% year-on-year decline in investment was brought about by the global spread of the coronavirus pandemic, which caused the Group to scale down its investing activity. The KRUK Group is preparing for, and will actively participate in, an expected post-pandemic increase in the supply of debt driven by an increase in non-performing bank loans.

Both in H1 2020 and as at the date of issue of this interim report, the KRUK Group was operating efficiently on all markets, with no significant legal restrictions applicable to its business. As at the date of issue of this report, the freedom of movement was restored and field advisors, provided they take precautionary measures, can again pay their visits. In all the markets, courts have resumed their work, which had been temporarily restricted or suspended.

Additionally, the COVID 19-induced disruptions and obstacles are also affecting the regularity and continuity of debt outsourcing by primary creditors, which may adversely affect the performance of the Group's credit management line, but in subsequent months the scale of debt outsourcing to specialised debt collectors like KRUK should increase.

The Group also expects the COVID-19 pandemic to have a negative impact on its loan business line in Poland. The temporary reduction of a cap on non-interest costs to 21% until March 8th 2021, enacted as part of the package of anti-crisis legislation, will erode the profitability of lending on the Polish market in 2020, while the impending economic downturn may lead to an increase in the number of non-performing loans.

Therefore, the Group's focus is on ensuring operational stability and cost savings to minimise the negative impact of the pandemic on its performance in 2020, and getting ready for a potential increase in the supply of debt put out for sale and the demand for credit management services and other products in the coming quarters.

Having reviewed its expenses, KRUK has been implementing savings, set to reduce costs in 2020. The Group identified potential for lowering its operating expenses and overheads as from Q2 2020, partly on the back of savings and partly on costs being moved forward to future periods. One of the many savings is a 25% reduction in the salaries of Management and Supervisory Board members, and a 20% reduction in the salaries of senior managers for May–July 2020. On the back of the measures taken, the Group managed to reduce its expenses by PLN 5m (1%) year on year, bringing down its Q2 2020 expenses, as previously announced, by PLN 26m relative to Q1 2020 and by PLN 30m relative to Q2 2019. Some of the savings may be of a lasting nature, while other resulted from postponed referral of debt cases to courts during the lockdown period.

At the same time, the KRUK Group's financial and liquidity position remains stable. The Group mitigates risks associated with management of financial resources through a continuous debt management process, which ensures an uninterrupted inflow of cash. In the opinion of the Management Board, given the Group's current and projected financial position there are no significant risks related to its liquidity management. The Company is able to control and service its debt and manages its financial resources in a prudent manner.

## 9. Shareholders

### 9.1 Shareholding structure

Shareholders holding, directly or indirectly, 5% or more of total voting rights at the General Meeting of the Company as at the report issue date, and changes in major holdings of Company shares since the issue of the previous interim report

#### As at the date of issue of the previous periodic report (May 28th 2020)

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
Piotr Krupa	1,856,666	9.79	1,856,666	9.79
NN PTE*	2,055,000	10.83	2,055,000	10.83
Aviva OFE*	1,740,000	9.17	1,740,000	9.17
PZU OFE*	1,056,178	5.57	1,056,178	5.57

(\*) 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 June 25th 2019.

**As at the date of issue of this interim report**

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
Piotr Krupa	1,856,666	9.79	1,856,666	9.79
NN PTE*	2,055,000	10.83	2,055,000	10.83
Aviva OFE*	1,740,000	9.17	1,740,000	9.17
PZU OFE*	1,056,178	5.57	1,056,178	5.57

(\*) 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 June 25th 2019.

In the period from the issue date of the previous full-year report to the issue date of this interim report, there were no changes in holdings of KRUK S.A. shares by major shareholders.

**9.2 Management or supervisory board members holding shares or rights to shares**

Members of the management or supervisory personnel holding Company shares or rights to Company shares as at the date of issue of this interim report, and changes in their holdings after the issue of the previous interim report

**As at the date of issue of the previous report, i.e. May 28th 2020**

Name and surname	Position	Number of shares held
Piotr Krupa	CEO and President of the Management Board	1,856,666
Agnieszka Kulton	Member of the Management Board	45,000
Urszula Okarma	Member of the Management Board	107,001
Iwona Słomska	Member of the Management Board	39,348
Michał Zasępa	Member of the Management Board	26,356
Tomasz Bieske	Member of the Supervisory Board	1,222

**As at the end of Q2 2020**

Name and surname	Position	Number of shares held
Piotr Krupa	CEO and President of the Management Board	1,856,666
Piotr Kowalewski	Member of the Management Board	8,000
Urszula Okarma	Member of the Management Board	107,001



Iwona Słomska	Member of the Management Board	39,348
Michał Zasępa	Member of the Management Board	20,000
Tomasz Bieske	Member of the Supervisory Board	1,222

#### As at the date of issue of this interim report

Name and surname	Position	Number of shares held
Piotr Krupa	CEO and President of the Management Board	1,856,666
Piotr Kowalewski	Member of the Management Board	8,000
Urszula Okarma	Member of the Management Board	107,001
Michał Zasępa	Member of the Management Board	20,000
Tomasz Bieske	Member of the Supervisory Board	1,222

Apart from the change in the number of shares held by Piotr Krupa, President of the Management Board, in the period from the date of issue of the previous quarterly report (the complete consolidated report for Q1 2020, issued on May 28th 2020) to the date of issue of this interim report, there were changes in the number of Company shares held by Mr Michał Zasępa in connection with Piotr Kowalewski's assuming the position of Management Board member on May 29th 2020 and Iwona Słomska's resignation from that position.

On June 6th 2020, the Company received a notification from Michał Zasępa, given under Article 19 of the MAR, to the effect that on June 5th 2020 Michał Zasępa had sold, in ordinary session trades on the Warsaw Stock Exchange, 6,356 shares in KRUK S.A. for the average price of PLN 119.34 per share.

To the best of the Company's knowledge, the other Supervisory Board members, except for Tomasz Bieske, did not hold any Company shares or rights to Company shares in the period from the issue of the previous quarterly report (the consolidated report for Q1 2020), i.e. from August 27th 2020 to the date of issue of this report.

#### Incentive scheme at KRUK S.A.

##### Incentive scheme for 2015–2019

The 2015–2019 incentive scheme was approved by Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014 (2015-2019 Incentive Scheme)

It is the second incentive scheme operated by the KRUK Group. Details of the 2015–2019 Incentive Scheme can be found in the Directors' Report on the operations of the KRUK Group in 2019.

As at June 30th 2020 and as at the issue date of this report, members of the Parent's Management Board held no rights to KRUK S.A. shares other than those under the subscription warrants discussed below.

**Number of subscription warrants held by Management Board members as at June 30th 2020**

Name and surname	Position	Number of warrants held under Tranche 1 for 2015	Number of warrants held under Tranche 2 for 2016	Number of warrants held under Tranche 3 for 2017	Number of warrants held under Tranche 4 for 2018
Piotr Krupa	CEO and President of the Management Board	7,000	10,820	14,556	20,564
Agnieszka Kułton*	Member of the Management Board	3,250	9,915	9,947	17,301
Urszula Okarma	Member of the Management Board	3,250	9,915	9,947	17,301
Iwona Słomska**	Member of the Management Board	-	-	9,947	17,301
Michał Zasępa	Member of the Management Board	-	-	9,947	17,301
Piotr Kowalewski***	Member of the Management Board	2,003	2003	2003	2003

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

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

\*\*\* Piotr Kowalewski had been covered by the Incentive Scheme for 2015–2019 as an eligible person other than a member of the Management Board until May 28th 2020. Since May 29th 2020, when he assumed the position of member of the KRUK S.A. Management Board, Piotr Kowalewski has not become entitled to acquire subscription warrants as an eligible person being a member of the Management Board.

**10. Material court, arbitration or administrative proceedings**

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

**11. Material risk factors**

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

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

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

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

In the period from January 1st to June 30th 2020, there were no material changes to the risk management approach, therefore the Management Board of KRUK S.A. identified the same risks as those specified in the full-year Directors' Report on the Group operations in 2019, in:

**3.16 Significant risk factors and their management** The report is available at <https://en.kruk.eu/media/article/file/directorsreportontheoperationsofthekrukgroup.pdf>

In addition, it identified a risk associated with adverse effects of the COVID-19 pandemic on the economic condition and financial performance of the KRUK Group, as described in the Q1 2020 report.

Risk	Description of risk/effects	Management method
Risk related to adverse effects of the COVID-19 pandemic on the economic condition and financial performance of the KRUK Group	The Company believes that the COVID-19 pandemic and its consequences in Poland and other countries where the KRUK Group operates will adversely affect the Group's economic condition and financial performance. Such adverse impacts are likely to be seen mainly in the amount of recoveries from purchased debt portfolios, which may come in lower than expected, potentially leading to a negative revaluation of those debt portfolios. The epidemic may also adversely affect the performance of Wonga.pl and Novum, as well as the other business lines pursued by KRUK. The KRUK Group's operations are being continued on each market and within each business line, and the Group's liquidity position remains stable. However, as at the date of this report for H1 2020, it is not possible to predict the full scale of the negative impact of the coronavirus spread and its effects on the Group's economic condition and financial performance, apart from the PLN 200m negative revaluation of the portfolios recognised for H1 2020.	Taking various scenarios into account, the KRUK Group intends to manage its operations in a way that would minimise any adverse effects on KRUK's assets and financial performance. The following measures have been taken to that end: the switchover to remote work (with 95% of the employees having opted to work from home during the pandemic period), reduction of investments in new portfolios, and cost saving initiatives in 2020. As at the date of this Directors' Report for H1 2020, it is not possible to predict the full scale of the adverse impact of the coronavirus spread and its effects on the Group's economic condition and financial performance, due to the heightened uncertainty of estimates. However, seeking to forestall any unexpected impacts of COVID-19 on the valuation of its debt portfolios, the Group developed operational scenarios for various impacts of the pandemic on the level of its recoveries. The write-offs recognised on the portfolios in the first half of 2020 reflects the most probable scenario of the pandemic's impact on debt recoveries. If recoveries in the coming months turn out to be lower than assumed for the purposes of the valuation and a further write-off is required to reflect the pandemic's impact (which we do not consider likely), the Group is prepared and has plans to take further operational measures to ensure that its continued operations and liquidity position on each market remain stable. Also with respect

to the valuation of consumer loan portfolios, the Group developed operational scenarios for various impacts of the pandemic on the level of repayments. The PLN (-7.4)m write-off on the portfolios recognised in H1 2020 reflects the most probable scenario of its impact on repayments.

## 12. Corporate social responsibility

The KRUK Group operates in compliance with applicable legal regulations, standards and principles of corporate social responsibility. In line with its mission statement and vision, KRUK is committed to education and promotion of sustainable development. One of the main objectives of these efforts is to foster broad-based financial literacy.

In H1 2020, KRUK S.A. responded to the pandemic crisis by getting involved in the #graMYdlaKOSZAROWEJ campaign in Wrocław: it donated PLN 200,000 to purchase protective equipment, i.e. protective masks and semi-masks, face shields and biosecurity boots for medical staff of the J. Gromkowski Provincial Specialist Hospital in Wrocław.

Notably, at the time when the state of epidemic was declared, KRUK made a special effort to individualise its approach to clients (debtors), especially those who found themselves in difficulties due to the epidemic. The KRUK Group continued its online efforts to encourage clients to repay debts via the e-kruk.pl platform or to contact it over the telephone or Internet. In line with its CSR commitment, the Company also prepared the #stayathome (#Zostańwdomu) online campaign for seniors and their close ones. Similar campaigns have also been run at companies operating in Romania, the Czech Republic and Italy. Their primary aim was to educate clients on the use of modern technologies, including online banking and other online solutions offered by the KRUK Group, enabling secure debt repayment without leaving home. In addition, companies operating in the countries where the KRUK Group is present were researching and monitoring client and consumer behaviour during the pandemic, aligning their communication and operating methods to the prevailing pandemic-induced situation and client needs.

In addition, KRUK S.A. implemented voicebot and chatbot solutions to serve its clients after the call center working hours.

In the first quarter, The Association of Financial Companies in Poland – an organisation established by the Minister of Finance – carried out another annual ethics audit at KRUK S.A. and ERIF BIG S.A. Both companies have received certificates from the Ethics Committee confirming their compliance with the ethical principles.

In the face of COVID-19, measures were also taken to ensure the safety of employees. As many as 95% of the KRUK Group's personnel chose to work from home, which they still largely continue to do. Employees whose work requires presence at the office or in the field, or who volunteered to work from the office, have also been subject to safety procedures, based on recommendations from local sanitary supervision units. The safety of our employees and clients has been and remains a priority for KRUK S.A.

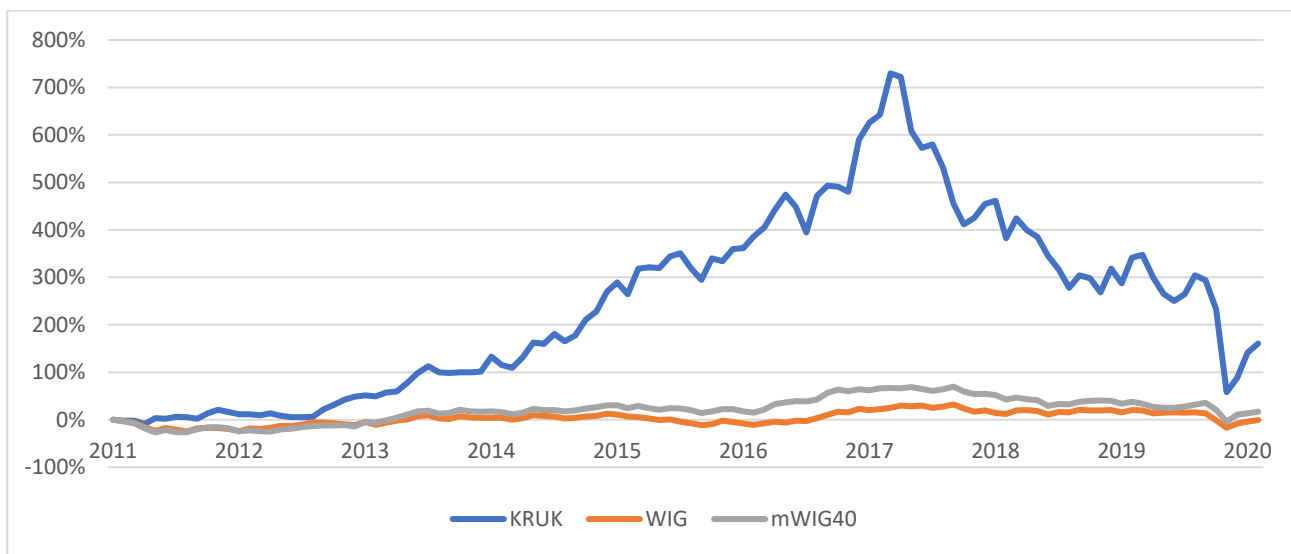
## 13. Investor Relations summary

### 13.1 Performance of Company shares on the Warsaw Stock Exchange

Over H1 2020, the price of KRUK shares on the stock exchange market fell 35.58%. Our stock underperformed both the WIG and mWIG40 indices, which delivered rates of return of -14.29% and -11.25%, respectively.

From its IPO on the Warsaw Stock Exchange in May 2011 to the end of H1 2020, the rate of return on KRUK shares reached 163.11%. Over the same period, the all-cap WIG index rose by 0.48%, while the mid-cap mWIG40 index gained 18.57%.

#### Performance of KRUK stock against WIG and mWIG40 from the Company's IPO on the WSE in May 2011 to the end of H1 2020

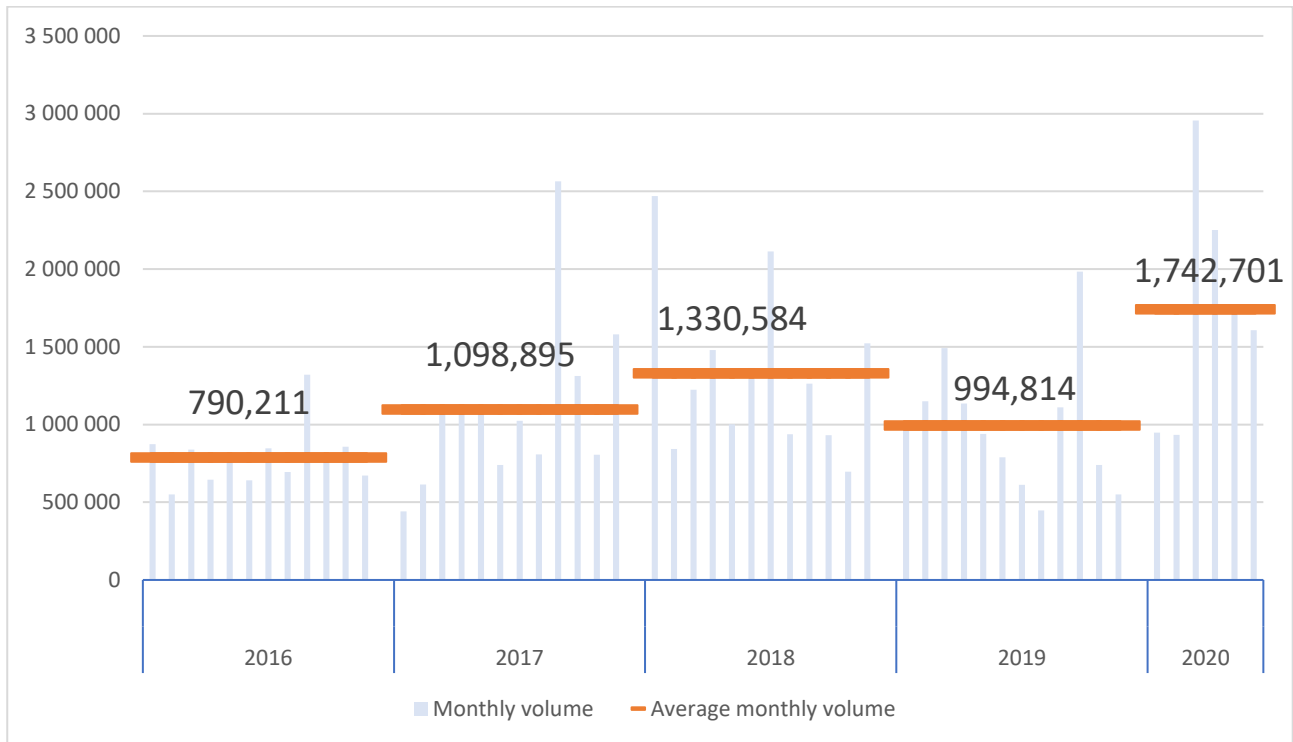


Source: in-house analysis, based on stooq.pl

#### Stock liquidity

The total volume of KRUK S.A. shares traded in H1 2020 was 10.5m, and the total value of trading reached PLN 1bn. The average daily trading volume of KRUK shares was 84.3 thousand, and the average daily trading value stood at PLN 8.4m. In H1 2020, KRUK was the 24th most liquid stock on the WSE (in terms of the total trading value).

### Monthly volume in individual months and the year's average monthly volume of trading in KRUK shares in 2016–H1 2020



Source: in-house analysis based on [www.gpw.pl](http://www.gpw.pl)

#### 13.2 Additional information

The Management Board of KRUK S.A. decided to reschedule the issue of the H1 2020 report to an earlier date, setting it for August 27th 2020. The date of this report had originally been set for September 9th 2020.

**Piotr Krupa**  
*President of the  
Management Board*

**Piotr Kowalewski**  
*Member of the  
Management Board*

**Urszula Okarma**  
*Member of the  
Management Board*

**Michał Zasepa**  
*Member of the  
Management Board*

*Wrocław, August 27th 2020*