



KRUK S.A. Directors' Report  
on operations of **KRUK S.A.** in **2015**

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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 Director’s Report on the Operations of the Kruk Group. In the Management Board’s opinion, reading this document is essential for proper and thorough assessment of the Company’s performance in 2015.

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. Only 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 2015

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 2015, the Company's total headcount was 1,367 staff (vs. 1,278 at the end of 2014). The table below presents selected data and financial highlights for 2015, with comparative data for 2014.

Table 1. The Company's financial performance in 2014–2015

	Period ended Dec 31	
	2015	2014
	(PLN '000, unless stated otherwise)	
Revenue	115,739	98,838
EBITDA	-47,065	-40,712
Operating profit (EBIT)	-53,603	-48,318
Net finance income	94,122	360,255
Net profit for the period	35,843	311,382
Cash flows from operating activities	106,380	-24,812
Cash flows from investing activities	-171,571	-40,797
Cash flows from financing activities:	45,881	84,490
Total net cash flows	-19,309	18,881
Total assets	1,441,677	1,287,526
Equity	499,537	464,878

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 2015, KRUK was active mainly on the Polish and Romanian markets. 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 Director’s Report on the operations of the KRUK Group.

### 2.2 Legal and regulatory environment

The operations of KRUK S.A. are governed by laws and regulations described in the sections below. Investors are advised to read section “Legal and regulatory environment” of the Directors’ Report on the Operations of the KRUK Group in 2015.

#### 2.2.1. Securitisation funds

On April 1st, KRUK S.A. and KRUK TFI S.A. entered into an agreement on management of Prokura NS FIZ’s securitised debt. The agreement provides for, inter alia, debt purchase and sale on behalf of the fund, preparation of projects and analyses concerning the fund’s investments, preparation of analyses concerning efficient day-to-day management of the fund’s portfolio, debt collection and administration of the fund’s claims, and valuation of claims representing the fund’s assets. The performance of such agreements is subject to the PFSA’s oversight.

#### 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. Changes in laws and regulations applicable to the Company's business

Key changes in laws and regulations in 2015 applicable to the Company's business:

- On January 1st 2015, an act of August 29th 2014 amending, inter alia, the Bankruptcy and Restructuring Law came into force; the new regulations improved the availability of consumer bankruptcy mechanisms for debtors.
- On April 9th 2015, an Act Amending the Act on Bailiffs and Debt Enforcement was passed, restricting the creditor's right to select a court enforcement officer. The Act came into force as of January 1st 2016.
- On October 10th, the Act on Complaint Handling by Financial Market Participants and on the Finance Ombudsman of August 5th 2015 came into force (the effective date for the Act as a whole was January 1st 2016).
- On October 17th 2015, an amendment to the Polish Civil Code came into force, limiting inheritors' liability for inheritance debt if the inheritor has not made a declaration of acceptance or rejection of inheritance.
- On November 27th, an Act Amending the Banking Law and Certain Other Acts of September 25th 2015 came into force, removing banks' right to issue bank enforcement orders and define debt restructuring rules for borrowers.
- On January 1st 2016, the Restructuring Law of May 15th 2015 came into force.

Another noteworthy fact was the issue by the Minister of Finance of a general tax ruling of June 9th 2015 (PT1.050.1.2015.LJU.19), stating that activities of court enforcement officers should be deemed provision of services for consideration and are subject to VAT. Concurrently, the exemption referred to in Art. 15.6 of the VAT Act does not apply to such activities, therefore they are subject to taxation in accordance with rules of general application.

KRUK S.A. has brought its operations into compliance with the above regulations. However, as at the date of this report, the regulations' overall effect on the Company's operations cannot be reliably quantified. It has been preliminarily assumed that they will be of no significant influence.

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

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

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



### 3 OVERVIEW OF THE COMPANY'S BUSINESS

#### 3.1 Company's business and branches

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

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

#### 3.2 Organisational structure

The structure of the KRUK Group as at December 31st 2015 and KRUK S.A.'s ownership interests in subsidiaries are shown in Figure 1.

Figure. 1.1 Structure of the KRUK Group



Source: the Company.

As at December 31st 2015 the Group comprised KRUK S.A. (the Parent) and 18 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 Romania S.r.l	Bucharest	Management of debt portfolios purchased by the KRUK Group, credit management services
SeCapital S.à 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 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 the Prokura fund
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. (in liquidation)	Wrocław	Financial services, including debt management and trading
KRUK Deutschland GmbH	Berlin	Management of debt portfolios purchased by the KRUK Group, credit management services
KRUK Italia S.r.l	Milan	Credit management services, collection of debt portfolios purchased by the KRUK Group in Italy and other European countries.

ItaCapital S.r.l	Milan	Investing in debt or debt-backed assets.
KRUK Espana S.L.	Madrid	Credit management services, collection of debt portfolios purchased by the KRUK Group in Spain and other European countries, as well as debt trading.
ProsperoCapital S.à r.l.	Luxembourg	Special-purpose securitisation vehicle which invests in debt or debt-backed assets

Source: the KRUK Group.

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 2015 and by the date of this report are presented below.

#### **ProsperoCapital Sp. z o.o.**

On October 22nd 2015, the Extraordinary General Meeting of ProsperoCapital Sp. z o.o. of Wrocław passed a resolution to dissolve the company. Since the date of its establishment, i.e. May 29th 2014, the company has never commenced operating activities and its tasks have been carried out by other KRUK Group companies. Mr Michał Zasępa has been appointed liquidator of the subsidiary.

#### **KRUK Italia S.r.l**

On November 13th 2015, the Articles of Association of KRUK Italia S.r.l of Milan were signed. The company's principal business activities consist in credit management services, and collection of debt portfolios purchased by the KRUK Group in Italy and other European countries. KRUK S.A. holds 100% of shares in the company's share capital.

#### **ItaCapital S.r.l**

On November 13th 2015, the Articles of Association of ItaCapital S.r.l of Milan were signed. The company's principal business activities consist in investing in debt or debt-backed assets. KRUK S.A. holds 100% of shares in the company's share capital.



### **KRUK Espana S.L.**

On November 17th 2015, the Articles of Association of KRUK Espana S.L. of Madrid were signed. The company's principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK Group in Spain and other European countries, as well as debt trading. KRUK S.A. holds 100% of shares in the company's share capital.

### **ProsperoCapital S.à r.l.**

On December 10th 2015, the Articles of Association of ProsperoCapital S.à r.l. of Luxembourg were executed before a notary public. The company's principal business activities consist in investing in debt or debt-backed assets. KRUK S.A. holds 100% of shares in the company's share capital.

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

On June 29th 2015, Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokulus non-standard securitisation closed-end investment fund) was removed from the court register.

### **Prokura NS FIZ Fund investment certificates**

In 2015, some of the Prokura NS FIZ Fund's investment certificates were redeemed, which resulted in changes to the register of the Fund's certificate holders. As at the end of 2015, the total number of Prokura NS FIZ investment certificates was 61,174,786 (2014: 65,202,830). SeCapital S.à r.l. is the only investor in Prokura NS FIZ, holding 100% of its investment certificates.

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

In 2015, SeCapital S.à r.l.'s share capital was increased and reduced. As a result, as at the end of 2015, the share capital amounted to PLN 1,114,579,000 (2014: PLN 990,975,000). On November 25th 2015, the share capital of SeCapital S.à r.l. of Luxembourg (SeCapital), KRUK's subsidiary, was increased from PLN 933,623,000 to PLN 1,065,579,000, through an issue of 7,620 new Category A shares and 124,336 new Category F shares, with a par value of PLN 1,000 per share and total par value of PLN 131,956,000. All of the new shares were subscribed for by InvestCapital Malta Ltd. (InvestCapital), the Company's subsidiary. The new shares represented 12.4% of SeCapital's share capital. The carrying amount of the shares in the Company's accounting books is PLN 1.1 thousand per share. Following the share capital increase, InvestCapital held 324,527 shares with a par value of PLN 1,000 per share and total par value of PLN 324,527,000, while KRUK S.A. held directly 741,052 shares with a par value of PLN 1,000 per share and total par value of PLN 741,052,000. The total number of shares held by KRUK S.A., directly and indirectly, is 1,065,579, and their total par value is

PLN 1,065,579,000. The shares were subscribed for at par value and paid for in cash. The cash contribution was financed with proceeds from InvestCapital's share capital increase by the Company. For more information, see Current Report No. 75/2015 of November 25th 2015.

### Changes in the share capital of InvestCapital Ltd.

In 2015, InvestCapital Ltd.'s share capital was increased and reduced. As a result, as at the end of 2015, the share capital amounted to PLN 387,240,000 (2014: PLN 20,000).

On November 18th 2015, the share capital of Malta-based InvestCapital Ltd. (InvestCapital), KRUK's subsidiary, was increased from PLN 225,940,000 to PLN 370,940,000, through an issue of 1,450,000 new shares with a par value of PLN 100 per share, and a total par value of PLN 145,000,000. All new shares were subscribed for by KRUK S.A. The new shares represented 39% of InvestCapital's share capital. The carrying amount of the shares in the Company's accounting books is PLN 100 per share. Following the share capital increase, KRUK S.A. held directly 3,709,399 shares with a par value of PLN 100 per share, and a total par value of PLN 370,939,900. The total number of shares held by KRUK S.A., directly and indirectly, is 3,709,400, and their total par value is PLN 370,940,000. For more information, see Current Report No. 72/2015 of November 18th 2015.

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

In 2015, there were no changes to any 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 2015, the share capital of the Company totalled PLN 17,398,348 and was divided into 17,398,348 shares with a par value of PLN 1 per share.

Table 3. Structure of the Company's share capital as at December 31st 2015

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	498,008
TOTAL	17,398,348

Source: the Company.

As at the date of release of this report, the Company's share capital amounted to PLN 17,515,746 and was divided into 17,515,746 shares with a par value of PLN 1 per share.

Table 4. Structure of the Company's share capital as at the date of release of this report

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	615,406
TOTAL	17,515,746

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 January 16th 2015, the court registered an increase of PLN 87,086.00 in the Company's share capital. The increase was made as part of a conditional share capital increase through an issue of 87,086 Series E shares with a par value of PLN 1.00 per share, on the basis of Resolution No. 1 adopted by the Company's Extraordinary General Meeting of March 30th 2011. 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 1st 2014, which is the date of their registration in the Central Securities Depository of Poland. 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. 3/2015 of January 16th 2015.

On April 30th and October 30th 2015, the Central Securities Depository of Poland registered, respectively, 181,091 and 106,575 Series E shares in the Company, issued as part of a conditional share capital increase. On those dates, the shares were registered in the investors' securities accounts and consequently (in accordance with Art. 452.1 in conjunction with Art. 451.3 of the Commercial Companies Code) an increase in the Company'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. For more information, see Current Report No. 17/2015 of April 29th 2015 and No. 66/2015 of October 29th 2015. Following registration of the shares in the investors' securities accounts, the Company's share capital was PLN 17,398,348.00 and comprised 17,398,348 shares.

The Series E shares were entered in the National Court Register on May 26th 2015 (181,091 shares), and on December 4th 2015 (106,575 shares). For more information, see Current Report No. 29/2015 of May 27th 2015 and No. 80/2015 of December 7th 2015.

Further, on February 25th 2016, the Central Securities Depository of Poland registered 117,398 Series E shares of the Company, issued as part of a conditional share capital increase. On that



date, 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 Company'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. For more information, see Current Report No. 12/2016 of February 23rd 2016. Following registration of the shares in the investors' securities accounts, the Company's share capital totals PLN 17,515,746 and is divided into 17,515,746 shares.

### **Changes in the conditional share capital of KRUK S.A. in 2015**

In 2015, there were no changes in the conditional share capital of KRUK S.A.

### **3.6 Company's products and services**

One area of the Company's business is credit management services.

The debt collection process depends on the specific nature and status of debt, as well as on the needs of the Group's trading partner. Credit management services:

- are tailored to trading partners' preferences and needs,
- comply with the highest standards and best practices,
- comply with the applicable legal regulations.

As part of its credit management services KRUK S.A.:

- provides debt management services at all stages of delinquency, and applies instruments tuned to a specific debt portfolio (servicing period, tools and process used) and tailored to the expectations of individual trading partners,
- uses efficient operational methods which rely on advanced IT systems, such as the Delfin IT platform, which supports the entire credit management process.

### **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.

## **Credit management services**

### *Collection monitoring*

Monitoring of amounts due from debtors is a very prompt and early response to payment irregularities and payment delays (even by a couple of days). At this very early stage of managing debts, it is of paramount importance to outsource debt monitoring to a partner which has the relevant know-how and ready-to-use solutions. The process is based on the Contact Center technology, facilitating regular monitoring, tailored to the Client's needs and profile. The main objective of contacts with a debtor is to restore regular repayments and avoid agreement termination, as well as to discipline the debtor and prevent further delays in repayments. Therefore, actions undertaken in the course of debt monitoring are primarily based on telephone contacts. It is crucial here that the probability of reaching a debtor and talking to them is close to 100% at this stage.

### *Amicable collection of commercial and consumer debts*

The purpose of the amicable debt collection process is to recover debt as quickly as possible, using the most effective tools for particular debt categories. Amicable collection encompasses a very broad range of activities. Its processes are differentiated and personalised. They use numerous tools chosen according to the specific nature of the client's cases and the client's needs. Accordingly, each debt portfolio accepted for management is analysed, and relevant know-how, knowledge of the industry, and selection of an appropriate collection process for a given case type facilitate effective credit management and accurate planning of future transactions. KRUK also conducts restructuring processes and offers agreements for debt repayment in instalments. In our amicable collection activities, we put emphasis on reaching the debtor, establishing contact with them, and agreeing on feasible options of debt repayment.

### *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*

The process used with respect to mortgage-backed debts includes all tools available for individual services. The main assumption is a case-by-case approach and precise adaptation of the process to the nature of mortgage debt (high balances, security provided in the form of mortgage over real estate). The process has been designed based on non-standard solutions, where KRUK S.A.'s advisors act in a double role of an advisor and the creditor. For this service, the main assumption is individual treatment of each case and providing support in the amicable phase of the collection process on the basis of received authorisations. After a case is accepted for collection, it undergoes a detailed review in terms of its status, the financial situation of the debtor, and quality of the security. Then, depending on the findings, steps are undertaken to restore regular repayments, arrange credit restructuring, sell the real estate on the free market or, as a last resort, arrange an auction and sell the real estate as part of enforcement proceedings (or take over the real estate). In the course of collection of mortgage-backed debts, we conduct proceedings also in the court and enforcement phase. As part of credit management services we also offer debt recovery by way of court and enforcement proceedings, provided through Kancelaria Prawna RAVEN, a Group company.

### *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. It is one of just few Internet services of this type available on the market; it has been created to meet the needs of debtors and facilitate their getting out of debt. e-KRUK offers numerous functionalities to clients:

- reviewing the list of debts to a given creditor,
- checking the phase of the debt management process,
- learning about the cost of court collection and bailiff collection,
- entering into a settlement agreement,
- convenient direct link to the bank's website for debt repayment,
- possibility of arranging contact with a negotiator at a convenient time, possibility of updating quickly the contact data.



### *The Pożyczka Novum loan service*

As part of the Novum consumer finance business line, the Company grants short-term cash loans of up to PLN 10,000, for periods from 3 to 30 months, to debtors who have repaid or regularly repay their debts to the Group. The lending service is also intended to diversify the Group's revenue sources. Revenue from the NOVUM business line reported by the Group in 2015 was PLN 10.1m, up 38% year on year, as the Group advanced more than 9 thousand NOVUM cash loans with a net value of PLN 29m.

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

The Articles of Association of KRUK Espana S.L. of Madrid ("KRUK Espana") were executed on November 17th 2015. KRUK Espana is a wholly-owned subsidiary of KRUK S.A., which holds 100 KRUK Espana shares with a par value of EUR 500 per share and the total value of EUR 50,000, representing 100% of KRUK Espana's share capital and conferring the right to the same proportion of votes at its General Meeting. The company's principal business activities consist in credit management services, collection of debt portfolios purchased by the KRUK

Group in Spain and other European countries, as well as debt trading.

The Articles of Association of KRUK Italia S.r.l of Milan ("KRUK Italia") were executed on November 13th 2015. KRUK Italia is a wholly-owned subsidiary of KRUK S.A., which holds 100 KRUK Italia shares with a par value of EUR 500 per share and the total value of EUR 50,000, representing 100% of KRUK Italia's share capital and conferring the right to the same proportion of votes at its General Meeting. The company's principal business activities consist in credit management services, and collection of debt portfolios purchased by the KRUK Group in Italy and other European countries.

The Articles of Association of ItaCapital S.r.l of Milan ("ItaCapital") were executed on November 13th 2015. ItaCapital is a wholly-owned subsidiary of KRUK S.A., which holds 20 ItaCapital shares with a par value of EUR 500 per share and the total value of EUR 10,000, representing 100% of ItaCapital's share capital and conferring the right to the same proportion of votes at its General Meeting. ItaCapital is a special-purpose securitisation vehicle whose business consists chiefly in investing in debt or debt-backed assets.

### **3.8 Non-recurring factors and events**

In 2015, the Company's business was not affected by any non-recurring factors or events.

### **3.9 Material events after December 31st 2015**

In the period from January 1st 2015 to the date of issue of this report, the following events took place.

On February 4th 2016, KRUK S.A.'s subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura NS FIZ, "Buyer") executed a debt purchase

agreement ("Agreement") with Santander Consumer Bank S.A. ("Bank"), a company of the Santander Group. As a result, the total estimated value of all agreements executed by the KRUK Group and the Santander Group between May 16th 2015 and the date of this report reached PLN 77m, thus exceeding 10% of the KRUK Group's revenue for the previous four financial quarters, which satisfies the materiality criterion. The highest-value agreement executed in that period was the Agreement between Prokura NS FIZ and Santander Consumer Bank S.A. referred to above. Under the Agreement, Prokura NS FIZ purchased from the Bank a portfolio of unsecured retail debts with an aggregate nominal value of PLN 327m for a price of PLN 51.9m ("Price"). For more information, see Current Report No. 6/2016 of February 4th 2016.

On February 5th 2016, KRUK S.A. executed an annex ("Annex") to the revolving credit facility agreement with an entity of the BNP Paribas Group, namely Bank BGŻ BNP Paribas S.A. of Warsaw ("Bank"). As a result, the total estimated value of all agreements executed between the KRUK Group and the BNP Paribas Group between April 18th 2015 and the date of this report reached PLN 74.9m, thus exceeding 10% of the KRUK Group's revenue for the previous four financial quarters, which satisfies the materiality criterion. In terms of value, the largest of these agreements was the Annex to the revolving facility agreement ("Agreement"), signed on October 3rd 2014 between the Company and the Bank, as announced in Current Report No. 15/2015 of April 17th 2015. Under the Annex, the Bank advanced to the Company a credit facility in totalling PLN 100m. For more information, see Current Report No. 8/2016 of February 5th 2016.

On February 8th 2016, KRUK S.A. executed a loan agreement with its subsidiary KRUK Česká a Slovenská republika s.r.o. ("Subsidiary"), as a result of which the total value of agreements executed between the Subsidiary and other companies of the KRUK Group ("Group") over the past 12 months reached PLN 57.2m, and thus exceeded 10% of the Group's revenue. The highest-value agreement executed in that period was a loan cancellation agreement of December 31st 2015 ("Agreement"). Under the Agreement, the Company cancelled the Subsidiary's liabilities of CZK 120.91m (PLN 19.07m, as translated at the mid-exchange rate quoted by the NBP for December 31st 2015). For more information, see Current Report No. 9/2016 of February 8th 2016.

### **3.10 Executed agreements**

#### **3.10.1. Material agreements**

This section lists material agreements executed by KRUK S.A. in 2015. Agreements concluded by other Group companies are presented in detail in the Directors' Report on the operations of the KRUK Group.

#### **Loan agreement executed by KRUK S.A. and KRUK Romania S.r.l on July 2nd 2015**

On July 2nd 2015, KRUK S.A. and KRUK S.A.'s subsidiary KRUK Romania S.r.l ("KRUK Romania") entered into a loan agreement, as a result of which the total value of agreements executed between KRUK Romania and other companies of the KRUK Group between June 16th

2014 and the date of this report reached PLN 52.8m, and thus exceeded 10% of the Group's revenue. The highest-value agreement executed in that period was the loan cancellation agreement of December 30th 2014 ("Agreement").

Under the Agreement, the Company cancelled KRUK Romania's liabilities of RON 21.08m (PLN 20.30m, as translated at the mid-exchange rate quoted by the NBP for December 30th 2014). For more information, see Current Report No. 40/2015 of July 2nd 2015.

### **Loan agreement executed between KRUK S.A. and InvestCapital Malta Ltd. on December 28th 2015**

On December 28th 2015, KRUK S.A. and KRUK S.A.'s subsidiary InvestCapital Malta Ltd. ("InvestCapital") entered into a loan agreement, as a result of which the total value of agreements executed between InvestCapital and other companies of the KRUK Group between the date of Current Report No. 72/2014, that is December 29th 2014, and the date of this report reached PLN 61m, and thus exceeded 10% of the Group's revenue. The highest-value agreement executed in that period was the loan agreement referred to above ("Agreement"). Under the Agreement, the Company advanced a loan to InvestCapital for the financing of its day-to-day operations. The loan was granted for a period from December 28th 2015 to the final repayment date set at December 21st 2016. The amount of the loan is EUR 8m (PLN 34m, as translated at the mid-exchange rate quoted by the NBP for December 28th 2015). For more information, see Current Report No. 92/2015 of December 28th 2015.

### **Share capital increase at InvestCapital Ltd.**

On November 18th 2015, the share capital of Malta-based InvestCapital Ltd. ("InvestCapital"), KRUK S.A.'s subsidiary, was increased from PLN 225,940,000 to PLN 370,940,000, through an issue of 1,450,000 new shares with a par value of PLN 100 per share, and a total par value of PLN 145,000,000. All new shares were subscribed for by KRUK S.A. For more information, see Current Report No. 72/2015 of November 18th 2015.

#### **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**

### **Amendment to the credit facility agreement executed by KRUK S.A. with BGŻ BNP Paribas Bank Polska S.A. on October 3rd 2014**

On September 30th 2015, the Company ("Borrower") and BGŻ BNP Paribas Polska S.A. ("Bank") executed Amendment No. 1 ("Amendment") to the revolving credit facility agreement ("Credit Facility Agreement"). Under the Amendment, the Bank increased the credit facility amount granted to the Borrower to PLN 50m ("Credit Facility"), including up to PLN 20m that

can be drawn in the euro. The Amendment extended the purpose of the financing and defined it as financing or refinancing of up to 80% of the purchase price of debt portfolios acquired on the Polish, Romanian, Czech, Slovak or German markets by the Borrower and its subsidiaries: SeCapital S.à r.l. and Non-Standard Securitisation Closed-End Investment Funds ("Funds"): RoCapital IFN S.A., KRUK Česká a Slovenská republika s.r.o., KRUK Deutschland GmbH, InvestCapital Malta. The new final repayment date for the Credit Facility was set for April 3rd 2020. The Credit Facility's interest rate was set on an arms' length basis, at 3M WIBOR or 3M EURIBOR plus bank margin.

Following the Amendment, 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 proceeds from the Credit Facility granted under the Credit Facility Agreement;
- a financial pledge under Luxembourg law over shares in a SeCapital S.à r.l. compartment, where SeCapital S.à r.l. or the Funds (RoCapital IFN S.A., KRUK Česká a Slovenská republika s.r.o., KRUK Deutschland GmbH or InvestCapital Malta Ltd.) use the Credit Facility to finance or refinance purchases of debt portfolios; or
- a financial pledge under Malta law over the Borrower's shares in a cell of InvestCapital Malta Ltd., where InvestCapital Malta Ltd. uses the Credit Facility to finance or refinance purchases of debt portfolios;
- a power of attorney to the Borrower's accounts held with the Bank.

The collateral for the Bank's receivables under the Credit Facility Agreement is a pledge under Luxembourg law over the Company's shares in SeCapital S.à r.l. As at December 31st 2015, the pledge existed over 26,904 Class D shares in SeCapital S.à r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 29,594,400.

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.

After December 31st 2015, on February 5th 2016, the Company ("Borrower") and BGŻ BNP Paribas S.A. ("Bank") executed Amendment No. 2 ("Amendment No. 2") to the multi-purpose credit facility agreement, whereunder the Bank granted to the Borrower a credit facility of up to PLN 100m, including in the euro, up to the euro equivalent of PLN 100m (the "Credit Limit"). In the period between April 1st 2017 and the final maturity date (set for December 31st 2020), the Credit Limit will be reduced quarterly by PLN 6.25m.

The facility is to be used for the financing of the Company's day-to-day business, understood as the financing or refinancing of up to 80% of the purchase price/instalment of the purchase price of debt portfolios acquired on the Polish, Romanian, Czech, Slovak or German markets by the Borrower or selected entities of the KRUK Group.

The Credit Facility bears interest at a variable rate based on 3M WIBOR plus bank margin (for amounts drawn in PLN) or 3M EURIBOR plus bank margin (for amounts drawn in EUR).

Following Amendment No. 2, 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 proceeds from the Credit Facility;
- a financial pledge under Luxembourg law over the Borrower's shares in a SeCapital S.à r.l. compartment, or a financial pledge under Luxembourg law over InvestCapital Malta Ltd.'s shares in a SeCapital S.à r.l. compartment, or a financial pledge under Malta law over the Borrower's shares in a cell of InvestCapital Malta Ltd.;
- a power of attorney to the Borrower's accounts held with the Bank;
- declaration of the Company's submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure.

Other terms and conditions of the Agreement do not materially differ from those commonly used in agreements of such type.

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

On October 16th 2015 (as announced by the Company in Current Report No. 58/2015 of October 16th 2015), an annex was signed to the trilateral revolving credit facility agreement concluded by the Company and its subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ", "Borrower") with Bank Zachodni WBK S.A. ("Bank"), as amended ("Prokura Agreement"). Under the annex, the total credit facility amount was reduced to PLN 20m, individual limits were replaced with one limit, for which the availability end date and the final repayment date were set for October 31st 2020.

In connection with the annex to the Prokura Agreement, on October 16th 2015 the Company concluded a surety agreement ("Surety Agreement") with the Bank, covering Prokura's liabilities 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. *Sureties*.

On October 16th 2015 (as announced by the Company in Current Report No. 58/2015 of October 16th 2015), the Company ("Borrower") and Bank Zachodni WBK S.A. executed an annex to the revolving credit facility agreement of April 8th 2011, as amended (the "Credit Facility Agreement"). Under the annex, the existing three credit facilities were replaced with two credit facilities:

- credit facility in the facility account for up to PLN 65m or its euro equivalent, with the availability end date and the final repayment date set for October 31st 2020;
- additional credit facility in the facility account for up to PLN 55m or its euro equivalent, with the availability end date and the final repayment date set for October 31st 2018. The annex also stipulates that the Borrower may use the credit facility for up to PLN 120m (or



its euro equivalent) to refinance or finance debt portfolio purchases in Poland, Romania, the Czech Republic, Slovakia and Germany.

The annexes provide for alternative forms of security which, upon satisfying certain conditions, may be used to secure receivables under the Prokura Agreement and the Credit Facility Agreement, i.e.:

- a pledge under Luxembourg law over InvestCapital Malta Ltd.'s shares in a compartment of SeCapital S.à r.l.,
- a pledge under Malta law over the Borrower's shares in a cell of InvestCapital Malta Ltd.

The Bank's receivables 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 2015, the 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.

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.

### **Credit facility agreement executed by Prokura NS FIZ and KRUK S.A. with mBank S.A. on July 2nd 2015**

On July 2nd 2015, KRUK S.A. and its subsidiary Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("Prokura NS FIZ", "Borrower") entered into a trilateral agreement with mBank Spółka Akcyjna ("Bank") on a revolving credit facility ("Credit Facility") for the total amount of up to PLN 100m ("Credit Facility Agreement") to be used to finance or refinance debt portfolios purchased by the Borrower, up to 75% of the purchase price/instalment of the purchase price of a portfolio (as announced by the Company in Current Report No. 39/2015 of July 2nd 2015). The Bank granted the Credit Facility to the Borrower for the period from July 2nd 2015 to July 1st 2020 ("Final Repayment Date"). The Credit Facility amount will be PLN 100m in the period from July 2nd 2015 to January 1st 2018, to be reduced quarterly, in the period from January 2nd 2018 to July 1st 2020, by PLN 10m in the first six quarters and by PLN 8m in the remaining four quarters. The Borrower will repay the Credit Facility by the Final Repayment Date, together with all accrued interest, fees and commissions and other costs payable under the Credit Facility Agreement. The repayments will be made in quarterly instalments. The Credit Facility's interest rate was set on an arms' length basis, at a rate equal to the WIBOR rate for one-month interbank deposits in PLN, plus bank margin.

Under the Credit Facility Agreement, the repayment of the Bank's receivables is secured with:

- a surety under civil law issued by the Company, covering the Borrower's liabilities under the Credit Facility Agreement;
- a power of attorney to the Borrower's bank account;
- a financial pledge over the Borrower's bank account;
- a power of attorney to the Company's accounts held with the Bank;
- a registered pledge under Polish law over the Borrower's portfolios (refinanced/financed by the Bank or other – as additional security).

In connection with the Credit Facility Agreement, on July 2nd 2015, Prokura NS FIZ and the Bank executed an agreement on a financial pledge over rights to funds in Prokura NS FIZ's bank account, and, on August 19th 2015, an agreement on a registered pledge over a set of rights (Prokura NS FIZ's debt portfolio). As at December 31st 2015, the carrying amount of the registered pledge in KRUK S.A.'s accounting books was PLN 2,617,964.

In connection with the Credit Facility Agreement, on July 2nd 2015, the Company and the Bank executed a surety agreement ("Surety Agreement"), whereunder the Company issued a surety for the Borrower's liabilities towards the Bank under the Credit Facility Agreement, thus becoming a joint and several debtor in respect of the liabilities. The Surety Agreement is described in detail in Section 3.10.4 *Sureties*.

The Credit Facility Agreement does not provide for any contractual penalties to be imposed on the Company other than interest on overdue debt.

The other provisions of the Credit Facility Agreement, including in particular the provisions relating to default interest and termination of the Credit Facility Agreement, do not differ from standard provisions used in agreements of such type.

### **Termination of credit facility and loan agreements**

In 2015, the KRUK Group companies, except for Novum Finance Sp. z o.o. and KRUK S.A. in the NOVUM loans segment, did not terminate any credit facility or loan agreements.

### ***Issue of debt securities***

In 2015, the Company issued unsecured bonds with a total nominal value of PLN 243m, which included:

- public offering of 133,000 Series W<sup>1</sup> bonds with a total nominal value of PLN 13m,
- private placement of 100,000 Series Z<sup>1</sup> bonds with a total nominal value of PLN 100m,
- private placement of 100,000 Series AA<sup>1</sup> bonds with a total nominal value of PLN 100m,
- public offering of 300,000 Series W<sup>2</sup> bonds with a total nominal value of PLN 30m.

The bonds were issued at par.

Table 5. Bond issues in 2015

Bond Series	Nominal value (PLN)	Issue date	Redemption date	Interest rate	Interest payment
W <sup>1</sup> Series	13,359,000	Jun 8 2015	Jun 8 2020 60 months	Fixed: 4.5%	Every 3 months
Z <sup>1</sup> Series	100,000,000	Jun 8 2015	Jun 8 2021 (72 months)	3M WIBOR + 3.10%	Every 3 months
AA <sup>1</sup> Series	100,000,000	Nov 13 2015	Nov 13 2021 (72 months)	3M WIBOR + 3.00%	Every 3 months
W <sup>1</sup> Series	30,000,000	Nov 26 2015	Nov 26 2020 60 months	3M WIBOR + 2.90%	Every 3 months

Source: the Company.

For the bond issues made in 2015, the Company did not specify any issue objectives under the Act on Bonds. The issue proceeds were used to finance debt purchases by the Group, refinance the Company's or the Group's debt, or finance the Group's growth through acquisitions.

Detailed information on the bond issues carried out in 2015 is presented below.

### Issue of Series W<sup>1</sup> bonds

On the basis of the Management Board's resolutions which came into force on May 7th 2015 and June 8th 2015, the Company issued 133,599 bonds with a nominal value of PLN 100 per bond. The total value of the issue was PLN 13m. The bonds are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

### Issue of Series Z<sup>1</sup> bonds

On the basis of the Management Board's resolutions which came into force on May 5th 2015 and June 8th 2015, the Company issued 100,000 bonds with a nominal value of PLN 1,000 per bond. The total value of the issue was PLN 100m. The bonds are due 72 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated, or at the option of a bondholder in specific circumstances defined in the terms and conditions of the bonds, or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

### Issue of Series AA<sup>1</sup> bonds

On the basis of the Management Board's resolutions which came into force on October 28th 2015 and November 9th 2015, the Company issued 100,000 bonds with a nominal value of PLN 1,000 per bond. The total value of the issue was PLN 100m. The bonds are due 72 months

from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or in other cases set out in the Act on Bonds, or at the option of a bondholder in specific circumstances defined in the terms and conditions of the bonds, or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

### Issue of Series W<sup>2</sup> bonds

On the basis of the Management Board's resolutions which came into force on November 13th 2015 and November 26th 2015, the Company issued 300,000 bonds with a nominal value of PLN 100 per bond. The total value of the issue was PLN 30m. The bonds are due 60 months from the allotment date, but may be redeemed prior to maturity if the Company is liquidated or in other cases set out in the Act on Bonds, or at the option of the Issuer, in accordance with the terms and conditions of the bonds.

### Issue of Series AA<sup>2</sup> bonds

On February 25th 2016, the Company's Management Board passed a resolution to issue Series AA<sup>2</sup> bonds due within 72 months from the allotment date, with a total value of up to PLN 150m.

### Redemption of bonds

In 2015, the Company redeemed the debt securities specified in Table 6 at their maturity dates.

Table 6. Bonds redeemed by the Company in 2015

Bond Series	Redemption date	Number of bonds redeemed	Nominal value (PLN)
I <sup>3</sup>	Jan 5 2015	17,000	17,000,000
M <sup>I</sup> + N <sup>I</sup>	Mar 21 2015 and Sep 21 2015	24,000	24,000,000

Source: the Company.

### Liabilities under bonds

As at December 31st 2015, the liabilities under outstanding bonds issued by the Company by the end of 2015 stood at PLN 692m (at nominal value.)

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

### Loans advanced by KRUK S.A. to its subsidiaries

In 2015, KRUK S.A. granted loans to its subsidiaries in the total amount of PLN 124.4m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates). The loans were granted to KRUK Romania S.r.l of Bucharest, KRUK Česká a Slovenská republika s.r.o. of Hradec Králové, ERIF Business Solutions Sp. z o. o. of Wrocław, RoCapital I.F.N. of Bucharest,

Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław and InvestCapital Malta Ltd. of Malta. Interest rate was set at 1M or 3M WIBOR (for PLN loans), 1M or 3M PRIBOR (for CZK loans), 1M or 3M EURIBOR (for EUR loans) and 1M or 3M ROBOR (for RON loans) plus margin. The agreed maturities ranged from 350 days to one year.

#### **Loans advanced to KRUK Romania S.r.l of Bucharest**

The loans were granted to KRUK Romania S.r.l of Bucharest to finance its operating and investing activities. The loans totalled PLN 38.4m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates).

Some of the loans advanced in 2014 and 2015 – PLN 20.8m plus interest of PLN 0.6m, that is PLN 21.4m in aggregate (as translated into PLN at the exchange rate quoted by the NBP for the date of the debt cancellation agreements) – were cancelled.

As at December 31st 2015, all liabilities of KRUK Romania S.r.l towards KRUK S.A. under loans, including interest, totalled PLN 19.3m (as translated into PLN at the mid exchange rate quoted by the NBP for December 31st 2015). An impairment loss was recognised for the full amount of receivables under the loans.

#### **Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Králové**

Loans advanced to KRUK Česká a Slovenská republika s.r.o. of Hradec Králové were intended for the financing of the company's operating and investing activities. The loans totalled PLN 23.9m (as translated into PLN at the exchange rates quoted by the NBP for the loan dates).

Interest of PLN 2.93m on loans advanced in 2011 and 2013 and some of the loans made in 2014 and 2015, namely principal of PLN 13.42m plus interest of PLN 0.8m, that is PLN 17.15m in aggregate (as translated into PLN at the exchange rate quoted by the NBP for the date of the debt cancellation agreements, i.e. December 31st 2015) – were cancelled.

As at December 31st 2015, all liabilities of KRUK Česká a Slovenská republika s.r.o. towards KRUK S.A. under loans totalled PLN 18.75m plus interest (as translated into PLN at the mid-exchange rate quoted by the NBP for December 31st 2015). An impairment loss was recognised for the full amount of receivables under the loans.

#### **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 2015 was PLN 0.1m. As at December 31st 2015, ERIF Business Solutions Sp. z o.o.'s outstanding liabilities towards KRUK S.A. under loans, including interest, amounted to PLN 2.8m.



### **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 loans from other subsidiaries. As at December 31st 2015, KRUK S.A.'s outstanding liabilities towards Novum Finance Sp. z o.o. under loans stood at PLN 0.3m.

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

In 2015, KRUK S.A. advanced a total of 9,437 Novum cash loans, with a net value of PLN 29m. As part of the Novum project, consumer loans of up to PLN 10,000 were granted for periods from 3 to 30 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 2015, KRUK S.A.'s revenue from the NOVUM project was PLN 8.6m.

### **Loan advanced to RoCapital I.F.N. of Romania**

Loan advanced to RoCapital I.F.N. of Romania was intended for the financing of the company's business. In 2015, RoCapital I.F.N. received a loan of PLN 8.9m (as translated at the exchange rate quoted by the NBP for the loan date).

As at December 31st 2015, RoCapital I.F.N.'s outstanding liabilities towards KRUK S.A. under loans amounted to PLN 8.9m.

### **Loans advanced to InvestCapital Malta Ltd. of Malta**

Loans advanced to InvestCapital Malta Ltd. of Malta were intended for the financing of the company's business. In 2015, loan agreements were signed for a total amount of PLN 52.2m (as translated at the exchange rate quoted by the NBP for the loan date).

As at December 31st 2015, InvestCapital Malta Ltd.'s outstanding liabilities towards KRUK S.A. under loans stood at PLN 16.6m.

### **Loans advanced to Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław**

Loans advanced to Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa of Wrocław were intended for the financing of the company's operating activities. The aggregate amount of the loans advanced to the company in 2015 was PLN 1m.

As at December 31st 2015, Kancelaria Prawna RAVEN Krupa & Stańko spółka komandytowa's outstanding liabilities towards KRUK S.A. under loans stood at PLN 1m.

### **Loans received by the Company from subsidiaries – loan from RoCapital I.F.N. of Romania**

Loan from RoCapital I.F.N. of Romania was intended for the financing of the Company's business. In 2015, a loan of PLN 14.4m (as translated at the exchange rate quoted by the NBP for the loan date) was received.

As at December 31st 2015, the Company had no outstanding liabilities towards RoCapital I.F.N. under loans as the loan was repaid in full in 2015.

### **Guarantees**

On December 2nd 2015, KRUK S.A. signed an annex to a bank guarantee agreement with Bank Zachodni WBK S.A. and received Annex 1 to the bank guarantee of December 17th 2014 issued to secure the payment of all liabilities towards DEVCO Sp. z o.o. under a lease agreement for a part of an office building, executed between KRUK S.A. and DEVCO Sp. z o.o. Under the annex, the guarantee was extended until December 30th 2016. 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. In accordance with the terms of the annex to the bank guarantee agreement, on January 28th 2016, the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to EUR 0.4m and PLN 0.3m. The Bank may request the court to issue an enforcement order to this declaration by December 30th 2021.

### **Sureties**

Following the execution on July 2nd 2015 of a revolving credit facility agreement by Prokura NS FIZ, the Company and mBank S.A., on July 2nd 2015, the Company entered into a surety agreement with mBank S.A., whereunder KRUK S.A. issued a surety for the liabilities of Prokura NS FIZ under the revolving credit facility agreement, thus becoming a joint and several debtor in respect of the liabilities (as announced by KRUK S.A. in Current Report No. 39/2015). The surety was issued for up to PLN 150m. It will expire not later than on July 1st 2023.

Following the execution on October 16th 2015 of an annex to the trilateral revolving credit facility agreement of February 18th 2013 ("Prokura Agreement") by the Company, Prokura NS FIZ and Bank Zachodni WBK S.A. ("Bank"), on October 16th 2015 the Company and Bank Zachodni WBK S.A. entered into a new surety agreement ("Surety Agreement") under which the Company issued a surety for the liabilities of Prokura NS FIZ towards the Bank under the Prokura Agreement, subject to the provisions of the annex of October 16th 2015 to the Prokura Agreement, thus becoming a joint and several debtor in respect of the liabilities (as announced by the Company in Current Report No. 59/2015 of October 16th 2015). The Surety Agreement rendered null and void the surety agreement of October 28th 2014 between the Company and the Bank. In accordance with the terms of the Surety Agreement, on December 16th 2015, the Company made a declaration of submission to enforcement under Art. 777.1.5 of the Code of Civil Procedure, for up to PLN 30m. The Bank may request the court to issue an enforcement order to this declaration by October 31st 2023. The surety was issued for an indefinite time, until the liabilities under the Prokura Agreement expire.

### 3.11 Development directions and prospects

Contents of the strategy announced in 2015

**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 2.2 KRUK's growth matrix – existing business lines and potential for further growth across products and geographical regions

Obecne linie biznesowe	Polska	Rumunia	Czechy	Słowacja	Niemcy	Włochy	Hiszpania	Portugalia	...
Zakup portfeli wierzytelności	Konsumenckie	✓	✓	✓	✓	✓			
	Hipoteczne	✓	✓						
	Korporacyjne	✓	✓						
Inkaso	✓	✓	✓	✓					
Pożyczki konsumenckie	✓								
Informacja gospodarcza	✓								

Green tick – as at the announcement of the 2015–2019 strategy

Blue tick – implementation of growth strategy by product and geographical region

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. Based on nominal value at the time of acquisition, the purchased debt portfolio was PLN 26.6bn as at the end of 2015, and the number of cases exceeded 3.7 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 (1.0m per year on average). By the end of 2015, the Group purchased 456 debt portfolios and performed over 2,800 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.

## Strategy implementation progress in 2015

### Strategy implementation

Strategic objectives	Key initiatives implemented in 2015
<b>Product range development and growth in geographical regions</b>	<ul style="list-style-type: none"> <li>- purchase of the first debt portfolio on the German market</li> <li>- establishment of operations and purchase of the first debt portfolio on the Italian market</li> <li>- establishment of operations in Spain</li> <li>- opening of the secondary market of debt management through an investment agreement executed with the P.R.E.S.C.O. Group for the purchase of its Polish debt portfolio</li> </ul>
<b>Improvement of efficiency</b>	<ul style="list-style-type: none"> <li>- improvement of control and audit models</li> <li>- Lean Six Sigma optimisation projects</li> <li>- projects relating to the employee suggestion system</li> <li>- improvement of the systematic approach to risk</li> </ul>
<b>Improvement of research and analyses</b>	<ul style="list-style-type: none"> <li>- improvement of standards for building scoring models</li> <li>- improvement of data warehouses</li> <li>- developing a reporting tool for data visualisation</li> </ul>

### 3.12 Capital expenditure programme

#### 3.12.1. Capital expenditure

In 2015, the main items of capital expenditure made by the Company included PLN 2.7m spent on new vehicles (including under finance lease agreements) and PLN 2.2m spent on plant and equipment. The Company also made material investments of PLN 4.7m in licences and computer software, including PLN 3.8m invested in proprietary software.

#### 3.12.2. Investments within the Group

In 2015, KRUK increased and reduced the share capital of its subsidiaries:

- SeCapital S.à r.l. – share capital increase by a total of PLN 51.3m;
- SeCapital S.à r.l. – share capital reduction by a total of PLN 112.7m;
- InvestCapital Malta Ltd. – share capital increase by a total of PLN 387.2m;
- KRUK Romania S.r.l. of Bucharest – share capital increase effected by cancelling liabilities under loans (including interest) for a total of PLN 21.4m (translated at the mid exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015), and trade liabilities totalling PLN 1.74m (translated at the exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015);
- KRUK Česká a Slovenská republika s.r.o. of Hradec Králové – cancelling liabilities under loans (including interest) for a total of PLN 17.15m (translated at the mid exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015), and trade liabilities totalling PLN 1.91m (translated at the mid exchange rate quoted by the NBP for the agreement date, i.e. December 31st 2015);



- KRUK Deutschland GmbH – additional contributions to statutory reserve funds totalling PLN 15.3m (translated at the mid exchange rate quoted by the NBP for the contribution date);
- KRUK Italia S.r.l – additional contributions to statutory reserve funds totalling PLN 52 thousand (translated at the mid exchange rate quoted by the NBP for the contribution date);
- ItaCapital S.r.l – additional contributions to statutory reserve funds totalling PLN 0.2m (translated at the mid exchange rate quoted by the NBP for the contribution date).

Novum Finance Sp. z o.o. of Wrocław repaid 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. On March 17th 2014, liquidation proceedings were opened for Novum Finance Sp. z o.o. As at December 31st 2015, additional contributions to equity disclosed by Novum Finance Sp. z o.o. w likwidacji (in liquidation) stood at PLN 1.9m.

In 2015, InvestCapital Malta Ltd, a subsidiary, increased the share capital of SeCapital S.à r.l. by a total of PLN 185.1m.

### **Establishment of new foreign companies**

On November 13th 2015, KRUK S.A. subscribed for 100% of shares in KRUK Italia S.r.l of Milan, with a total par value of EUR 50 thousand. On November 17th 2015, the Articles of Association of KRUK Espana S.L. of Madrid were executed; Kruk S.A. holds 100% of shares in that company, with a total par value of EUR 50 thousand.

The companies' principal business activities consist in credit management services, management of debt portfolios purchased by the KRUK Group in European countries, including in particular Italy and Spain, as well as debt trading.

In 2015, ItaCapital S.r.l of Milan, a special purpose securitisation vehicle, was also established. On November 13th 2015, Kruk S.A. subscribed for 100% of shares in that company, with a total par value of EUR 10 thousand. The company's principal business activities primarily consist in investing in debt or debt-backed assets.

On December 10th 2015, the Articles of Association of ProsperoCapital S.à r.l. of Luxembourg were executed. The company's principal business activities consist in investing in debt or debt-backed assets. KRUK S.A. holds 100% of shares in the company's share capital.

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

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

Inadequate work quality and insufficient number of experienced employees may lead to the 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 Company 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 main 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 the execution of a transaction on an arm's length basis, which may increase the Company's tax liabilities.

#### **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 its 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 managing debt owed by natural persons. 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, with various degrees of difficulty and delinquency statuses.



Having acquired by the end of 2015 as many as 456 debt portfolios and having carried out over 2,800 debt portfolio valuations, the KRUK Group has gained extensive experience in estimating the fair values of such portfolios. The information base it has compiled allows the Company 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 in order to mitigate credit risk is pursuing an appropriate credit policy vis à vis its clients, which includes, among other things:

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

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

Liquidity risk management tools used at the Company and 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 bonds.

#### 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 of 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 Group takes every effort to build positive PR for the Company. Each year the Group 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, Romania 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 measuring its debt portfolios at amortised cost. 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 an increase in the portfolio value. All recoveries collected during the period are recognised as a decrease in the portfolio value.

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

#### **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 S.A. is the parent of the KRUK Group and its financial and operating performance should be evaluated in the context of performance generated by the entire KRUK Group, after eliminating the transactions between the individual Group members which – from the Group's point of view – are neutral for its performance. The net profit generated by the Company on a standalone basis in 2015 was PLN 36m. A strong contribution to this figure came from finance income, including dividends paid to KRUK S.A. by other KRUK Group companies (neutral to the performance of the Group as a whole).

#### **4.3. Revenue by product**

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

In 2015, the Company's revenue was PLN 116m, which means an improvement of 17% year on year, fuelled primarily by a 30% increase in revenue from purchased debt portfolios. At the same time, revenue from credit management services remained relatively stable (down 2%), while other revenue rose by 54%.

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

Table 7. Revenue by product

<i>PLN '000</i>	Jan 1 2015 - Dec 31 2015	Jan 1 2014 - Dec 31 2014
Revenue	115,739	98,837
Purchased debt portfolios	56,678	43,514
Collection services	45,246	46,359
Other	13,815	8,964
Direct and indirect costs	(90,164)	(86,373)
Purchased debt portfolios	(12,913)	(11,571)
Collection services	(73,075)	(72,096)
Other	(4,175)	(2,706)
Gross profit	25,575	12,464
Purchased debt portfolios	43,765	31,943
Collection services	(27,829)	(25,737)
Other	9,640	6,258
Administrative expenses	(67,066)	(50,184)
Depreciation and amortisation expense	(6,538)	(7,606)
Other income	1,049	1,031
Other expenses (unallocated)	(6,624)	(4,023)
Finance income/costs	94,122	360,255
Profit before tax	40,519	311,937
Income tax	(4,676)	(555)
Net profit	35,843	311,382

Source: the Company.

#### 4.4. Geographical structure of sales

The Group operates in three geographical areas: in Poland, Romania and the other foreign markets (the Czech Republic, Slovakia, Germany and Italy).

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



Table 8. Geographical structure of sales

<i>PLN '000</i>	Jan 1 2015 - Dec 31 2015	Jan 1 2014 - Dec 31 2014
Revenue	115,739	98,837
Poland	73,188	65,602
Romania	40,204	30,980
Other foreign markets	2,346	2,254

Source: the Company.

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

Table 9. Structure of assets and liabilities in the statement of financial position

As at December 31st 2015		Period ended Dec 31		
PLN '000		Note	Dec 31 2014	Dec 31 2014
Assets				
	Cash and cash equivalents	21	5,206	24 515
	Trade receivables from related entities	20	10,562	9 889
	Trade receivables from other entities	20	3,029	4 120
	Investments in debt portfolios and loans	17	94,725	119 237
	Other receivables	20	15,107	161 108
	Inventories	19	232	282
	Property, plant and equipment	14	14,027	12 125
	Intangible assets	15	10,735	9 639
	Deferred tax asset	18	2,863	3 449
	Investments in subsidiaries	16	1,283,073	941 496
	Other assets		2,118	1 666
Total assets			1,441,677	1 287 526
Equity and liabilities				
Liabilities				
	Hedge derivatives	21	589	2 668
	Trade and other payables	27	26,095	14 414
	Employee benefit obligations	25	22,363	18 716
	Current tax liability		3,178	1 724
	Liabilities under borrowings and other debt instruments	24	889,916	785 126
Total liabilities			942 141	822,648
Equity				
	Share capital	22	17,398	17 111
	Share premium		64,382	53 247
	Cash flow hedging reserve		0	0
	Other capital reserves		68,957	55 624
	Retained earnings		348,800	338 895
Total equity			499 537	464,877
Total equity and liabilities			1 441 677	1,287,526

Source: the Company.

In value terms, the highest growth was reported in investments in subsidiaries. The increase in equity was attributable to dividends paid to KRUK S.A. by other Group companies. The increase in liabilities was attributable to the issuance of bonds in 2015.

#### 4.6. Cash flows

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

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

For a description of financial risk management, see "Risk management system". The Company holds cash in PLN, EUR, RON and CZK.

The main sources of the Company's operating cash flows are related to changes in purchased debt portfolios, disclosed under Movements in purchased debt portfolios. Below are presented details of cash flows related to expenditure on debt portfolios and cash recoveries from debtors.

Table 10. Purchased debt portfolios

Purchased debt portfolios as at Jan 1 2015	42,823
Purchase of debt portfolios	10
Cash recoveries	(52,578)
Revenue from debt purchase (interest and revaluation)	56 678
Purchased debt portfolios as at Dec 31 2015	<u>46,933</u>

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 2015.

#### 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 2015.

#### **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, 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 2015, the Company was party to three contracts entered into in accordance with the terms of interest rate swap (IRS) transactions executed between the Company and Bank Zachodni WBK in 2013:

- a contract entered into 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 bonds with a nominal value of PLN 40m. Payments are made every three months (interest period). Under the contract, the Company pays at a fixed rate of 3.28%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. The contract will expire on March 21st 2016.
- a contract entered into 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 bonds with a nominal value of PLN 44m. Payments are made every three months (interest period). Under the contract, the Company pays at a fixed rate of 3.50%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. The contract will expire on March 21st 2016.

a contract entered into 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 P1 bonds with a nominal value of PLN 40m. Payments are made every three months (interest period). Under the contract, the Company pays at a fixed rate of 3.30%, while Bank Zachodni WBK pays at a floating rate equal to 3M WIBOR. The contract will expire on June 6th 2016.

##### **Credit risk**

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

## Liquidity risk

Liquidity risk is the risk of potential difficulties that the Company and the Group may have with meeting its financial liabilities settled through 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 11. Assets relating to credit risk

PLN '000

	Dec 31 2015	Dec 31 2014
Financial instruments at fair value through profit or loss	44,431	39,884
Financial assets measured at amortised cost	2,502	2,939
Investment property	434	161
Loans	47,357	76,253
Receivables	28,698	175,117
<b>Total</b>	<b>123,423</b>	<b>294,354</b>

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 Group has sufficient liquidity to meet its liabilities as they fall due, without exposing the Company and its subsidiaries to a risk of loss or impairment of its reputation.

Liquidity risk management tools used at the Company and 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 bonds.

### **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 S.A. Management Board hereby presents the statement of compliance with corporate governance standards in 2015.

#### 5.1.1. Adopted code of corporate governance

In 2015, the Company applied 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 observed the corporate government standards set forth in the 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 information on 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 amended the abovementioned appendix in order to incorporate the amendments introduced by the 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.

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

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

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

As per the Management Board's statement, in 2015 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 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 considered the development of a remuneration policy and rules of defining that policy. The Management Board adopted the policy by Resolution No. 154/2015 on December 8th 2015.

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 2015, 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 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 explained that it was considering recording its general meetings and publishing the records on its website. Following the adoption by the Management Board of the statement of compliance with new corporate governance standards by the way of Resolution No. 1/2016, the Management Board declared compliance with the principle.

Regarding the obligation to run an English-language website, in 2015 the Company complied with that principle, with certain exceptions. In line with the representation made by the Company, the English version of its website contained 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 protected the interests of its existing shareholders. However, if the Company was advised by its shareholders of the need for more information available in English, it was prepared to publish on its website the English language version of all information specified in the Code. In the statement adopted by the Management Board by way of Resolution No. 1/2016, the Company declared availability of its website in English in compliance with Art. I.Z.1. of the Code.

## 5.2. Shareholding structure

5.2.1. Shareholders holding directly or indirectly significant holdings of shares in KRUK S.A.

Table 12 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at January 1st 2015, based on shareholder notifications received by the Company.

Table 12.12 Shareholders with significant holdings in KRUK S.A as at January 1st 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	9.20

(\*) 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 13 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at December 31st 2015.

Table 13.13 Shareholders with significant holdings in KRUK S.A as at December 31st 2015

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	2,026,927	11.65
Aviva OFE**	1,446,000	8.31
NN PTE*,**	1,950,000	11.21
Generali OFE**	1,100,000	6.32

(\*) Joint shareholding of N-N OFE and N-N DFE, managed by N-N PTE S.A. (\*\*) Data based on the list of shareholders holding 5% or more of total voting rights at the Annual General Meeting of KRUK S.A. held on June 23rd 2015.

Source: the Company.

Table 14 presents the shareholders holding directly or indirectly significant holdings in KRUK S.A. as at March 6th 2016.

Table 14.14 Shareholders with significant holdings in KRUK S.A as at March 6th 2016

Shareholder	Number of shares/voting rights	Ownership interest (%)
Piotr Krupa	2,016,927	11.51
Aviva OFE	1,446,000	8.26
NN PTE*,**	1,950,000	11.13
Generali OFE**	1,100,000	6.28

(\*) Joint shareholding of N-N OFE and N-N DFE, managed by N-N PTE S.A. (\*\*) Data based on the list of shareholders holding 5% or more of total voting rights at the Annual General Meeting of KRUK S.A. held on June 23rd 2015.

Source: the Company.

## 5.2.2. Changes in the shareholding structure in the reporting year

Below are described changes in significant holdings of KRUK S.A. shares in 2015.

- On May 21st 2015, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning sale transactions in KRUK S.A. shares executed on the Warsaw Stock Exchange, including ordinary transactions executed during trading sessions on May 14th 2015 in which he sold 7,000 shares at the average price of PLN 167 per share and a block trade on May 15th 2015 in which he sold 10,000 shares at the average price of PLN 163 per share.
- On July 16th 2015, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning a block trade executed on the Warsaw Stock Exchange on July 16th 2015, in which he sold 15,000 KRUK S.A. shares at the average price of PLN 162 per share.

- On November 20th 2015, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning sale transactions in KRUK S.A. shares including: a block trade executed on November 16th 2015 in which he sold 5,000 shares at the average price of PLN 190 per share; and ordinary transactions executed on the Warsaw Stock Exchange during trading sessions on November 16th 2015 in which he sold 500 shares at the average price of PLN 190 per share, on November 17th 2015 in which he sold 785 shares at the average price of PLN 190 per share, and on November 19th 2015 in which he sold 1,450 shares at the average price of PLN 188 per share.
- On December 15th 2015, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning the sale of 3,000 KRUK S.A. shares at the average price of PLN 170 per share in ordinary transaction executed during a trading session on the Warsaw Stock Exchange on December 14th 2015.
- Subsequent to the reporting period, on January 5th 2016, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A. and a major shareholder in the Company, concerning the sale of 10,000 KRUK S.A. shares at the average price of PLN 171.50 per share in a block trade executed on the Warsaw Stock Exchange on January 4th 2016.

### 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 adopted by way of 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 are 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 subscription for the 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 KRUK Group's consolidated results – EPS and EBITDA or ROE – reach predefined levels, according to the following criteria:

- Increase in 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, subscribed for 189,790 warrants, of which 165,233 warrants were converted into Series E Company shares in 2013–2015.

As at December 31st 2015, persons eligible under Tranche 1 held a total of 24,557 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 1 held a total of 21,291 subscription warrants. 168,499 warrants were converted into Series E Company 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 172,987 warrants were converted into Series E Company shares in 2013–2015.

As at December 31st 2015, persons eligible under Tranche 2 held a total of 28,771 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 2 held a total of 24,634 subscription warrants. 177,124 warrants were converted into Series E Company 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, of which 159,788 warrants were converted into Series E Company shares in 2015.

As at December 31st 2015, persons eligible under Tranche 3 held a total of 30,863 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 3 held a total of 20,687 subscription warrants. 169,964 warrants were converted into Series E Company shares.

#### **Tranche 4**

On July 3rd 2015, 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 2014, and determining the list of eligible persons under Tranche 4 for 2014. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of subscription warrants in Tranche 4 for 2014 had been fulfilled, and determined the list of eligible persons in Tranche 4 for the year.

Pursuant to the Resolution, the Supervisory Board allotted subscription warrants under the 2014 Management Stock Option Plan to the persons named in the lists, including Management Board Members. 262,817 subscription warrants were delivered to the eligible persons on July 7th 2015.

As at December 31st 2015, persons eligible under Tranche 4 held a total of 262,817 subscription warrants which carried the right to subscribe for the same number of Series E shares.

As at the issue date of this report, persons eligible under Tranche 4 held a total of 162,998 subscription warrants. 99,819 warrants were converted into Series E Company shares.

The number of warrants allotted to Management Board Members under Tranche 4 for 2014 is presented in Table 15.

Table 15. Number of warrants allotted to current Management Board Members under Tranche 4 for 2014

Name and surname	Position	Number of warrants granted under Tranche 4 for 2014
Urszula Okarma	Member of the Management Board	16,130
Agnieszka Kułton	Member of the Management Board	16,130
Iwona Słomska	Member of the Management Board	14,880
Michał Zasępa	Member of the Management Board	27,130

Source: the Company.

Table 16. Number of subscription warrants held by Management Board Members as at December 31st 2015

Name and surname	Position	Number of warrants
Urszula Okarma	Member of the Management Board	16,130
Agnieszka Kułton	Member of the Management Board	16,130
Iwona Słomska	Member of the Management Board	14,880
Michał Zasępa	Member of the Management Board	32,637

Source: the Company.

Table 17. Number of subscription warrants held by Management Board Members as at the date of issue of this report:

Name and surname	Position	Number of warrants
Urszula Okarma	Member of the Management Board	0
Agnieszka Kułton	Member of the Management Board	16,130
Iwona Słomska	Member of the Management Board	14,880
Michał Zasępa	Member of the Management Board	32,637

Source: the Company.

### 5.3.2. Incentive scheme for 2015–2019

On May 28th 2014, the Annual General Meeting of KRUK S.A. 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). Tranche 1 subscription warrants may not be exercised by their holders until at least 12 months after the subscription date. The right to subscribe for Series F shares may be exercised by holders of subscription warrants no later than on December 31st 2021.

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

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

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 list of eligible persons who are not Members of the Company's Management Board was subsequently amended and extended under the Management Board's Resolution No. 79/2015 of September 3rd 2015 and Resolution No. 113/2015 of October 29th 2015.

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

Information on dividend payments in the last five financial years is presented in Table 18.

Table 18. Historical information on dividends paid out to KRUK S.A. shareholders

Profit for the year	2010	2011	2012	2013	2014
Dividend payment date					July 24th 2015
Dividend per share (PLN)	-	-	-	-	1.5
Total dividend (PLNm)	-	-	-	-	25.9

Source: the Company.

Calendar of events related to dividend payment in 2015 is presented in Table 19.

Table 19 Calendar of events related to dividend payment in 2015

Date	
February 18th 2015	Management Board's resolution to recommend to the Company's Annual General Meeting distribution of dividend of PLN 1.5 per share from the net profit earned in the period January 1st–December 31st 2014
March 13th 2015	Supervisory Board's resolution to approve the Management Board's recommendation on the allocation of KRUK S.A.'s net profit for 2014
June 23rd 2015	Annual General Meeting's resolution on the allocation of KRUK S.A.'s 2014 net profit in line with the Management Board's recommendation
July 1st 2015	Dividend record date; the dividend to be paid on 17,291,773 KRUK S.A. shares
July 24th 2015	Dividend payment date

Source: the Company.

In the reporting period and as at the date of approval of this report, KRUK S.A. received a total of PLN 44.1m, PLN 149.4m and PLN 0.5m as profit distributions from SeCapital S.à r.l., a Luxembourg-based subsidiary InvestCapital Malta Ltd., a subsidiary, and Kancelaria Prawna Raven Krupa&Stańko sp. k., respectively.

Kancelaria Prawna Raven Krupa&Stańko sp. k. also paid PLN 66 thousand to its general partners as a profit distribution in 2015.

#### 5.4.2. Dividend policy

The Company does not have any defined dividend policy at the moment, but does not rule out implementing one in future. The Management Board may propose distribution of dividends in the future, but in each case the final decision in this respect will be made with due regard to the Group's strategic plans, growth prospects, investment financing requirements, as well as its current debt level and overall financial standing. The Management Board plans to recommend to the General Meeting that a dividend of PLN 2 per share be distributed to the shareholders from the 2015 profit.

### 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 – December 31st 2015, the Company's Management Board consisted of five members. Composition of the Management Board in 2015 is presented in Table 20.

Table 20. Composition of the Management Board of KRUK S.A. in 2015

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.

Since the Management Board's term of office expired on March 19th 2015, the Company's Supervisory Board appointed the Management Board members for another term of office by virtue of resolutions adopted on March 13th 2015.

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**

Table 21 presents Company shares or rights to Company shares held by Management Board members as at January 1st 2015.

Table 21 KRUK S.A. shares held by Management Board members as at January 1st 2015

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.

Apart from the changes in the number of shares held by Mr Piotr Krupa, President of the Management Board, described in the section entitled *Shareholding structure*, in the period from January 1st 2015 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 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 32 shares in KRUK S.A. on December 4th 2014, and 2,268 shares on January 14th 2015, in ordinary transactions executed at trading sessions on the Warsaw Stock Exchange.

In addition, on April 30th 2015 the Company received from Ms Urszula Okarma a notification of her acquisition of 9,507 Series E shares in the Company. According to the notification, the shares were acquired on April 30th 2015, when 9,507 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 9,507 Series C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

On April 30th 2015, the Company received a notification from Ms Agnieszka Kułton of her acquisition of 30,521 Series E shares in the Company. According to the notification, the shares were acquired on April 30th 2015, when 30,521 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 30,521 Series A, B and C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

On April 30th 2015, the Company received a notification from Ms Iwona Słomska of her acquisition of 8,257 Series E shares in the Company. According to the notification, the shares were acquired on April 30th 2015, when 8,257 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 8,257 Series C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.



On July 16th 2015, the Company received a notification from Ms Iwona Słomska, given under Art. 160.1 of the Act on Trading in Financial Instruments, of her sale of Company shares in ordinary transactions executed during trading sessions on the Warsaw Stock Exchange: 4,260 shares at the average price of PLN 160.10 per share on July 10th 2015, and 2,997 shares at the average price of PLN 160.37 per share on July 13th 2015.

On July 16th 2015, the Company received a notification from Mr Michał Zasępa, given under Art. 160.1 of the Act on Trading in Financial Instruments, of his sale of 3,000 KRUK S.A. shares at the average price of PLN 166.52 per share in an ordinary transaction executed during the trading session on the Warsaw Stock Exchange on July 15th 2015.

On July 16th 2015, the Company received a notification from Ms Agnieszka Kułton, given under Art. 160.1 of the Act on Trading in Financial Instruments, of her sale of 15,000 KRUK S.A. shares at the average price of PLN 162.00 per share in a block trade executed on the Warsaw Stock Exchange on July 15th 2015.

On July 16th and July 17th 2015, the Company received notifications from Urszula Okarma, given under Art. 160.1 of the Act on Trading in Financial Instruments, concerning transactions in KRUK S.A. shares in which she sold 20,000 shares at the average price of PLN 162.00 per share and 30,000 shares at the average price of PLN 168.00 per share. The shares were sold in block trades on the Warsaw Stock Exchange on July 15th 2015 and July 17th 2015, respectively.

On October 30th 2015, the Company received a notification from Mr Michał Zasępa of his acquisition of 29,014 Series E shares in the Company. According to the notification, the shares were acquired on October 30th 2015, when 29,014 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 29,014 Series B and C subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

On November 24th 2015, the Company received a notification from Mr Michał Zasępa, given under Art. 160.1 of the Act on Trading in Financial Instruments, of his sale of 408 KRUK S.A. shares at the average price of PLN 189,75 per share in ordinary transactions executed during the trading session on the Warsaw Stock Exchange on November 18th 2015.

On December 1st 2015, the Company received a notification from Mr Michał Zasępa, given under Art. 160.1 of the Act on Trading in Financial Instruments, of his sale of 5,000 KRUK S.A. shares at the average price of PLN 189,74 per share in ordinary transactions executed during the trading session on the Warsaw Stock Exchange on November 26th 2015.

Table 22 KRUK S.A. shares held by Management Board members as at December 31st 2015

Name and surname	Position	Number of shares held	Total par value (PLN)
Piotr Krupa	CEO and President of the Management Board	2,026,927	2,026,927
Agnieszka Kułton	Member of the Management Board	62,741	62,741
Urszula Okarma	Member of the Management Board	90,871	90,871
Iwona Słomska	Member of the Management Board	41,000	41,000
Michał Zasępa	Member of the Management Board	26,306	26,306

Source: the Company.

In addition, after the reporting date, on February 25th 2016 the Company received a notification from Ms Urszula Okarma of her acquisition of 16,130 Series E shares in the Company. According to the notification, the shares were acquired on February 25th 2016, when 16,130 Series E shares were registered in the securities account of the notifying party as a result of the exercise of the rights attached to 16,130 Series D subscription warrants issued as part of an incentive scheme, authorising the notifying party to subscribe for the shares at the issue price of PLN 39.70 per share.

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

Table 23. 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	2,016,927	2,016,927
Agnieszka Kułton	Member of the Management Board	62,741	62,741
Urszula Okarma	Member of the Management Board	107,001	107,001
Iwona Słomska	Member of the Management Board	41,000	41,000
Michał Zasępa	Member of the Management Board	26,306	26,306

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, as presented in Table 24.

Table 24. 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 Kulon	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 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 of the Management Board) provide for relevant compensation in respect of the prohibitions. The compensation is payable in monthly instalments for 24 months from the contract termination date and amounts to 40% of the person's remuneration (12 months and 25% of the remuneration in the case of the Member of the Management Board in charge of Marketing, Public Relations and Human Resources).

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

The table below presents the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2015) from the Company and its subsidiaries for 2015.

Table 25. Remuneration of the Management Board members in 2015

Name and surname	Remuneration from the Company for 2015	Additional benefits* from the Company for 2015	Remuneration from the subsidiaries for 2015	Additional benefits* from the subsidiaries for 2015
	(PLN '000)		(PLN '000)	
Piotr Krupa	701	6.30	-	-
Agnieszka Kutton	366	6.25	10.72	-
Urszula Okarma	366	5.17	18	-
Iwona Słomska	318	5.23	-	-
Michał Zasępa	411	69.51	-	-

\*Additional benefits include medical care, company cars and third-party liability insurance for Management Board Members.

Source: the Company.

The total value of remuneration and additional benefits for 2015 paid by the Company and the subsidiaries to the Management Board members specified above was PLN 2,190.72 thousand and PLN 92.46 thousand, respectively.

Additional benefits received from the Company for 2015 do not include bonuses and awards for the Management Board members for 2015. The bonuses will be paid in 2016, in the amount reflecting the performance of the Company's financial plan, and – in the case of the discretionary bonuses – in an amount determined by the Supervisory Board. The Company recognised a PLN 2.3m 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 S.A. 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 rights to appoint and remove from office members of the Supervisory Board are exercised by delivery to the Company of a written statement on the appointment or removal of a Supervisory Board member.

From January 1st 2015 to December 31st 2015, the KRUK Supervisory Board consisted of seven members. Composition of the Supervisory Board of KRUK S.A. is presented in Table 26.

Table 26. Composition of the Supervisory Board of KRUK S.A. in 2015

Name and surname	Position
Piotr Stępiak	Chairman of the Supervisory Board
Katarzyna Beuch	Member of the Supervisory Board
Tomasz Bieske	Member of the Supervisory Board
Arkadiusz Orlin Jastrzębski	Member of the Supervisory Board
Krzysztof Kawalec	Member of the Supervisory Board
Robert Koński	Member of the Supervisory Board
Józef Wancer	Member of the Supervisory Board

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 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, if absent, by the Deputy Chairperson. The Rules of Procedure for 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**

As at December 31st 2015, Mr Tomasz Bieske held 5,680 shares in the Company. By the date of this report, on January 8th 2016, 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 sold 5,038 KRUK S.A. shares in ordinary transactions executed during trading sessions on the Warsaw Stock Exchange.

As at the date of issue of this report, Mr Bieske held no other rights to KRUK S.A. 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 2014) 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 27 below presents the amounts of remuneration received by the Supervisory Board members (who were in office in 2015) from the Company and its subsidiaries for 2015.

Table 27. Remuneration of the Supervisory Board members in 2015

Name and surname	Remuneration from the Company for 2015 (PLN '000)
Piotr Stępiak	167.4
Krzysztof Kawalec	83.7
Katarzyna Beuch	83.7
Tomasz Bieske	83.7
Robert Koński	83.7
Arkadiusz Jastrzębski	83.7
Józef Wancer	201.2*

\* Remuneration payable in EUR. The amount is the PLN equivalent of EUR 48 thousand, as translated at the exchange rate quoted by the NBP 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 2015 amounted to PLN 787.17 thousand. The amount includes the remuneration payable in the euro, translated into the złoty at the exchange rate quoted by the NBP for the day preceding the payment day.

In 2015, neither the Company nor its subsidiaries paid any additional benefits to members of the Supervisory Board.

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

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

#### 5.5.2.5. **Supervisory Board Committees**

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

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

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

#### **Audit Committee**

Pursuant to the Rules of Procedure for the Supervisory Board, the Audit Committee consists 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 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 – December 31st 2015, the Audit Committee consisted of:

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

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

Apart from the statutory duties, in 2015 the Audit Committee dealt with the following:

- summary of the results of the audit of the 2014 full-year report and rules of the audit of the financial statements for 2015,
- results of the review of the interim financial statements,
- discussion and analysis of financial reporting processes and the Company's communication with the market,
- discussion and analysis of changes in the accounting policy,

- discussion and analysis of changes in tax legislation in 2016 and their possible impact on the Company's and Group's business,
- internal audit at the Group.

#### 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 – December 31st 2015, 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 2015, the tasks of the Committee included issuing opinions on remuneration and bonuses for the Company's Management Board and changes to the list of persons eligible to participate in the Stock Option Plan for 2015–2019. The matters within the powers of the Remuneration and Appointment Committee were discussed during the Committee's meetings and Supervisory Board meetings.

#### Finance and Budget Committee

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

In the period January 1st – December 31st 2015, 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 Finance and Budget 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 budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board on matters related to the Company's finances,
- supporting the oversight of the performance of the Company's budget,
- on-going analysis of the Company's financial performance and 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 2015, 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 the Committee's meetings and Supervisory Board meetings.

### 5.5.3. General Meeting

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

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

- review and approve the Directors' Report on the Company's operations and the financial statements for the previous financial year,
- adopt a resolution concerning distribution of profit or coverage of loss,
- grant discharge to members of the Company's governing bodies in respect of their 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. 400.3 of the Commercial Companies Code.

Shareholders representing at least one-twentieth of the share capital may request that an Extraordinary General Meeting be convened and that 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 votes, 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 for the General Meeting and the Rules of Procedure for 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 operations 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 its subsidiaries are parties to court and enforcement proceedings concerning their operations. In 2015, the Company and its subsidiaries were plaintiffs or participants in 312,139 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 6,697,576,309. Furthermore, in 2015, 754,529 enforcement proceedings were instigated upon motions filed by the Company and its subsidiaries, with a total value of claims being enforced of approximately PLN 10,324,978,477. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and its subsidiaries.

In 2015, the Company and its subsidiaries were defendants in 2,484 court proceedings, where the total value of claims was approximately PLN 231,298,437. The proceedings were chiefly proceedings against enforcement instigated in relation to the Company's or its subsidiaries' operating activities concerning debt recovery. The Company and its subsidiaries believe the claims to be without merit and expect them to be dismissed. There are no proceedings pending against the Company or its 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 its subsidiaries. In the case of Novum Finance Sp. z o.o., liquidation proceedings are pending against the company. Liquidation of the Prokulus NS FIZ securitisation fund was closed on May 6th 2015.

#### 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 its 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 proceedings concerning the Company's liabilities, where the value of claims did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 100,000 – was 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 court proceedings concerning debts owed to the Company, where the value of claim did not exceed 10% of the Company's equity, the case with the largest value of the claim – PLN 30,828,938 – was bankruptcy proceedings concerning Prokura NS FIZ's claims 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 with respect to Prokura NS FIZ's claim of PLN 22,703,642 against Zakłady Przetwórstwa Tworzyw EKO-PET Spółka z o.o. The company expects its claim to be satisfied partially.

## **6.2. Auditors**

On August 5th 2015, 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 2015 and review of separate and consolidated financial statements for H1 2015. 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 481 thousand (2014: PLN 504 thousand); and the fee for other assurance services, including review of the half-year consolidated financial statements – at PLN 0 thousand (2014: PLN 201 thousand). The separate and consolidated financial statements for 2014 were audited by Ernst and Young 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 2015, 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.

## **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 2015, the rate of return on KRUK S.A. shares was 61%. In the same period, the broad market WIG index lost 10%, while mWIG40, an index of mid-cap companies, rose 2% (KRUK S.A. shares are a constituent of mWIG40). From the beginning of 2015, the price of KRUK shares substantially followed an upward trend, underpinned by good prospects for the debt collection industry, the Company's strong performance, and positive recommendations issued by analysts.

In 2015, the Company's market capitalisation exceeded PLN 3bn, and in November 2015, at the close of trading, the market price hit its maximum of PLN 191.25, to close the year at PLN 174.00.

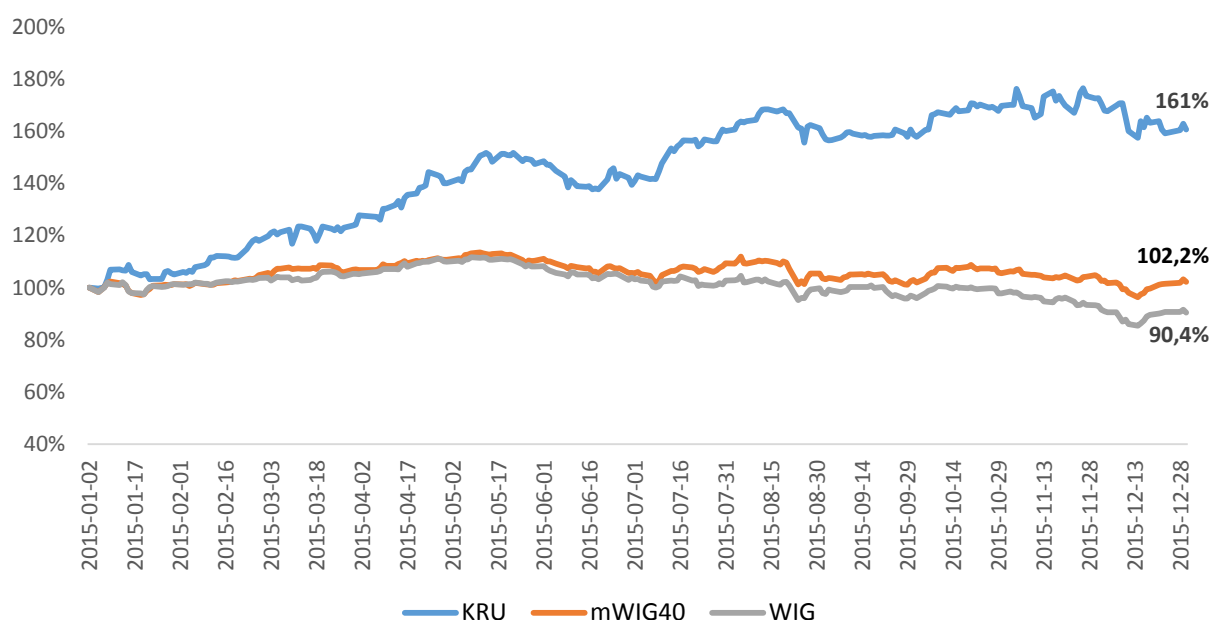
Table 28. Rates of return on KRUK S.A. stock, WIG and mWIG40 in 2015

Date	KRUK	WIG	mWIG40
Jan 2 2015	108.34	51,378.00	3,488.94
Dec 30 2015	174.00	46,467.38	3,567.05
rate of return	60.6%	-9.6%	2.2%

Closing prices

Source: stooq.pl

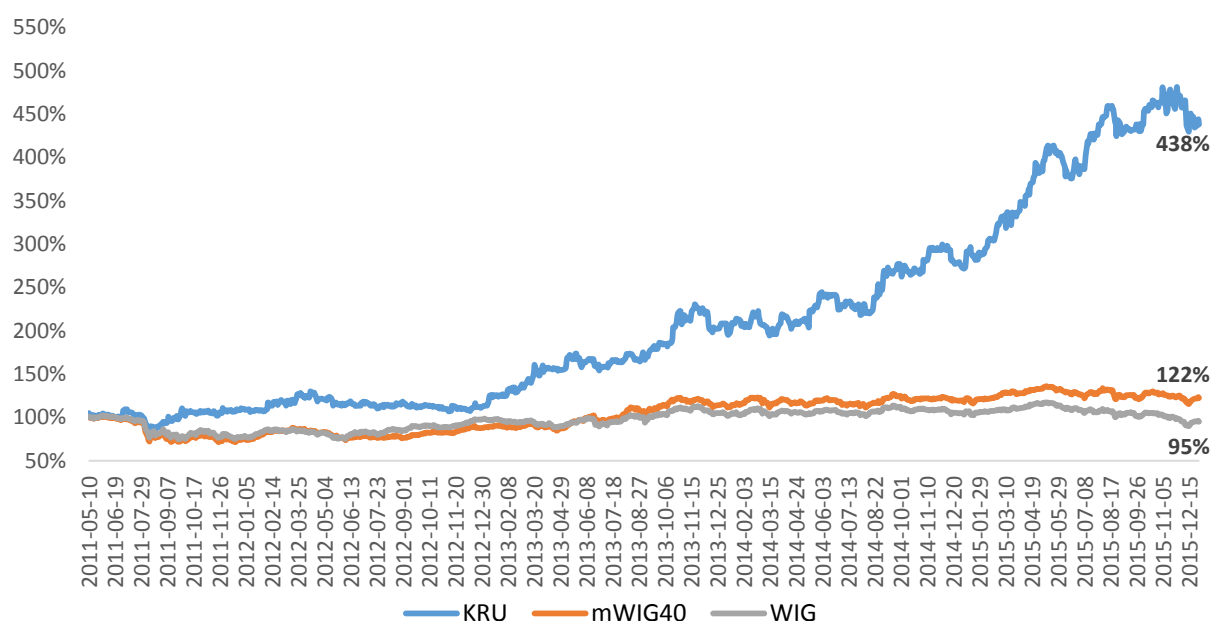
Chart 1. KRUK S.A. stock price against WIG and mWIG40 in 2015 (beginning of the year = 100%)



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

In the period from the Company's IPO on the Warsaw Stock Exchange in May 2011 to the end of 2015, the Company stock returned 338%. Over the same period, the WIG index, capturing the performance of the entire WSE market, gained 22%, and the mWIG40 index, showing trends in mid-cap stocks, went down by 5%.

Chart 2. Performance of KRUK S.A. stock against WIG and mWIG40 from the Company's IPO on the WSE in May 2011 to the end of 2015

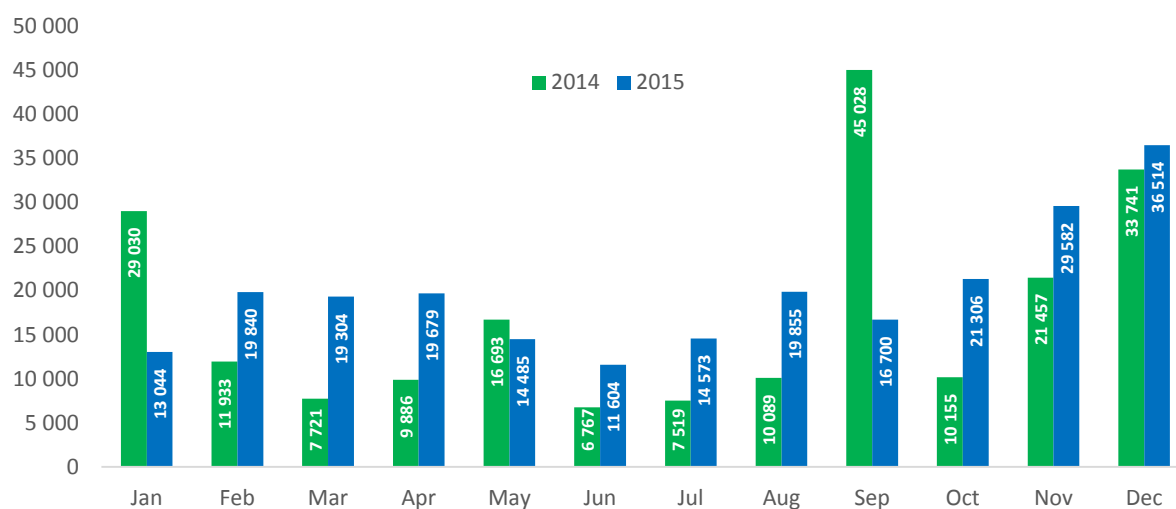


Source: in-house analysis, based on stooq.pl

## 6.5.2. Liquidity

The total volume of KRUK S.A. shares traded in 2015 was 4.9m, which represents 28.3% of the Company's share capital. The average number of KRUK S.A. shares traded daily was 19,599, up 12.4% on the 2014 figure of 17,436. The largest trading volumes were recorded directly after the publication of the Company's results and in the period October–December 2015. In December 2015, KRUK was included in the prestigious MSCI Poland Small Cap index, including the most liquid companies on the Polish market.

Chart 3. Average daily trading volume of KRUK S.A. shares in 2014 and 2015, by month



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



### 6.5.3. Investor Relations in 2015

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

- Polish institutional stock and bond investors,
- Polish retail stock and bond investors,
- foreign institutional stock investors,
- 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. Owing to these efforts, market analysts and investors named the Company *Listed Company of the Year 2014* in the ranking organised by the *Puls Biznesu* daily. The Company was also granted an international *CEE Capital Markets Award* in the *Top Performing* category. For more information on key Investor Relations activities in 2015, see Table 29.

Table 29. Key Investor Relations activities in 2015

	Number of non-deal roadshows	Number of investor conferences	Duration of roadshows and investor conferences, in days
Poland	4	4	9
Foreign markets	4	5	15

Source: in-house analysis.

#### Polish institutional stock and bond investors

- Four conferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015
- Participation in the *CC Group Small & MidCap Conference* in Warsaw, March 2015
- Participation in the *Wood Emerging Europe Financials Conference* in Warsaw, June 2015
- Participation in the *ING Financial Conference* in October 2015
- Mailing to investors on material events at the Company
- Continuous contact with investors

#### Polish retail stock and bond investors

- Online chat with Management Board members organised in cooperation with the Polish Association of Retail Investors
- Participation in the *Wall Street 19* conference organised by the Polish Association of Retail Investors in May 2015
- Maintaining a corporate profile featuring latest information from the Company on the StockWatch website
- Continuous contact with investors

## Foreign institutional stock investors

- Four teleconferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015
- Four non-transaction roadshows in London, Frankfurt, Stockholm, New York, Boston, Chicago and Miami
- Participation in the *Polish Capital Market - London 2015* conference organised by PKO BP
- Participation in the *Poland Capital Markets Day – New York* conference organised by Auerbach and IPOPEMA
- Participation in the *Erste Group Investor Conference 2015 – Stegersbach*
- Participation in the *Polish Capital Markets Day – Paris* conference organised by Societe Generale
- Participation in *WOOD's Winter in Prague Emerging Europe Conference 2015*
- Mailing to investors on material events at the Company
- Continuous contact with investors

## Brokerage house and investor bank analysts

- Four conferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015
- Mailing to investors on material events at the Company
- Continuous contact with analysts

The table below lists analysts issuing recommendations on Company stock.

Table 30.30 Sell-side analysts issuing recommendations on Company stock

Company	Analyst	Contact details
DI Investors	Michał Fidelus	michal.fidelus@investors.pl
DM BDM	Maciej Bobrowski	bobrowski@bdm.pl
DM BZ WBK	Dariusz Górski	dariusz.gorski@bzwbk.pl
Erste	Adam Rzepecki	adam.rzepecki@erstegroup.com
Haitong	Łukasz Jańczak	ljanczak@haitongib.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: in-house analysis.

Including updates, the Company received nine recommendations from analysts in 2015, of which six were BUY recommendations and the other three were HOLD recommendations.

Table 31.31 Number of recommendations in 2015

Number of recommendations in 2015:		
	9	
BUY*	HOLD	SELL
6	3	0

Source: in-house analysis.

## Financial journalists

- Four conferences organised following the publication of results for 2014, Q1 2015, H1 2015 and Q1–Q3 2015
- Press releases concerning key corporate events
- Interviews and comments by Company representatives in financial media (e.g. *Parkiet*, *Puls Biznesu*, Stockwatch or *Forbes*)
- Maintaining the Company's profile on Stockwatch

The key themes of the Company's 2015 market communication included:

- Communication of the new growth strategy for 2015–2019, including development of the product range and geographical expansion;
- Recommendation and payment of dividend of PLN 1.5 per share – the first dividend distribution since the Company's stock exchange debut;
- Purchase of the first debt portfolio on the German market;
- Entering two new markets in Europe – Italy and Germany;
- Purchase of the first debt portfolio on the Italian market;
- Execution of an agreement with the P.R.E.S.C.O. Group to purchase its Polish debt portfolio with a nominal value of PLN 2.7bn;
- Improved liquidity of the Company's stock on the Warsaw Stock Exchange (trading volume up 12% year on year) and inclusion in the MSCI Poland Small Cap index. The Company currently uses the services of three market makers on the WSE.

## 6.6.CSR policy

As KRUK is not a production company, the overview presented below does not address any of the issues traditionally associated with corporate social responsibility, such as environmental protection. However, the Company boasts certain socially relevant initiatives, both on a small scale (intended to benefit its employees) and with a wider reach (regional or – as in the case of support for financial education - nationwide).

### Charitable sponsorship

Within the scope of the KRUK Group's charitable activities, defined in the Sponsorship Policy, the Group provides material and financial assistance to non-profit organisations, as well as to clients, the KRUK Group's employees and their families. Our driving force in this area is the willingness to help in a selfless and charitable manner. The KRUK Group supports initiatives which fulfil and build on our motto ("Your Finance in Good Shape"), sending the following message: not only "Your Finance in Good Shape", but your health, wellbeing and physical fitness as well. We promote active and healthy lifestyles. We also focus on educational initiatives and initiatives promoting the knowledge of finance. We strive to achieve that objective on all markets on which the KRUK Group operates. The Group has for years been building transparent and ethical relations with its clients, investors, trading partners, suppliers and employees, while encouraging others to participate in charitable initiatives.

### 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, Slovak and German 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.

### Articles and guides

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.

### "Day without Debts" 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 Romania and on November 15th in the Czech Republic and Slovakia. The [naszedlugi.pl](http://naszedlugi.pl) 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.

### 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.

#### 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.

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

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

#### Encouraging and supporting employees to engage in charitable work

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. Since 2013, the Group has been the main sponsor of the Corporate Run (Bieg Firmowy), a 4 x 5 km relay race for the employees of the companies engaged in the event. To date, KRUK has sponsored three Bieg Firmowy events.

#### Diversity Charter and Policy

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. The KRUK Group has a Diversity Policy in place.

## 6.7. 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
ItaCapital	ItaCapital S.r.l of Milan, Italy
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
CSDP	Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
KRS	Polish National Court Register (Krajowy Rejestr Sądowy)
<b>KRUK Česká a Slovenská republika</b>	KRUK Česká a Slovenská republika s.r.o. of Hradec Králové
KRUK Espana	KRUK Espana S.L. of Madrid, Spain
KRUK Italia	KRUK Italia S.r.l of Milan, Italy
KRUK Romania	KRUK Romania S.r.l of Bucharest, Romania
KRUK TFI	KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław
ERIF 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, which include International Accounting Standards, International Financial Reporting Standards and related interpretations to be used in 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 2015, 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 BY MANAGEMENT BOARD MEMBERS

The Directors' Report on the operations of KRUK S.A. in 2015 is presented by the Company's Management Board, consisting of the following members:

Piotr Krupa

CEO and President of the Management Board



Urszula Okarma

Member of the Management Board



Agnieszka Kulon

Member of the Management Board



Iwona Słomska

Member of the Management Board



Michał Zasępa

Member of the Management Board



Wrocław, 26<sup>th</sup> February 2016



**KRUK** Group  
[www.kruk.eu](http://www.kruk.eu), [ir@kruksa.pl](mailto:ir@kruksa.pl)