

KRUK S.A. Directors' Report
on operations of **KRUK S.A.**
in 2014

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1 OVERVIEW OF THE COMPANY

1.1 General information about the Company

Form of incorporation of the Parent

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

The Company was established in 1998 as KRUK Spółka z ograniczoną odpowiedzialnością. Pursuant to a resolution of the Extraordinary General Meeting of June 28th 2005, KRUK Sp. z o.o. (limited liability company) was transformed into KRUK S.A. (joint-stock company) and on September 7th 2005 the transformed company was entered in the National Court Register – 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.

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

Contact details

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

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 Directors' 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 2014.

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 the Group's

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.

1.3 Financial highlights for 2014

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 2014, the Company's total headcount was 1,278 staff (vs. 1,170 at the end of 2013). The table below presents selected data and financial highlights for 2014, with comparative data for 2013.

Table 1. The Company's financial performance in 2013–2014

	Period ended Dec 31		
	2014	2013	Change
	(PLN '000, unless stated otherwise)		
Revenue	98,838	102,837	-4%
EBITDA	-40,712	-22,363	82%
Operating profit (EBIT)	-48,318	-29,626	63%
Net finance income	360,255	47,387	660%
Net profit for the period	311,382	17,751	1 654%
Cash flows from operating activities	-24,812	-23,529	5%
Cash flows from investing activities	-40,797	5,516	-840%
Cash flows from financing activities:	84,490	13,091	545%
Total net cash flows	18,881	-4,922	
 Total assets	 1,287,526	 842,706	 53%
Equity	464,878	139,508	233%

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 2014, KRUK focused primarily on the Polish market. The Company was also involved in debt portfolio purchases in România. During the year, KRUK operated in the debt purchase segment of the Polish and Romanian markets and provided credit management services in Poland, 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 Directors’ 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 Directors’ Report on the Operations of the KRUK Group in 2014.

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.

On December 30th 2014, the General Meeting of Investors in Prokulus NS FIZ passed a resolution to dissolve the fund and commence its liquidation.

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.

On December 25th 2014, the Act on Consumer Rights of May 30th 2014 became effective, whereby consumers' rights were extended and additional disclosure obligations for businesses were introduced. KRUK S.A. has brought its operations into compliance with the act.

The amended Bankruptcy and Restructuring Law of August 29th 2014, effective as of January 1st 2015, improved the availability of consumer bankruptcy mechanisms for debtors. KRUK S.A. has brought its operations into compliance with the amended act. However, as at the date of this report, the act's effect on the Group's operations cannot be reliably quantified.

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

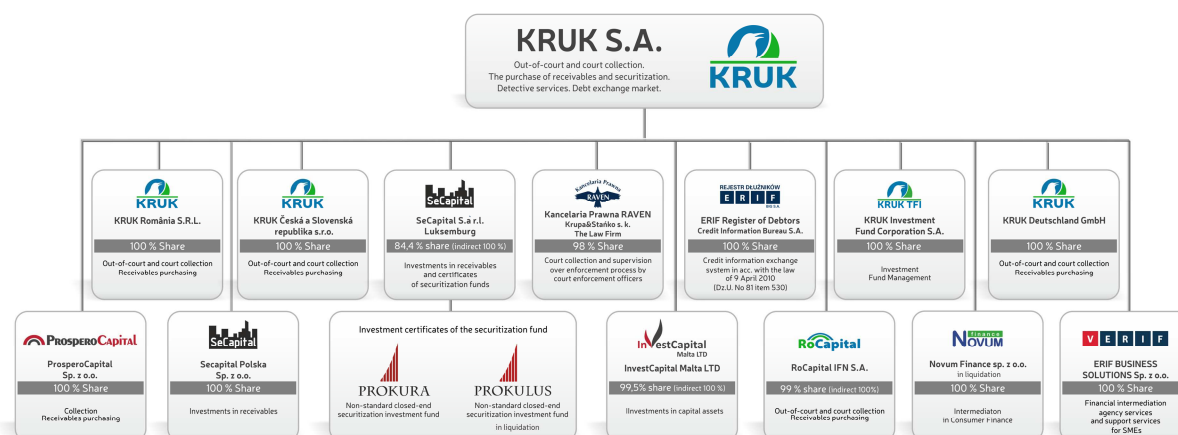
3.1 Company's business and branches

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.

3.2 Organisational structure

The structure of the KRUK Group as at December 31st 2014 and KRUK S.A.'s ownership interests in subsidiaries are shown in Figure 1.

Figure 1. Structure of the KRUK Group



Source: the Company.

As at December 31st 2014, the Group comprised KRUK S.A. (the Parent) and fifteen subsidiaries. For more information on the subsidiaries, see Table 2.

Table 2. KRUK S.A. subsidiaries

Subsidiary	Registered office	Principal business activity
Kancelaria Prawna RAVEN Krupa & Stańko Sp. k.	Wrocław	Comprehensive support for litigation and enforcement proceedings as part of debt collection processes carried out by the KRUK Group and its partners
Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.	Warsaw	Collection, processing and provision of credit information on natural persons and businesses
KRUK România SRL	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
Secapital S.a.r.l	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets
Prokura NS FIZ securitisation fund	N/A	Securitisation and investment vehicles which employ

Prokulus NS FIZ securitisation fund (in liquidation)		professional risk assessment and credit management methodologies All certificates issued by the securitisation funds are held by Secapital S.à.r.l.
Secapital Polska Sp. z o.o.	Wrocław	Management of securitised debt
ERIF Business Solutions Sp. z o.o.	Wrocław	Financial and agency services and support for small and medium-sized enterprises
NOVUM FINANCE Sp. z o.o. (in liquidation)	Wrocław	<i>In liquidation</i>
KRUK Česká a Slovenská republika s.r.o.	Hradec Králové	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Towarzystwo Funduszy Inwestycyjnych S.A.	Wrocław	Management of Prokura and Prokulus funds
InvestCapital Malta Ltd.	Malta	Investment in equity assets, including shares in KRUK Group companies
RoCapital IFN S.A.	Bucharest	Purchase and management of mortgage-backed portfolios and lending activities
ProsperoCapital Sp. z o.o.	Wrocław	Financial services, including debt management and trading
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services

Source: the Company.

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

From the end of the reporting period to the date of approval of this report for issue, 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

Changes in the Group's structure in 2014 and in 2015 by the date of this report are presented below.

NOVUM Finance Sp. z o.o.

Following the transfer of lending activities from Novum Finance Sp. z o.o. of Wrocław to KRUK S.A. in 2013, on March 17th 2014 the Extraordinary General Meeting of Novum Finance Sp. z o.o. passed a resolution to dissolve the company by liquidation. Michał Zasępa, President of the Management Board of Novum Finance Sp. z o.o. w likwidacji (in liquidation), was appointed the company's liquidator. Under a decision dated March 31st 2014, the District Court for Wrocław-Fabryczna of Wrocław, 6th Commercial Division of the National Court Register entered the changes referred to above into the register.

ROCAPITAL IFN S.A.

On April 11th 2014, ROCAPITAL IFN S.A. of Bucharest, România, was registered in România as a subsidiary of KRUK S.A. It is an operating company whose principal business activities consist in purchasing and servicing mortgage-backed debt portfolios. The company's share capital is RON 15m (PLN 14m, translated at the exchange rate quoted by the National Bank of Poland for the date of the company's registration), and is divided into 15,000 shares with a par value of RON 1,000 per share. KRUK S.A. holds 99% of the company's share capital, with the remaining 1% held by KRUK ROMÂNIA SRL of Bucharest, România, a subsidiary of KRUK S.A.

KRUK Česká a Slovenská republika s.r.o.

On May 19th 2014, change of registered office of KRUK Česká a Slovenská republika s.r.o. was registered. Following the change, the company has its registered office in Hradec Králové, the Czech Republic.

ProsperoCapital Sp. z o.o.

The company was incorporated on May 29th 2014. The company's principal business activity comprises other financial service activities n.e.c., including trade in receivables and debt collection, except insurance and pension funding. KRUK S.A. holds 100% of shares in the company's share capital.

KRUK Deutschland GmbH

On August 19th 2014, the articles of association of KRUK Deutschland GmbH of Berlin were executed. The company's principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Germany and other European countries, as well as debt trading. KRUK S.A. holds 100% of shares in the company's share capital. On November 3rd 2014, the Management Board of KRUK Deutschland GmbH passed a resolution to establish the company's Polish branch, i.e. KRUK Deutschland GmbH Branch in Poland.

KRUK International Z.r.t.

On September 15th 2014, the process of liquidation of KRUK International Z.r.t. of Budapest, Hungary, a subsidiary of KRUK S.A., was completed.

Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus Non-standard securitisation closed-end investment fund)

On December 30th 2014, the General Meeting of Investors in the PROKULUS Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty of Wrocław (the Fund) passed a resolution approving the Fund's dissolution. All assets held by the Fund, i.e. debt with a nominal value of PLN 14.4m, were transferred to the Issuer's subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty of Wrocław.

PROKURA NS FIZ Fund Investment Certificates

In 2014, investment certificates were allotted and redeemed, which resulted in changes to the register of Certificate Holders of the PROKURA NS FIZ fund. As at the end of 2014, the total number of PROKURA Investment Certificates was 65,202,830 (2013: 56,886,542). All certificates are held by SeCapital S.à.r.l.

On April 4th 2014, part of investment certificates issued by PROKURA NS FIZ were redeemed. The redemption covered 356,432 Series H investment certificates with a value of PLN 12.59 per certificate, 2,710,000 Series I investment certificates with a value of PLN 12.59 per certificate, and 102,749 Series L investment certificates with a value of PLN 12.59 per certificate. All redeemed certificates had been held by Secapital S.à.r.l. of Luxembourg, the Company's subsidiary.

On April 11th 2014, PROKURA NS FIZ issued 3,169,181 Series AC investment certificates with a value of PLN 12.59 per certificate. All of the certificates issued by PROKURA NS FIZ are held by Secapital S.à.r.l. of Luxembourg.

On April 18th 2014, part of investment certificates issued by PROKURA NS FIZ were redeemed (3,216,560 Series L investment certificates with a value of PLN 12.56 per certificate). All

redeemed certificates had been held by Secapital S.à.r.l. of Luxembourg, the Company's subsidiary.

On April 25th 2014, PROKURA NS FIZ issued 2,468,150 Series AD investment certificates with a value of PLN 12.56 per certificate. All of the certificates issued by PROKURA NS FIZ are held by Secapital S.à.r.l. of Luxembourg.

On May 9th 2014, part of investment certificates issued by PROKURA NS FIZ were redeemed (3,163,664 Series L investment certificates with a value of PLN 12.77 per certificate). All redeemed certificates had been held by Secapital S.à.r.l. of Luxembourg, the Company's subsidiary.

On June 24th 2014, SECAPITAL S.à.r.l., a subsidiary of KRUK S.A., acquired FIZ PROKURA Investment Certificates by way of allotment. FIZ PROKURA issued 21,705,238 investment certificates with a value of PLN 12.79 per certificate and an aggregate value of PLN 277,609,994.02. All certificates were acquired by SECAPITAL for PLN 277,609,994.02.

In line with the confirmation concerning allotment of registered, non-public Series AR investment certificates of December 17th 2014, SECAPITAL S.à.r.l. of Luxembourg, the Company's subsidiary, acquired Investment Certificates in PROKURA Niestandardowy Fundusz Inwestycyjny Zamknięty (PROKURA NSFIZ, the Fund) on December 17th 2014. PROKURA NSFIZ issued 3,429,603 investment certificates with a value of PLN 13.85 per certificate, and an aggregate value of PLN 47.5m. All certificates were acquired by SECAPITAL for PLN 47.5m.

Changes in the share capital of SeCapital S.à.r.l.

In 2014, SeCapital S.à.r.l. increased and reduced its share capital. As a result, as at the end of 2014, the company's share capital was PLN 990,975,000 (2013: PLN 632,572,000).

On September 18th 2014, the share capital of SECAPITAL S.à.r.l., KRUK's subsidiary, was increased from PLN 642,708,000 to PLN 879,099,000, through an issue of 236,391 new shares with a par value of PLN 1,000 per share, and a total par value of PLN 236,391,000. All new shares were acquired by KRUK S.A. Following the share capital increase, KRUK S.A. holds directly 839,799 shares with a par value of PLN 1,000 per share, and a total par value of PLN 839,799,000, while the total number of shares held by KRUK S.A. both directly and indirectly is 879,099, with a total par value of PLN 879,099,000. For more information, see Current Report No. 30/2014 of June 18th 2014.

On November 20th 2014, the share capital of SECAPITAL S.à.r.l., KRUK's subsidiary, was increased from PLN 855,793,000 to PLN 946,702,000 through an issue of 90,909 new shares with a par value of PLN 1,000 per share, and a total par value of PLN 90,909,000. All new shares were acquired by KRUK S.A. For more information, see Current Report No. 59/2014 of November 20th 2014.

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

In 2014, 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 2014 and as at the date of this report, the share capital of the Company was PLN 17,110,682 and was divided into 17,110,682 shares with a par value of PLN 1.00 per share.

Table 3. Structure of the Company's share capital as at December 31st 2014

Series	Number of bearer shares
Series A	2,692,220
Series AA	11,366,600
Series B	1,250,000
Series C	491,520
Series D	1,100,000
Series E	210,342
TOTAL	17,110,682

Source: the Company.

3.5.2. Change in the share capital and conditional share capital

Changes in the share capital of KRUK S.A. in 2014

On March 6th 2014, the court registered an increase in the Company's share capital by PLN 30,859. The increase was made as part of the conditional share capital increase through an issue of 30,859 Series E shares with a par value of PLN 1.00 per share, on the basis of Resolution No. 1 by the Company's Extraordinary General Meeting. The entry of the share capital increase in the National Court Register is of declaratory nature. The share capital was increased upon the registration of Series E shares in the investors' securities accounts on December 16th 2013, which is the date of their registration in the Polish National Depository for Securities. The issue of E Series shares was related to the exercise of rights attached to Series A subscription warrants by eligible persons. Series A warrants were issued as part of the incentive addressed to key management members at KRUK S.A. and the Group's companies. For more information, see Current Report No. 7/2014 of March 6th 2014.

On July 10th and December 1st 2014, the Polish NDS registered, respectively, 64,501 and 87,086 Series E Company shares 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 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 is PLN 17,110,682 and comprises 17,110,682 shares. For more information, see respectively Current Report No. 36/2014 of July 9th 2014 and No. 61/2014 of November 28th 2014.

The Series E shares were recorded in the National Court Register on September 1st 2014 – 64,501 shares, and on January 16th 2015 – 87,086 shares. For more information, see respectively Current Report No. 44/2014 of September 2nd 2014 and No. 3/2015 of January 16th 2015.

Changes in the conditional share capital of KRUK S.A. in 2014

On May 28th 2014, the Annual General Meeting of KRUK passed Resolution No. 26/2014 on setting the rules of an incentive scheme for the years 2015-2019, conditional increase in the Company's share capital and issue of subscription warrants with the Company existing shareholders' pre-emptive rights disapplying in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association. For the purposes of the 2015-2019 Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950.00, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series F shares to holders of subscription warrants that will be issued under the 2015-2019 Scheme. On July 8th 2014, the District Court for Wrocław-Fabryczna of Wrocław, 6th Commercial Division of the National Court Register, registered the amendments to the Company's Articles of Association concerning the conditional share capital increase. The Company's share capital was conditionally increased by up to PLN 847,950 by way of an issue of up to 847,950 Series F ordinary bearer shares with a par value of PLN 1 (one złoty) per share. As a consequence of the changes, the aggregate nominal value of the conditional share capital increase is PLN 1,692,966.00.

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 2014.

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 members 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 offers 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 and 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 collection 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, a proprietary debt management system used by the Company, enables it to both manage entire groups of cases and process each case in an individualised manner.

Field consultants

As part of the collection process, a field consultant may visit a debtor or detective activities may be performed 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, and 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 property amicably on the market, or the mortgaged property 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 one of the few web services on the market designed to help debtors clear their debts. Through e-KRUK, debtors may access information on their debt and take steps to solve their 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. Consumer loans of up to PLN 7,500 are granted for periods from 3 to 24 months. The lending service is also intended to diversify the Group's revenue sources. Revenue from the Novum business line reported by the Group in 2014 was PLN 7.3m, up 57% year on year, as the Group advanced more than 8 thousand Novum cash loans with a net value of PLN 20.7m.

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

On April 11th 2014, ROCAPITAL IFN S.A. of Bucharest, România, was registered in România. It is an operating company whose principal business activities consist in purchasing and servicing mortgage-backed debt portfolios. KRUK S.A. holds 99% of the company's share capital, with the remaining 1% held by KRUK România SRL of Bucharest, România, a subsidiary of KRUK S.A.

ProsperoCapital Sp. z o.o. of Wrocław, another subsidiary of KRUK S.A., was registered on July 4th 2014. The company's principal business activity comprises other financial service activities n.e.c., including trade in receivables and debt collection, except insurance and pension funding. KRUK S.A. holds 100% of shares in the company's share capital.

On August 19th 2014, the articles of association of KRUK Deutschland GmbH of Berlin were executed. The company's principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Germany and other European countries, as well as debt trading. KRUK S.A. holds 100% of shares in the company's share capital.

On September 15th 2014, the process of liquidation of KRUK International Z.r.t. of Budapest, Hungary, a subsidiary of KRUK S.A., was completed.

In 2014, the Company cancelled loans granted during the year to its subsidiary KRUK România SRL (PLN 20,405 thousand plus interest). The amount was recognised as an increase in the equity interest held in the subsidiary.

In 2014, the Company recognised an impairment loss on shares in KRUK România SRL of PLN 20,405 thousand.

In 2014, the Company cancelled loans granted to its subsidiary KRUK Česká a Slovenská republika s.r.o. (PLN 14,092 thousand plus interest). The amount was recognised as an increase in the equity interest held in the subsidiary.

In 2014, the Company recognised an impairment loss on shares in KRUK Česká a Slovenská republika s.r.o. of PLN 32,123 thousand.

3.8 Non-recurring factors and events

In 2014, the Group's business was not affected by any non-recurring factors or events.

3.9 Material events after December 31st 2014

In the period from January 1st 2015 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 16th 2015, the Company was notified that on January 16th 2015 the District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, registered an increase of PLN 87,086 in the share capital of KRUK S.A., effected through the issue of Series E shares. The share capital was increased as part of a conditional share capital increase through the issue of 87,086 Series E shares with a par value of PLN 1.00 per share, pursuant to Resolution No. 1 of the Extraordinary General Meeting of KRUK S.A., dated March 30th 2011. The issue of E Series shares was related to the exercise of rights attached to Series A subscription warrants by eligible persons. Series A warrants were issued as part of the incentive addressed to key management members at KRUK S.A. and the Group's companies.

3.10 Executed agreements

3.10.1. Material agreements

This section lists material agreements executed by KRUK S.A. in 2014. Agreements concluded by other Group companies are presented in detail in the Directors' Report on the operations of the KRUK Group.

Loan agreement of March 10th 2014 between KRUK S.A. and InvestCapital Malta Ltd.

On March 10th 2014, KRUK S.A. executed a loan agreement with its subsidiary, InvestCapital Malta Ltd. The subject matter of the agreement was the loan advanced by KRUK S.A. to InvestCapital for InvestCapital's liabilities owed to KRUK S.A., arising from the sale of a part of SeCapital S.à.r.l. The loan was granted for a period from March 10th 2014 to March 4th 2015. The amount of the loan is PLN 59m. The loan bears interest at a fixed rate set on arms' length basis. The Company announced the execution of the agreement in Current Report No. 8/2014 of March 10th 2014.

On 4th March 2015, an annex was signed which changed: the date of repayment to March 3rd 2016 and interest rate which will be floating and based on 3M WIBOR plus a margin set according to current market conditions.

Agreement of December 29th 2014 between KRUK S.A. and InvestCapital Malta Ltd. on sale of shares in Secapital s.a r.l.

On December 29th 2014, KRUK S.A. and InvestCapital Malta Ltd. ('InvestCapital') entered into an agreement ('the Agreement') providing for the sale of shares in SeCapital s.a r.l. ('Secapital'). The Agreement provided for the sale of 114,977 Class F shares in Secapital with a par value of PLN 1,000 per share, representing 11.6% of the share capital of Secapital (the 'Shares'), for the total amount of PLN 149m. The carrying amount of the Shares in KRUK S.A.'s accounting books was PLN 1,100 per share, i.e. a total of PLN 126m, while the carrying amount in InvestCapital's accounting books was PLN 1,300 per share, i.e. a total of PLN 149m. The Shares were not encumbered by any third party rights. The Company announced the execution of the agreement in Current Report No. 72/2014 of December 29th 2014.

Agreement of December 30th 2014 between KRUK S.A. and KRUK Česká a Slovenská republika s.r.o.

On December 30th 2014, KRUK S.A. and KRUK Česká a Slovenská republika s.r.o. ('the Company'), a subsidiary of KRUK S.A., executed agreements as a result of which the total value of agreements executed between KRUK Česká a Slovenská republika and other companies of the KRUK Group ('the Group') over the past 12 months reached PLN 55m, and thus exceeded the value of 10% of the Group's revenue. The highest-value agreement executed in the period was an agreement of December 30th 2014 providing for the set-off of mutual claims of CZK 102m in order to make an additional contribution to KRUK Česká a Slovenská republika's equity components other than the share capital. The value of the claims translated at the mid exchange rate quoted by the National Bank of Poland for December 30th 2014 was PLN 16m. The Company reported on the agreements in Current Report No. 73/2014 of December 30th 2014.

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

Agreement with Getin Noble Bank S.A.

As the Company announced in Current Report No. 10/2014 dated March 31st 2014, on March 31st 2014 the Company (the Borrower) concluded with Getin Noble Bank S.A. (the Bank) a revolving credit facility agreement (the Credit Facility Agreement), whereby the Bank granted

the Borrower a credit facility of up to PLN 260m (the Credit Facility), to be used solely for refinancing or financing of up to 100% of the acquisition price of debt portfolios purchased in Poland or abroad by the Borrower or KRUK Group companies. The term of the facility is ten years, from May 2nd 2014 to May 1st 2024 (final repayment date). The Credit Facility amount will be PLN 260m from May 2nd 2014 to May 1st 2021, PLN 195m from May 2nd 2021 to May 1st 2022, PLN 130m from May 2nd 2022 to May 1st 2023, and PLN 65m from May 2nd 2023 to May 1st 2024. The Credit Facility's interest rate was set on an arms' length basis, at 1M WIBOR rate plus bank margin. The repayment of the Bank's receivables under the Credit Facility Agreement is secured with:

- a financial pledge under Luxembourg law over the equity interests held by the Borrower or other KRUK Group companies in Secapital S.à.r.l.;
- a power of attorney to the Borrower's bank accounts held with the Bank;
- pledges under Polish or other law over the debt portfolios or Fund investment certificates of Non-Standard Securitisation Closed-End Investment Funds being the Company's subsidiaries, held by the Borrower or KRUK Group Companies, or over the equity interests held by KRUK Group Companies or the Borrower in KRUK Group Companies;
- mortgage under Polish law or security under law other than Polish law over properties owned by the Borrower and KRUK Group Companies.

As at December 31st 2014, the Bank's claims under the Credit Facility Agreement were secured with:

- a power of attorney to the Borrower's accounts held with the Bank;
- a financial pledge under Luxembourg law over the equity interests held by the Borrower in Secapital S.à.r.l. (as announced by the Company in Current Report No. 43/2014 of August 22nd 2014).

The financial pledge under Luxembourg law over the equity interests held by the Borrower in Secapital S.à.r.l. secures the Bank's claims under the Credit Facility Agreement, that is the principal amount of the facility and related claims. As at December 31st 2014, the pledge covered over 246,047 Class G shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 270,651,700.00. The pledge will remain in full force and effect until the Credit Facility (the principal amount together with any related interest, fees, commissions, and expenses (if any)) is fully repaid.

The Credit Facility Agreement does not provide for any contractual penalties to be imposed on the Borrower other than interest on overdue debt. However, pursuant to the Credit Facility Agreement, contractual penalties may be imposed on the Bank if the Bank unjustifiably withholds the Borrower's right to draw further funds under the Credit Facility or part of the Credit Facility, terminates the Credit Facility Agreement in whole or in part, or reduces the Credit Facility amount by any unused portion of the Credit Facility, or if the Borrower

terminates the Credit Facility Agreement due to the Bank's breach of the Credit Facility Agreement.

The other provisions of the Credit Facility Agreement, including in particular the provisions relating to disbursement of the facility, default interest and withdrawal from or termination of the Credit Facility Agreement, do not differ from standard provisions used in agreements of such type. The Credit Facility Agreement stipulates no conditions precedent or subsequent.

Agreement with BNP Paribas Bank Polska S.A.

On October 3rd 2014, the Company (the 'Borrower') concluded with BNP Paribas Polska S.A. (the 'Bank') a revolving credit facility agreement (the Credit Facility Agreement), whereby the Bank granted the Borrower a credit facility of up to PLN 30m (the 'Credit Facility'), to be used for financing or refinancing of up to 80% of the acquisition price of debt portfolios purchased in Poland or România by the Borrower or its subsidiaries: Secapital S.à.r.l. and the Non-Standard Securitisation Closed-End Investment Funds (the Funds). The Credit Facility, granted for the period from December 1st 2014 to October 3rd 2019 (final repayment date), will be repaid in quarterly instalments. The Credit Facility's interest rate was set on an arms' length basis, at 3M WIBOR rate plus bank margin.

The repayment of the Bank's receivables under the Credit Facility Agreement is secured with:

- a registered pledge over debt portfolios purchased by the Borrower and financed or refinanced with funds drawn under the Credit Facility granted under the Credit Facility Agreement;
- a financial pledge under Luxembourg law over shares in Secapital S.à.r.l. compartment, where Secapital S.à.r.l. or the Funds use financing or refinancing purchases of debt portfolios;
- a power of attorney to the Borrower's accounts held with the Bank;

As at December 31st 2014, the Bank's claims under the Credit Facility Agreement were secured with a power of attorney to the Borrower's accounts held with the Bank.

The other provisions of the Credit Facility Agreement, including in particular the provisions relating to disbursement of the facility, default interest and withdrawal from or termination of the Credit Facility Agreement, do not differ from standard provisions used in agreements of such type. The Credit Facility Agreement stipulates no conditions precedent or subsequent.

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

On October 28th 2014 (as announced by the Company in Current Report No. 52/2014 of October 28th 2014), an annex was signed to the trilateral agreement on a revolving credit facility, as amended, concluded by the Company and its subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ('PROKURA NS FIZ',

the 'Borrower') with Bank Zachodni WBK S.A. (the 'Bank') ('PROKURA Agreement'). Under the annex, the availability end dates and the final repayment dates were changed for the individual limits made available under the revolving credit facility of up to PLN 70m and currently:

- for the credit limit in the facility account of up to PLN 31.5m, the availability end date and the final repayment date is October 31st 2019;
- for the credit limit in the facility account for up to PLN 8.5m, the availability end date and the final repayment date is October 31st 2017;
- for the additional credit limit in the facility account for up to PLN 30m, the availability end date and the final repayment date is October 31st 2015.

In connection with the annex to the PROKURA Agreement, on October 28th 2014 the Company concluded with Bank Zachodni WBK S.A. a surety agreement (the Surety Agreement) covering the liabilities of PROKURA towards the Bank under the PROKURA Agreement, subject to the provisions of the annex, thus becoming a joint and several debtor in respect of the liabilities. The Surety Agreement is described in detail in Section 4.9.4.5.

On October 28th 2014 (as announced by the Company in Current Report No. 52/2014 of October 28th 2014), the Company (the 'Borrower') concluded with Bank Zachodni WBK S.A. an annex to the revolving credit facility agreement of April 8th 2011, as amended (the 'Credit Facility Agreement'). Under the annex:

- for the credit limit in the facility account of up to PLN 31.5m, the availability end date and the final repayment date is October 31st 2019;
- for the credit limit in the facility account for up to PLN 8.5m, the availability end date and the final repayment date is October 31st 2017;
- for the additional credit facility in the facility account for up to PLN 30m, the availability end date and the final repayment date is October 31st 2015.

The annex also stipulates that the Borrower may use the Credit Facility for up to PLN 70m (or its euro equivalent) to refinance or finance debt portfolio purchases in Poland, România, the Czech Republic, Slovakia and Germany.

The annexes also changed the type of pledge securing the Bank's claims under the PROKURA Agreement and the Credit Facility Agreement: the registered pledge under Polish law (revealed by current report no. 28/2014) was removed and the first-ranking pledge under Luxembourg law over KRUK S.A.'s shareholding in Secapital S.à.r.l. of Luxembourg was retained.

All other provisions of the PROKURA Agreement and the Credit Facility Agreement, including in particular the provisions relating to the disbursement of the facilities, default interest and withdrawal from or termination of the Agreements, remained unchanged.

In connection with these annexes to the PROKURA Agreement and the Credit Facility Agreement, on October 28th 2014 the Company, the Bank and Secapital S.à.r.l. executed

annexes to the agreements on establishing pledges over the Company's assets (as announced by the Company in Current Report No. 53/2014 of October 28th 2014). Under the annexes, the registered and financial pledges under Polish law established over the Company's shares in Secapital S.à.r.l. were removed, while the first-ranking pledge under Luxembourg law established under the pledge agreements referred to above was retained. On December 10th and 16th 2014, previous registered pledges under Polish law over the Company's shares in Secapital S.à.r.l. were removed from the Pledge Register.

The Bank's claims under the Credit Facility Agreement and the PROKURA Agreement, that is the PLN 140m principal amount (the aggregate amount of the facilities) and claims concerning interest, fees, commissions and expenses (if any) are secured with a pledge under Luxembourg law over the Company's shares in Secapital S.à.r.l. As at December 31st 2014, a pledge existed over 175,072 Class E shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 192,579,200.

Expiry of the parties' obligations under the credit facility agreement with Raiffeisen Bank Polska S.A.

As the Company repaid all amounts due from it under the credit facility agreement executed between KRUK S.A. and Raiffeisen Bank Polska S.A. on September 13th 2011, as amended (the 'Credit Facility Agreement') and the availability period defined under the Credit Facility Agreement expired, as of December 31st 2014 the mutual obligations of the parties under the Credit Facility Agreement and, consequently, the related security instruments expired.

Expiry of the parties' obligations under the credit facility agreement with Bank Pocztowy S.A.

As the Company repaid all amounts due from it under the credit facility agreement executed between KRUK S.A. and Bank Pocztowy S.A. on May 19th 2010, as amended (the 'Credit Facility Agreement') and the availability period defined under the Credit Facility Agreement expired, as of March 24th 2014 the mutual obligations of the parties under the Credit Facility Agreement and, consequently, the related security instruments expired.

Termination of credit facility and loan agreements

In 2014, the KRUK Group companies did not terminate any credit facility or loan agreements, except where concerning operations in the NOVUM loans segment.

Issue of debt securities

Note issues

In 2014, the Company issued unsecured Series U² and U³ notes with a total nominal value of PLN 45,000,000.

Detailed information on the note issues carried out in 2014 is presented below.

a) Issue of Series U² notes

On the basis of the Management Board's resolutions which came into force on October 27th 2014 and December 3rd 2014, 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 72 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 U3 notes

On the basis of the Management Board's resolutions which came into force on November 12th 2014 and December 11th 2014, the Company issued 35,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 35,000,000. The notes are due on December 3rd 2020, 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

The note issues in 2014 were carried out in order to raise funds for the financing of debt purchases by the Group companies, refinancing of the Group's debt, or financing of the Group's growth through acquisitions. Proceeds from the note issues in 2014 were used in line with the issue objectives.

Redemption of notes

In 2014, the Company redeemed the following debt securities at maturity, as specified for each series in the relevant issue terms:

- a) 20,000 Series K⁴ notes at nominal value, for a total amount of PLN 20,000,000. The notes were redeemed on February 4th 2014;
- b) 8,400 Series H² notes at nominal value, for a total amount of PLN 8,400,000. The notes were redeemed on April 7th 2014.
- c) 25,000 Series I¹ notes at nominal value, for a total amount of PLN 25,000,000. The notes were redeemed on May 25th 2014;
- d) 35,000 Series K³ notes at nominal value, for a total amount of PLN 35,000,000. The notes were redeemed on September 6th 2014.
- e) 12,000 assimilated Series M¹ and N¹ notes at nominal value, for a total amount of PLN 12,000,000 – partial redemption as part of Periodic Amortisation in accordance with the terms and conditions of the notes. The notes were redeemed on September 21st 2014.

- f) 29,504 Series I² notes at nominal value, for a total amount of PLN 29,504,000. The notes were redeemed on November 25th 2014;

Liabilities under debt securities

As at December 31st 2014, the liabilities under outstanding notes issued by the Company by the end of 2014 was PLN 490,000,000 (at nominal value).

Notes redeemed subsequent to the reporting date

In 2015, before the date of this report, the Company redeemed, on the maturity date, 17,000 Series I³ notes at their nominal value, for a total amount of PLN 17,000,000. The notes were redeemed on January 5th 2015.

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

Loans advanced by KRUK to its subsidiaries

In 2014, KRUK granted its subsidiaries loans in the total amount of PLN 41.9m (translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement dates). The loans were advanced to KRUK România SRL of Bucharest, KRUK Česká a Slovenská republika s.r.o. of Hradec Kralove, and ERIF Business Solutions 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 350 days to one year.

Loans advanced to KRUK România SRL of Bucharest

The loans were granted to KRUK România SRL of Bucharest to finance its operating activities. The value of the loans was PLN 15.5m (translated into PLN at the exchange rate quoted by the National Bank of Poland for December 30th 2014).

Debt under some of the loans advanced in 2013 and 2014 – PLN 19.6m plus interest of PLN 0.7m, that is PLN 20.3m in aggregate (translated into PLN at the exchange rate quoted by the National Bank of Poland for the date of the debt cancellation agreements, including realised foreign exchange differences) – was cancelled.

As at December 30th 2014, liabilities of KRUK România SRL towards KRUK S.A. under loans totalled PLN 1.4m (translated into PLN at the mid exchange rate quoted by the National Bank of Poland for December 30th 2014). An impairment loss was recognised for the full amount of receivables under the loans advanced.

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 2014 was PLN 1.6m. As at December 31st 2014, ERIF Business Solutions Sp. z o.o.'s outstanding liabilities towards KRUK under loans were PLN 2.6m.

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

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Kralove were intended for the financing of the company's operating activities. The value of loans granted was PLN 24.8m (translated into PLN at the exchange rate quoted by the National Bank of Poland for the dates of the agreements).

Loans advanced in 2011, 2013 and 2014:

- a) a credit facility of PLN 2.1m (translated into PLN at the exchange rate quoted by the National Bank of Poland for December 30th 2014, including realised foreign exchange differences) was converted into equity: increase of the contribution to the share capital;
- b) a credit facility in the total amount of PLN 15.9m (translated into PLN at the exchange rate quoted by the National Bank of Poland for December 30th 2014, including realised foreign exchange differences) was converted into components of equity other than the share capital);
- c) a credit facility of PLN 13.7m plus part of interest of PLN 0.3m, that is PLN 14.0m in aggregate (translated into PLN at the exchange rate quoted by the National Bank of Poland for the dates of the debt cancellation agreements, that is December 22nd and 31st 2014, including realised foreign exchange differences), were cancelled.

As at December 31st 2014, liabilities of KRUK Česká a Slovenská republika s.r.o. towards KRUK S.A. under loans totalled CZK 1.5m and EUR 2.47m (total of PLN 10.8m, translated into PLN at the exchange rate quoted by the National Bank of Poland for December 31st 2014). 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 2014, KRUK S.A.'s outstanding liabilities towards Novum Finance Sp. z o.o. under loans were PLN 0.3m.

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

In 2014, KRUK S.A. advanced an aggregate of 8,654 Novum cash loans, with a net value of PLN 20.7m. As part of the NOVUM project, consumer loans of up to PLN 7,500 were granted for periods from 3 to 24 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 2014, KRUK S.A.'s revenue from the NOVUM project was PLN 5.1m.

Guarantees

On January 15th 2014, KRUK S.A. signed with Bank Zachodni WBK S.A. an annex to an agreement to issue a bank guarantee and received Annex 1 to the bank guarantee agreement of February 18th 2013 executed 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. Under the annex, the guarantee has been extended until February 24th 2015. 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.

On January 15th 2014, KRUK S.A. and Bank Zachodni WBK S.A. signed an annex to an agreement to issue a bank guarantee and received Annex 1 to the bank guarantee agreement of January 14th 2013 executed to secure the payment of all liabilities towards LEGNICKA BUSINESS HOUSE Sp. z. o.o. under the office space lease agreement between KRUK S.A. and LEGNICKA BUSINESS HOUSE Sp. z. o.o. Under the annex, the guarantee has been extended until January 14th 2015. On December 17th 2014, KRUK S.A. signed with Bank Zachodni WBK S.A. another annex to an agreement to issue a bank guarantee and received Annex 2 to the bank guarantee agreement of January 14th 2013 executed to secure the payment of all liabilities towards LEGNICKA BUSINESS HOUSE Sp. z. o.o. under the office space lease agreement between KRUK S.A. and LEGNICKA BUSINESS HOUSE Sp. z. o.o. Under the annex, the guarantee has been extended until March 31st 2015. 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 December 17th 2014, KRUK S.A. signed with Bank Zachodni WBK S.A. an agreement to issue a bank guarantee and received a bank guarantee for the period from December 31st 2014 to December 30th 2015 executed to secure the payment of all liabilities towards DEVCO Sp. z o.o. under the agreement for the lease of a part of an office building, between KRUK S.A. and DEVCO Sp. z o.o. The guarantee amount is EUR 277,145.20 and PLN 186,331.72. The guarantee is secured with a power of attorney over the Company's bank accounts held with Bank Zachodni WBK S.A.

Sureties

Following the execution on October 28th 2014, by the Company, PROKURA NS FIZ and Bank Zachodni WBK S.A., of an annex to the trilateral Revolving Credit Facility Agreement of February 18th 2013 (the 'PROKURA Agreement'), the Company and Bank Zachodni WBK S.A. entered into a new surety agreement on October 28th 2014 (as reported by the Company in Current Report No. 52/2014 of October 28th 2014), which reflected the changes in the final repayment dates of the facilities provided for under the annex. The new surety agreement of

October 28th 2014 rendered null and void the surety agreement of October 29th 2013 between the Company and Bank Zachodni WBK S.A. Under the surety agreement of October 28th 2014, the Company issued a surety covering the liabilities of PROKURA NS FIZ towards Bank Zachodni WBK S.A. under the PROKURA Agreement, subject to the provisions of the annex of October 28th 2014 to the PROKURA Agreement, thus becoming a joint and several debtor in respect of the liabilities. Pursuant to the surety agreement of October 28th 2014, 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 2022 with respect to the credit limit of up to PLN 31.5m provided for in the PROKURA Agreement,
- October 31st 2020 with respect to the credit limit of up to PLN 8.5m provided for in the PROKURA Agreement,
- October 31st 2018 with respect to the Additional Credit Facility of up to PLN 30m provided for in the PROKURA Agreement.

3.11 Development directions and prospects

The key strategic objective of the KRUK Group for 2015-2019 is to achieve the position of one of the three leading debt management companies in Europe in terms of net profit.

The Group plans to achieve this goal through:

- Product range development and growth in geographical regions
- Improvement of efficiency
- Improvement of research and analyses

Product range development and growth in geographical regions

In 2015-2019, the Group plans to expand its existing business lines and develop new ones on the existing markets as well as on new foreign markets. With respect to the product range, the Group plans to continue purchasing consumer, mortgage, and corporate debt portfolios, providing debt management services, and developing the consumer loan business and credit information services. The Group plans to expand into large consumer markets of debt management in Europe, and is considering entering the markets of Spain, Italy, Portugal, and the UK in the time horizon of its strategy. The Group's growth potential across products and geographical regions is presented in Figure 3.

Figure 2. KRUK's growth matrix – existing business lines and potential for further growth across products and geographical regions

Existing business lines		Poland	Romania	Czech Republic	Slovakia	Germany	Spain	Italy	Portugal	UK
Debt portfolio purchases	Consumer	✓	✓	✓	✓	✓				
	Mortgage	✓	✓							
	Corporate	✓	✓							
Debt collection outsourcing		✓	✓	✓	✓					
Consumer loans		✓								
Credit information		✓								

Green tick – current status

Source: the Company.

Higher efficiency

Steps taken to enhance the Group's efficiency cover the entire organisation, with particular focus on economies of scale and more effective management of the purchased debt portfolio. The aggregate nominal value of the purchased debt portfolio was PLN 21.7bn at the time of acquisition (as at the end of 2014), and the number of cases exceeded 3 million. The KRUK Group's objective is to become more effective in getting through to the debtors from this portfolio (as well as portfolios to be purchased in the future) and thus improve its cash recovery rates, which will provide the potential for higher profits.

Particular projects related to the improvement of efficiency include primarily:

- development of process management
- development of a network of field advisers
- improvement of cost efficiency, including through the development of IT systems and process automation
- enhancing marketing communication
- enhancing the effectiveness of debt collection processes through more effective use of credit information – both negative and positive.

Improvement of research and analyses

The Group plans to further improve its management competence based on data analysis and research. This objective will be achieved mainly by gaining greater experience in valuation and management of debt portfolios based on the cases acquired in the past (over 3 million) and

debts outsourced for collection each year (2.5m per year on average). By the end of 2014, the Group purchased 370 debt portfolios and performed over 2,000 debt portfolio valuations. Moreover, the Group will develop its internal operational analyses enhancing the effectiveness of debt management processes, and (social and consumer) marketing research to better understand the needs of debtors, enhance debtor management processes and facilitate contact and communication with debtors.

The Group has launched projects designed to:

- improve the valuation of debt portfolios
- improve credit scoring and forecasting models supporting operating processes.

New services in the financial sector in Poland

The Group sees the source of its business success in its organisational culture and competence in such fields as human resources management, mass operations, statistical analysis, management of risk and finances, and marketing. These factors are not specific to the debt management market, hence the KRUK Group plans to undertake by 2019 new, complementary projects in the financial sector in Poland.

3.12 Capital expenditure programme

3.12.1. Capital expenditure

In 2015, the main items of capital expenditure made by the Company included PLN 1.8m spent on new vehicles (including under finance lease agreements) and PLN 1.4m spent on plant and equipment. The Company also made material investments of PLN 4.4m in licences and computer software, including PLN 3.6m invested in proprietary software.

3.12.2. Investments within the Group

In 2014, KRUK increased and reduced the share capital of its subsidiaries:

- In 2014, the Company increased the share capital of SeCapital S.à.r.l. by a total of PLN 439m.
- In 2014, the Company reduced the share capital of SeCapital S.à.r.l. by a total of PLN 81m.
- The Company increased the share capital of KRUK România SRL of Bucharest by cancelling liabilities under loans (including interest) for a total of PLN 20.3m (translated at the mid exchange rate quoted by the NBP for the agreement date, i.e. December 30th 2014), and trade liabilities totalling PLN 4.2m (translated at the exchange rate quoted by the NBP for the agreement date, i.e. December 30th 2014).
- The Company increased the equity of KRUK Česká a Slovenská republika s.r.o. of Hradec Kralove through:

- a) conversion of a loan of PLN 2.1m (translated at the exchange rate quoted by the NBP for December 30th 2014) to increase the existing contribution towards the share capital;
- b) conversion of loans with a total value of PLN 15.9m (translated at the exchange rate quoted by the NBP for December 30th 2014) into contribution to equity components other than the share capital;
- c) cancellation of liabilities under loans for a total of PLN 14.0m (translated at the exchange rates quoted by the NBP for the agreement dates, i.e. December 22nd and December 31st 2014).

Novum Finance Sp. z o.o. of Wrocław repaid KRUK PLN 5.3m 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 resolutions of June 26th 2013 and January 29th 2014. As of March 17th 2014, the liquidation proceedings regarding Novum Finance Sp. z o.o. were opened. As at December 31st 2014, additional contributions to equity disclosed by Novum Finance Sp. z o.o. w likwidacji (in liquidation) stood at PLN 1.9m.

Establishment of KRUK Deutschland GmbH

On August 19th 2014, KRUK S.A. acquired 100% of shares in KRUK Deutschland GmbH of Berlin.

The Company's principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Germany and other European countries, as well as debt trading.

Agreement for the sale of shares in Secapital S.à.r.l.

On December 29th 2014, KRUK S.A. entered into an agreement (the 'Agreement') with its subsidiary InvestCapital Malta Ltd. ('InvestCapital') on sale of a part of the shares in Secapital s.a r.l. ('Secapital'). (Secapital). The Agreement provided for the sale of 114,977 Class F shares in Secapital with a par value of PLN 1,000 per share, representing 11.6% of the share capital of Secapital (the 'Shares'), for the total amount of PLN 149,470,100. The carrying amount of the Shares in KRUK S.A.'s accounting books was PLN 1,100 per share, i.e. a total of PLN 126,474,700, while the carrying amount in InvestCapital's accounting books is PLN 1,300 per share, i.e. a total of PLN 149,470,100m. The Shares are not encumbered by any third party rights. The ownership of the Shares was transferred to InvestCapital on December 29th 2014. Since December 29th 2014, InvestCapital has held a total of 154,277 shares in Secapital, representing 15.6% of the company's share capital. InvestCapital treats the shares as a long-term investment.

3.12.3. 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

3.13.1. Material risk factors

3.13.1.1 Risk of failure to achieve the Company's strategic objectives

There is a risk that the Company will fail to achieve its objectives, which may be caused by various factors, including:

- errors of persons responsible for the implementation and execution of the strategy,
- market situation, business environment and competitors' activities,
- poorer availability of external financing,
- incorrect valuation of investments, including debt portfolios purchased,
- amendments to legal regulations, changes in interpretation thereof and actions of regulatory authorities,
- unfavourable decisions of Company shareholders,
- force majeure occurrences.

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

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

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

In the course of its operating activity, the Company purchases debt portfolios for its own account. If purchased debt portfolios do not generate expected cash flows over specified time horizons it may be necessary to make a downward revaluation of the portfolios. The risk is relatively higher on new markets, where the Company is yet to gain experience. An additional

driver of the risk is potential fluctuations of foreign exchange rates, which may increase or decrease PLN income from foreign-currency portfolios (currency risk).

3.13.1.3 Operational risk related to the Company's business

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

3.13.1.4 Credit risk

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

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

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

3.13.1.5 Debt risk

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

3.13.1.6 Risk of losing experienced management staff

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

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

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

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

3.13.1.7 Risk of IT systems' failure

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

No assurance can be given that all or part of the IT system or IT equipment will not be affected by a failure making it difficult for the Group to conduct operations or achieve its strategic objectives. Security of the operational systems is also important to the Company in view of the need to ensure personal data protection.

3.13.1.8 Risk connected with related party transactions

The Company enters into related-party transactions which may be subject to audit by tax authorities. The goal of tax audits is to verify whether such transactions are executed on an arm's length basis.

There is a risk that tax authorities may question whether a transaction was executed on an arm's length basis, which may increase tax liabilities of the Company.

3.13.1.9 Risk of negative PR in relation to the Company

The nature of the Company's business exposes it to the risk of publication of untrue information concerning dealings with the KRUK Group or information that is detrimental to the Group's image. Negative publicity on the Company may undermine its credibility in the eyes of

its current or potential trading partners, and consequently may have a negative effect on its financial performance.

The Company's operations involve credit management of debts owed by individuals. Some of those persons are in a difficult financial and personal situation, suffer from ill health or experience problems in their families or professional lives. Among the debtors that the Company deals with there are people who suffer from depression or undergo psychiatric treatment. Some of the debtors also express the intention to commit suicide. The Company estimates that each month it deals on average with more than a dozen suicide threats, but is not aware of any suicide threats actually carried out. None of the suicide threats are disregarded. They all are carefully analysed and reported to the police in line with the applicable procedures. In the case of suicide threats, notwithstanding the highest service standards and professional behaviour of the Company's employees, a risk exists that the debtor will carry the threat into effect. If information on such an event receives wide publicity, it could generate negative PR for the Company.

3.13.2. 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 suitability 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 Company. 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.

3.13.2.1. Managing the risk of error in estimating the fair value of acquired debt portfolios

The risk involved in debt purchases is an investment risk. Based on its many years' experience, the 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, representing different degrees of difficulty and delinquency statuses.

Having acquired by the end of 2014 as many as 370 debt portfolios and having carried out over 2,000 debt portfolio valuations, the KRUK Group has gained considerable experience in estimating the fair values of such portfolios. The information base it has compiled allows the Group to limit the risk of incorrect estimate of the fair value of the debt portfolios it has purchased.

3.13.2.2. Managing the operating risk inherent in the Company's operations

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

3.13.2.3. Managing credit risk

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

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

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

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

3.13.2.4. Managing liquidity risk

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

Liquidity risk management tools used at the Group include:

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

3.13.2.5. Managing the risk of loss of experienced management staff

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

3.13.2.6. Managing the risk of IT systems' failure

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

3.13.2.7. Managing the risk connected with related party transactions

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

3.13.2.8. Managing the risk of negative PR in relation to the Company

The Company takes every effort to build its positive image. Each year the Company undertakes initiatives aimed at enhancing the positive image of its brand, including:

- Information and media campaigns targeted at indebted individuals and companies;
- Information and advertising projects in Poland and abroad that include broadcasting television and radio advertising spots;
- Educational publications that promote its amicable settlement strategy in consumer and regional magazines in Poland, România and the Czech Republic;
- Press releases, consumer advice articles and individual statements for the press;
- Publications on the Company for the television, radio, the press and the Internet.

4. OPERATIONAL AND FINANCIAL REVIEW

4.1. Basis of preparation of the full-year 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.

Since 2014, the Company has been estimating the value of its debt portfolios using the amortised cost method. Debt portfolios are measured at amortised cost, using the effective interest rate method. Such assets are initially measured at cost, i.e. at the fair value of the payment made plus any material transaction costs, as at the acquisition date.

The amortised cost of an asset is the amount at which the asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

The effective interest rate used for discounting estimated cash flows is calculated based on the initial cash flow projections that take into account the acquisition price, and remains unchanged throughout the life of a portfolio.

Interest income is calculated based on the portfolio value measured at amortised cost, using the effective interest rate discussed above, and is recognised in profit or loss for the current period. All interest income is recognised as increase in the portfolio value. All recoveries made in the period as a result of collection activities are recognised as a decrease in the portfolio value.

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

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. KRUK SA is the parent of the KRUK Group and the financial and operating performance should be evaluated taking into account the results of the entire KRUK Group, eliminating intra-Group transactions, which from the Group's point of view have no effect on results. The stand-alone net profit of the Company for 2014 was PLN 311m. This robust performance was achieved mainly on the back of finance income, including dividends paid to the Company by other KRUK Group companies (from the Group perspective, the dividends do not increase the overall results).

4.3. Revenue by product

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

In 2014, the Company's revenue was PLN 99m, down by 4% year on year. The decrease was primarily caused by a 13% drop in revenue from purchased debt portfolios. At the same time, revenue from credit management services decreased by 5%, while other revenue rose more than twofold.

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

Table 4. Revenue by product

PLN '000	Jan 1 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Revenue	98,838	102,837
Purchased debt portfolios	43,514	49,805
Credit management	46,359	48,650
Other	8,965	4,382
Direct and indirect costs	(86,373)	(78,542)
Purchased debt portfolios	(11,571)	(9,812)
Credit management	(72,096)	(65,731)

Other	(2,706)	(2,999)
Gross profit	12,465	24,295
Purchased debt portfolios	31,943	39,993
Credit management	(25,737)	(17,081)
Other	6,259	1,383
Administrative expenses	(50,184)	(42,596)
Depreciation and amortisation expense	(7,606)	(7,263)
Other income	1,030	2,664
Other expenses (unallocated)	(4,023)	(6,726)
Finance income/costs	360,255	47,387
Profit before tax	311,937	17,761
Income tax	(555)	(10)
Net profit	311,382	17,751

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, Slovakia, Germany).

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 2014 – Dec 31 2014	Jan 1 2013 – Dec 31 2013
Revenue	98,838	102,837
Poland	65,603	65,774
România	30,980	34,611
Other foreign markets	2,254	2,452

Source: the Company.

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

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

As at December 31st 2014

PLN '000

		Period ended Dec 31		
	Note	Dec 31 2014	Dec 31 2013	Change
Assets				
Cash and cash equivalents	21	24,515	5,634	335%
Trade receivables from related entities	20	9,889	23,879	-59%
Trade receivables from other entities	20	4,120	3,224	28%
Investments in debt portfolios and loans	17	119,237	57,664	107%
Other receivables	20	161,108	65,432	146%
Inventories	19	282	272	4%
Property, plant and equipment	14	12,125	13,330	-9%
Intangible assets	15	9,639	8,554	13%
Deferred tax asset	18	3,449	2,280	51%
Investments in subsidiaries	16	941,496	660,520	43%
Other assets		1,666	1,917	-13%
Total assets		1,287,526	842,706	53%
Equity and liabilities				
Liabilities				
Hedge derivatives	21	2,668	634	321%
Trade and other payables	27	14,414	28,338	-49%
Employee benefit obligations	25	18,716	16,161	16%
Current tax liability		1,724	68	2 435%
Liabilities under borrowings and other debt instruments	24	785,126	657,997	19%
Total liabilities		822 648	703,198	17%
Equity				
Share capital	22	17,110	16,959	1%
Share premium		53,249	47,381	12%
Cash flow hedging reserve		0	(634)	
Other capital reserves		55,624	48,289	15%
Retained earnings		338,895	27,513	1132%
Total equity		464,878	139,508	233%
Total equity and liabilities		1,287,526	842,706	53%

The asset with the strongest value growth was 'Investments in debt portfolios and loans'. The significant increase in equity is attributable to dividends paid to the Company by other KRUK Group companies.

4.6. Cash flows

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

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

For a description of financial risk management, see 'Risk management system'.

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 7. Purchased debt portfolios

Purchased debt portfolios as at Jan 1 2014	47,894
Purchase of debt portfolios	3,513
Cash recoveries	(52,098)
Increase/(decrease) in liabilities to debtors due to overpayments	-
Revenue from debt purchase (interest and revaluation)	43 514
Purchased debt portfolios as at Dec 31 2014	42,823

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 2014.

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, loans advanced, trade receivables and debt portfolios purchased in or after 2014).

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

Derivatives

In 2014, three contracts commenced in accordance with the terms of interest rate swap (IRS) transactions executed between the Company and Bank Zachodni WBK in 2013:

- On June 23rd 2014, a contract commenced in accordance with the terms of a transaction executed 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. Payments are made every three months (interest period). Under the contract, the Company pays a fixed rate of 3.28%, while Bank Zachodni WBK pays a floating rate of 3M WIBOR. The contract will expire on March 21st 2016.
- On June 23rd 2014, a contract commenced in accordance with the terms of a transaction executed 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. 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. The contract will expire on March 21st 2016.

- On June 9th 2014, a contract commenced in accordance with the terms of a transaction executed on October 24th 2013 to hedge the 3M WIBOR-linked part of the coupon on Series O2 and Series P1 notes with a nominal value of PLN 40m. Payments are made every three months (interest period). Under the contract, the Company pays a fixed rate of 3.30%, while Bank Zachodni WBK pays a floating rate of 3M WIBOR. The contract will expire on June 6th 2016.

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

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 8. Assets relating to credit risk

PLN '000

	Note	Dec 31 2014	Dec 31 2013
Financial instruments at fair value through profit or loss	17	39,884	47,894
Financial assets measured at amortised cost (AMC)	17	2,939	-
Other investments	17	161	-
Loans	17	76,252	9,770
Receivables	20	175,117	92,535
Cash and cash equivalents	21	24,515	5,634
Total		318,868	155,833

Source: the Company.

Credit risk

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.

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

Liquidity risk management tools used at the Group include:

- Regular monitoring of cash needs and expenses;
- Flexible management of cash flows between the Group entities;
- Conducting debt management activities on a continuous basis, ensuring continuous cash inflow;
- Ensuring the Group's compliance with financial covenants under credit facility agreements and debt instrument issues;
- Use of external sources of 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. 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 2014.

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 2014, 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 2014 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. Shareholding structure

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

Table 9 presents the Shareholders holding directly or indirectly large blocks of shares in KRUK S.A. as at January 1st 2014, based on shareholder notifications received by the Company.

Table 9. Shareholders holding large blocks of shares as at January 1st 2014

Shareholder	Number of shares/voting rights	Ownership interest (%)
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.

Source: the Company.

Table 10 presents the Shareholders holding directly or indirectly large blocks of shares in KRUK S.A. as at December 31st 2014.

Table 10. Shareholders holding large blocks of shares as at December 31st 2014

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	2,069,662	12.10
Aviva OFE	1,676,165	9.80
ING PTE*	1,835,643	10.73
Generali OFE**	1,545,000	9.03

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

(**) Data as at GM of May 28th 2014

Source: the Company.

Table 11 presents the Shareholders holding directly or indirectly large blocks of shares in KRUK S.A. as at March 15th 2015.

Table 11. Shareholders holding large blocks of shares as at March 15th 2015

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	2,069,662	12.10
Aviva OFE	1,676,165	9.80
ING PTE*	1,835,643	10.73
Generali OFE**	1,545,000	9.03

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

(**) Data as at GM of May 28th 2014

Source: the Company.

5.2.2. Changes in large shareholdings in the reporting year

Below are described changes in large shareholdings of KRUK S.A. shares in 2014.

- On January 15th 2014, the Company received a notification from Amplico Powszechne Towarzystwo Emerytalne S.A. to the effect that AMPLICO Otwarty Fundusz Emerytalny reduced its holding of total voting rights at the Company's General Meeting to below 5%, following the disposal of Company shares on January 9th 2014. According to the notification, as at January 9th 2014 Amplico OFE held 716,912 Company shares, representing 4.23% of its share capital and conferring the right to 716,912 votes, i.e. 4.23% of the total vote.
- On May 21st 2014, the Company received a notification from Mr Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder of the Company, to the effect that he had sold 42,000 shares and 10,000 shares in KRUK S.A. in transactions

executed during trading sessions on the Warsaw Stock Exchange on May 15th 2014 and May 20th 2014, respectively.

- On June 24th 2014, the Company received a notification from Mr Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder of the Company, to the effect that he had sold 2,988, 2,947, 9,289 and 5,000 shares in KRUK S.A. in transactions executed during trading sessions on the Warsaw Stock Exchange on June 17th, 18th, 20th, and 24th 2014, respectively.
- On July 10th 2014, the share capital of KRUK S.A. was increased through the issue of 64,501 Series E shares, as a result of which the Company's share capital comprised 17,023,596 shares conferring the right to 17,023,596 votes at the General Meeting.
- On September 12th 2014, the Company received a notification from Mr Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder of the Company, to the effect that Mr Piotr Krupa had sold 673 shares, 33,730 shares, and 7,639 shares in KRUK S.A. in transactions executed during trading sessions on the Warsaw Stock Exchange on September 8th, September 9th, and September 11th 2014, respectively.
- On September 29th 2014, the Company received a notification from On September 29th 2014, the Company received a notification from Mr Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder of the Company, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Krupa had sold 10,000 shares at the average price of PLN 107.30 per share on September 22nd 2014, and 20,000 shares at the average price of PLN 107.33 per share on September 23rd 2014. The shares were sold in ordinary transactions executed during trading sessions on the Warsaw Stock Exchange.
- On December 1st 2014, the share capital of KRUK S.A. was increased through the issue of 87,086 Series E shares. As a result, the Company's share capital comprises 17,110,682 shares conferring the right to 17,110,682 votes at the General Meeting.

On November 19th 2014, the Company received a notification from Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. to the effect that AVIVA Otwarty Fundusz Emerytalny reduced its holding of total voting rights at the Company's General Meeting to below 10%, following the disposal of Company shares on November 12th 2014. According to the notification, as at November 14th 2014 AVIVA OFE held 1,676,165 Company shares, representing 9.85% of the Company's share capital and conferring the right to 1,676,165 votes (9.85% of the total vote).

5.2.3. Treasury shares

Treasury shares in the period October 25th 2011 – April 30th 2015

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.

Treasury shares in the period May 1st 2015 – June 30th 2019

On May 28th 2014, the Annual General Meeting of KRUK S.A. authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, in the period from May 1st 2015 to June 30th 2019, with the proviso that the total par value of the shares so purchased may not exceed PLN 1.5m, and the maximum amount to be spent by the Company on the buy-back may not exceed PLN 50m, 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 150 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 Resolution No. 26/2014 of the Annual General Meeting of KRUK S.A. of May 28th 2014,
- 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 June 30th 2019 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 2014, 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

5.3.1. Incentive scheme for 2011-2014

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 passed 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 assessment of 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.

On this basis, in 2012 eligible persons, including Management Board Members, acquired 189,790 subscription warrants, of which 110,076 warrants were converted into Series E Company shares in 2013 and 2014.

As at December 31st 2014, persons eligible under Tranche 1 held a total of 79,714 subscription warrants which carried the right to subscribe for the same number of Series E shares.

Tranche 2

On August 5th 2013, the KRUK Supervisory Board passed a resolution on assessment of 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 the persons named in the lists, including members of the Management Board. 201,758 subscription warrants were delivered to the eligible persons on October 1st 2013, of which 100,266 warrants were converted into Series E Company shares in 2013 and 2014.

As at December 31st 2014, persons eligible under Tranche 2 held a total of 101,492 subscription warrants which carried the right to subscribe for the same number of Series E shares.

Tranche 3

On June 12th 2014, the KRUK Supervisory Board passed a resolution on assessment of 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 2013, and determining the list of eligible persons under Tranche 3 for 2013. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 3 for 2013 had been fulfilled, and determined the list of eligible persons in Tranche 3 for 2013 and the list of persons eligible in Tranche 3 for 2013 from the Reserve Pool.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2013 Management Stock Option Plan to the persons named in the lists, including Management Board Members. 190,651 subscription warrants were delivered to the eligible persons on June 26th 2014.

The number of warrants allotted to Management Board Members under Tranche 3 for 2013 is presented in Table 12.

Table 12. Number of warrants allotted to current Management Board Members under Tranche 3 for 2013

Name and surname	Position	Number of warrants allotted under Tranche 3 for 2013
Urszula Okarma	Member of the Management Board	9,507
Agnieszka Kul-ton	Member of the Management Board	9,507
Iwona Słomska	Member of the Management Board	8,257
Michał Zasępa	Member of the Management Board	14,507

Source: the Company.

The remaining 51,563 warrants to be allotted in respect of 2013 were transferred to Tranche 4 for 2014.

Table 13. Number of subscription warrants held by Management Board Members as at December 31st 2014

Name and surname	Position	Number of warrants
Urszula Okarma	Member of the Management Board	9,507
Agnieszka Kul-ton	Member of the Management Board	30,521
Iwona Słomska	Member of the Management Board	8,257
Michał Zasępa	Member of the Management Board	34,521

Source: the Company.

5.3.2. Incentive scheme for 2015-2019

On May 28th 2014, the Annual General Meeting of KRUK passed Resolution No. 26/2014 on setting the rules of an incentive scheme for the years 2015-2019, conditional increase in the Company's share capital and issue of subscription warrants with the Company existing shareholders' pre-emptive rights disapplied in whole with respect to the shares to be issued as part of the conditional share capital increase and subscription warrants, and amendments to the Articles of Association. The incentive scheme for 2015-2019 (the '2015-2019 Scheme') is addressed to the key management personnel of the Parent and Group companies.

Under the 2015-2019 Scheme, eligible persons will have the right to acquire Series F Company shares on preferential terms set forth in the Resolution. The eligible persons comprise members of the Management Board, including the President, as well as 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 subscribe for subscription warrants is made.

For the purposes of the 2015-2019 Scheme, the General Meeting approved a conditional share capital increase of up to PLN 847,950, through an issue of up to 847,950 Series F ordinary bearer shares. The objective of the conditional share capital increase is to grant the right to subscribe for Series F shares to holders of subscription warrants that will be issued under the 2015-2019 Scheme. Holders of the subscription warrants will be entitled to exercise the rights to subscribe for Series F Shares attached to subscription warrants at an issue price equivalent to the average closing price of Company shares on all trading days in the period February 27th 2014 to May 27th 2014. Holders of subscription warrants who are not Management Board members will be entitled to exercise the rights to subscribe for Series F Shares attached to the subscription warrants not earlier than six months after the date of subscription for the subscription warrants, whereas Management Board members will be able to exercise these rights twelve months after the date of subscription (lock-up for subscription of Series F shares by holders of subscription warrants).). All holders of subscription warrants issued from Tranche I will be entitled to exercise the rights to subscribe for Series F Shares attached to the subscription warrants not earlier than twelve months after the date of subscription for the subscription warrants. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

Subscription warrants for a given financial year will be granted to eligible persons on the condition that the annual EPS, calculated based on the Group's consolidated financial statements, increases by no less than 13.00%.

Under the Scheme, the Company may finance purchase of Series F shares by eligible persons on the terms defined in the resolution.

Subscription Warrants may be inherited, but may not be encumbered and are not transferable. In its Resolution of September 8th 2014, the Supervisory Board determined and approved Rules for the Management Stock Option Scheme for 2015-2019.

On September 2nd 2014, the Management Board of KRUK S.A. determined the list of persons who are Members of the Company's Management Board and are eligible to participate in the 2015-2019 Stock Option Scheme (the 'Base List of Management Board Members') and the list of persons who are not Members of the Company's Management Board but are eligible to participate in the 2015-2019 Stock Option Scheme (the 'Base List of Non-Management Board Members').

The Company's Management Board Members hold no rights to KRUK shares other than those attached to the subscription warrants.

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.

In the reporting period and until the date of approval of this report, a total of PLN 423.3m and PLN 4.5m was received by KRUK S.A. as profit distributions from its Luxembourg-based subsidiary SeCapital S.à.r.l. and Kancelaria Prawna Raven Krupa&Stańko Sp. k., respectively.

Kancelaria Prawna Raven Krupa&Stańko Sp. k. also paid PLN 129 thousand to its general partners as a profit distribution in 2014.

5.4.2. Dividend policy

Given its dynamic development, the Company does not have any defined dividend policy at the moment, but does not rule out implementing one in the future.

In view of the Company's strong performance, the Management Board will recommend payment of dividend from 2014 net profit. The Management Board believes that the dividend amount should be defined taking into account the fact KRUK S.A. still remains a growth company. In addition, the Management Board expects that dividend payment will foster the cost saving culture among Group employees, who are frequently Company shareholders.

Proposal as to the payment and amount of dividends in the future will be made with due regard to the Group's strategic plans, growth prospects, investment financing requirements, as well as its current debt level and overall financial standing.

5.5.Governing bodies

5.5.1. 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 January 1st 2014 – December 31st 2014 the Company's Management Board consisted of five members: Composition of the Management Board in 2014 is presented in Table 14.

Table 14. Composition of the Management Board of KRUK S.A. in 2014

Name and surname	Position
Piotr Krupa	President of the Management Board
Agnieszka Kulon	Member of the Management Board
Urszula Okarma	Member of the Management Board
Iwona Słomska	Member of the Management Board
Michał Zasępa	Member of the Management Board

Source: the Company.

Rules governing appointment and removal of members of the Management Board and their powers are set forth in the Company's Articles of Association. Pursuant to 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. Apart from the cases mentioned above, the Company's Articles of Association do not provide for any additional powers for the management personnel, such as the power to decide on issue or purchase of shares.

By virtue of Resolution No. 4/2011 of the Extraordinary General Meeting of KRUK S.A. of Wrocław, held on October 20th 2011, the General Meeting authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, i.e. the official stock exchange market, in accordance with the procedure and on the terms provided for in the resolution.

By virtue of Resolution No. 23/2014 of the Annual General Meeting of KRUK S.A. of Wrocław, held on May 28th 2014, the General Meeting authorised the Management Board to purchase the Company's own shares listed on the main market of the WSE, i.e. the official stock exchange market, in accordance with the procedure and on the terms provided for in the resolution.

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

Company shares or rights to Company shares held by the Management Board members as at January 1st 2014.

Table 15. KRUK S.A. shares held by the Management Board members as at January 1st 2014

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	President of the Management Board	2,213,928	2,213,928
Agnieszka Kułton	Member of the Management Board	92,220	92,220
Urszula Okarma	Member of the Management Board	110,350	110,350
Iwona Słomska	Member of the Management Board	40,000	40,000
Michał Zasępa	Member of the Management Board	13,000	13,000

Source: the Company.

Apart from the change in the number of shares held by Mr Piotr Krupa, President of the Management Board, referred to in section *Shareholding structure*, in the period from January 1st 2014 to the date of issue of this report, there was also a change in the holdings of Company shares owned by Ms Iwona Słomska, Ms Urszula Okarma, Ms Agnieszka Kułton, and Mr Michał Zasępa.

On April 14th 2014, the Company received a notification from Ms Agnieszka Kułton, Member of the Management Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Ms Agnieszka Kułton had sold 25,000 shares in KRUK S.A. in ordinary transactions executed during a trading session on the Warsaw Stock Exchange. In these transactions, Ms Agnieszka Kułton sold 7,000 shares on April 8th 2014, 16,453 shares on April 9th 2014, and 1,547 KRUK S.A. shares on April 11th 2014.

On May 27th 2014, the Company received a notification from Mr Michał Zasępa, Member of the Management Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Zasępa had sold 5,000 shares in KRUK S.A. in ordinary transactions executed during a trading session on the Warsaw Stock Exchange.

On May 29th 2014, the Company received a notification from Ms Iwona Słomska, Member of the Management Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Ms Słomska had sold 5,257 shares in KRUK S.A. in ordinary transactions executed during a trading session on the Warsaw Stock Exchange.

On July 10th 2014, the Company received a notification from Ms Iwona Słomska, whereby she informed the Company of acquiring 9,257 Series E shares in the Company. According to the notification, the shares were acquired on July 10th 2014, when 9,257 Series E shares were registered in the securities account of the Notifying Party as a result of execution of the rights attached to 9,257 Series A subscription warrants issued as part of an incentive scheme.

On September 12th 2014, the Company received a notification from Ms Iwona Słomska, Member of the Management Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Ms Słomska had sold 4,000 shares in KRUK S.A. in an ordinary transaction executed during a trading session on the Warsaw Stock Exchange on September 10th 2014.

On December 1st 2014, the Company received a notification from Ms Urszula Okarma, Member of the Management Board, whereby she informed the Company of acquiring 21,014 Series E shares in the Company. According to the notification, the shares were acquired on December 1st

2014, when 21,014 Series E shares were registered in the securities account of the Notifying Party as a result of execution of the rights attached to the Series A subscription warrants issued as part of an incentive scheme.

On December 1st 2014, the Company received a notification from Ms Agnieszka Kułton, Member of the Management Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Ms Agnieszka Kułton had sold 20,000 shares in KRUK S.A. in ordinary transactions executed during a trading session on the Warsaw Stock Exchange. In those transactions, Ms Agnieszka Kułton sold 9,000 shares on November 26th 2014, and 11,000 shares on November 27th 2014.

Table 16. KRUK S.A. shares held by the Management Board members as at December 31st 2014

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	2,069,662	2,069,662
Agnieszka Kułton	Member of the Management Board	47,220	47,220
Urszula Okarma	Member of the Management Board	131,364	131,364
Iwona Słomska	Member of the Management Board	40,000	40,000
Michał Zasępa	Member of the Management Board	8,000	8,000

Source: the Company.

Moreover, after the reporting date, on January 19th 2015 the Company received a notification from Mr Michał Zasępa, Member of the Management Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Zasępa had sold 2,300 shares in KRUK S.A. in ordinary transactions executed during a trading session on the Warsaw Stock Exchange. In those transactions, Mr Michał Zasępa sold 32 shares on December 4th 2014, and 2,268 shares on January 14th 2015.

Members of the management or supervisory personnel holding Company shares or rights to Company shares as at the date of approval of this annual report:

Table 17. KRUK S.A. shares held by members of the Company's Management Board as at the date of approval of this report

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	2,069,662	2,069,662
Agnieszka Kul-ton	Member of the Management Board	47,220	47,220
Urszula Okarma	Member of the Management Board	131,364	131,364
Iwona Słomska	Member of the Management Board	40,000	40,000
Michał Zasępa	Member of the Management Board	5,700	5,700

Source: the Company.

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:

Table 18. Contracts with Members of the Management Board of KRUK S.A.

Name and surname	Position	Effective date of the contract
Piotr Krupa	CEO and President of the Management Board	March 19th 2012
Agnieszka Kul-ton	Member of the Management Board, Credit Management	March 19th 2012
Urszula Okarma	Member of the Management Board, Strategic Transactions and Customer Relations	March 19th 2012

Iwona Słomska	Member of the Management Board, Marketing, Public Relations and Human Resources	March 19th 2012
Michał Zasępa	Member of the Management Board – Finance	September 1st 2013

Source: the Company.

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 contracts, the Management Board members 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. Managerial contracts may also be terminated by its parties without notice in circumstances indicated in the contracts.

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.

Table 19 presents the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2014) from the Company and its subsidiaries for 2014.

Table 19. Remuneration of the Management Board members in 2014

Name and surname	Remuneration from the Company for 2014	Additional benefits* from the Company for 2014	Remuneration from the subsidiaries for 2014	Additional benefits* from the subsidiaries for 2014
	(PLN '000)		(PLN '000)	
Piotr Krupa	730	12.4	34.2	-
Agnieszka Kułton	366	6.2	11.8	0.08
Urszula Okarma	366	6.7	18	0.14
Iwona Słomska	300	6.2	-	-
Michał Zasępa	440	66.2	52.0	-

* Additional benefits include medical care, company cars, and other benefits in kind

Source: the Company.

The total value of remuneration and additional benefits for 2014 paid by the Company and the subsidiaries to the Management Board Members specified above is PLN 2,318.36 thousand and PLN 98.07 thousand, respectively.

Additional benefits received from the Company for 2014 do not include bonuses and awards for the Management Board Members for 2014. The bonuses will be paid in 2015, 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 2.6m provision for this purpose.

In addition, in accordance with the Supervisory Board's resolutions of July 20th 2012, August 5th 2013, and June 12th 2014, passed 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.

Moreover, as part of the 2015-2019 Stock Option Plan, members of the Management Board will be offered subscription warrants in the number specified in Management Board's Resolution No. 26/2014 and Supervisory Board's Resolution No. 31/2014, subject to fulfilment of certain conditions specified in General Meeting's Resolution No. 26/2014 of May 28th 2014.

In line with the 2015-2019 Programme, the number of Subscription Warrants to be granted to Management Board members in each year of the Stock Option Plan may not exceed 50% of the total number of Subscription Warrants offered for subscription by Eligible Persons as part of a given Tranche.

For detailed information on the incentive schemes operated by the Company, see the 'Incentive Scheme' section.

5.5.2. 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:

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

Mr Piotr Krupa's 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.

From January 1st 2014 to December 31st 2014, the KRUK Supervisory Board was composed of seven members. Composition of the Supervisory Board of KRUK S.A. is presented in Table 20.

Table 20. Composition of the Supervisory Board of KRUK S.A. in 2014

Name and surname	Position
Piotr Stępnia	Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Tomasz Bieske	Member of the Supervisory Board
Arkadiusz Orlin Jastrzębski	Member of the Supervisory Board

Krzysztof Kawalec	Member of the Supervisory Board
Robert Koński	Member of the Supervisory Board
Józef Wancer	Member of the Supervisory Board

Source: the Company.

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 (five hundred thousand złoty);
- approving the rules of management stock option plans;
- selecting an auditor to audit the Company's full-year 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 1m (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, excluding property purchased or sold as part of debt management.

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

On July 28th 2014, the Company received a notification from Mr Tomasz Bieske, Member of the Supervisory Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Bieske had acquired 1,750 shares in KRUK S.A. in ordinary transactions executed during a trading session on the Warsaw Stock Exchange.

On July 31st 2014, the Company received a notification from Mr Tomasz Bieske, Member of the Supervisory Board, given under Art. 160.1 of the Act on Trading in Financial Instruments, to the effect that Mr Bieske had acquired 3,930 shares in KRUK S.A. in ordinary transactions executed during a trading session on the Warsaw Stock Exchange.

As at December 31st 2014, Mr Tomasz Bieske held 5,680 shares in the Company. As at the date of issue of this annual report, there were no changes in Mr Bieske's holdings of KRUK S.A. shares and Mr Bieske held no other rights to KRUK shares.

To the best of the Company's knowledge, other Supervisory Board members did not hold any Company shares or rights to Company shares in the period from the issue of the previous annual report (for 2013) to the date of this report.

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 Meeting.

Table 21 below presents the amounts of remuneration received by the Supervisory Board members (who were in office in 2014) from the Company and its Subsidiaries for 2014.

Table 21. Remuneration of the Supervisory Board members in 2014

Name and surname	Remuneration from the Company for 2014 (PLN '000)
Piotr Stępnia	167.4
Krzysztof Kawalec	83.7
Katarzyna Beuch	83.7
Tomasz Bieske	83.7
Robert Koński	83.7
Arkadiusz Jastrzębski	83.7
Józef Wancer	200.9*

* Remuneration payable in EUR. The amount is the PLN equivalent of EUR 48 thousand, translated using the exchange rate quoted by the National Bank of Poland for the day preceding the payment day.

Source: the Company.

The total remuneration received from the Company by the Supervisory Board members named above for 2014 amounted to PLN 786.8 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 2014, 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.

Audit Committee

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:

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

In the period January 1st 2014 – December 31st 2014 the Audit Committee consisted of:

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

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

In particular, apart from statutory duties, the tasks of the Audit Committee in 2014 included:

- summary of the results of the audit of the 2013 annual report,
- analysis of offers submitted by auditing firms, regarding audit of the Company's and the Group's financial statements for 2014,
- discussion of the Company's and the Group's half-year financial statements and their performance in H1 2014, and discussion of the separate half-year financial statements of KRUK S.A.,
- discussion of the purchased debt portfolio valuation method,
- audit of the Group's internal control system.

Remuneration and Appointment Committee

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:

- planning of the remuneration policy for the Management Board members;
- alignment of the Management Board Members' remuneration with the Company's long-term interests and its financial performance;
- recommendation of candidates to the Management Board to the Supervisory Board;
- periodic assessment of the structure, number of members, composition and performance of the Management Board, and, where needed, recommendation of changes in this respect to the Supervisory Board, and submission of a periodic assessment of the skills, expertise and experience of the individual Management Board Members to the Supervisory Board.

In the period January 1st 2014 – December 31st 2014, the Remuneration and Appointment Committee consisted of:

- Robert Koński – Chairman of the Remuneration and Appointment Committee,
- Piotr Stępniaak – Member of the Remuneration and Appointment Committee,
- Józef Wancer – Member of the Remuneration and Appointment Committee.

By the date of issue of this report, the composition of the Remuneration and Appointment Committee did not change.

In 2014, the Remuneration and Appointment Committee were issuing opinions on the list of participants in the option program for 2015-2019. The meetings were held as Committee meetings or part of the meetings of the Supervisory Board.

Finance and Budget Committee

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

In the period January 1st 2014 – December 31st 2014, the Finance and Budget Committee consisted of:

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

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

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

- drafting of budget resolutions, issue of opinions and assessment of draft resolutions of the Supervisory Board on matters related to the Company's finances,
- supporting the oversight of the performance of the Company's budget,
- on-going analysis of the Company's financial performance and standing,
- 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 2014, the Finance and Budget Committee focused primarily on matters related to the Company's and the Group's budgets. The matters within the powers of the Finance and Budget Committee were discussed during Committee meetings or Supervisory Board meetings.

5.5.3. 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 approval of 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 passed 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 2014, the Company and Subsidiaries were plaintiffs or participants in 74,938 court proceedings (including bankruptcy proceedings), where the total value of claims was PLN 1,147,114,425.27. Furthermore, in 2014, upon a motion filed by the Company and Subsidiaries 381,326 enforcement proceedings were instigated, where the value of claims being enforced totalled PLN 4,947,397,363.49. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and Subsidiaries.

In 2014, the Company and Subsidiaries were defendants in 95 court proceedings, where the total value of claims was PLN 7,785,273.62. There are no proceedings pending against the Company or Subsidiaries where the value of claims would exceed 10% of the Company's equity. No bankruptcy or recovery proceedings were conducted with respect to the Company or Subsidiaries. In case of NOVUM FINANCE Sp. z o.o. and securitisation fund Prokulus NS FIZ liquidation proceedings are currently conducted.

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

There were no proceedings pending with the participation of the Company or Subsidiaries where the value of claims would exceed 10% of the Company's equity.

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 25,000.00, were the proceedings against KRUK S.A. 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 30,828,938.83, were the bankruptcy proceedings concerning PROKURA NSFIZ's claims, pending against LIBERTÓW SP. Z O.O. W UPADŁOŚCI (in bankruptcy). The Company expects its claim to be satisfied to a small extent. Court proceedings were also pending concerning PROKURA NSFIZ's claim of PLN 22,703,641.97 against ZAKŁADY PRZETWÓRSTWA TWORZYW EKO-PET SPÓŁKA Z O.O. The company expects its claim to be satisfied partially.

6.2. Auditors

On July 7th 2014, the Company and Ernst and Young Spółka z ograniczoną odpowiedzialnością Sp. k. executed an agreement for the audit of separate and consolidated financial statements for 2014 and review of separate and consolidated financial statements for H1 2014. The fee for auditing the full-year separate financial statements of the Company, auditing the full-year financial statements of subsidiaries, reviewing the full-year financial statements of subsidiaries, and auditing the annual consolidated financial statements was set at PLN 504 thousand (2013: PLN 574 thousand); and the fee for other assurance services, including review of the half-year consolidated financial statements – at PLN 201 thousand (2013: PLN 70 thousand). The separate and consolidated financial statements for 2013 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 2014, 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

6.5.1. Share price

In 2014, the rate of return on KRUK shares was 33%. In the same period, the broad market gauge WIG dropped by less than 1%, while mWIG40, an index of mid-cap companies where KRUK is included, rose by nearly 3%. From the beginning of the year until mid-2014, the Company stock followed a slight growing trend, underpinned by good prospects for the debt collection industry, the Company's strong performance, and optimistic forecasts by sell-side analysts.

The most dynamic growth in KRUK share prices was recorded in H2 2014 – in August 2014, the closing price of KRUK shares exceeded PLN 100 for the first time ever. In H2 2014, the

Company's capitalisation exceeded PLN 2bn for the first time in its history. In early December, KRUK shares were traded at a record-breaking PLN 119 per share, arriving at PLN 110 at year end.

Table 22. Rates of return on KRUK stock, WIG and mWIG40 in 2014

Date	KRUK	WIG	mWIG40
Jan 2 2014	82.70	51,865.89	3,384.74
Dec 30 2014	110.00	51,416.08	3,483.45
rate of return	33.0%	-0.9%	2.9%

Closing prices

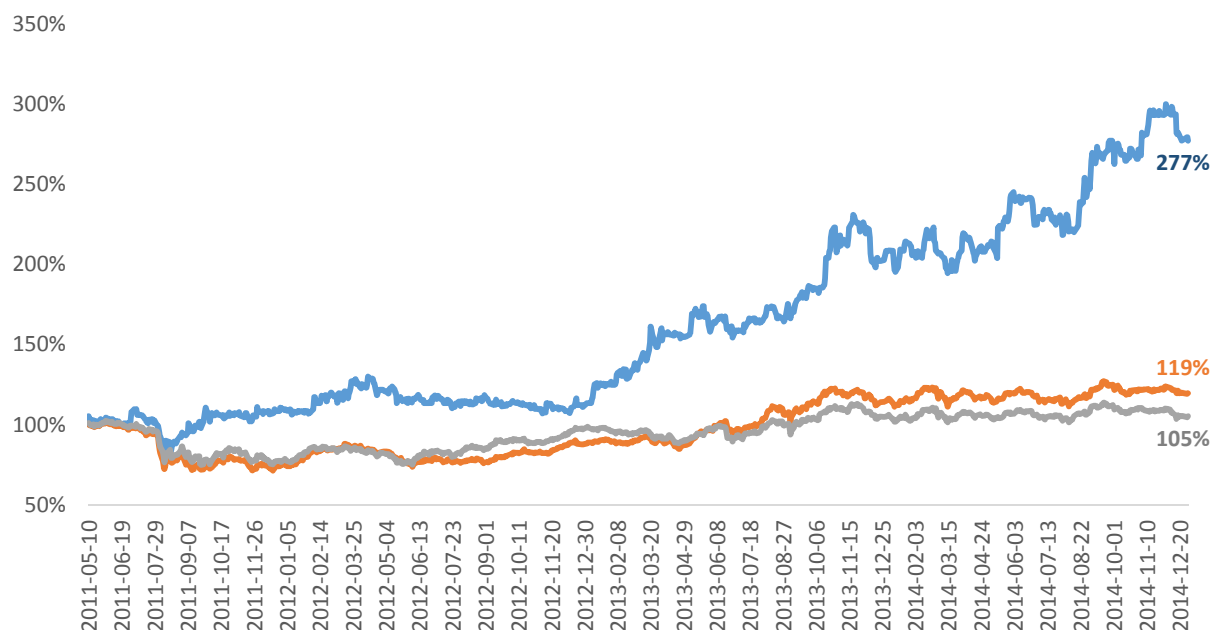
Chart 1. KRUK stock price against WIG and mWIG40 throughout 2014 (beginning of the year = 100%)



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

From the KRUK IPO at the Warsaw Stock Exchange in May 2011 until the end of 2014, the Company stock returned 177%. Over the same period, the WIG index, capturing the performance of the entire WSE market, gained 5%, and the mWIG40 index, presenting the trends in mid-cap stocks, yielded 19%.

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 2014

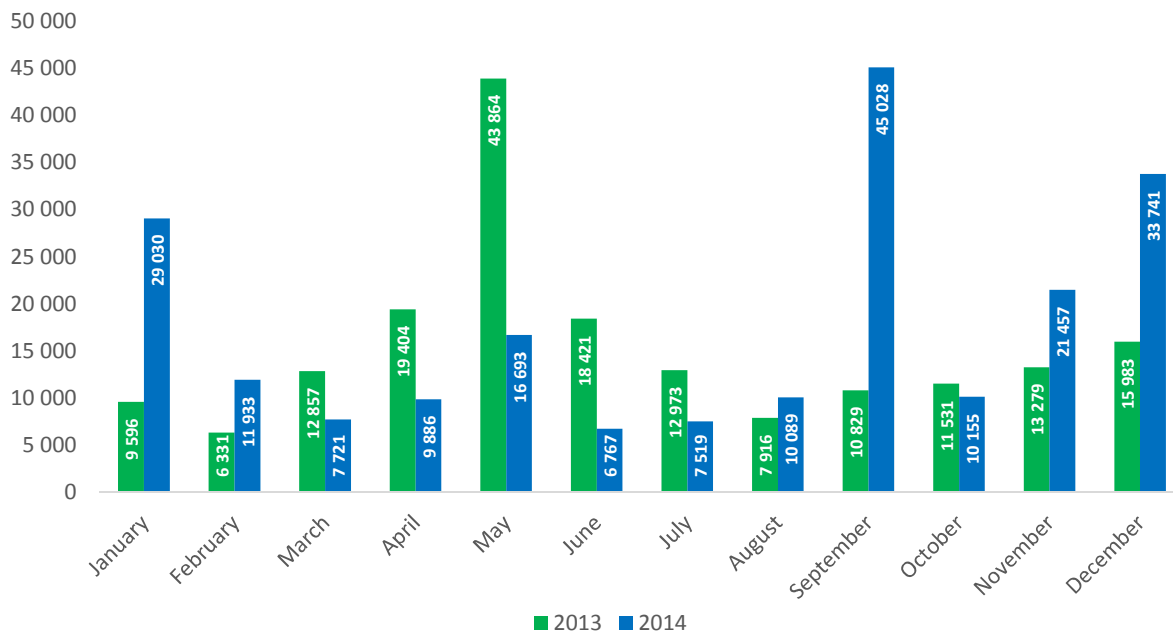


Source: in-house analysis, based on stooq.pl.

6.5.2. Liquidity

The total volume of KRUK shares traded in 2014 was 4.3m, which represents 25.4% of the Company's share capital. The average number of KRUK shares traded daily was 17,436, up 16.6% on the 2013 figure of 15,084. The largest trading volumes were recorded directly after the publication of the Company's results, with peak trading seen late in the year, from September to December.

Chart 3. Average daily trading volume of KRUK shares in 2013 and 2014, by month



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

6.6. Investor Relations in 2014

The Company pursues an active Investor Relations policy and identifies the following addressees of the policy:

- Polish institutional investors in shares and bonds,
- Polish retail investors in shares and bonds,
- foreign institutional investors in shares,
- brokerage house and investor bank analysts, and
- financial journalists.

Investor Relations initiatives improve brand recognition and stimulate interest in the Company among domestic and foreign investors, who provide us with positive feedback. In addition, such efforts enhance knowledge of the Company among those investors who maintain regular contact with KRUK. For more information on key Investor Relations activities in 2014, see Table 23.

Table 23. Key Investor Relations activities in 2014

	Number of non-deal roadshows	Number of investor conferences	Duration of roadshows and investor conferences, in days
Poland	4	2	6
Foreign markets	5	2	16

Source: in-house analysis.

Polish institutional investors in shares and bonds

- Four conferences organised following the publication of KRUK's results for 2013, Q1 2014, H1 2014 and Q1-Q3 2014 – each including a meeting with 20-30 investors
- Participation in the *ING Financial Conference* in April 2014 – meeting with 20 investors
- Continuous contact with investors

Polish retail investors in shares and bonds

- Two online chats with Management Board members organised in cooperation with the Polish Association of Retail Investors
- Participation in the *Wall Street 18* conference organised by the Polish Association of Retail Investors in June 2014
- Maintaining a corporate profile featuring latest information from the Company on the StockWatch website
- Continuous contact with investors

Foreign institutional investors in shares

- Four conference calls organised following the publication of KRUK's results for 2013, Q1 2014, H1 2014 and Q1-Q3 2014
- Five non-deal road shows – meetings with nearly 60 investors in London, Frankfurt, Vienna, Stockholm, Tallin, Helsinki, New York, Boston and Chicago
- Participation in the *Polish Capital Market - London 2015* conference organised by PKO BP – meetings with 10 investors
- Participation in *WOOD's Winter in Prague Emerging Europe Conference 2014* – meetings with 30 investors
- Continuous contact with investors

Brokerage house and investor bank analysts

- Four conferences organised following the publication of KRUK's results for 2013, Q1 2014, H1 2014 and Q1-Q3 2014
- Continuous contact with analysts

The table below lists analysts issuing recommendations on Company stock.

Table 24. Sell-side analysts issuing recommendations on Company stock

Company	Analyst	Contact details
DI Investors	Michał Fidelus	michal.fidelus@investors.pl
DM BZ WBK	Dariusz Górski	dariusz.gorski@bzwbk.pl
Espirito Santo IB	Łukasz Jańczak	ljanczak@espiritosantoib.pl
Ipopema	Iza Rokicka	rokicka@ipopema.pl
mBank	Michał Konarski	michal.konarski@dibre.com.pl
Trigon DM	Grzegorz Kujawski	grzegorz.kujawski@trigon.pl
Wood & Co.	Paweł Wilczyński	pawel.wilczynski@wood.com

Source: own research.

Including updates, the Company received nine recommendations from analysts in 2014, all of which were either BUY or ACCUMULATE recommendations.

Table 25. Number of recommendations in 2014

Number of recommendations in 2014:		
	9	
BUY* 9	HOLD 0	SELL 0

* or ACCUMULATE

Source: in-house analysis.

Financial journalists

- Four conferences organised following the publication of KRUK's results for 2013, Q1 2014, H1 2014 and Q1-Q3 2014
- Press releases concerning key corporate events
- Interviews and commentaries given by Company representatives in financial media (e.g. *Parkiet*, *Puls Biznesu*, TVN24 BiŚ or Stockwatch)
- Maintaining the Company's profile on Stockwatch

The key themes of the Company's 2014 market communication included:

- Entry into a new, fast-growing market of mortgage-backed debt (purchase of two debt portfolios from Getin Noble Bank and BZ WBK)
- Expansion into the German market, one of the largest debt markets in Europe
- Information on the implementation of the Company's new incentive scheme for 2015-2019
- Improved liquidity of shares on the Warsaw Stock Exchange (trading volume up 17% year on year). The Company currently uses the services of two market makers on the WSE.

6.7.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).

6.7.1. 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 about debt, ways to manage household budgets and methods of dealing with financial problems, while giving them a general understanding of the financial market. Educational projects are undertaken by the KRUK Group on its own or jointly with social partners (associations and organisations which seek to promote consumer education) in all countries where the Group operates.

6.7.2. Articles, guidelines and advice

The KRUK Group 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. The guides have been published in lifestyle magazines and many other self-help titles. They explored how people fall into a debt spiral and explained steps to be taken after receiving a letter from a debt management firm, the ways to reach an agreement with the creditor, and consequences of failure to repay debt. Responsible attitude to taking on and dealing with debt has also been the subject of a number of TV and radio programmes in which KRUK Group representatives appeared as guests. KRUK has also created the 'Dobry Plan' ('Good Plan') campaign and prepared a guide with advice for the indebted. Through these media, people who have successfully dealt with indebtedness can share their experience and give advice to those still facing the problem.

6.7.3. 'Debt-Free Day' and 'Our Debts'

The initiative is to remind people living in the countries where the Group operates that they should not put off solving problems related to debt repayment. 'Day without Debt' is held annually on November 17th in Poland and România and on November 15th in the Czech Republic and Slovakia. As part of the 'Our Debts' campaign, an updated version of the Group's dedicated website was launched, featuring tips and advice for those facing problems with debt

repayment (www.naszedlugi.pl). The site contains advice for debtors, explains how to borrow responsibly, and presents the findings of research into the issue 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.

6.7.4. 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, especially during periods of peak demand for blood, and was one of the sponsors of the Centre's summer billboard campaign.

6.7.5. Organisation of free first aid courses for employees

KRUK regularly provides its staff with first aid training through regular practical courses and demonstrations of medical rescue techniques using modern equipment. In this way, the KRUK Group employees have 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.

6.7.6. 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.

6.7.7. 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 5 km relay race for the employees of the companies engaged in the event. Full proceeds from the race were donated to finance the treatment of brothers Mateusz and Łukasz Konieczny.

6.7.8. 'Diversity Charter'

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 eliminate 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.

6.8. Awards and distinctions

As a 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 2014, KRUK was awarded the following distinctions:

- 2014/2015 Business Superbrands title for becoming one of the strongest brands on the Polish market
- distinction in the Investor category in the third edition of the Polish Company – International Champion competition organised by PwC and the *Puls Biznesu* daily newspaper
- Silver Award of Excellence in Financial Communication, won by KRUK România
- Business Reliability Certificate awarded by Bisnode for securing the highest creditworthiness score
- Leader of the Decade title, awarded in the national Consumer's Laurel competition in the credit management category

6.9. Glossary of terms

Auditor	Ernst & Young Audyt Polska Sp. z o.o. sp. k., Rondo ONZ 1, 00-124 Warsaw, Poland, Reg. No. 130 – the Company's auditor
CAGR	Cumulative Average Growth Rate
Catalyst	Bond market operated by the Warsaw Stock Exchange
CZK	Czech koruna
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
Cash EBITDA	EBITDA less revenue from purchased portfolios plus recoveries from purchased portfolios
EPS	Net earnings per share
EUR	Euro
FMCG	Fast Moving Consumer Goods
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
the Group, the KRUK Group	The Company as the Parent along with its Subsidiaries and Non-Standard Securitisation Closed-End Investment Funds
Second Public Bond Issue Programme	The Second Public Bond Issue Programme carried out under the prospectus approved by the Polish Financial Supervision Authority on December 22nd 2014
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	KRUK Česká a Slovenská republika s.r.o. of Hradec Králové
KRUK România	KRUK România SRL of Bucharest, Romania

KRUK TFI	KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław
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	Polish złoty
UOKiK President	President of the Office of Competition and Consumer Protection
Incentive Scheme	An incentive scheme for 2011–2014 implemented by the Company for the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of the 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.
2015-2019 Incentive Scheme	An incentive scheme for 2015–2019 implemented by the Company for the Management Board members, selected employees of the Company and selected members of the management boards and employees of the Subsidiaries, under which up to 847,950 registered subscription warrants will be issued, conferring the right to subscribe for a total of 847,950 ordinary bearer shares issued as part of a conditional share capital increase.
Prokura NS FIZ	Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura Non-standard securitisation closed-end investment fund)

Prokulus NS FIZ	Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus Non-standard securitisation closed-end investment fund)
Supervisory Board	The Company's Supervisory Board
ERIF	Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. of Warsaw
ROE	Return on Equity, computed as the ratio of consolidated net profit to equity as at the end of period
RON	Romanian leu
Regulation on current and periodic information	The Polish Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009, No. 209, item 1744, as amended)
SeCapital Luksemburg	Secapital S.à.r.l. (Luxembourg)
SeCapital Polska	Secapital Polska Sp. z o.o. of Warsaw
Consolidated Financial Statements	The Group's consolidated financial statements for the reporting period ended December 31st 2014, 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
UOKiK	The Polish Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
USD	US dollar
General Meeting	The Company's General Meeting
Management Board	The Company's Management Board

SIGNATURES OF MANAGEMENT BOARD MEMBERS

The Directors' Report on the operations of KRUK S.A. in 2014 is presented by the Company's Management Board, composed of the following members:

Piotr Krupa

CEO and President of the Management Board



Urszula Okarma

Member of the Management Board



Agnieszka Kułton

Member of the Management Board



Iwona Słomska

Member of the Management Board



Michał Zasępa

Member of the Management Board



Wrocław, 6th March 2015



KRUK Group

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