



*KRUK Directors' Report
on operations of KRUK S.A.
in 2013*

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1 OVERVIEW OF THE COMPANY

1.1 General information about the Company

Form of incorporation

KRUK S.A. (the “Company”) is a joint-stock company with registered office in Wrocław, Poland. The Company is a parent of the KRUK Group (the “KRUK Group”).

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 – Register of Entrepreneurs by the District Court for Wrocław Fabryczna of Wrocław, 6th Commercial Division of the National Court Register, under entry No. KRS 0000240829.

The Company shares and allotment certificates for ordinary bearer shares were admitted to stock-exchange trading on the main market of the Warsaw Stock Exchange, pursuant to the WSE Management Board's Resolution No. 573/2011 of May 5th 2011.

Contact details

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1.2 Business model

KRUK S.A. is the parent of the KRUK Group. A comprehensive overview of the Group's business and sources of revenue is presented in the Director's Report on the Operations of the KRUK Group. In the Management Board's opinion, reading this document is essential for proper and thorough assessment of the Company's performance in 2013.

The Company's operations are based on a successful business model, implemented across the entire Group. The Company is active both in the debt purchase and credit management segments of the debt collection market. Due to the nature of the debt collection industry (particularly operation of securitisation funds) and the wide range of services and activities performed by the KRUK Group (including in particular litigation-based debt collection and credit reference agency services), the Company's separate results do not reflect its actual performance. An analysis of the combined potential of the Company and its subsidiaries, taking into account the nature of their operations, gives a comprehensive picture of the Company's business model and enables proper assessment of its operating and financial performance. The year 2013 was very successful for

the Kruk Group; the Group strengthened its position as the leader of the debt collection markets in Poland and Romania.

1.3 Financial highlights for 2013

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

As at the end of 2013, the Company's total headcount was 1,170 staff (2012: 985). The table below presents selected data and financial highlights for 2013, with comparative data for 2012.

Table 1. Company's selected financial data

	Period ended Dec 31		Change
	2013	2012	
	(PLN '000, unless stated otherwise)		
Revenue	102,837	95,175	8%
EBITDA	-22,363	-14,055	30%
Operating profit (EBIT)	-29,626	-19,998	48%
Net finance income	47,387	30,631	55%
Net profit for the period	17,751	7,156	148%
Cash flows from operating activities	-23,529	8,546	-375%
Cash flows from investing activities	5,516	-75,190	-107%
Cash flows from financing activities	13,091	67,177	-81%
Total net cash flows	-4,922	533	-1023%
Total assets	842,706	748,102	13%
Equity	139,508	117,480	19%

Source: the Company.



2 MARKET AND REGULATORY ENVIRONMENT – EXTERNAL FACTORS WITH A BEARING ON THE COMPANY’S BUSINESS

2.1 Structure and description of the debt management market

In 2013, KRUK S.A. focused primarily on the Polish market. The Company was also involved in debt portfolio purchases in Romania and the Czech Republic. During the year, KRUK S.A. also operated in the debt purchase segment and credit management segments of the Polish market, offering services to both customers and members of the KRUK Group. For a description of the debt management market and its structure, and the presentation of the key factors affecting the Company’s business, see section “Structure and description of the debt management market” of the Director’s Report on the operations of the KRUK Group.

2.2 Legal and regulatory environment

The operations of KRUK S.A. are governed by laws and regulations described in the sections below. Investors are advised to read section “Legal and regulatory environment” of the Director’s Report on the Operations of the KRUK Group in 2013.

2.2.1. Securitisation funds

KRUK S.A. provides operational services to securitisation funds (Prokura NS FIZ and Prokulus NS FIZ) under securitised debt management agreements. The performance of such agreements is subject to the PFSA’s oversight. KRUK S.A. has also obtained the PFSA’s authorisation for the management of securitised debt of a securitisation fund.

2.2.2. Private detective services

The Company’s operations involving rendering of private detective services are also regulated and as such must be registered in the register of detective agencies, maintained by the Minister of Internal Affairs and Administration.

2.2.3. Outsourcing of debt collection by banks

Pursuant to the amended Banking Law (Dz.U. of 2011, No. 201, item 1181), banks are not required to request PFSA’s approval for using debt management services provided by KRUK S.A. Nonetheless, the Group companies are subject to the PFSA’s oversight with respect to the performance of such collection outsourcing agreements.

2.2.4. Personal data protection

The extent of personal data processing in the Company’s day-to-day operations make personal data protection regulations materially important for the Company’s activities. Personal data processing must take

place 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, individuals whose data are processed must have the right to access and correct such data.

2.2.5. Change in consumer loan regulations

In July 2013, amendments to the Code of Civil Procedure came into force. The amendments affected the Electronic Proceedings by Writ of Payment (*elektroniczne postępowanie upominawcze*) by introducing the requirement to provide the defendant's PESEL (personal ID) number and limiting the group of cases which can be pursued under those proceedings to cases with maturities of up to three years. In 2013, the amendment of the Act on Bailiffs and Debt Enforcement came into force. KRUK S.A. has brought its operations into compliance with the requirements of the amendment.

2.2.6. Other regulators and authorities important for the Company's operations

KRUK S.A.'s activities are also regulated by other authorities. These include:

- President of the Polish Office of Competition and Consumer Protection, with respect to competition and consumer rights protection,
- Inspector General for the Protection of Personal Data, with respect to personal data processing and protection.



3 OVERVIEW OF THE COMPANY'S BUSINESS

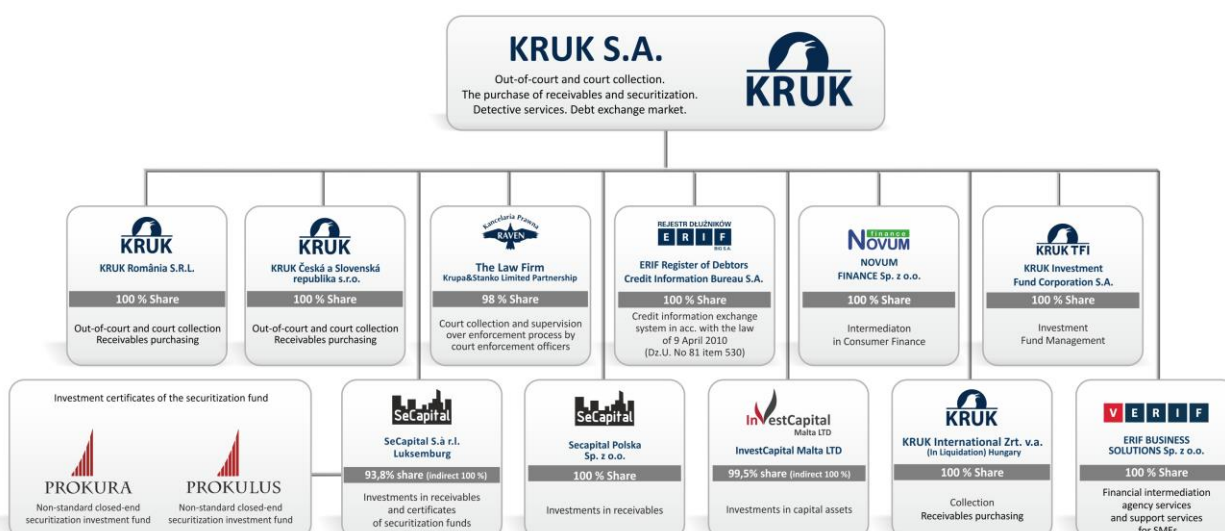
3.1 Company's business and branches

KRUK S.A. is the parent of the KRUK Group. The Company's core business is debt collection, including debt purchase and credit management services.

The Company operates eight branches across Poland, in Poznań, Warsaw, Kraków, Katowice, Bydgoszcz, Łódź, Gdynia, and Szczawno-Zdrój. The branches do not keep separate accounts.

3.2 Organisational structure

The structure of the KRUK Group as at December 31st 2013, with information on KRUK S.A.'s ownership interests in subsidiaries, is presented below:



As at December 31st 2013, the Group comprised KRUK S.A. (the Parent) and thirteen subsidiaries:

Kancelaria Prawna RAVEN Krupa & Stańko sp.k. of Wrocław, a law firm providing comprehensive services to support litigation and enforcement, exclusively in connection with the operations carried out by the KRUK Group and its partners;

Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. of Warsaw, a credit reference agency serving as a platform for collection, processing and provision of information on natural persons and businesses, both delinquent debtors and timely payers;

ERIF Business Solutions Sp. z o.o. of Wrocław, whose core business consists in financial and agency services, and support for small and medium-sized enterprises;

KRUK România s.r.l. of Bucharest, Romania (until February 21st 2013 operating as KRUK International S.R.L.) – a credit management and debt purchase company;

SeCapital S.à.r.l. of Luxembourg, a special-purpose securitisation vehicle whose business consists chiefly in investing in debt or debt-backed assets;

InvestCapital Malta Ltd. of Malta, an investment company focusing on equity assets, including shares in KRUK Group companies;

Prokura NS FIZ and **Prokulus NS FIZ** securitisation funds which are securitisation and investment vehicles relying on professional risk assessment and credit management methodologies. All certificates issued by the securitisation funds are held by SeCapital S.à.r.l. The funds are managed by KRUK Towarzystwo Funduszy Inwestycyjnych S.A.;

SeCapital Polska Sp. z o.o. of Wrocław, a securitised debt company;

Novum Finance Sp. z o.o. of Wrocław, a company whose main business consists in agency services involving intermediation in consumer lending;

KRUK Česká a Slovenská republika s.r.o. of Prague, Czech Republic (until February 22nd 2013 operating as KRUK International S.r.o. of Prague) – a company active on the market of credit management services and debt purchase;

KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław, an investment fund management company;

KRUK International Z.r.t. of Budapest, Hungary, a company in liquidation.

Until the date of approval of this report, there were no changes in the composition of the KRUK Group and in the information on the Group companies presented above.

3.3 Changes in the structure of the KRUK Group

On May 15th 2013, Novum Finance Sp. z o.o., KRUK S.A.'s subsidiary, executed a cooperation agreement with KRUK S.A. concerning agency in executing cash loan agreements on behalf of KRUK S.A., administration services with respect to the agreements, and coordination of the sales process. Following execution of the agreement and as of its date, consumer loans under the NOVUM project have been granted by KRUK S.A.

On September 5th 2013, a resolution was adopted by KRUK S.A. to discontinue operations on the Hungarian market and relinquish the licence to purchase debts in Hungary that was granted to KRUK International Z.r.t. by the Hungarian Financial Supervision Authority (PSZÁF). For more information, see Current Report No. 61/2013 of September 5th 2013.

On October 8th 2013, the Company was notified of PSZÁF's decision of September 27th 2013 to commence liquidation proceedings with respect to KRUK International Z.r.t. The decision had been made upon KRUK International Zrt.'s request of September 11th 2013. Hitelintézeti Felszámoló Nonprofit Kft, with its registered office at Damjanich u. 11-15 1071, Budapest, was appointed liquidator of KRUK International Zrt. (see Current Report No. 67/2013 of October 8th 2013). At present, the Company is awaiting conclusion of the liquidation proceedings.

The table below presents all transactions involving increase or reduction of SeCapital S.à.r.l.'s share capital in 2013.

Table 2. Transactions involving increase or reduction of SeCapital S.à.r.l.'s share capital in 2013.

Name of the entity issuing/retiring share capital	Subscriber of shares/beneficiary of retirement	Transaction type	Share capital increase/reduction
SeCapital S.à.r.l.	KRUK S.A.	Retirement	from PLN 551,098 thousand to PLN 544,734 thousand
SeCapital S.à.r.l.	KRUK S.A.	Retirement	from PLN 544,734 thousand to PLN 535,007 thousand
SeCapital S.à.r.l.	KRUK S.A.	Increase	from PLN 535,007 thousand to PLN 536,371 thousand
SeCapital S.à.r.l.	KRUK S.A.	Retirement	from PLN 536,371 thousand to PLN 514,280 thousand
SeCapital S.à.r.l.	KRUK S.A.	Increase	from PLN 514,280 thousand to PLN 519,825 thousand
SeCapital S.à.r.l.	KRUK S.A.	Increase	from PLN 519,825 thousand to PLN 525,607 thousand
SeCapital S.à.r.l.	KRUK S.A.	Increase	from PLN 525,607 thousand to PLN 528,572 thousand
SeCapital S.à.r.l.	KRUK S.A.	Increase	from PLN 528,572 thousand to PLN 563,118 thousand
SeCapital S.à.r.l.	KRUK S.A.	Increase	from PLN 563,118 thousand to PLN 616,208 thousand
SeCapital S.à.r.l.	KRUK S.A.	Increase	from PLN 616,208 thousand to PLN 632,572 thousand

On December 3rd 2013, InvestCapital Malta Ltd. of Malta, KRUK's subsidiary, was established as an investment company focusing on equity assets, including shares in KRUK Group companies. The Company holds 100% of the shares in InvestCapital, of which 99.5% are held directly and 0.5% are held indirectly through SeCapital Polska Sp. z o.o., a wholly-owned subsidiary.

On December 11th 2013, KRUK S.A. and InvestCapital executed an agreement on sale of shares in SeCapital S.à.r.l., representing 4.4% of the company's share capital. The ownership of the shares was transferred to InvestCapital on December 20th 2013. Prior to the transaction, the Company held directly 100% of the shares in SeCapital S.à.r.l. Following the transaction, KRUK held 95.6% of the share capital and the total vote at the general meeting of SeCapital S.à.r.l. directly, and 4.4% indirectly.

On December 30th 2013, KRUK S.A. and InvestCapital entered into another agreement on sale of shares in SeCapital S.à.r.l. The agreement concerned sale to InvestCapital of SeCapital S.à.r.l. shares representing 1.9% of the company's share capital. Following the transaction, KRUK holds 93.8% of the share capital and the total vote at the general meeting of SeCapital S.à.r.l. directly, and 6.2% indirectly.

Register of Certificate Holders of the PROKURA NS FIZ fund

Table 3. Transactions related to Investment Certificates

No.	Date and time of disclosable transaction in Certificates	Series	Type of Certificates	Number
1	Redemption of Investment Certificates: Jan 16 2013	Series M	Non-Public Registered Investment Certificates	-743,310
2	Redemption of Investment Certificates: Feb 6 2013	Series M	Non-Public Registered Investment Certificates	-833,334
3	Redemption of Investment Certificates: Feb 18 2013	Series M	Non-Public Registered Investment Certificates	-736,740
4	Redemption of Investment Certificates: Apr 22 2013	Series M	Non-Public Registered Investment Certificates	-2,336,849
5	Redemption of Investment Certificates: Nov 19 2013	Series C	Non-Public Registered Investment Certificates	-1,000,000
6	Redemption of Investment Certificates: Nov 19 2013	Series M	Non-Public Registered Investment Certificates	-1,903,211
7	Redemption of Investment Certificates: Nov 19 2013	Series N	Non-Public Registered Investment Certificates	-294,714
8	Allotment of Investment Certificates: Nov 28 2013, 11:30 am	Series W	Non-Public Registered Investment Certificates	3,197,925

9	Redemption of Investment Certificates: Dec 4 2013	Series N	Non-Public Registered Investment Certificates	-2557544
10	Allotment of Investment Certificates: Dec 13 2013	Series X	Non-Public Registered Investment Certificates	1,602,727

No.	Date and time of disclosable transaction in Certificates	Series	Type of Certificates	Number
1	Redemption of Investment Certificates: Jan 20 2014	Series N	Non-Public Registered Investment Certificates	-3,384,223
2	Allotment of Investment Certificates: Jan 29 2014	Series Y	Non-Public Registered Investment Certificates	3,384,223

As at the end of 2013, the number of outstanding PROKURA Investment Certificates was 56,886,542.

In 2013, there were no changes in the register of Certificate Holders of the PROKULUS NS FIZ fund. As at the end of 2013, the number of outstanding PROKULUS Investment Certificates was 1,000,000.

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

In 2013, there were no changes in the significant policies of managing the Parent and its subsidiaries.

3.5 Share capital

3.5.1. Structure of the Company's share capital

As at December 31st 2013 and as at the date of this report, the share capital of KRUK S.A. was PLN 16,959,095 and was divided into 16,959,095 shares with a par value of PLN 1.00 per share, including:

- 2,692,220 Series A bearer shares;
- 11,366,600 Series AA bearer shares;
- 1,250,000 Series B bearer shares;
- 491,520 Series C bearer shares;
- 1,100,000 Series D bearer shares;
- 58,755 Series E bearer shares.

3.5.2. Changes in share capital

The following changes in the share capital of KRUK S.A. took place in 2013:

On July 24th and December 13th 2013, the Polish NDS registered, respectively, 27,896 and 30,859 Series E shares in the Company issued as part of a conditional share capital increase. On those dates, the shares were

registered in the investors' securities accounts and consequently (in accordance with Art. 452.1 in conjunction with Art. 451.3 of the Commercial Companies Code) an increase in the Issuer's share capital within the limits of the conditional share capital, through the issue of Series E ordinary bearer shares with a par value of PLN 1 per share pursuant to Resolution No. 1/2011 of the Extraordinary General Meeting of March 30th 2011, was effected. Following registration of the shares in the investors' securities accounts, the Issuer's share capital totals PLN 16,959,095 and comprises 16,959,095 shares.

On October 18th 2013, an increase in the Company's share capital by 27,896 Series E shares was registered with the National Court Register. The entry was declarative in nature.

In the financial year 2013 and until the date of approval of this report, there were no changes to KRUK S.A.'s conditional share capital.

3.6 Company's products and services

Apart from purchasing debt portfolios for own account, KRUK offers the most comprehensive and innovative debt management service in Poland. The Company's offer includes loss prevention services, credit management services and other services, including in particular detective and specialist services.

Unless indicated otherwise, all services discussed below were provided by the Company in the entire year 2013.

Loss prevention services

Detective investigation

Detective investigations are carried out chiefly where a client plans to enter into a transaction involving a large financial exposure. The findings form a picture of the investigated entity's or person's financial standing and creditworthiness. An investigation may also be conducted to analyse documentation and links between entities of a corporate group. Detective investigations are carried out by licensed detectives. Such activities can be performed in a covert or overt manner with respect to the investigated firm.

Preventive monitoring

Reminding and monitoring activities are undertaken before the payment deadline. The Company also provides, although to a lesser extent, services related to monitoring of borrowers' financial standing, correctness of provided data, loan-servicing documents, and value of collateral. Preventive monitoring is used to place cases with the largest financial exposure and clients from the highest risk group under special continuous watch.

Credit management services

Collection monitoring

Reminding and monitoring activities are undertaken immediately after the payment deadline elapses. serve to more effectively predict, control and minimise the level of provisions for non-performing loans, while

maintaining a high level of client satisfaction. The goal of monitoring is to ensure regular debt repayments and prevent delays. Collection monitoring involves quick and frequent contact with debtors. It is usually applied with respect to payments late by 5 to 45 days. This service is performed through the contact centre.

Amicable collection of commercial and consumer debts

The purpose of amicable collection is to recover debt as quickly as possible, using the most effective tools for particular debt categories. In performing this service, the Group relies on a comprehensive array of actions and collection tools. As part of the service, the Company handles cases at any stage of delinquency and with various statuses.

Delfin, the proprietary collection system used by the Company, enables it to both provide mass collection services and process each case in a highly individualised manner.

Field consultants

The collection process may involve a field consultant's visit (doorstep collection) or detective activities at a debtor's domicile or place of business. During such visits, the consultant and debtor may agree upon the terms of debt repayment or settlement, and the consultant may also collect cash or collateralised assets. Doorstep collection is also effective for high-value and high-priority cases, e.g. where there is a suspicion that the debtor is hiding or disposing of their property.

Repossession of collateralised assets

Claims secured over movable or non-movable property may be enforced by repossessing collateralised assets. The full service comprises collection and transport of collateralised assets, as well as their storage, valuation and sale.

Administration of mortgage-backed debt cases

Cases involving mortgage-backed debt are handled taking into consideration the nature of high-value debts and the type of collateral. The main principle followed in performing this service is individual approach to each case. Each case is thoroughly reviewed to establish the facts, while collateral and the debtor's financial standing are analysed. Then action is taken to ensure that regular repayments are restored, the debt is restructured/consolidated, the debtor sells the real estate amicably on the free market or the mortgaged real estate is sold in a bailiff auction.

Hybrid services using ERIF's Debtor Register

The ERIF's Debt Register provides an efficient support for the Company's operations. The process of amicable collection, combined with the possibility of entering the debtor's details in ERIF's Debtor Register, is a hybrid service, unique on the Polish market.

Other services

e-KRUK

e-KRUK is an interactive multimedia service supporting the credit management process, available through web browsers. Currently it is the only web service on the market which caters for the needs of debtors and helps them to clear their debts. Through e-KRUK, debtors may access information on their debt and take steps to solve their debt problems on a 24/7 basis.

The e-KRUK functionalities available to debtors include viewing the list of debts which the individual owes to particular creditors, checking the debt service status, obtaining information on litigation and bailiff collection costs, entering into a fair settlement, convenient direct link to the bank's website to repay debt, an option to arrange for contact with a negotiator at a convenient time and possibility to quickly update contact details. The e-KRUK platform is available at www.e-kruk.pl.

The Pożyczka Novum loan service

As part of the service, the Company grants short-term cash loans to debtors who have repaid or regularly repay their debts to the Group. In 2013, the service was also offered to third-party customers. As part of the Novum business line, consumer loans of up to PLN 3,000 are granted for periods from 4 to 15 months. The lending service is also intended to diversify the Group's revenue sources. Revenue from the Novum area reported by the Group in 2013 was PLN 4.7m, up 23% year on year, as the Group advanced more than 10 thousand Novum cash loans with a net value of PLN 17.5m.

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

On September 5th 2013, a resolution was adopted by the Management Board of KRUK S.A. to discontinue operations on the Hungarian market and relinquish the licence to purchase debts in Hungary that was granted to KRUK International Z.r.t. by the Hungarian Financial Supervision Authority (PSZÁF).

On October 8th 2013, the Company was notified of PSZÁF's decision of September 27th 2013 to commence liquidation proceedings with respect to KRUK International Z.r.t. The decision had been made upon KRUK International Zrt.'s request of September 11th 2013. Hitelintézet Felszámoló Nonprofit Kft, with registered office at Damjanich u. 11-15 1071, Budapest, was appointed liquidator of KRUK International Zrt.

On December 3rd 2013, KRUK S.A. established InvestCapital Malta Ltd. The Company holds 99.5% of the share capital of InvestCapital Malta Ltd, while Secapital Polska Sp. z o.o. (the Company's subsidiary) holds the remaining 0.5%.

On December 11th 2013, KRUK S.A. and InvestCapital Malta Ltd entered into an agreement on sale of part of SeCapital S.à.r.l. shares. The agreement provided for the sale of 27,000 Class A shares in SeCapital S.à.r.l. with a par value of PLN 1,000 per share, representing 4.4% of the share capital of SeCapital for the total amount of PLN 40.5m. The carrying amount of the shares in KRUK S.A.'s accounting books is PLN 1,100 per share, i.e. a total of PLN 29.7 thousand.

On December 30th 2013, KRUK S.A. and InvestCapital Malta Ltd entered into an agreement on sale of part of SeCapital S.à.r.l. shares. SeCapital shares sold under the agreement for the total amount of PLN 18.8m were 12,250 Class A shares and 50 Class F shares, with a par value of PLN 1,000 per share, representing 2.4%

of the share capital of SeCapital. The carrying amount of the shares in KRUK S.A.'s accounting books is PLN 1,100 per share, i.e. a total of PLN 13.5 thousand.

In 2013, the Company recognised an impairment loss on shares in KRUK Romania s.r.l. of PLN 16,739 thousand.

In 2013, the Company recognised an impairment loss on shares in KRUK International Z.r.t. of PLN 634 thousand.

On December 30th 2013, the Company increased the share capital of KRUK Romania s.r.l. through cancellation of debt under a PLN 16,739 thousand loan.

3.8 Non-recurring factors and events

In 2013, there were no non-recurring factors or events.

3.9 Material events after December 31st 2013

In the period from January 1st 2014 to the date of approval of this report, there were no significant changes in the financial or trading position of the Group, save for the following:

- On January 24th 2014, the Company was notified that Series T1 notes, with total value of PLN 150,000 thousand, had been admitted to trading.
- In January 2014, Novum Finance Sp. z o.o. repaid part of the additional contributions to equity of PLN 0.25m. The repayment was made in accordance with a resolution of June 26th 2013. By virtue of a resolution of the Extraordinary General Meeting of Novum Finance Sp. z o.o., on January 29th 2014 the company announced its intention to repay another part of the additional contributions to equity of PLN 0.8m. The repayment will be made by the end of April 2014.

3.10 Executed agreements

3.10.1. Material agreements

The following agreements executed by KRUK S.A. in 2013 may be considered material:

Agreement between KRUK S.A. and PROKURA NS FIZ

Following the execution on January 16th 2013 by KRUK and PROKURA NS FIZ of another annex to the agreement on the provision of services relating to securitised debt of February 27th 2006, the total value of agreements concluded between the KRUK Group and SeCapital S.à.r.l., a subsidiary of the Company, and PROKURA NS FIZ, a subsidiary of SeCapital S.à.r.l., in the period from November 5th 2012, i.e. from the date of release of Current Report No. 42/2012, to January 16th 2013, reached PLN 34m. For more information, see Current Report No. 3/2013 of January 16th 2013.

Agreement between KRUK S.A. and DEVCO Sp. z o.o.

On April 19th 2013, a lease agreement was executed between the Company and DEVCO Sp. z o. o., providing for the lease of 7,335 sq. metres of floor space, comprising offices and storage areas forming part of an office building to be located in Wrocław at ul. Wołowska 8, within the Wrocław Business Park 2 complex, along with

parking spaces. The Agreement was executed for a definite term of 10 years starting from the day on which the leased space is handed over, with the proviso that the leased space must be handed over by December 31st 2014. The aggregate amount of payments to be made under the Agreement over the 10-year lease term has been estimated at approx. PLN 56m (exclusive of VAT), including rent, service charges, utility bills and other costs. For more information on execution of the above lease agreement, see Current Report No. 31/2013 of April 19th 2013.

Annex to agreement between KRUK S.A. and PROKURA NS FIZ

On October 22nd 2013, KRUK S.A. and PROKURA NS FIZ concluded another annex to the agreement on the provision of services relating to securitised debt of February 27th 2006. Consequently, the total value of agreements concluded between KRUK Group companies and SeCapital S.à.r.l., a subsidiary of the Company, and PROKURA NS FIZ, a subsidiary of SeCapital S.à.r.l., from January 16th 2013 to October 22nd 2013, reached PLN 44m. The fact that the total value of agreements between the KRUK Group and SeCapital S.à.r.l., a subsidiary of the Company, and PROKURA NS FIZ, a subsidiary of SeCapital S.à.r.l., reached the value specified above was announced by the Company in Current Report No. 70/2013 of October 22nd 2013.

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

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

3.10.3. New and terminated loan or credit facility agreements

Credit facility agreement with Bank Zachodni WBK S.A.

On February 18th 2013 (as reported by the Company in Current Report No. 9/2013 of February 19th 2013), the Company and its subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("PROKURA NS FIZ", the "Borrower") concluded a trilateral agreement with Bank Zachodni WBK S.A. (the "Bank") on a revolving credit facility of up to PLN 70m ("PROKURA Agreement"), comprising:

- a credit facility of up to PLN 40m (the "Credit Facility"),
- an auxiliary credit facility of up to PLN 30m (the "Auxiliary Credit Facility").

Under the PROKURA Agreement:

- As of March 1st 2013, the Bank made available to the Borrower a Credit Facility of up to PLN 40m, divided into two limits:
 - a credit limit of up to PLN 31.5m, available until July 31st 2015 and repayable by July 31st 2016;
 - a credit limit of up to PLN 8.5m, available until July 31st 2014 and repayable by July 31st 2015;
- As of March 1st 2013, the Bank made available to the Borrower an Auxiliary Credit Facility of up to PLN 30m, available until and repayable by March 6th 2014.

The Credit Facility and the Auxiliary Credit Facility were granted to refinance or finance up to 70% of the purchase price of debt portfolios acquired directly by the Borrower on the Polish market.

The facilities bear interest at 1M WIBOR rate plus bank margin set on arms' length basis.

The facilities will be repaid in quarterly instalments.

The Bank's receivables under the PROKURA Agreement are secured with:

- a power of attorney over funds deposited in the Borrower's special account and a selected account of the Company to satisfy the Bank's claims under the PROKURA Agreement,
- a registered pledge and financial pledge under Polish law and a pledge under Luxembourg law over KRUK S.A.'s shareholding in SeCapital S.à.r.l. of Luxembourg (reported by the Company in Current Report No. 28/2011 of June 22nd 2011 and Current Report No. 24/2012 of May 14th 2012),
- a surety under civil law issued by KRUK S.A. for the benefit of the Bank.

The other provisions of the PROKURA Agreement, including in particular the provisions relating to disbursement of the facilities, default interest as well as possible withdrawal from or termination of the Agreement, do not differ from standard provisions used in agreements of such type.

Annexes to credit facility agreement with Bank Zachodni WBK S.A.

The following annexes were signed in 2013 in connection with the revolving credit facility agreement signed on April 8th 2011 between the Company (the borrower) and Bank Zachodni WBK S.A., as amended (the Credit Facility Agreement):

An annex of February 18th 2013 (see Current Report No. 9/2013 of February 19th 2013), whereby:

- the credit facility of up to PLN 80m granted under the Company's Credit Facility Agreement was reduced to PLN 40m, with effect as of March 1st 2013, in the following manner:
 - the credit limit available under the facility until July 31st 2015 and repayable by July 31st 2016 was reduced from PLN 63m to PLN 31.5m;
 - the credit limit available under the facility until July 31st 2014 and repayable by July 31st 2015 was reduced from PLN 17m to PLN 8.5m;
- the Additional Credit Facility of up to PLN 60m granted under the Company's Credit Facility Agreement was reduced, as of March 1st 2013, to PLN 30m;
- the repayment date and availability date of the Additional Credit Facility were changed to March 6th 2014.

The other material terms of the Credit Facility Agreement remained unchanged under the Annex.

On October 29th 2013, an annex was signed (see Current Report No. 71/2013 of October 29th 2013), whereby:

- the availability date for the credit limit of up to PLN 31.5m was changed to October 31st 2016, and the final repayment date was changed to October 31st 2017;
- the availability date for the credit limit of up to PLN 8.5m was changed to October 31st 2015, and the final repayment date was changed to October 31st 2016;
- the repayment date and availability date for the credit limit of up to PLN 30m were changed to October 31st 2014.

The other material terms of the agreement remained unchanged.

In relation to the trilateral revolving credit facility agreement of February 18th 2013, KRUK S.A., its subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("PROKURA NS FIZ", the "Borrower") and Bank Zachodni WBK S.A. (the "Bank") executed an annex of October 29th 2013, whereby:

- the availability date for the credit limit of up to PLN 31.5m was changed to October 31st 2016, and the final repayment date was changed to October 31st 2017;
- the availability date for the credit limit of up to PLN 8.5m was changed to October 31st 2015, and the final repayment date was changed to October 31st 2016;
- the repayment date and availability date for the credit limit of up to PLN 30m were changed to October 31st 2014.

The other material terms of the agreement remained unchanged.

The credit facilities granted under the revolving credit facility agreements executed on April 8th 2011 by the Company and Bank Zachodni WBK S.A., as amended, and on February 18th 2013 by the Company, its subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty, and Bank Zachodni WBK S.A., as amended, are secured with a financial and registered pledge under Polish law and a pledge under Luxembourg law established over shares in SeCapital S.à.r.l., KRUK S.A.'s Luxembourg-based subsidiary.

The registered pledge amount, which is the maximum security amount and covers the Bank's receivable, is PLN 200,000,000. As at December 31st 2013, a pledge existed over 84,908 Class E shares in SeCapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 93,398,800.

Expiry of credit facility agreement with Bank Zachodni WBK S.A.

Following repayment of debt under the credit facility agreement, as amended, executed by KRUK S.A. and Bank Zachodni WBK S.A. on July 29th 2010, and in relation to the lapse of its term, the credit facility agreement expired on December 31st 2013. The expiry resulted in expiry of all forms of security for the credit facility.

Expiry of credit facility agreement with Bank Polskiej Spółdzielczości

Following repayment of debt under the credit facility agreement between KRUK S.A. and Bank Polskiej Spółdzielczości S.A. of July 6th 2010, as amended, and given the lapse of its term, the agreement expired on July 5th 2013.

The expiry resulted in expiry of all forms of security for the credit facility.

Issue of debt securities

In 2013, the Company issued unsecured Series P², P³, P⁴, R¹, R², R³, R⁴, S¹, T¹ and U¹ notes, with a total nominal value of PLN 250,000,000. The notes were issued at par. In line with the terms of each of the note issues, the notes are ordinary bearer notes existing in book entry form and have been registered with the Polish National Depository for Securities (KDPW S.A.). The notes offered in private placements were introduced to trading in the Catalyst multilateral trading facility, whereas the notes offered to the public were introduced to trading on the regulated Catalyst market operated by the Warsaw Stock Exchange. The notes bear interest

at 3M WIBOR plus a fixed margin determined separately for each series. Interest on the notes is calculated on a 365-day basis, accrues in consecutive three-month interest periods, and is payable in arrears, at the end of each interest period – in the case of private placements, or on the day following the last day of the interest period – in the case of notes offered to the public.

The note issues in 2013 were carried out in order to raise funds for the financing of debt purchases by the Group, refinancing of the Company's or the Group's debt, or financing of the Group's growth through acquisitions.

a) Issue of Series P² notes

On the basis of the Management Board's resolutions which came into force on February 5th 2013 and March 7th 2013, the Company issued 30,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 30,000,000. The notes are due 48 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue.

b) Issue of series P³ notes

On the basis of the Management Board's resolutions which came into force on February 12th 2013 and March 14th 2013, the Company issued 30,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 30,000,000. The notes are due on March 7th 2017, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue. Based on a resolution of the Management Board of KDPW S.A. of July 19th 2013, the Series P³ notes were assimilated with the Series P² notes on July 31st 2013.

c) Issue of series P⁴ notes

On the basis of the Management Board's resolutions which came into force on April 15th 2013 and May 20th 2013, the Company issued 40,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 40,000,000. The notes are due 48 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue.

d) Issue of Series R¹ notes

On the basis of the Management Board's resolutions which came into force on April 15th 2013 and May 20th 2013, the Company issued 20,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 20,000,000. The notes are due 48 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue. Based on a resolution of the Management Board of KDPW S.A. of October 28th 2013, the Series R¹ notes were assimilated with the Series P⁴ notes on October 31st 2013.

e) Issue of Series R² notes

On the basis of the Management Board's resolutions which came into force on June 4th 2013 and June 25th 2013, the Company issued 15,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 15,000,000. The notes are due 60 months from the allotment date, but may be redeemed prior

to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue. Issue of Series R³ notes

f) Issue of Series R³ notes

On the basis of the Management Board's resolutions which came into force on July 22nd 2013 and August 13th 2013, the Company issued 50,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 50,000,000. The notes are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue.

g) Issue of Series R⁴ notes

On the basis of the Management Board's resolutions which came into force on September 3rd 2013 and October 3rd 2013, the Company issued 15,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 15,000,000. The notes are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue.

h) Issue of Series S¹ notes

On the basis of the Management Board's resolutions which came into force on September 3rd 2013 and October 3rd 2013, the Company issued 25,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 25,000,000. The notes are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue. Based on a resolution of the Management Board of KDPW S.A. of January 28th 2014, the Series S¹ notes were assimilated with the Series R⁴ notes on January 31st 2014.

i) Issue of Series T¹ notes

On the basis of the Management Board's resolutions which came into force on November 15th 2013 and December 6th 2013, the Company issued 150,000 notes with a nominal value of PLN 100 per note. The total value of the issue was PLN 15,000,000. The notes are due 48 months from the allotment date, with the option of early redemption if the Company is liquidated. Furthermore, the Company will have the right to redeem the notes early, at its own option, after six months from the allotment date.

j) Issue of Series U¹ notes

On the basis of the Management Board's resolutions which came into force on November 5th 2013 and December 5th 2013, the Company issued 10,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 10,000,000. The notes are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or if a noteholder calls for early redemption in circumstances specified in the terms and conditions of the issue.

Use of issue proceeds

Proceeds from the issues of notes in 2013 were used in line with the issue objectives.

Debt securities assimilation

Apart from the assimilation of the securities discussed above, the Series P¹ notes were assimilated with the Series O² notes on April 30th 2013, in accordance with a relevant resolution of the Management Board of KDPW S.A.

Redemption of debt securities

In 2013, the Company redeemed the following debt securities at maturity, as specified for each series in the relevant issue terms:

- a) 20,000 Series G¹ notes at nominal value, for a total amount of PLN 20,000,000. The notes were redeemed on May 4th 2013;
- b) 23,000 Series G² notes at nominal value, for a total amount of PLN 23,000,000. The notes were redeemed on March 30th 2013;
- c) 22,500 Series H¹ notes at nominal value, for a total amount of PLN 22,500,000. The notes were redeemed on October 7th 2013;
- d) 11,000 Series J² notes at nominal value, for a total amount of PLN 11,000,000. The notes were redeemed on July 11th 2013;
- e) 25,000 Series K² notes at nominal value, for a total amount of PLN 25,000,000. The notes were redeemed on September 6th 2013.

Liabilities under debt securities

As at December 31st 2013, the liabilities under outstanding notes issued by the Company by the end of 2013 was PLN 574,539,000.

Termination of credit facility and loan agreements

In 2013, the KRUK Group companies, except for Novum Finance Sp. z o.o. and KRUK S.A. in the NOVUM loans segment, did not terminate any credit facility or loan agreements.

3.10.4. Loans advanced and sureties and guarantees granted; sureties and guarantees received

Loans advanced by KRUK to its subsidiaries

In 2013, KRUK granted loans to its subsidiaries for a total value of PLN 28.7m (translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement dates). Loans were advanced to KRUK Romania S.R.L of Bucharest, KRUK Česká a Slovenská republika s.r.o. of Prague, Rejestr Dłużników ERIF BIG S.A. of Warsaw, ERIF Business Solutions Sp. z o.o. of Wrocław, and Novum Finance Sp. z o.o. of Wrocław.

The loans bear interest at 1M or 3M WIBOR plus margin. The agreed maturities of the loans ranged from 353 days to one year.

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 operating activities. The value of the loans advanced amounted to RON 20.2m and EUR 0.1m (i.e. PLN 19.4m, as translated into PLN at the exchange rate quoted by the National Bank of Poland for the agreement dates).

Debt under some of the loans advanced in 2012 and 2013, totalling RON 17.8m together with interest (PLN 16.7m, as translated into PLN at the exchange rate quoted by the National Bank of Poland for the dates of the debt cancellation agreements, including realised foreign exchange differences) was cancelled. The amount of cancelled debt increased the value of KRUK S.A.'s interest in KRUK Romania s.r.l.

As at December 31st 2013, liabilities of KRUK Romania s.r.l. towards KRUK S.A. under loans totalled RON 5.3m and EUR 0.1m (total of PLN 5.3m, as translated into PLN at the exchange rate quoted by the National Bank of Poland for December 31st 2013). An impairment loss was recognised for the full amount of receivables under the loans advanced.

As at December 31st 2013, liabilities of KRUK Romania s.r.l. towards KRUK S.A. under loans totalled RON 5.3m and EUR 0.1m (total of PLN 5.3m, as translated into PLN at the exchange rate quoted by the National Bank of Poland for December 31st 2013).

Loans advanced to Rejestr Dłużników ERIF BIG S.A. of Warsaw

Loans advanced to Rejestr Dłużników ERIF BIG S.A. of Warsaw were intended for the financing of the company's operating activities. The aggregate amount of the loans advanced to the company in 2013 was PLN 0.29m.

As at December 31st 2013, Rejestr Dłużników ERIF BIG S.A.'s outstanding liabilities towards KRUK under loans were PLN 0.24m.

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

Loans advanced to ERIF Business Solutions Sp. z o.o. of Wrocław were intended for the financing of the company's operating activities. The aggregate amount of the loans advanced to the company in 2013 was PLN 0.86m.

As at December 31st 2013, ERIF Business Solutions Sp. z o.o.'s outstanding liabilities towards KRUK under loans were PLN 0.88m.

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

Loans advanced by KRUK to Novum Finance Sp. z o.o. of Wrocław were intended for the financing the company's operating activities. The aggregate amount of the loans advanced to the company was PLN 1.55m. As at December 31st 2013, Novum Finance Sp. z o.o. had no outstanding liabilities towards KRUK under loans.

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Prague

Loans advanced by KRUK Česká a Slovenská republika s.r.o. of Prague were intended for the financing of the company's operating activities. The value of the loans advanced amounted to CZK 37.9m and EUR 0.1m (PLN 6.5m, as translated into PLN at the exchange rate quoted by the National Bank of Poland for the agreement dates).

As at December 31st 2013, KRUK Česká a Slovenská republika s.r.o.'s liabilities towards KRUK under loans advanced to it in 2011 and 2013 were CZK 97.1m and EUR 1.0m (total of PLN 18.6, as translated into PLN at the exchange rate quoted by the National Bank of Poland for December 31st 2013). An impairment loss was recognised for the full amount of receivables under the loans advanced.

Loans from Novum Finance Sp. z o.o. of Wrocław

Loans from Novum Finance Sp. z o.o. of Wrocław were used to repay some of the loans from other subsidiaries. As at December 31st 2013, KRUK S.A.'s outstanding liabilities towards Novum Finance Sp. z o.o. under loans were PLN 0.58m.

Loans advanced by KRUK S.A. under the Novum project

Since May 2013, KRUK S.A. had advanced an aggregate of 6,975 NOVUM cash loans, with a net value of PLN 12.3m. Until May 2013, the lending business was conducted by Novum Finance Sp. z o.o. As part of the NOVUM project, consumer loans of up to PLN 3,000 were granted for periods from 4 to 15 months. The NOVUM service is 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, as well as to customers on the market at large. In 2013, KRUK S.A.'s revenue from the NOVUM project was PLN 0.6m.

Guarantees

On January 14th 2013, KRUK S.A. and Bank Zachodni WBK S.A. entered into a bank guarantee agreement for the period from January 25th 2013 to January 24th 2014, to secure the payment of all liabilities towards LEGNICKA BUSINESS HOUSE Sp. z o.o. under an office space lease agreement between KRUK S.A. and LEGNICKA BUSINESS HOUSE Sp. z o.o. The guarantee amount is EUR 168,000.00. The guarantee is secured with a power of attorney over the Company's bank accounts held with Bank Zachodni WBK S.A.

On February 18th 2013, KRUK S.A. and Bank Zachodni WBK S.A. entered into a bank guarantee agreement for the period from February 25th 2013 to February 24th 2014, to secure the payment of all liabilities towards DEVCO Sp. z o.o. under the office space lease agreement between KRUK S.A. and DEVCO Sp. z o.o. The guarantee amount is EUR 135,420.75 The guarantee is secured with a power of attorney over the Company's bank accounts held with Bank Zachodni WBK S.A.

- two guarantees in the Czech Republic for office space rent and car leases.

Sureties

On February 18th 2013, the Company and Bank Zachodni WBK S.A. entered into a surety agreement for the liabilities of NSFIZ PROKURA towards Bank Zachodni WBK S.A. (as reported by the Company in Current Report No. 9/2013 of February 19th 2013) under the trilateral Revolving Credit Facility Agreement of February 18th 2013 between NSFIZ PROKURA, the Company, and Bank Zachodni WBK S.A. (the PROKURA Agreement), thus becoming a joint and several debtor in respect of the liabilities. Pursuant to the surety agreement, on the basis of Art. 97 of the Banking Law, the Company declared it would comply with any enforcement action up to the credit facility amount plus contractual interest, fees, commissions and other costs under the PROKURA Agreement, up to the total amount of double the limits made available by the Bank, i.e. up to PLN 140m. The surety was issued for an indefinite time, until the expiry of liabilities covered by the PROKURA Agreement. The Bank will also have the right to request the court to append an enforcement clause to the bank enforcement order until the date of limitation of claims under the PROKURA Agreement, that is until:

- July 31st 2019 with respect to the credit limit of up to PLN 31.5m provided for in the PROKURA Agreement,
- July 31st 2018 with respect to the credit limit of up to PLN 8.5m provided for in the PROKURA Agreement,
- March 6th 2017 with respect to the Additional Credit Facility of up to PLN 30m provided for in the PROKURA Agreement.

Following the execution, on October 29th 2013, of an annex to the trilateral Revolving Credit Facility Agreement of February 19th 2013 between the Company and Bank Zachodni WBK S.A., the Company and Bank Zachodni WBK S.A. entered into a new surety agreement on October 29th 2013 (as reported by the Company in Current Report No. 71/2013 of October 29th 2013), which reflected the changes in the final repayment dates of the facilities provided for under the annex. The new surety agreement of October 29th 2013 rendered the surety agreement of February 18th 2013 between the Company and Bank Zachodni WBK S.A. null and void. Under the surety agreement of October 29th 2013, the Company issued a surety covering the liabilities of NSFIZ PROKURA towards Bank Zachodni WBK S.A. under the PROKURA Agreement, subject to the provisions of Annex 1 of October 29th 2013 to the PROKURA Agreement, thus becoming a joint and several debtor in respect of the liabilities. Pursuant to the surety agreement of October 29th 2013, on the basis of Art. 97 of the Banking Law, the Company declared it would comply with any enforcement action up to the credit facility amount plus contractual interest, fees, commissions and other costs under the PROKURA Agreement, up to the total amount of double the limits made available by the Bank, i.e. up to PLN 140m. The surety was issued for an indefinite time, until the expiry of liabilities covered by the PROKURA Agreement. The Bank will also have the right to request the court to append an enforcement clause to the bank enforcement order until the date of limitation of claims under the PROKURA Agreement, that is until:

- October 31st 2020 with respect to the credit limit of up to PLN 31.5m provided for in the PROKURA Agreement,
- October 31st 2019 with respect to the credit limit of up to PLN 8.5m provided for in the PROKURA Agreement,
- October 31st 2017 with respect to the Additional Credit Facility of up to PLN 30m provided for in the PROKURA Agreement.

3.11 Development directions and prospects

Development directions and prospects of the Company are directly related to the development of the KRUK Group.

The Company's key strategic development goals for 2013-2015 are as follows:

- Development of credit management services and retail and corporate debt portfolio purchases,
- Expansion into foreign markets;
- Development of new products.

Below is presented an outline of the Group's strategic objectives along with a description of steps to be taken to implement the main objectives of the strategic plan for 2013-2015.

Development of credit management services and retail and corporate debt portfolio purchases

The Group intends to develop its activities on the Polish and foreign markets for credit management services and purchase retail debt portfolios, while expanding its corporate portfolio management services. The Group will continue to focus on the most attractive segment, i.e. collection of retail bank debt, while taking advantage of the benefits offered by synergies and economies of scale following from its integrated business model and the provision of services to clients from other sectors. The Group plans to achieve these goals through the following measures:

Ongoing optimisation of the credit management process as a source of competitive advantage, to be achieved through:

- Improvement of the quality of contact with debtors through the development of a network of field advisers;
- Improvement of cost efficiency, including through the development of IT systems supporting the work of operating personnel;
- Further development of statistical analysis skills;
- Use of the ERIF Debtor Register's database to improve the effectiveness of operational processes;
- Optimisation of court proceedings, mainly on foreign markets;
- Continuous and progressive enhancement of operating methods and synergistic implementation of best practices in process management.

Enhancing competitive advantages in debt collection services through:

- Strengthening of the relationships with strategic clients;
- Promoting of deep integration with clients (including integration of IT systems);
- Development of advanced (non-standard) collection services.

Building a strong position on the market for corporate debt portfolio and mortgage loan portfolio management, through:

- Development of a dedicated process and organisation basing on the experience in collection of corporate debt,
- Development of skills in the area of collateral repossession and enforcement of claims against collateral.

Selective foreign expansion

The Group plans to actively participate in the development of operations abroad, including through expansion on the Czech and Slovak markets.

The successful implementation of the Group's business model in Romania proves that it can be replicated in foreign markets and confirms, in the Company's opinion, the effectiveness of the Group's organisation and strategy.

The objectives of the foreign expansion strategy include:

- Development of operations on the markets for retail debt portfolio purchases and credit management services in Romania, the Czech Republic and Slovakia;
- Entering new markets through greenfields or acquisitions;
- Replication of the tried-and-tested business model in selected new markets.

Development of new products

One of the directions of the Group's development strategy is to focus on a continuous search for and building of new growth areas based on the Group's existing competitive advantages. As at the date of this report these include:

Development of the Pożyczka Novum loan service

Using its database of debtors' credit history, KRUK S.A. grants short-term cash loans under the Pożyczka NOVUM service to persons who have repaid or regularly repay their debts to the Group.

Expansion of the ERIF Debtor register's resources, also to include positive credit histories

Further commercialisation of the institutional market base, including on the consumer market, by creating competitive advantage based on:

- the volume of records and quality of database;
- the profile of debtors registered in the database, being adequate for risk management;
- the quality of sales and aftermarket services;

- The development of technologies for exchanging data and developing complementary services.

ERIF, operating as a credit information agency within the Group, provides significant support for the Group's operations. The Group's ambition is to create Poland's largest database of debtors, both retail and corporate, as a platform for business information exchange. At the end of 2013, the ERIF database contained entries on over 1.78m cases. ERIF provided more than 3.8m reports throughout 2013.

3.12 Capital expenditure programme

3.16.1. Capital expenditure

In 2013, the main items of capital expenditure made by the Company included PLN 3.7m spent on new vehicles (including under finance lease agreements) and PLN 0.7m spent on plant and equipment. The Company also made material investments of PLN 4.4m in licences and computer software, including PLN 4m invested in proprietary software.

3.16.2. Investments within the Group

In 2013, KRUK increased and reduced the share capital of its subsidiaries:

- The Company increased the share capital of KRUK Romania s.r.l. of Bucharest by cancelling liabilities under loans for a total amount of PLN 16.7m, and trade liabilities of PLN 2.0m;
- In 2013, the Company increased the share capital of SeCapital S.à.r.l. by a total of PLN 120m.
- In 2013, the Company reduced the share capital of SeCapital S.à.r.l. by a total of PLN 38m.

Novum Finance Sp. z o.o. of Wrocław repaid KRUK PLN 4.25m of the total of PLN 7.2m paid by KRUK as additional contributions to the company's equity pursuant to resolutions of April 27th and May 30th 2012. The repayment was made in accordance with a resolution of June 26th 2013. As at December 31st 2013, the company's liabilities towards KRUK under the repayment of additional contributions to equity amounted to PLN 0.25m, while the balance of contributions remaining at Novum Finance Sp. z o.o. was PLN 2.7m

Establishment of InvestCapital Malta Ltd.

On December 3rd 2013, KRUK S.A. acquired 99.5% of shares in InvestCapital Malta Ltd. of Malta (InvestCapital). The other shareholder in InvestCapital is SeCapital Polska Sp. z o.o.

InvestCapital is an investment company focusing on equity assets, including shares in KRUK Group companies.

On December 11th 2013, KRUK S.A. entered into agreement on sales of part of SeCapital S.à.r.l. (SeCapital) shares. Under the agreement, InvestCapital Malta Ltd. acquired 27,000 Class A shares in SeCapital, with a par value of PLN 1,000 per share, comprising 4.3% share in the share capital of SeCapital (Shares), for the total amount of PLN 40.5m. The carrying amount of the Shares in KRUK S.A.'s accounting books is PLN 1,100 per share, i.e. a total of PLN 29.7m, while the carrying amount in InvestCapital's accounting books is PLN 1,500

per share, i.e. a total of PLN 40.5m. The Shares are not encumbered by any third party rights. The ownership of the Shares was transferred to InvestCapital on December 20th 2013.

On December 30th 2013, KRUK S.A. entered into agreement on sales of part of SeCapital S.à.r.l. (SeCapital) shares. Under the agreement, InvestCapital Malta Ltd. acquired 12,250 Class A shares and 50 Class F shares in SeCapital, with a par value of PLN 1,000 per share, representing 1.9% of the share capital of SeCapital (Shares), for the total amount of PLN 18.8m. The carrying amount of the Shares in KRUK S.A.'s accounting books is PLN 1,100 per share, i.e. a total of PLN 13.5m, while the carrying amount in InvestCapital's accounting books is PLN 1,530 per each Class A share, and PLN 1,520 per each Class F share, i.e. a total of PLN 18.8m. The Shares are not encumbered by any third party rights. The ownership of the Shares was transferred to InvestCapital on December 30th 2013.

Since December 30th 2013, InvestCapital has held a total of 39,300 shares in SeCapital, i.e. 6.2% of the company's share capital.

InvestCapital treats the shares as a long-term investment.

3.16.3. Assessment of the feasibility of investment plans

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

3.13 Risk factors – internal factors

3.17.1. Material risk factors

Risk of failure to achieve the Company's strategic objectives

The implementation and delivery of the Company's strategy depend on a number of factors beyond the control of the Company, in particular market conditions, economic environment, force majeure events, availability and terms of financing, changes in legislation or its interpretation, actions taken by regulatory bodies, decisions made by the Company's shareholders at General Meetings, as well as on the strategy and activities of the Company's main competitors. Moreover, when assessing the feasibility of the Company's strategic goals errors may be made by the persons responsible for the implementation and delivery of the strategy, relating in particular to the assessment of market conditions or identification of appropriate investments, including investments in debt portfolios acquired by the Company, which may result in wrong decisions. In addition, there can be no assurance that particular projects and investments carried out in pursuit of the strategy will not fail to yield the intended results over the assumed time horizons, or such projects or investment will not be carried out at all or will generate losses.

Failure to achieve any or all of the Company's strategic objectives within the assumed timeframe or the occurrence of any of the above-described circumstances may have a material adverse effect on the Company's operations, financial standing or performance.

Risk of error in estimating the fair value of acquired debt portfolios

The core business of the Company includes purchase of debt portfolios for the Group's 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. This risk applies in particular to debt portfolios purchased on new markets, where the Company has not invested before.

Operational risk related to the Company's business

The Company has a quality assurance policy and operating procedures in place. However, the Company is subject to the risk of incurring a loss or unexpected costs due to inadequate or unreliable internal processes, human errors, operational systems, or external events, such as errors in the recording of business events, business disruptions (as a result of various factors, e.g. hardware failures, software failures, communication disruptions), damage to the Company's assets, fraud, illegal action or omission by the Company's employees or other entities for whose actions or omissions the Company is responsible.

Debt risk

The Company and its subsidiaries use and intend to use in the future bank borrowings, notes and other debt instruments to finance debt purchases. Moreover, the Company and the Group enter 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 financing 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.

Risk of losing experienced management staff

The Company operates a business where human resources and staff qualifications are vital assets and one of the key success drivers. The knowledge, skills and experience of the Management Board members and other key personnel of the Company are factors of critical importance for the Company's strategic interests.

Resignation of any Management Board member or other staff important for the Company could have an adverse effect on the Company's operations, and consequently on its financial performance and development prospects.

Risk of IT systems' failure

A key asset of the Company and an element crucial for its market success are the modern technologies it applies, based on advanced IT systems, which facilitate a smooth execution of operational processes and valuation of debt portfolios. The systems used by the Company include the Delfin debt collection platform, a billing system, a Management Information System, a contact centre, the e-KRUK web service, and other.

A potential loss of all or part of data due to failure of the computer systems used by the Group could have an adverse effect on day-to-day operations. The security of the IT systems is also important given the need to protect the personal data of debtors. Failure of any of the IT systems used by the Company or the occurrence of any of the above circumstances may have an adverse effect on the Company's operations.

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.

Risk of negative PR in relation to the Company

The risk of negative PR in relation to the Company follows from a potential publication or distribution of untrue or unfavourable information concerning its operations.

There can be negative publicity concerning the Company's debt collection activities, designed to create a negative image of the Company and affect its credibility with the existing and potential trading partners.

In particular, the Company may be exposed to negative publicity if a suicide threat is carried out by a debtor whose debt the Company seeks to recover. In the course of its business the Company deals with debtors in a difficult financial and personal situation. Some of them cannot cope with the accumulating financial, family, health or employment issues. Some of the debtors suffer from depression or undergo psychiatric treatment. In letters or on the phone they declare that they intend to commit suicide because of the amount of problems they have. In such special cases an attempt to contact such persons during the collection process, even if made in compliance with the highest service standards, may be a trigger causing the debtor to carry out their threat. The Company estimates that each month it deals on average with a dozen or so suicide threats. The Company is not aware of any suicide threat carried out by a debtor whose debt the Company was to recover. None of such threats are disregarded. They all are carefully analysed and the procedures applied by the Company also include reporting suicide threats to the police. However, no assurance can be given that in the future, as the scale of the Company's business grows and the debt spiral builds up, the number of suicide threats by debtors whose debts are collected by debt collectors will not rise or that such threats are not fulfilled. In consequence, explanatory and other proceedings may be initiated, in particular by public administration bodies.

3.17.2. Risk management system

The risk management policies applicable at the Company are designed to:

- Identify and analyse the risks to which the Company is exposed;
- Define appropriate limits and procedures;
- Control and monitor the risk level and adequacy of the risk management tools.

The risk management policies in place at the Company are regularly reviewed to ensure that they reflect the market trends and developments at a given time, as well as changes within the 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 Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

Management of credit risk relating to debt purchase activities

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

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

Management of credit (trade) risk

Credit risk is the risk of incurring a financial loss if a client or a counterparty to a financial instrument fails to perform contractual obligations. Credit risk is primarily connected with accounts receivable from counterparties.

The Company's credit policy followed in client relations includes the following components:

- Assessment of each client's creditworthiness prior to offering payment dates and other terms of the agreement;
- Regular monitoring of payment timeliness;
- Diversification of the client base (in 2013, revenue from the Group's largest customer accounted for less than 2% of total revenue).

Management of liquidity risk

Liquidity risk is the risk of the occurrence of a situation where the Group faces difficulties in meeting its financial liabilities that are to be settled by way of delivering cash or other financial assets. 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;
- Actions designed to ensure that the Group complies with financial covenants under financing agreements;
- Use of external sources of financing, in the form of bank borrowings or notes.

Management of market risk

Market risk results from the sensitivity of the Company's performance to market factors such as exchange rate, interest rate and stock price movements. The objective of the market risk management policy operated by the Company is to control and maintain the Company's exposure to market risk within the assumed values of risk parameters, while simultaneously optimising the rate of return.

Management of operating risk

Operating risk is connected with the possibility of incurring losses for reasons pertaining to the Company's procedures, personnel or technologies, as well as losses caused by external factors such as legal regulations or generally accepted standards of corporate governance.

The operating risk management policy is designed to balance loss prevention with overall cost efficiency, while ensuring that control procedures are not expanded to the point where they constrain employees' initiative and creativity.

Selected control procedures and mechanisms implemented in the area of market risk management are:

- Appropriate division of responsibilities and correct authorisation of transactions;
- Procedures for reconciliation, documentation and monitoring of transactions;
- Procedures for periodic assessment of operating risks and adaptation of the relevant monitoring and control methods;
- Requirements with respect to reporting on operating losses and proposed remedies.



4 OPERATIONAL AND FINANCIAL REVIEW

4.1 Basis of preparation of the annual separate financial statements

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

The accounting policies have been applied with respect to all the reporting periods presented in the separate financial statements.

The separate financial statements have been prepared on the historical cost basis, save for purchased debt portfolios at fair value through profit or loss and hedging derivative instruments, which are measured at fair value.

Purchased debt portfolios comprise high-volume portfolios of overdue consumer debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Company under debt assignment agreements for prices lower than their nominal value. The Company recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss, because the Company manages the portfolios and results of these operations are assessed based on their fair value.

Purchased debt portfolios are initially recognised at acquisition price. Costs and expenses relating to debt purchase transactions are recognised in profit or loss of the period.

4.2 General information about current and expected financial position

There are no material risks to the Company's and the Group's current and expected financial position. As KRUK S.A. is the parent of the KRUK Group, its financial and operating results should be analysed in the context of the Group's performance. In 2013, the Company's net profit amounted to PLN 17.8m and was more than 2 times larger than in 2012. The main source of the significant growth in the Company's profit was higher finance income, including dividend income.

4.3 Revenue by product

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

In 2013, the Company's revenue was PLN 102.8m, up by 8% year on year. The increase was primarily attributable to a 17% increase in revenue from purchased debt, which grew from PLN 42.7m in 2012 to PLN 49.8m in 2013. Revenue from credit management services advanced by 3%, to PLN 48.7m.

Each segment's performance is discussed below. The key performance metric for each reporting segment is gross profit.

Table 4. Revenue by product

<i>PLN '000</i>	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Revenue	102,837	95,175
Purchased debt portfolios	49,805	42,680
Collection services	48,650	47,322
Other	4,382	5,173
Direct and indirect costs	(78,542)	(64,146)
Purchased debt portfolios	(9,812)	(11,571)
Collection services	(65,731)	(50,425)
Other	(2,999)	(2,150)
Gross profit	24,295	31,029
Purchased debt portfolios	39,993	31,109
Collection services	(17,081)	(3,103)
Other	1,383	3,023
Administrative expenses	(42,596)	(39,658)
Depreciation and amortisation expense	(7,263)	(5,943)
Other income	2,664	3,045
Other expenses (unallocated)	(6,726)	(8,471)
Finance income/costs	47,387	30,631
Profit before tax	17,761	10,633
Income tax	(10)	(3,477)
Net profit	17,751	7,156

Source: the Company.

4.4 Geographical structure of sales

The Group conducts operations in two main geographical areas: in Poland and abroad (Romania, the Czech Republic and Slovakia).

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

Table 5. Geographical structure of sales

PLN '000	Jan 1 2013 – Dec 31 2013	Jan 1 2012 – Dec 31 2012
Revenue	102,837	95,175
Poland	65,774	61,681
Romania	34,611	30,451
Other foreign markets	2,452	3,043

Source: the Company.

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

Table 6. Structure of assets in the statement of financial position

	Dec 31 2013	Dec 31 2012	change
	(PLN '000, unless stated otherwise)		
Assets			
Non-current assets			
Property, plant and equipment	13,330	13,899	-4%
Intangible assets	8,554	6,879	24%
Investments in subsidiaries	660,520	618,954	7%
Deferred tax assets	2,280	1,197	90%
Total non-current assets	684,684	640,929	7%
Current assets			
Inventories	272	654	-58%
Current investments	57,664	55,007	5%
Trade receivables from related entities	23,879	27,815	-14%
Trade receivables from other entities	3,224	5,441	-41%
Income tax asset	0	767	
Other receivables	65,432	5,039	1,199%
Prepayments and accrued income	1,917	1,894	1%
Cash and cash equivalents	5,634	10,556	-47%
Total current assets	158,022	107,173	32%
Total assets	842,706	748,102	13%

Source: the Company.

The largest increase occurred under Other receivables.

Table 7. Structure of equity and liabilities in the statement of financial position

	Dec 31 2013	Dec 31 2012	change
	(PLN '000, unless stated otherwise)		
Equity and liabilities			
Equity			
Share capital	16,959	16,900	0%
Share premium	47,381	45,107	5%
Other capital reserves	48,289	45,711	6%
Cash flow hedging reserve	-634		0%
Retained earnings	27,513	9,762	182%
Total equity	139,508	117,480	9%
Non-current liabilities			
Non-current liabilities under borrowings and other debt instruments	501,667	408,950	23%
Hedge derivatives	634		0%
Total non-current liabilities	502,301	408,950	21%
Current liabilities			
Current liabilities under borrowings and other debt instruments	156,330	187,007	-16%
Trade and other payables	28,338	21,549	32%
Current tax liability	68	-	-
Employee benefit obligations	16,161	13,116	23%
Total current liabilities	200,897	221,672	-9%
Total liabilities	703,198	630,622	12%
Total equity and liabilities	842,706	748,102	13%

Source: the Company.

Debt under bank borrowings and other debt instruments increased substantially in connection with expenditure to finance debt purchases in the KRUK Group.

4.6 Cash flows

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

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

For a description of financial risk management, see notes to the Separate Financial Statements.

The Company holds cash in PLN, EUR, USD, RON and CZK.

The main sources of the Company's operating cash flows are related to changes in purchased debt portfolios, disclosed under change in financial assets at fair value through profit or loss. Below are presented details of cash flows related to expenditure on debt portfolios and cash recoveries from debtors.

Table 8. Purchased debt portfolios

Purchased debt portfolios as at Jan 1 2013	40,995
Purchase of debt portfolios	5,462
Sale of debt portfolios	-
Cash recoveries	(47,901)
Liabilities to debtors due to overpayments	(467)
Revenue from debt purchase (interest and revaluation)	49 805
Purchased debt portfolios as at Dec 31 2013	47,894

Source: the Company.

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

4.7 Material off-balance sheet items by counterparty, subject matter and value

The Company did not have any material off-balance sheet items in 2013.

4.8 Financial ratios

An analysis of the Company's financial ratios does not provide an accurate picture of the Company's performance as KRUK's business relies on the operations of the entire Group. Therefore, the Company's performance should be assessed based on and in the context of the ratio analysis for the entire KRUK Group.

4.9 Explanation of differences between actual financial performance and previously published forecasts

KRUK S.A. did not publish any financial forecasts for 2012.

4.10 Financial instruments

4.10.1. Use of financial instruments

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

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

The Company holds the following financial liabilities other than derivative instruments: borrowings, debt securities, trade and other payables.

Derivatives

On June 13th 2013, the Company and Bank Zachodni WBK S.A. executed a framework agreement defining the procedure for execution and settlement of transactions, under which the parties may execute specific agreements concerning the following treasury transactions:

- (a) term deposit and demand deposit transactions;
- (b) transactions in debt securities and other securities;
- (c) foreign exchange transactions, including forward contracts;
- (d) derivative transactions, including in particular:
 - interest rate swap transactions (IRS)
 - currency interest rate swap transactions (CIRS)
 - forward rate agreements / foreign exchange forwards
 - foreign exchange swaps
 - cross currency swaps
 - foreign currency options;
- (e) other transactions similar to those listed in items a)–d), as well as all types of options in respect of any of those transactions or their combinations.

Under the agreement, the Company executed three interest rate swap transactions (IRS) with Bank Zachodni WBK in 2013:

- On July 19th 2013 – to hedge the 3M WIBOR-linked part of the coupon on Series M1 notes with a nominal value of PLN 40m. The contract will be effective from June 23rd 2014 until March 21st 2016. Payments will be made in three-month interest periods. Under the contract, the Company pays a fixed rate of 3.28%, while Bank Zachodni WBK pays a floating rate of 3M WIBOR.
- On October 16th 2013 – to hedge the 3M WIBOR-linked part of the coupon on Series M1 notes with a nominal value of PLN 44m. The contract will be effective from June 23rd 2014 until March 21st 2016. Payments will be made in three-month interest periods. Under the contract, the Company pays a fixed rate of 3.50%, while Bank Zachodni WBK pays a floating rate of 3M WIBOR.
- On October 24th 2013 – to hedge the 3M WIBOR-linked part of the coupon on Series O2 and P1 notes with a nominal value of PLN 40m. The contract will be effective from June 9th 2014 until June 6th 2016. Payments will be made in three-month interest periods. Under the contract, the Company pays a fixed rate of 3.30%, while Bank Zachodni WBK pays a floating rate of 3M WIBOR.

The Company is exposed to the following risks related to the use of financial instruments:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is chiefly associated with receivables for the services provided by the Company and from purchased debt portfolios.

Liquidity risk

Liquidity risk is the risk of potential difficulties that the Group may have with meeting its financial liabilities settled through delivery of cash or other financial assets. 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.

Market risk

Market risk is related to changes in such market factors as exchange rates, interest rates or stock prices, which affect the Company's performance or the value of financial instruments it holds. The objective of the market risk management policy implemented at the Company is to control and maintain the Company's exposure to market risk within the assumed values of parameters, while simultaneously optimising the rate of return.

4.10.2. Objectives and methods of financial risk management

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed on a regular basis, to reflect changes in market conditions and the Company's activities. Using such tools as training, management standards and procedures, the Company seeks to build a stimulating and constructive control environment, in which all employees understand their respective roles and responsibilities.

Table 9. Assets relating to credit risk

PLN '000	Note	Dec 31 2013	Dec 31 2012
Financial instruments at fair value through profit or loss	16	47,894	40,995
Loans	16	9,770	14,012
Receivables	19	92,535	38,295
Cash and cash equivalents	20	5,634	10,556
		<u>155,833</u>	<u>103,858</u>

Source: the Company.

Financial instruments at fair value through profit or loss

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

Loans

The Company advances loans to Group entities over which it exercises control. The Company also advances cash loans to natural persons who previously repaid their debts towards the Group companies or are

consistently repaying such debts. The Company has defined a set of information required to assess a borrower's creditworthiness.

Liquidity risk

The Group mitigates the liquidity risk through a continuous debt collection process, which ensures an uninterrupted inflow of cash. The Group also monitors and takes actions to ensure proper performance of its credit facility agreements (financial covenants). 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 notes.

Market risk

In the Management Board's opinion, the market risk is mainly limited to changes in interest rates on financial liabilities and cash and equivalents, as well as to changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. The currency risk with respect to debt portfolios is offset as recoveries from the assets are invested in the local market without currency conversion.

4.10.3. Assessment of financial resources management

In the opinion of the Management Board, there are no significant risks to the Company's current or future financial position related to financial resources management. The Company is able to monitor and service its debts, and manages its financial resources in a reasonable way. For detailed information, see Note 27 to the financial statements.



5 CORPORATE GOVERNANCE

5.1 Statement of compliance with corporate governance standards

Acting under Par. 92.3 and Par. 92.4 in conjunction with Par. 91.5.4 of the Regulation on current and periodic information, the KRUK Management Board hereby presents the Statement of compliance with corporate governance standards in 2013.

5.1.1. Adopted code of corporate governance

The Company is subject to corporate governance standards described in the Code of Best Practice for WSE Listed Companies (Corporate Governance Principles), which constitutes an appendix to the WSE Supervisory Board's Resolution No. 19/1307/2012 of November 21st 2012. The document is available on the website of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) dedicated to corporate governance (<http://www.corp-gov.gpw.pl>).

In connection with the admission to trading, on May 5th 2011, and the first listing, on May 10th 2011, of Series A, Series AA, Series B, Series C and Series D Company Shares on the Warsaw Stock Exchange, on April 6th 2011 the Company's Management Board passed a resolution stating that the Company and its governing bodies observe the corporate government standards set in Code of Best Practice for WSE Listed Companies to the extent specified in the appendix to the resolution. The appendix, containing the Code of Best Practice for WSE Listed Companies along with a specification of the declared extent of the Company's compliance with the standards set out in the document, is available on the Company's website.

Then, by way of a resolution of December 20th 2012, the Management Board of KRUK S.A. amended the appendix to the resolution, in order to incorporate the amendments introduced by WSE Supervisory Board's Resolution No. 19/1307/2012 of November 21st 2012. The text of the declaration, specifying the extent to which the Company intends to comply with the principles, is available at KRUK S.A.'s website, at: <http://pl.kruk.eu/pl/dla-inwestora/spolka/dokumenty>. The document also contains corporate government standards which the Company elected to comply with voluntarily.

5.1.2. Corporate governance standards which the Company elected not to comply with

As per the Management Board's statement, the Company declared compliance with corporate governance standards set forth in the Code of Best Practice for WSE Listed Companies with certain exceptions. The Company elected not to comply with the following standards:

Regarding the rule whereby a company should have a remuneration policy and rules of defining that policy, the Management Board informs that the Company did not implement a remuneration policy for Management and Supervisory Board members. The rules governing remuneration for the Management Board members are defined in accordance with Par. 2.8 of the Rules of Procedure for the Management Board, i.e. by the Company's Supervisory Board. Based on these rules, the President of the Management Board proposes the amounts of remuneration for individual Management Board members other than the President, and submits the proposals to the Supervisory Board for approval. Remuneration of the Supervisory Board members is

determined by the General Meeting pursuant to Par. 12.5 of the Company's Articles of Association. The amounts of remuneration for members of the Company's governing bodies are disclosed in its annual reports. However, the Company is considering the development of a remuneration policy and rules of defining that policy at some point in the future.

The Company elected not to comply with the recommendations included in part I section 12 and part IV section 10 of the Code of Best Practice for WSE Listed Companies, under which a company should enable its shareholders to remotely exercise their voting rights at a General Meeting personally or by a proxy using electronic means of communication, as well as enable its shareholders to participate in a General Meeting using electronic means of communication through 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. The Company explains that it currently does not have appropriate technical facilities to enable its shareholders to participate in General Meetings as specified above. Consequently, the risk of incorrect progress of a General Meeting would outweigh the potential benefit of a larger number of shareholders participating in the meeting, which is the objective of the recommendation.

In 2013, the Company did not observe the recommendation set out in part II, section 1.7) of the Code of Best Practice for WSE Listed Companies, concerning publication on the corporate website of shareholders' questions on matters on the agenda submitted before and during a General Meeting, together with answers to those questions. The Company's position is that minutes of General Meetings are taken by a notary public. A decision to include particular matters in the agenda rests with the Chairperson of the General Meeting, taking into account applicable laws and circumstances of each case, with due regard to the interests of shareholders. Pursuant to the Commercial Companies Code, participants of a General Meeting have the right to submit written statements, which are attached to the minutes. The Company is also obliged to publish resolutions passed during General Meetings. The Company's position is that the above requirements ensure full transparency of the General Meeting. However, the Company declares that – should a wider group of shareholders so request – it will make every effort to implement the standard at the Company.

The Company also elected not to comply with either the principle stipulated in part II section 1.9a) of the Code of Best Practice for WSE Listed Companies, whereby the Issuer should publish a record of the General Meeting in audio or video format on the Company's corporate website. The Company explains that it is considering recording its general meetings and publishing the records on its website, but by the date of approval of this report the Company had not made a final decision on compliance with this recommendation.

Regarding the obligation to run an English-language website, in 2013 the Company complied with that principle, with certain exceptions. In line with the representation made by the Company, the English version of its website contains key corporate documents, annual reports, quarterly reports to the extent relating to the Company's financial performance (financial statements), as well as times, venues and agendas (without resolutions or their drafts) of General Meetings. In the Company's opinion, the availability of the above information in English adequately protects the interests of its existing shareholders. However, if the Company is advised by its shareholders of the need for more information available in English, it is prepared to publish on its website the English language version of all information specified in the Code.

5.2 Shareholder structure

5.2.1 Shareholders holding directly or indirectly large blocks of shares in KRUK

As at January 1st 2013, the shareholders holding directly or indirectly large blocks of shares in KRUK S.A. were as follows (based on shareholder notifications received by the Company):

Jan 1 2013

Shareholder	Number of shares/voting rights	% ownership interest/voting rights (%)
Polish Enterprise Fund IV, private equity fund managed by Enterprise Investors	4,196,550	24.83
Piotr Krupa	2,625,928	15.54
Generali OFE	866,101	5.12

As at December 31st 2013, the shareholders holding directly or indirectly large blocks of shares in KRUK S.A. were as follows:

Dec 31 2013

Shareholder	Number of shares/voting rights	% ownership interest/voting rights (%)
Piotr Krupa	2,213,928	13.05
Aviva OFE	1,932,184	11.39
ING PTE*	1,835,643	10.82
Generali OFE**	1,575,000	9.29
AMPLICO PTE***	1,310,000	7.72

* Joint shareholding of ING OFE and ING DFE, managed by ING PTE S.A.

** Based on the list of shareholders participating in the Company's Annual General Meeting of June 27th 2013.

*** Joint shareholding of AMPLICO OFE and AMPLICO DFE, managed by AMPLICO PTE S.A.

As at the date of approval of this report, the shareholders holding directly or indirectly large blocks of shares in KRUK S.A. were as follows:

As at the date of approval of the 2013 annual report

Shareholder	Number of shares/voting rights	% ownership interest/voting rights (%)
Piotr Krupa	2,213,928	13.05
Aviva OFE	1,932,184	11.39
ING PTE*	1,835,643	10.82
Generali OFE**	1,575,000	9.29

* Joint shareholding of ING OFE and ING DFE, managed by ING PTE S.A.

** Based on the list of shareholders participating in the Company's Annual General Meeting of June 27th 2013.

5.2.2 Changes in large shareholdings in the reporting year

Below are described changes in large shareholdings of KRUK S.A. shares in 2013.

On January 25th 2013, the Company received a notification from Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. to the effect that its share of the total vote at the Company's General Meeting had exceeded the 5% threshold. According to the notification, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK held 887,388 Company shares.

On April 9th 2013, the Company received a notification from Enterprise Investors Sp. z o.o., representing Polish Enterprise Fund IV L.P., to the effect that Polish Enterprise Fund IV L.P. had disposed of all Company shares.

On April 11th 2013, the Company received, from three significant shareholders, notifications concerning changes in their respective shares in the total vote at the Company's General Meeting. According to the notification from AMPLICO Powszechne Towarzystwo Emerytalne S.A., the funds managed by it (AMPLICO Otwarty Fundusz Emerytalny and Metlife Amplico Dobrowolny Fundusz Emerytalny) had increased their joint share in the total vote at the Company's General Meeting to more than 5% and, as at the notification date, jointly held 1,310,000 Company shares. According to the notification from Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A., Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK had increased its share in the total vote at the Company's General Meeting to more than 10% and, as at the notification date, held 1,932,184 Company shares. According to the notification from ING Powszechne Towarzystwo Emerytalne S.A., the funds under its management (ING Otwarty Fundusz Emerytalny and ING Dobrowolny Fundusz Emerytalny) had increased their joint share in the total vote at the Company's General Meeting to more than 10% and, as at the notification date, jointly held 1,835,643 Company shares.

On May 28th 2013, the Company received a notification from Mr Piotr Krupa, President of the Management Board of KRUK S.A. and a significant shareholder of the Company, to the effect that Mr Piotr Krupa had sold

400,000 shares in KRUK S.A. in transactions executed during a trading session on the Warsaw Stock Exchange on May 24th 2013.

Based on the list of shareholders participating in the Company's Annual General Meeting held on June 27th 2013, the Company learnt that Generali Otwarty Fundusz Emerytalny increased its holding in KRUK S.A. to 1,575,000 shares.

On July 24th 2013, the Company's share capital was increased through the issue of 27,896 Series E shares. Consequently, the total number of Company shares and voting rights at the General Meeting rose by 0.16%. Following the increase, KRUK S.A.'s share capital was divided into 16,928,236 shares, each conferring one voting right at the Company's General Meeting.

On December 13th 2013, the Company's share capital was increased again, through the issue of 30,859 Series E shares. Consequently, the total number of Company shares and voting rights at the General Meeting rose by 0.22%. As a result of the increase, KRUK S.A.'s share capital is divided into 16,959,095 shares, each conferring one voting right at the Company's General Meeting.

On January 15th 2014, after the end of the reporting period, the Company received a notification from AMPLICO Powszechne Towarzystwo Emerytalne S.A. to the effect that AMPLICO PTE AMPLICO Otwarty Fundusz Emerytalny, managed by AMPLICO Powszechne Towarzystwo Emerytalne S.A., decreased its share in the total vote at the Company's General Meeting to below 5%.

5.2.3 Treasury shares

On October 20th 2011, the Extraordinary General Meeting of KRUK S.A. authorised the Company's Management Board to purchase the Company's own shares listed on the main market of the WSE, in the period from October 25th 2011 to April 30th 2015, with the proviso that the total par value of the shares so purchased may not exceed PLN 1m, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 40m, 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 100 or lower than PLN 1. Own shares may not be bought back in block transactions. Shares purchased by the Company as part of the buy-back programme may be used:

to implement the Management Stock Option Plan, operated by the Company under a resolution of the Extraordinary General Meeting of KRUK S.A. of March 30th 2011,

to retire the Company's own shares and reduce its share capital,
for further resale.

Decisions as to the purpose of acquisition of own shares and the manner of their use are made by the Company's Management Board by way of a resolution. The Management Board may also, depending on the Company's interests, finish the buy-back of the shares before April 30th 2015 or before all the funds intended to be spent on the buy-back programme are used, or may altogether abandon the buy-back of the shares in whole or in part.

In 2013, the Company did not buy back any of its shares.

5.1.3. Holders of securities conferring special control powers

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

5.1.4. 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.

5.1.5. 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.

5.1.6. 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 Incentive Scheme

The KRUK Group operates an incentive scheme for key management personnel of the Parent and Group companies (Incentive Scheme, Scheme).

The rules of the Incentive Scheme for 2011–2014 were adopted by Resolution No. 1/2011 of KRUK's Extraordinary General Meeting of March 30th 2011, and amended by a resolution of the Extraordinary General Meeting of August 29th 2011. Under the Scheme, eligible persons will have the right to acquire Company shares on preferential terms, set forth in the Resolution and in the Rules of the Incentive Scheme. The eligible persons comprise members of the Management Board (excluding the President), Company employees and employees of the Group companies, on condition they were in an employment relationship with the Parent or its subsidiary or in other legal relationship under which they provided services to the Parent or its subsidiary for a period of at least twelve months in the calendar year preceding the year in which the offer to acquire/subscribe for subscription warrants is made.

In connection with the Incentive Scheme, the Extraordinary General Meeting approved a conditional share capital increase of up to PLN 845,016 through an issue of up to 845,016 Series E ordinary bearer shares. The purpose of the conditional share capital increase is to grant the right to subscribe for Series E shares to holders of subscription warrants that will be issued under the Incentive Scheme. Holders of subscription warrants will be entitled to exercise their rights to subscribe for Series E Shares at an issue price equal to the issue price of Company shares in the initial public offering, i.e. PLN 39.70 per share, not earlier than six months after the acquisition of the subscription warrants and not later than on June 30th 2016.

Subscription warrants will be issued in four tranches, one for each year of the reference period, i.e. for the financial years 2011–2014.

Subscription warrants for a given financial year will be granted by the KRUK Supervisory Board on condition that two financial ratios reflecting the Group's consolidated results – EPS and EBITDA or ROE – reach predefined levels, according to the following criteria:

- Increase of EPS in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 17.5%;
- In the financial year preceding the year in which the subscription warrants are to be offered in a given tranche, EBITDA increases by at least 17.5%;
- ROE in the financial year preceding the year in which subscription warrants of a given Tranche are offered is no less than 20%.

Tranche 1

Under Tranche 1, eligible persons, including Management Board Members, were offered subscription warrants pursuant to the Supervisory Board's resolution of July 20th 2012 on reviewing the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2011, and determining the list of eligible persons under Tranche 1 for 2011 and the list of persons eligible under Tranche 1 for 2011 from the Reserve Pool.

The rights attached to the subscription warrants granted under Tranche 1 for 2011 were partly exercised:

On July 24th 2013 by nine persons, including Ms Iwona Słomska, Member of the Management Board, who subscribed for 9,257 of the newly issued Series E shares; and

On December 16th 2013 by 13 persons, including Mr Michał Zasępa, Member of the Management Board, who subscribed for 5,000 of the Series E shares.

As at December 31st 2013, persons eligible under Tranche 1 held a total of 125,025 subscription warrants, entitling them to subscribe for the same number of Series E shares.

Tranche 2

On August 5th 2013, the KRUK Supervisory Board adopted a resolution on reviewing the fulfilment of conditions set forth in the Incentive Scheme with a view to granting subscription warrants for performance of the Incentive Scheme provisions in 2012, and determining the list of eligible persons under Tranche 2 for 2012. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 2 for 2012 had been fulfilled, and determined the list of eligible persons in Tranche 2 for 2012 and the list of persons eligible in Tranche 2 for 2012 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2012 Management Stock Option Plan to persons named in the lists, including members of the Management Board. On October 1st 2013, 201,758 subscription warrants were delivered to the Eligible Persons.

Number of warrants allotted to Management Board Members under Tranche 2 for 2012:

Table 10. Number of warrants allotted to current Management Board Members under Tranche 2 for 2012

Name and surname	Position	Number of warrants granted under Tranche 2 for 2012
Urszula Okarma	Member of the Management Board	10,507
Agnieszka Kułton	Member of the Management Board	10,507
Iwona Słomska	Member of the Management Board	9,257
Michał Zasępa	Member of the Management Board	14,507

The remaining 30,960 warrants to be allotted in respect of 2012 were transferred to Tranche 3 for 2013.

Table 11. Number of subscription warrants held by Management Board Members as at December 31st 2013

Name and surname	Position	Number of warrants
Urszula Okarma	Member of the Management Board	21,014
Agnieszka Kułton	Member of the Management Board	21,014
Iwona Słomska	Member of the Management Board	9,257
Michał Zasępa	Member of the Management Board	20,014

The Management Board Members named above hold no rights to KRUK shares other than those attached to the subscription warrants. The President of the KRUK Management Board holds no rights to Company shares.

5.4 Dividend policy

5.4.1. Historical data on dividend payments

In the period covered by the historical financial information, the Company did not pay any dividends from net profit.

However, in the reporting period and until the date of approval of this report, a total of PLN 114.1m and PLN 5.6m was received by KRUK S.A. from its Luxembourg-based subsidiary SeCapital S.à.r.l. and Kancelaria Prawna Raven Krupa&Stańko Sp. k., respectively, as distributions from the 2011, 2012 and 2013 profits. On February 21st 2014, KRUK S.A. also received a total of PLN 21.75m as dividend from the Luxembourg-based subsidiary SeCapital S.à.r.l.

Kancelaria Prawna Raven Krupa&Stańko Sp. k. also paid PLN 156 thousand to its general partners as a profit distribution.

5.4.2. Dividend policy

In the medium term, the Group's strategy provides for reinvestment of all profits in business development, to realise the Group's value growth potential. In view of its plans to dynamically develop debt purchase

activities, the Company does not expect to pay dividend from the 2013 profit. However, the Company may pay out dividends in subsequent years to the extent they do not affect its ability to raise financing required for further expansion.

5.5 Governing bodies

5.2.1 Management Board

5.5.1.1 Composition of the Management Board, changes thereto and rules of appointment

The Company's management body is the Management Board.

In the period from January 1st to August 31st 2013, the Company's Management Board consisted of six members:

- | | |
|---------------------------|-----------------------------------|
| • Piotr Krupa | President of the Management Board |
| • Rafał Janiak | Member 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 |

After Rafał Janiak resigned from his position as Management Board Member, tendering his resignation to the Chairman of the Company's Supervisory Board on May 9th 2013 with effect from August 31st 2013, the number of Management Board members was reduced to five by virtue of a Supervisory Board resolution. By way of a resolution of May 9th 2013, the Supervisory Board resolved to delegate, as of September 1st 2013, Michał Zasępa, a Management Board Member, to perform the responsibilities of Rafał Janiak. Mr Zasępa was removed from the position of Management Board Member for Investments and Development with effect from August 31st 2013 and appointed Management Board Member for Finance with effect from September 1st 2013.

As a result of the changes discussed above, in the period from September 1st 2013 to December 31st 2013 the Management Board 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 |

Until the date of approval of this report, there were no changes to the composition of the Management Board of KRUK S.A.

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 Par. 7.1 and Par 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 Supervisory Board appoints and removes President of the Management Board. The process is similar for other members of the Management Board, but the appointment is made at the request of the President of the Management Board.

Members of the Management Board are appointed for a joint three-year term of office. The term of office of the current Management Board began on the date of its appointment by virtue of a Supervisory Board resolution of March 19th 2012.

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 he or she held the office.

5.5.1.2 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 Par. 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 voting rights. 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 his/her own, under a power of attorney granted to him/her by the Company.

By way of Resolution No. 4/2011 dated October 20th 2011, the Extraordinary General Meeting of KRUK S.A. authorised the Company's 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.

Apart from the 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 purchase of shares.

5.5.1.3 Shares in the Company or in the Company's related entities held by Management Board members

KRUK S.A. shares held by members of the Company's Management Board as at December 31st 2013. By the date of approval of this report, there were no changes in the holdings of KRUK S.A. shares by members of the Company's Management Board.

Name and surname	Position	Number of shares held as at this report's approval date	Total par value (PLN)
Piotr Krupa	President of the Management Board	2,213,928	2,213,928
Urszula Okarma	Member of the Management Board	110,350	110,350
Agnieszka Kułton	Member of the Management Board	92,220	92,220
Iwona Słomska	Member of the Management Board	44,257	44,257
Michał Zasępa	Member of the Management Board	13,000	13,000

No member of KRUK S.A.'s Management Board holds shares in the Company's related entities.

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

Pursuant to Par. 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.

The Company has executed managerial or employment contracts with the following members of the Management Board:

Name and surname	Effective date of the contract	Position
Piotr Krupa	March 19th 2012	President of the Management Board
Agnieszka Kułton	March 19th 2012	Member of the Management Board, Credit Management
Urszula Okarma	March 19th 2012	Member of the Management Board, Strategic Transactions and Customer Relations
Iwona Słomska	March 19th 2012	Member of the Management Board, Marketing, Public Relations and Human Resources
Michał Zasępa	September 1st 2013	to August 31st 2013 - Member of the Management Board, Investments and Development From September 1st 2013 - Member of the Management Board, Finance

Ms Iwona Słomska, Member of the Management Board in charge of Marketing, Public Relations and Human Resources, is employed by the Company under an employment contract. The President of the Management Board and the other members of the Management Board entered into managerial contracts with the Company for the duration of their mandates as members of the Management Board.

Under the executed managerial contracts, the members of the Management Board are entitled to monthly remuneration in the amounts specified in the contracts. Irrespective of their salary, they may receive additional remuneration (a bonus) and discretionary bonuses. The decision on the award and amounts of discretionary bonuses rests with the Supervisory Board.

The President of the Management Board receives a bonus for the performance of the financial plan for a given financial year, in accordance with the terms of his contract.

Bonuses to the other members of the Management Board are paid:

- (i) for meeting personal targets set for each financial year on the basis of the Company's financial plan for the given financial year, in the amount specified in the relevant contract, and
- (ii) for performance of the Company's financial plan for the given financial year, in the amount specified in the relevant contract, based on the percentage of the plan performance.

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 three months' notice. In the case of the President of the Management Board, the notice period is nine months. A managerial contract may also be terminated by its parties without notice in circumstances indicated in the contract.

The contracts concluded with the Management Board members contain provisions prohibiting the members, without the Company's written consent, from taking additional paid jobs while the contract is in force, 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 (excluding the President) provide for relevant compensation in respect of the prohibitions. The compensation is payable in monthly instalments for 24 months from the contract termination date and amounts to 40% of the person's remuneration (12 months and 25% of the remuneration in the case of the Member of the Management Board in charge of Marketing, Public Relations and Human Resources).

Furthermore, the contracts concluded with the Management Board members (except for the President of the Management Board) impose contractual penalties in the amounts specified therein for violation of the non-compete provisions.

The table below presents the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2013) from the Company and its subsidiaries for 2013:

Name and surname	Remuneration from the Company for 2013	Additional benefits* from the Company for 2013	Remuneration from the subsidiaries for 2013	Additional benefits* from the subsidiaries for 2013
(PLN '000)				
Piotr Krupa	745.01	17.34	27.00	-
Agnieszka Kułton	367.02	12.35	12.00	-
Urszula Okarma	366.03	7.31	18.00	-
Iwona Słomska	300.00	6.88	-	-
Michał Zasępa	423.50	40.82	37.32**	-
Rafał Janiak***	336****	5.05	-	-

*Additional benefits include medical care, company cars and international travel insurance for Management Board Members.

** Including remuneration payable in HUF - the amount is the złoty equivalent of HUF 736.65 thousand.

*** Remuneration and benefits for service on the KRUK S.A. Management Board, i.e. for the period from January 1st to August 31st 2013.

**** Including PLN 56.0 thousand as compensation for non-compete clause.

The total value of remuneration and additional benefits for 2013 paid by the Company and the subsidiaries to the Management Board Members specified above is PLN 2,627.31 thousand and PLN 94.32 thousand, respectively.

Additional benefits received from the Company for 2013 do not include bonuses and awards for the Management Board Members for 2013. The bonuses will be paid in 2014, in the amount reflecting the performance of the Company's financial plan, and – in the case of the discretionary bonus – in an amount decided by the Supervisory Board. The Company recognised a PLN 2,617 thousand provision for this purpose.

In addition, in accordance with the Supervisory Board's resolutions of July 20th 2012 and August 5th 2013, adopted under the Company's Incentive Scheme for 2011-2014 for the key members of the management staff of the Company and other Group companies, the Supervisory Board granted the Management Board Members (excluding the President) subscription warrants conferring the right to acquire KRUK shares. For detailed information on the Incentive Scheme operated by the Company, including information on subscription warrants granted to the Management Board Members, see the "Incentive Scheme" section.

5.2.2 Supervisory Board

5.5.2.1 Composition of the Supervisory Board, changes thereto and rules of appointment

The Supervisory Board is composed 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 approval 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:

1 (one) member of a five-member Supervisory Board, including the Deputy Chairman of the Supervisory Board;

2 (two) members of a seven-member Supervisory Board, including the Deputy Chairman of the Supervisory Board.

Mr Piotr Krupa's right to appoint and remove from office members of the Supervisory Board as specified above are exercised by delivery to the Company of a written statement on appointment or removal of a Supervisory Board member.

In connection with the sale by Polish Enterprise Fund IV L.P. of all of its shares in the Company, by virtue of the General Meeting's resolution of June 27th 2013 the Company's Articles of Association were amended by deleting an analogous right held by Polish Enterprise Fund IV, L.P. or its successor to appoint and remove:

3 (three) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;

4 (four) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board, if Polish Enterprise Fund IV L.P. held Company shares authorising it to exercise 40% or more of the total vote at the Company's General Meeting; or

2 (two) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;

3 (three) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board.

if Polish Enterprise Fund IV L.P. held Company shares authorising it to exercise 20% or more, but not more than 40%, of the total vote at the Company's General Meeting.

From January 1st 2013 to March 27th 2013, the KRUK Supervisory Board was composed of the following five members:

- | | |
|----------------------------|-----------------------------------|
| • Dariusz Prończuk | Chairman of the Supervisory Board |
| • Krzysztof Kawalec | Member of the Supervisory Board |
| • Wojciech Małek | Member of the Supervisory Board |
| • Piotr Stępiak | Member of the Supervisory Board |
| • Józef Wancer | Member of the Supervisory Board |

On March 27th 2013, resignations were received from all of the above members of the KRUK Supervisory Board, with effect as of that date. On the same day, during an Extraordinary General Meeting, the Company received declarations by its shareholders, Polish Enterprise Fund IV, L.P. and Mr Piotr Krupa, on exercise of their rights to appoint members of the KRUK Supervisory Board. Polish Enterprise Fund IV, L.P. exercised its right in part and appointed Mr Dariusz Prończuk as Chairman of the Supervisory Board with effect from March 27th 2013. Mr Piotr Krupa appointed to the Supervisory Board Mr Robert Koński, with effect from March 27th 2013, and Ms Katarzyna Beuch, with effect from April 1st 2013. On March 27th 2013, the Extraordinary General Meeting also adopted a resolution to change the number of members of the Supervisory Board from five to seven and, with effect as of the same date, it appointed Messrs Józef Wancer, Piotr Stępiak, Krzysztof Kawalec and Arkadiusz Jastrzębski to serve on the Supervisory Board.

From April 1st 2013 to July 31st 2013, the composition of the Supervisory Board of KRUK was as follows:

- | | |
|--------------------------------------|-----------------------------------|
| • Dariusz Prończuk | Chairman of the Supervisory Board |
| • Katarzyna Beuch | 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 |
| • Piotr Stępiak | Member of the Supervisory Board |
| • Józef Wancer | Member of the Supervisory Board |

On May 31st 2013, the Company received a resignation letter from Mr Dariusz Prończuk, whereby he resigned from membership in the Supervisory Board with effect from July 31st 2013.

On July 31st 2013, the Supervisory Board appointed Mr Piotr Stępiak as Chairman of the Supervisory Board.

By virtue of a resolution of June 27th 2013, the Annual General Meeting appointed Tomasz Bieske to the Company's Supervisory Board, with effect from August 1st 2013.

After all of the above changes, from August 1st 2013 to December 31st 2013, the composition of the Supervisory Board was as follows:

- | | |
|--------------------------------------|-----------------------------------|
| • Piotr Stępiak | 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 |

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

5.5.2.2 Operation of the Supervisory Board

The Supervisory Board exercises supervision over the Company's operations in each area of its activity. In addition to the responsibilities set forth in the Polish Commercial Companies Code, the Supervisory Board's powers shall include in particular:

- reviewing 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 the distribution of profit or coverage of loss;
- submission to the General Meeting of a written annual report on results of the review referred to in item 1 above;
- appointing and removing from office the President of the Management Board;
- appointing and removing from office members of the Management Board (including Vice-Presidents);
- suspending from office members of the Management Board and delegating members of the Supervisory Board to temporarily perform functions of the Management Board members who are unable to perform their duties;
- determining the rules and amount of remuneration for the Management Board members at the request of the President of the Management Board;
- determining the amount of remuneration of the President of the Management Board;
- approving the Company's annual financial plans (the budget) 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 to be contracted with companies of the KRUK Group;
- granting consent to creating security, providing surety or creating other encumbrances over the Company's assets other than provided for in the budget, in excess of a cumulative annual amount equal to 10% of the Company's equity, unless only entities of the KRUK Group are parties to the transaction. Consent of the Supervisory Board is not required to create security or provide surety in respect of loans and bonds which have been provided for in the budget or approved by the Supervisory Board;
- granting consent for the Company to contract liabilities under a single transaction or a series of related transactions with a total value in excess of the equivalent of 5% of the Company's equity in a given financial year, other than liabilities provided for in the budget or arising in the Company's ordinary course of business;
- granting consent to the Company acquiring or subscribing for shares in other commercial companies or joining other businesses which are not KRUK Group entities;
- granting consent to the acquisition or disposal of the Company's assets exceeding 15% (fifteen percent) of the Company's net book value as determined on the basis of the last audited financial statements, other than any acquisition or disposal provided for in the budget, and except for any acquisition or disposal of assets from or to entities 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 entities of the KRUK Group are parties to the transaction;
- granting consent to engaging advisers and other third-party individuals as consultants, lawyers or agents by the Company or its subsidiary if the resulting total annual cost to the Company other than provided for in the budget would exceed PLN 500,000.00 (five hundred thousand złoty);
- approving the rules of management stock option plans;
- selecting an auditor to audit the Company's annual financial statements, referred to in Article 395 of the Polish 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 its subsidiary and Management or Supervisory Board members;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary within the scope of the Company's business in an amount exceeding PLN 1,000,000.00 (one million złoty) in a given financial year, unless only entities of the KRUK Group are parties to the transaction;
- granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary, to the extent such disposals or commitments are outside the scope of the Company's business, in an amount exceeding PLN 200,000 (two hundred thousand złoty) in a given financial year, unless only entities 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 by the Company, except with respect to property purchased or sold in the process of debt collection.

Meetings of the Supervisory Board are convened by its Chairperson or, failing him or her, by the Deputy Chairperson. The Rules of Procedure of the Supervisory Board define the detailed rules for its meetings

Supervisory Board resolutions are passed with an absolute majority of voting rights of the Supervisory Board members present at the meeting. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. A resolution of the Supervisory Board is valid when all Supervisory Board members have been invited to the meeting and at least half of them attend the meeting.

Members of the Supervisory Board may vote on a resolution of the Supervisory Board in writing through another member of the Supervisory Board. Issues put on the agenda during the meeting of the Supervisory Board may not be voted on in writing Subject to the provisions of the Polish Commercial Companies Code, the Supervisory Board may adopt resolutions by voting in writing or using means of remote communication, provided that all Supervisory Board have been notified of the contents of the draft resolution.

5.5.2.3 Shares in the Company or in the Company's subsidiaries held by members of the Supervisory Board

In the course of 2013, as at December 31st 2013 and as at the date of approval of this report, members of the Supervisory Board did not hold any shares in the Company or in any of its related entities.

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

Pursuant to Par. 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 Shareholders Meeting.

The table below presents the amounts of remuneration received by the Supervisory Board members (who were in office in 2013) from the Company and its subsidiaries for 2013:

Name and surname	Remuneration from the Company for 2013
	(PLN '000)
PIOTR STĘPNIAK	85.10
WOJCIECH MAŁEK	-
KRZYSZTOF KAWALEC	82.31
JÓZEF WANCER	201.74*
ROBERT KOŃSKI**	63.77
ARKADIUSZ JASTRZĘBSKI***	63.77
KATARZYNA BEUCH****	62.78
DARIUSZ PROŃCZUK*****	-
TOMASZ BIESKE*****	34.87

* Remuneration payable in EUR. The amount is the PLN equivalent of the total monthly remunerations received as member of the Company's Supervisory Board in euro, i.e. the total of EUR 48 thousand, translated into PLN at the exchange rate effective on the day preceding the payment day.

** Mr Robert Koński's remuneration for serving as member of the KRUK S.A. Supervisory Board in the period from March 27th 2013 to December 31st 2013.

*** Mr Arkadiusz Jastrzębski's remuneration for serving as member of the KRUK S.A. Supervisory Board in the period from March 27th 2013 to December 31st 2013.

**** Ms Katarzyna Beuch's remuneration for serving as member of the KRUK S.A. Supervisory Board in the period from April 1st 2013 to December 31st 2013.

***** Mr Dariusz Prończuk's remuneration for serving as member of the KRUK S.A. Supervisory Board in the period from January 1st 2013 to July 31st 2013.

***** Mr Tomasz Bieske's remuneration for serving as member of the KRUK S.A. Supervisory Board in the period from August 1st 2013 to December 31st 2013.

The total remuneration received from the Company by the Supervisory Board members named above for 2013 amounted to PLN 594.34 thousand. The amount includes the remuneration payable in the euro,

translated into the złoty using the exchange rate quoted by the National Bank of Poland for the day preceding the payment day

In 2013, neither the Company nor its Subsidiaries paid any additional benefits to the members of the Supervisory Board.

As at the date of this report, there were no contingent or deferred benefits payable to the 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.

5.5.2.5 Supervisory Board Committees

Pursuant to the Rules of Procedure of 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.

Pursuant to the Rules of Procedure of the Supervisory Board, the **Audit Committee** is composed of at least three members, including at least one independent member having the required expertise and experience in the area of accountancy and finance, i.e. meeting the criteria defined in Art. 86.4 and 5 of the Act on qualified auditors and their self-government, entities qualified to audit financial statements and public supervision of May 7th 2009 (Dz. U. of 2009, No. 77, item 649, as amended).

The Audit Committee's responsibilities shall include in particular:

- 1) monitoring of financial reporting processes;
- 2) monitoring of the effectiveness of the internal control, internal audit and risk management systems;
- 3) monitoring of the financial audit function;
- 4) monitoring of the independence of the auditor and the auditing firm;
- 5) review of the Company's financial statements and presentation of opinions on the financial statements to the Supervisory Board;
- 6) review of related-party transactions;
- 7) recommendation of an auditor to the Supervisory Board and presentation of grounds for the recommendation.

In the period from January 1st 2013 to March 27th 2013 the Audit Committee consisted of:

- | | |
|----------------------------|---------------------------------|
| • Wojciech Małek | Chairman of the Audit Committee |
| • Piotr Stępnia | Member of the Audit Committee |
| • Krzysztof Kawalec | Member of the Audit Committee. |

In connection with the appointment, on March 27th 2013, of the Supervisory Board of the new term, at its first meeting, held on May 9th 2013, the Supervisory Board adopted a resolution on the establishment of the Audit Committee of the KRUK S.A. Supervisory Board, with the following composition:

- | | |
|--------------------------|-------------------------------------|
| • Katarzyna Beuch | Chairperson of the Audit Committee, |
|--------------------------|-------------------------------------|

- **Arkadiusz Jastrzębski** Member of the Audit Committee,
- **Piotr Stępnia** Member of the Audit Committee.

In particular, apart from statutory duties, the tasks of the Audit Committee in 2013 included:

- summary of the results of the audit of the 2012 annual report;
- analysis of offers submitted by auditing firms, regarding audit of the Company's and the Group's financial statements for 2013,
- discussion of the Company's and the Group's half-year financial statements and their performance in H1 2013, and discussion of the separate half-year financial statements of KRUK S.A., Prokura NS FIZ, and Prokulus NS FIZ.

The **Remuneration and Appointment Committee** is composed of at least three members, including at least one member with expertise and experience in the area of remuneration policy; the Remuneration and Appointment Committee should mostly include independent Supervisory Board members.

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

- 1) planning of the remuneration policy for the Management Board members;
- 2) alignment of the Management Board Members' remuneration with the Company's long-term interests and its financial performance;
- 3) recommendation of candidates to the Management Board to the Supervisory Board;
- 4) 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, expertise and experience of the individual Management Board Members to the Supervisory Board.

In the period ended March 27th 2013, the Remuneration and Nomination Committee consisted of the members appointed on July 25th 2012:

- **Dariusz Prończuk** Chairman of the Remuneration and Appointment Committee,
- **Krzysztof Kawalec** Member of the Remuneration and Appointment Committee,
- **Józef Wancer** Member of the Remuneration and Appointment Committee.

The composition of the Remuneration and Appointment Committee, as appointed by the KRUK Supervisory Board on May 9th 2013, was as follows:

- **Dariusz Prończuk** Chairman of the Remuneration and Appointment Committee,
- **Robert Koński** Member of the Remuneration and Appointment Committee,
- **Piotr Stępnia** Member of the Remuneration and Appointment Committee,
- **Józef Wancer** Member of the Remuneration and Appointment Committee.

Following Mr Dariusz Prończuk's resignation from the Supervisory Board as of July 31st 2013, at the meeting held on October 28th 2013 the Supervisory Board appointed Mr Robert Koński as Chairman of the Remuneration and Appointment Committee.

Following the change, in the period from October 28th to the end of 2013 and onwards, the Remuneration and Appointment Committee has 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.

In 2013, the Remuneration and Appointment Committee held meetings as part of the meetings of the Supervisory Board.

Pursuant to the Rules of Procedure of the Supervisory Board, the **Finance and Budget Committee** is composed of two to four Supervisory Board members.

Until March 27th 2013, the Finance and Budget Committee consisted of:

- **Dariusz Prończuk** Chairman of the Finance and Budget Committee,
- **Piotr Stępnia** Member of the Finance and Budget Committee.

On May 9th 2013, at the first Supervisory Board meeting following its appointment by the General Meeting, the Supervisory Board passed a resolution to appoint the following persons to the Finance and Budget Committee:

- **Dariusz Prończuk** 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.

Following Mr Dariusz Prończuk's resignation from the Supervisory Board as of July 31st 2013, at the meeting held on October 28th 2013 the Supervisory Board appointed Mr Tomasz Bieske as Chairman of the Finance and Budget Committee.

As of that date, the composition of the Finance and Budget Committee is as follows:

- **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.

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

- 1) drafting of budget resolutions, issue of opinions and assessment of draft resolutions of the Supervisory Board on matters related to the Company's finances,
- 2) supporting the oversight of the performance of the Company's budget,
- 3) on-going analysis of the Company's financial performance and standing,
- 4) 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 2013, the Finance and Budget Committee focused primarily on matters related to the Company's and the Group's budgets. To address these matters, the Committee held a meeting in January 2013, during the work on the budget for 2013, and in December 2013, during the work on the budget for 2014. Other matters within the powers of the Finance and Budget Committee were discussed during the meetings of the Supervisory Board.

5.2.3 General Meeting

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

The General Meeting may be held as the Annual or an Extraordinary General Meeting. An Annual General Meeting is convened by the Company's Management Board to be held no later than six months after the end of each financial year, in particular in order to:

review and approve the Directors' Report on the Company's operations and the financial statements for the previous financial year,

adopt a resolution concerning distribution of profit or coverage of loss,

grant discharge to members of the Company's governing bodies in respect of their performance of duties,

An Extraordinary General Meeting may be convened by the Management Board (acting on its own initiative or at the request of shareholders representing at least half of the share capital or voting power within the Company), by the Supervisory Board (if it deems it advisable to do so) or by shareholders authorised to do so by the registry court under Art. 430.3 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 particular items be placed on the Meeting's agenda. Any such requests should be made in writing or in the electronic form and submitted to the Management Board. An Extraordinary General Meeting should be convened within two weeks from the date when the Management Board receives a relevant request.

A shareholder or shareholders representing at least one-twentieth of the Company's share capital may request that certain items be placed on the agenda of the next General Meeting. Any such request should be submitted to the Management Board at least 21 days prior to the scheduled date of the General Meeting of Shareholders. The request should include grounds for, or a draft resolution pertaining to, the proposed agenda item. The Management Board is obliged to promptly (and in any case no later than eighteen days prior to the scheduled date of the General Meeting) announce any changes to the agenda introduced at the request of shareholders.

A shareholder or shareholders representing at least one-twentieth of the Company's share capital may, prior to a General Meeting, provide the Company (in writing or by electronic means) with draft resolutions concerning the matters which have been or are to be included in the Meeting's agenda. The Company is required to promptly publish such draft resolutions on its website. During a General Meeting, each shareholder may submit draft resolutions concerning the items on the agenda.

The General Meeting is convened by way of a notice published on the Company's website and in the manner required for the publication of current information pursuant to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005. The notice should be published at least 26 days before the scheduled date of the General Meeting.

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

Resolutions of the General Meeting are passed with an absolute majority of the voting rights, unless statutory provisions or the Company's Articles of Association provide otherwise

The powers and responsibilities of the General Meeting include, without limitation:

- review and approval of the Directors' Report on the Company's operations and the financial statements for the previous financial year,
- decisions as to distribution of profit or coverage of loss,
- granting discharge to members of the Management Board and the Supervisory Board in respect of their performance of duties,

- decisions concerning claims for redress of any damage inflicted in connection with establishment of the Company or in connection with managing or supervising the Company,
- disposal or lease of the Company's business or its organised part and establishment of limited property rights thereon,
- amendments to the Company's Articles of Association,
- an increase or reduction of the share capital,
- merger, transformation or demerger of the Company;
- dissolution of the Company and opening of its liquidation,
- passing resolutions approving the Rules of Procedure of the General Meeting and the Rules of Procedure of the Supervisory Board,
- consideration and resolution of proposals put forward by the Supervisory Board,
- other matters reserved for the General Meeting under the provisions of the Articles of Association or the applicable laws,

Resolutions by the General Meeting concerning any material change to the Company's business profile do not require redemption of the opposing shareholders' shares, provided that they are adopted with a majority of two thirds of the total vote in the presence of persons representing no less than a half of the share capital.

5.6 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 any amendments to the Company's Articles of Association requires a majority of three-fourths of the total vote.

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.

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

The Group has in place an adequate and effective internal audit system in the form of an internal organisational unit, which ensures safe operation, compliant with applicable laws, adopted strategy and internal procedures. The audit and security system focuses on periodical inspections of the mechanisms in place in order to detect risks and irregularities. Audit reports are provided to the Management Board of the Company.

To eliminate risks related to the preparation of financial statements, the Group, on an annual basis, submits the financial statements, including subsidiaries' financial statements, to be audited by a charter auditor, takes stock of assets, and monitors on an on-going basis the performance of individual business areas against the targets and objectives assumed in financial plans.



6 OTHER INFORMATION

6.1 Court, administration and arbitration proceedings

General information

As part of the ordinary course of business, the Company and Subsidiaries are parties to court and enforcement proceedings concerning their operations. In 2013, the Company and Subsidiaries were plaintiffs or participants in 142,474 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 1,053,047,200.00. In 2013, upon motions filed by the Company and Subsidiaries, 280,983 enforcement proceedings were instigated, where the value of claims being enforced totalled approximately PLN 1,300,791,107.00. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and Subsidiaries.

In 2013, the Company and Subsidiaries were defendants in 24 court proceedings, where the total value of claims was approximately PLN 379,049.00. The Company and Subsidiaries believe the claims to be without merit and expect them to be dismissed. There are no proceedings pending against the Company or Subsidiaries where the value of claims would exceed 10% of the Company's equity.

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

Proceedings where the value of claims exceeds 10% of the Company's equity

There was one proceeding, initiated upon a motion filed by a subsidiary, where the value of litigation exceeded 10% of the Company's equity: bankruptcy proceedings concerning Pascal Construction Sp. z o.o. w upadłości (in bankruptcy). The value of claim was PLN 18,209,415.90, the proceedings were instigated on January 25th 2006, and the parties to the proceedings are PROKURA NSFIZ and Pascal Construction sp. z o.o. w upadłości (in bankruptcy). As part of the proceedings, the claim of PROKURA NSFIZ has been satisfied in part and PROKURA NSFIZ expects no further payments to be made.

Proceedings with the largest value of claims, below 10% of the Company's equity, concerning the Company's liabilities:

Among the proceedings concerning the Company's liabilities, where the value of claims did not exceed 10% of the Company's equity, proceedings with the largest value of the claim – PLN 50,000.00, were the proceedings against KRUK S.A. instigated by a natural person on June 28th 2013 for infringement of personal rights in the course of its operations. The Company expects the claim to be dismissed in its entirety.

Proceedings with the largest value of claims, below 10% of the Company's equity, concerning debts owed to the Company

Among the court proceedings concerning debts owed to the Company, where the value of claim did not exceed 10% of the Company's equity, proceedings with the largest value of the claim – PLN 12,803,192.55, were the bankruptcy proceedings concerning the Company's claims, pending against the NISCO INVEST SRL of Romania. The Company does not expect its claim to be further satisfied. In addition, a case against LETA S.A. was pending, where the value of PROKURA NSFIZ's claim was PLN 8,347,490.88. The Company does not expect its claims to be satisfied in the course of bankruptcy proceedings.

6.2 Auditors

On July 24th 2013, the Company and KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. executed an agreement for the audit of separate and consolidated financial statements for 2013 and review of separate and consolidated financial statements for H1 2013. The fee for auditing the annual separate financial statements of the Company, auditing the annual financial statements of subsidiaries, reviewing the annual financial statements of subsidiaries, and auditing the annual consolidated financial statements was set at PLN 574 thousand (2012: PLN 504 thousand); and the fee for other assurance services, including review of the semi-annual consolidated financial statements – at PLN 70 thousand (2012: PLN 155 thousand). The separate and consolidated financial statements for 2012 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

6.3 Major research and development achievements

Research and development work is focused on improving Delfin, an operating platform designed to support the credit management process. The platform comprises a number of systems tailored to the Group's specific needs and internal procedures, as well as to the needs of the Group's clients. In 2013, the strategy of building the platform supporting operating processes remained unchanged – the Company's internal resources continued the development of the platform, which resulted in the system's improved flexibility and scalability. The Company is also becoming increasingly open to the idea of outsourcing the implementation of solutions designed to support its back-office functions and key debt collection processes.

6.4 Environmental issues

Given the nature of the Company's business, there are no material environmental issues involved in its activities.

6.5 Performance of Company shares on the Warsaw Stock Exchange

Performance of KRUK stock on the Warsaw Stock Exchange in 2013

In 2013, the rate of return on the KRUK stock was 84%. In the same period, the broad market gauge WIG gained 7%, while mWIG40, an index of mid-cap companies where KRUK is included, rose 29%. From the beginning of 2013, the Company stock followed a growing trend, underpinned by good prospects for the debt management industry and optimistic forecasts by sell-side analysts, who anticipated an improvement in KRUK's financial performance in 2013. The Company stock price was also supported by an overall upturn on the Polish stock exchange, which grew on the back of low interest rate environments in Poland and globally.

The Company stock delivered the strongest growth in the second half of the year. In October, the stock exceeded its all-year high of PLN 73.5 recorded in September, and after a 20% rally peaked at PLN 88.5 at the close of the month. Following a slight correction in early November, the stock started to climb strongly again, and after the publication of the Company's third-quarter results, which beat analysts' forecasts, reached an

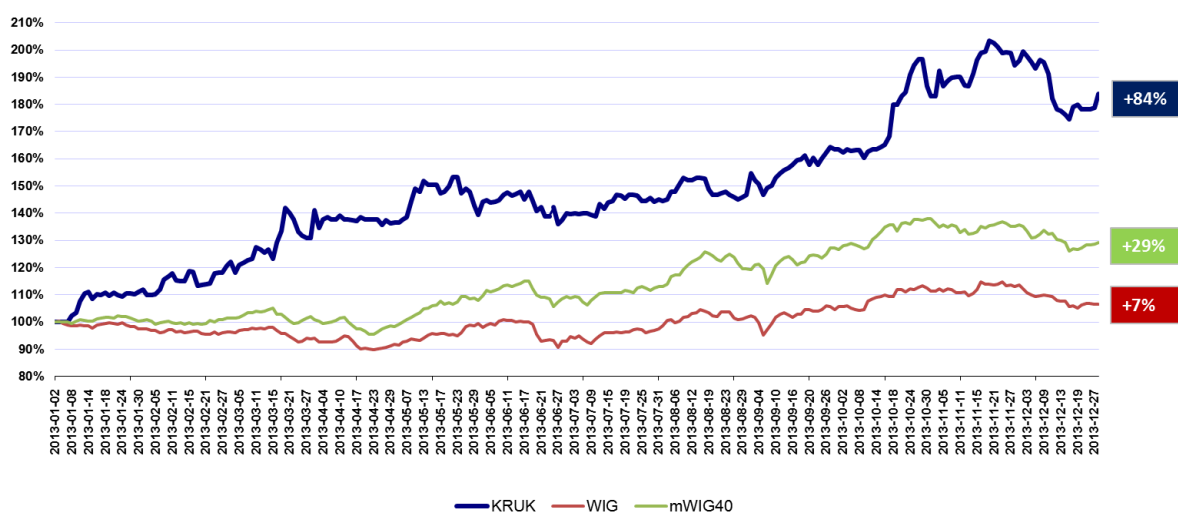
all-time high of PLN 91.6. In December, the Warsaw Stock Exchange saw huge losses, attributable mainly to the sell-out of liquid assets by open-ended pension funds (OFE) before the transfer (scheduled for late January) of portions of their investment portfolios to the Social Security Institution (ZUS). The correction, which affected companies across the board, was also reflected in the KRUK stock price, which dipped below PLN 80. The stock then consolidated all the way to the end of the year, to reach PLN 82.76 at the close of the last trading session in 2013.

Table 1. Rates of return on KRUK stock, WIG and mWIG40 in 2013

Date	KRUK	WIG	mWIG40
Jan 2 2013	45.00*	48,107.89*	2,588.67*
Dec 30 2013	82.76*	51,284.25*	3,345.28*
rate of return	83.9%	6.6%	29.2%

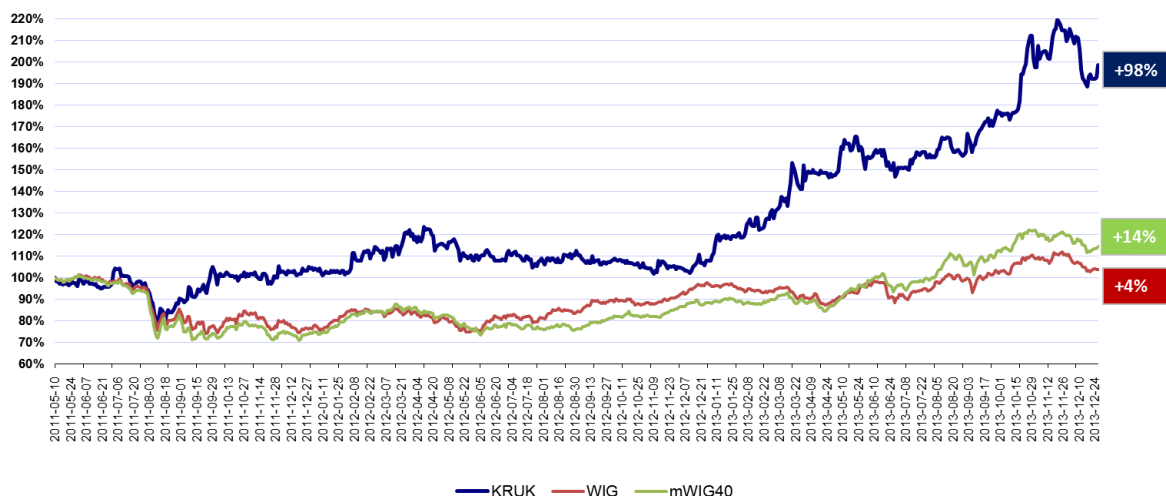
*Closing prices

Chart 1. KRUK stock price against WIG and mWIG40 throughout 2013



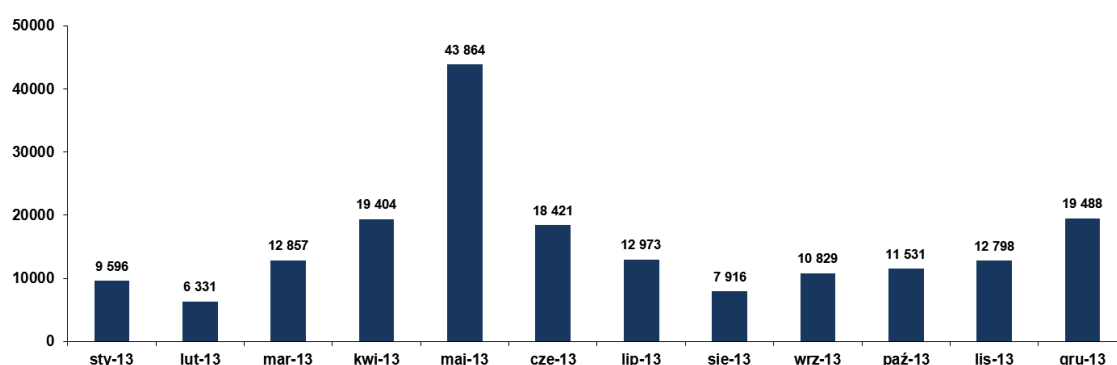
From the KRUK IPO at the Warsaw Stock Exchange in May 2011 until the end of 2013, the Company stock returned 98%. Over the same period, the WIG index, capturing the performance of the entire WSE market, gained 4%, and the mWIG40 index, presenting the trends in mid-cap stocks, yielded 14%.

Chart 2. Performance of KRUK stock against WIG and mWIG40 from the Company's IPO at the WSE in May 2011 until the end of 2013



The total volume of KRUK shares traded in 2013 was 3.7m, which represents 22.1% of the Company's share capital. The average number of KRUK shares traded daily was 15,024. The largest trading volumes were recorded in April and May, but trading in the Company stock was also above average in December. The trading volume rise seen in April was linked to the sale by Enterprise Investors of its entire holding in KRUK, i.e. 4,196,550 shares. Among other buyers, the shares were purchased by pension funds. The higher trading volume in May was attributable, among other things, to the sale of 400 thousand KRUK shares by the President of the Company's Management Board. This transaction by the Company's President was connected with his equity investment in a different financial sector company listed at the Warsaw Stock Exchange.

Chart 3. Average daily trading volume of KRUK shares in January–December 2013



6.6 CSR policy

As KRUK is not a production company, the overview presented below does not address any of the issues traditionally associated with corporate social responsibility, such as environmental protection. However, the

Company boasts certain socially relevant initiatives, both on a small scale (intended to benefit its employees) and with a wider reach (regional or – as in the case of support for financial education - nationwide).

Educational initiatives

The key message of the KRUK Group's educational initiatives is to make the public aware of the fact that indebtedness can happen to anybody. More often than not, individuals are faced with it unexpectedly, and it is important that they be able to cope. The project is also aimed at educating the Polish, Romanian, Czech and Slovak people on how to manage their household budgets and deal with financial problems, while giving them a general understanding of the financial market. Educational projects are undertaken by KRUK on its own or jointly with partners (consumer education associations and organisations) in all countries where the Group operates.

Articles, guidelines and advice

The KRUK Group regularly writes and distributes (to nationwide, local and thematic media) advice articles on the issue of indebtedness, which describe potential consequences of default and ways of dealing with debt. As part of such educational efforts, guides are also prepared containing tips and advice for the indebted. So far, the guidelines have been published in such dailies as Fakt and Super Express, as well as regional press and consumer magazines. They guides explained ways of dealing with indebtedness, steps to be taken after receiving a letter from a debt management firm, the best ways to reach an agreement with the creditor, and consequences of failure to repay debt. Responsible dealing with indebtedness has also been the subject of TV and radio programmes. KRUK has also authored the 'Dobry Plan' ('Good Plan') campaign, as part of which indebted persons could share their experiences and ways to getting out of debt and win attractive prizes.

"Debt-Free Day" and "Our Debts"

This event is to remind people living in the Group's home markets that solving debt repayment problems should not be postponed. 'Day without Debt' is held annually on November 17th in Poland and Romania and on November 15th in the Czech Republic and Slovakia. As part of the 'Our Debts' campaign, a dedicated website was launched by the Group with tips and advice for those facing problems with debt repayment (www.naszedlugi.pl). The site contains advice for debtors, provides tips on how to borrow responsibly, and presents results of research into the problem of debt. The website also provides a household budget calculator, which helps to calculate monthly spending and estimate whether we can afford to borrow more, while showing where to find extra money to pay off debts.

Active support for voluntary blood donation

For several years now, the Group has partnered with the Regional Centre for Blood Donation and Haemotherapy (RCKiK) in Wrocław and Wałbrzych. In partnership with those institutions, KRUK organises regular blood donor sessions among its employees. KRUK also supports public blood donor sessions coordinated by the Centre, such as 'Wrocławska akcja KREW' ('Wrocław's BLOOD Campaign'). For the past two years, the Company has also supported the 'Wampiriada' ('Vampire Feast') Student Association.

Organisation of free first aid courses for employees

KRUK regularly provides its staff with first aid training. In partnership with the Medical Rescue Centre, practical training courses are regularly held, along with demonstrations of modern emergency medical rescue and first aid techniques. Thus the KRUK Group employees had an opportunity to learn various methods of administering first aid in accordance with the latest guidelines of the European Resuscitation Council. As part of several professional training rounds, a few dozen participants have undergone a two-day training course followed by an exam, and received a certificate confirming completion of the course.

Purchase and installation of life-saving defibrillators at the Company's offices

At its offices in Wrocław and Szczawno-Zdrój, KRUK has placed three defibrillators, which can save life before an ambulance arrives. Our employees have been trained in how to use the equipment. KRUK was among the first companies in Poland to join the project designed to place AEDs in areas with high human traffic, such as office buildings or retail centres.

Encouraging and supporting employees to engage in charitable campaigns

Employees of the KRUK Group, including the Company's employees, have also been undertaking charitable activities on their own. The Company supports its employees in the organisation and technical implementation of the undertaken projects.

In H1 2013, the Group also decided to deepen its involvement in CSR activities, becoming the main sponsor of 'Bieg Firmowy' ('Corporate Run'), a 4 x 4 km relay race. Income from the event was donated to finance a surgery of a young girl named Alicja.

In 2013, KRUK joined the signatories of the Diversity Charter, an international initiative promoted by the European Commission and implemented in EU countries including Poland, France, Spain, Italy, Austria, Germany, Sweden, Belgium, Ireland, Finland, Estonia and Luxembourg. The Diversity Charter is a written commitment by an organisation to ban discrimination in the workplace and work towards creating and fostering diversity. It also expresses a company's willingness to involve all its employees and social partners in these activities. By implementing this tool, an organisation commits to work towards social cohesion and equality.

As an undisputed leader of the debt management market, the KRUK Group is obliged to constantly improve the quality of its processes and client service, in particular with respect to debtors. The effects of those efforts have been noted by independent award panels, as evidenced by a number of awards and distinctions received by the Company. In 2013, KRUK was awarded the following distinctions:

- Second place in the European Small and Mid-Cap Awards 2013 competition, in the Most Internationally Minded Newcomer category. This award is held on the initiative of the European Commission, leading European stock exchanges and European Issuers to encourage small and medium-sized companies to enter capital markets through IPOs.

- The White List - Gold Certificate A certificate awarded in recognition of the Company's inclusion in the Wrocław Commercial Chamber's White List for eight years.
- Dynamic Company 2013. A distinction awarded by Bisnode Polska to the most dynamic business on the Polish market.
- Business Sharks 2013. A distinction awarded by the 'Rynek Kapitałowy' economic magazine for leading the market and setting directions in the ocean of business.

KRUK S.A.'s President, Mr Piotr Krupa, was ranked among the 25 best managers in finance. A distinction in the ranking put together by the 'Home & Market' economic magazine, awarded in recognition of continuous efforts to observe ethical norms, values and standards relevant to the debt management sector.

6.7 Glossary of terms

B2B	Business-to-Business relations
B2C	Business-to-Consumer relations
Auditor	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., ul. Chłodna 51, 00-867 Warsaw, the Company's auditor
EUR	The lawful currency of the Eurozone countries
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
GUS	Polish Central Statistics Office
IBnGR	The Gdańsk Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową)
RAVEN Law Firm	Kancelaria Prawna RAVEN Krupa & Stańko sp. k. of Wrocław
Polish NDS	Polish National Depository for Securities (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 s.r.o.	KRUk Česká a Slovenská republika s.r.o. of Prague, the Czech Republic
KRUk România	KRUk România s.r.l of Bucharest, Romania
ERIF Business Solutions	ERIF Business Solutions Sp. z o.o. of Wrocław
IAS	International Accounting Standards as endorsed by the European Union
IFRS	International Financial Reporting Standards as endorsed by the European Union
NBP	National Bank of Poland
Non-Standard Securitisation Closed-End Investment Funds	Prokura NS FIZ, Prokulus NS FIZ
GDP	Gross Domestic Product
PLN	The Polish złoty, the lawful currency in Poland
UOKiK President	President of the Office of Competition and Consumer Protection

Incentive Scheme	An incentive scheme for 2011-2014 implemented by the Company, addressed to the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of management boards and employees of the Subsidiaries, under which up to 845,016 registered subscription warrants will be issued, conferring the right to subscribe for a total of 845,016 ordinary bearer shares issued as part of a conditional share capital increase.
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
Monetary Policy Council (RPP)	The Monetary Policy Council, a body of the National Bank of Poland
ERIF	Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. of Warsaw
RON	The Romanian leu; the lawful currency in Romania
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)
Regulation on the Market and Issuers	The Polish Minister of Finance's Regulation on detailed conditions to be met by an official stock exchange market and issuers of securities admitted to trading on that market, dated October 14th 2005 (Dz.U. of 2005, No. 206, item 1712)
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 2013, prepared in accordance with the IFRS
The Company; KRUK; the Issuer	KRUK S.A. of Wrocław
Subsidiaries	The Company's subsidiaries, as defined in the Polish Accountancy Act, and Kancelaria Prawna RAVEN
Articles of Association	The Company's Articles of Association
Eurozone	The group of countries which have adopted the euro, including Austria, Belgium, Cyprus, Finland, France, Greece, Spain, Netherlands, Ireland, Luxembourg, Malta, Germany, Portugal, Slovakia, Slovenia, Italy and Estonia
UOKiK	The Polish Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
General Meeting	The Company's General Meeting
Management Board	The Company's Management Board

SIGNATURES OF MANAGEMENT BOARD MEMBERS

The KRUK Group Directors' Report 2013 is submitted by the Company's Management Board composed of:

Piotr Krupa

President of the Board



Urszula Okarma

Member of the Board



Agnieszka Kułton

Member of the Board



Iwona Słomska

Member of the Board



Michał Zasępa

Member of the Board



Wrocław, March 03 2014

The background of the top half of the page is a vintage-style map of Europe and Africa, rendered in sepia tones. A leather-textured label with a dashed border is positioned in the upper center. The map features a grid of latitude and longitude lines, with degree markings visible along the top, bottom, and left edges.

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KRUK S.A.

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