KRUK

Your finances in good shape

DIRECTORS' REPORT ON THE OPERATIONS OF THE KRUK GROUP IN **2012**

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MESSAGE FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders and Investors,

this report presents the KRUK Group's financial results for 2012. In this short summary of the previous year's developments, I would like to extend a special thanks to all those who have contributed to KRUK's success and shareholder value growth.

2012 was another year of record-high financial results in the KRUK Group, made all the more remarkable by the fact that they were reported directly after 2011, which was also an excellent year for the Company in terms of its performance.

In 2012, the Group's consolidated revenue grew by 25%, operating profit improved by 42%, and net profit increased by 22% relative to 2011, reaching PLN 81m. A particularly noteworthy achievement was the high level of ROE, which reached 26% as at the end of 2012.

The year was also a success for the credit management sector in general in Poland, Romania, the Czech Republic and Slovakia. Our estimates put the market value of investments in debt portfolios made in 2012 in all the four countries where the KRUK Group is present at PLN 1.6bn. The Group's share of that figure was 19%. The nominal value of debt sold and outsourced for management in Poland reached PLN 19.1bn, up by 4% year on year. In 2012, the Group strengthened its leading position by purchasing and accepting for management debt portfolios with a nominal value in excess of PLN 5.5bn, as well as by investing over PLN 309m in debt purchases in Poland, Romania, the Czech Republic and Slovakia. Given the intense competition on the debt purchase market and the growth in prices of debt portfolios sold at the beginning of the previous year, I believe that the total investment of PLN 309m throughout 2012 should be viewed as a very good result. In the second half of the year, the Group spent PLN 213m on debt purchases. Note that those investments generate returns not only in the year of their acquisition, but also going forward, and will also have a bearing on our financial performance and cash flows in the coming years.

What is the outlook for the credit management market in 2013? Based on the available data, including initial information on auctions, I believe that the size of the debt purchase market should remain at least unchanged, relative to 2012. Strong supply will continue to be generated chiefly by banks, with corporate debt portfolios making their way to the market more and more often, alongside unsecured retail debt portfolios. Mortgage-secured retail debt portfolios may also be expected. Our intention is to actively participate in each auction and maintain our market share on at least the historical level (approximately 25% of the debt purchase market).

2012 was also a time of consistent effort to develop our operations on foreign markets, with intensified activity primarily in the Czech Republic and Slovakia. In August, the first credit management agreements were signed by the Group in Slovakia, and in the Czech Republic in September. In October, KRUK made its first stand-alone portfolio acquisitions on the Slovak market, and by the end of 2012 the number of debt portfolios purchased in Slovakia had grown to three. Likewise, we purchased 12 debt portfolios in the Czech Republic. Investments made in the two countries in 2012 totalled PLN 27m. More than 30% of the Group's revenue in 2012 came from foreign markets, and our current strategy provides for further expansion into new markets and a steady growth of revenue generated outside Poland.

In 2012, both the Company and its managers won praise for many aspects of our operations, as evidenced by their numerous awards and distinctions. To name but a few from the long list of distinctions for the year, I'd like to point out the Byki i Niedźwiedzie (Bulls and Bears) award received in March 2012 for the most successful share flotation on the Warsaw Stock Exchange in 2011, the Dobra Firma 2012 (Good Company 2011) award, and our inclusion in the 20 Polish companies singled out for having the most dynamic and effective development, as well as an Effie Award 2012 for our "We help pay your debts" media campaign. This was the first time in the history of the Polish media market, and perhaps even globally, that this prestigious award was given to a company from the credit management sector.

Let me conclude by wishing all our Shareholders, Bondholders, Clients, Partners and KRUK Group employees as much success in 2013 as in the previous year, especially since we will be celebrating the 15th anniversary of establishment this year.

Finally, I'd like to welcome you to the KRUK Group's annual report for 2012.

Sincerely yours
Piotr Krupa

President
of the Management Board
KRUK S.A.

1. INTRODUCTION

1.1

Overview of the Group

Form of incorporation of the Parent

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

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

Contact details of the Parent

Name: KRUK SPÓŁKA AKCYJNA
Registered address: ul. Legnicka 56, 54-204 Wrocław, Poland
Telephone: (+4871) 79 02 800
Fax: (+4871) 79 02 867
Corporate website: www.kruk.eu

1.2

Overview of the Group's operations

In 2012, the KRUK Group recorded a net profit of PLN 81m, up 22% on the previous year. The Group's revenue in 2012 improved 25% year on year, coming in at PLN 343m. Return on equity as at the end of 2012 was 26%. Last year, the Group invested substantial funds in operating assets, by purchasing 53 debt portfolios, which generated financial benefits in 2012 and will continue to add to the Group's financial performance in subsequent years. The total expenditure on portfolio purchases amounted to PLN 309m. The Group purchased portfolios with an aggregate nominal value of over PLN 3.5bn, comprising over 400 thousand new debts. In the area of fee-based credit management services, the total value of debts outsourced to the Group for recovery in 2012 was 3.3bn.

The Group has consistently worked towards its strategic objective of retaining or achieving the lead on all the markets on which it is present. In line with this strategy, the Group wants to be the number one player on the credit management market in Poland, while also growing into the market leader in other European countries where it has established a presence. In 2012, the Group was active on three foreign markets – Romania, the Czech Republic and Slovakia, where it invested over PLN 85m in 33 debt portfolios.

The KRUK Group's business model relies on the Group's strong presence in two key market segments: debt purchase and credit management services. The model's duality offers significant benefits, as it generates synergies and enhances efficiency at each stage of the operations – from business relations to the continuously improved debt collection processes.

The Group offers a very extensive range of services, from loss prevention to services at all stages of out-of-court and court collection, including hybrid services combining selected debt collection services and tools. This allows the Group to adjust its offering to specific needs of particular clients and debt profiles. The Company believes that innovation is pivotal for the KRUK Group's future growth. Accordingly, the Group has been expanding and enhancing its offering and the employed tools and methods by implementing new innovative solutions.

Since mid-2008, the Group has consistently pursued a strategy focused on amicable debt settlement with indebted individuals. Under the strategy, debtors are treated as consumers who are unable to pay debts for

reasons beyond their control, and who acknowledge that obligations once incurred must be settled and have the will to settle them. Accordingly, the Group gears its debt collection efforts to achieving the optimum solution given the debtor's current financial capabilities, mainly through instalment-based repayments that are within the debtor's means. The strategy has yielded improved efficiency of the collection efforts and has led to more regular payment streams from indebted individuals.

The Group also operates a credit reference agency offering loss prevention services and supporting debt collection activities. The agency collects both negative and positive consumer and corporate credit histories. The ERIF Debtor Register is an institution whose role is to manage the business information exchange system, which operates under the Act on Access to Business Information and Exchange of Business Information. It is one of the three business information agencies, but the only such agency in Poland which has its database regularly reviewed by an independent auditor. The findings of those reviews are summarised in quarterly reports, which describe the status and structure of the ERIF Debtor Register's database and which are regularly released on the market. According to information released on January 2nd 2013, at the end of December 2012 the ERIF database contained over 1.35 million records, showing debts with a value of over PLN 7bn, a nearly 8-fold increase relative to the end of 2009. The direct business model of the ERIF Debt Register in 2012 relied primarily on making the database commercially available to strategic clients, particularly those operating on the consumer market, and on continued acquisition of business clients under a model based on subscription fees and payment for value-added services directly related to the agency's core activities. Revenue generated from ERIF BIG's information services in 2012 was PLN 4.9m, which represented a year-on-year increase of over 79%.

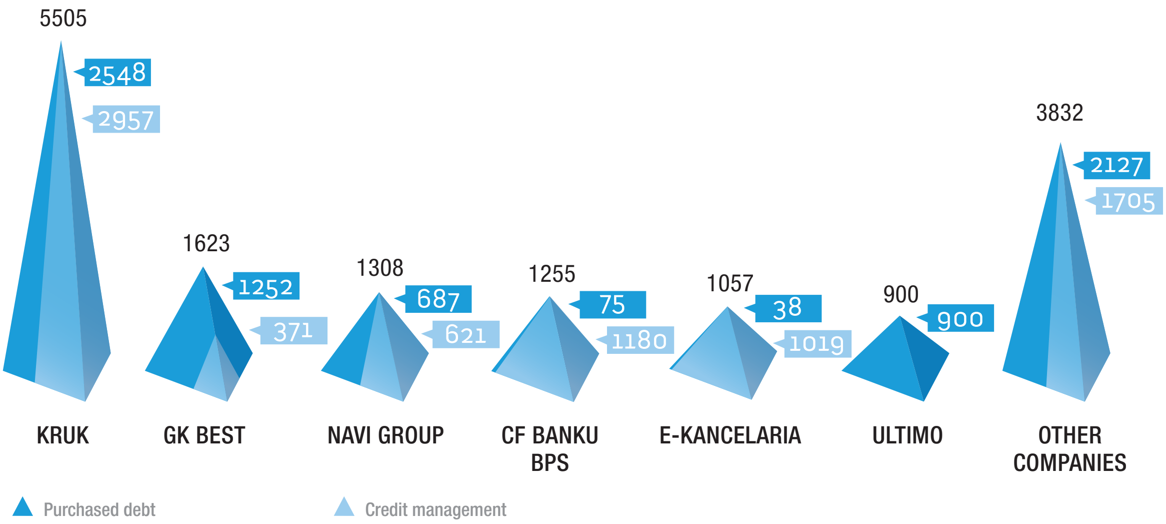
In order to diversify its revenue sources, in 2012 the KRUK Group also worked on developing a short-term cash loan service for formerly indebted individuals who have a track record of repaying their liabilities to the Group in a timely manner. For this purpose, in May 2012 the lending activity was transferred to a subsidiary, Novum Finance sp. z o.o. Over the whole year 2012, the KRUK Group advanced an aggregate of 7,299 Novum cash loans, with a net value of PLN 12.1m. Revenue from Novum loans posted by the Group in 2012 was PLN 3.8m, which represented a year-on-year increase of 175%.

The core business of the KRUK Group in 2012 was credit management. The Group's leading position is confirmed by rankings of debt collection firms published in financial press (the "Rzeczpospolita" and "Gazeta Giełdy Parkiet" dailies). The KRUK Group has topped the rankings for many consecutive years. According to an article published on February 18th 2013 by Gazeta Giełdy Parkiet, the nominal value of debts purchased by the KRUK Group or outsourced to the Group for fee-based collection on the Polish market in 2012 was PLN 5.5bn.

In 2012, the Group was processing debt cases which originated in many segments of the economy, but its activities focused on the financial services market, particularly unsecured consumer debt. Banks were the main group of the KRUK Group's clients. In 2012, the Group provided its services to 9 of the top 10 banks in Poland. Since 2007, the Group has also operated on the Romanian market, where over the last four years it has held the leading position. In 2012, the Group provided its services to 6 of the top 10 banks in Romania. In 2012, the Group also continued to operate on the Czech and Slovak markets. It provided its services to 2 of the top 6 banks in the Czech Republic, and to 3 of the top 4 banks in Slovakia.

At the end of 2012, the KRUK Group employed 1,805 staff.

CHART 1. The Group versus competitors in Poland in 2012



Source: KRUK S.A., based on an article of "Gazeta Giełdy Parkiet" – "Debt collection market in Poland is holding up well", February 18th 2013.

1.3

The Group's operational and financial highlights

As at December 31st 2012, the Group was processing over 2.5 million debt cases with an aggregate nominal value of PLN 19.3bn. The amount includes both debts outsourced for recovery and debts purchased by the Group in 2012 and in prior years. To compare, in 2011, the Group was processing 2.0 million debt cases with an aggregate nominal value of PLN 15.1bn. The nominal value of debts placed under the Group's credit management in 2012 totalled nearly PLN 7.0bn.

In 2012, the Group's financial performance retained its strong growth momentum. The Group posted PLN 343m in revenue (up 25% year on year), PLN 137m in operating profit (up 42% year on year), and PLN 81m in net profit (up 22% year on year). The growth was driven by the substantial investment in debt portfolios made by the Group in 2011–2012. The KRUK Group remains the leader of the debt purchase market in Poland. Investment in debt portfolios made in 2012 totalled PLN 309m, of which the amount of PLN 224m was spent in Poland.

TABLE 1. The Group's historical financial highlights
(PLN '000, unless stated otherwise)

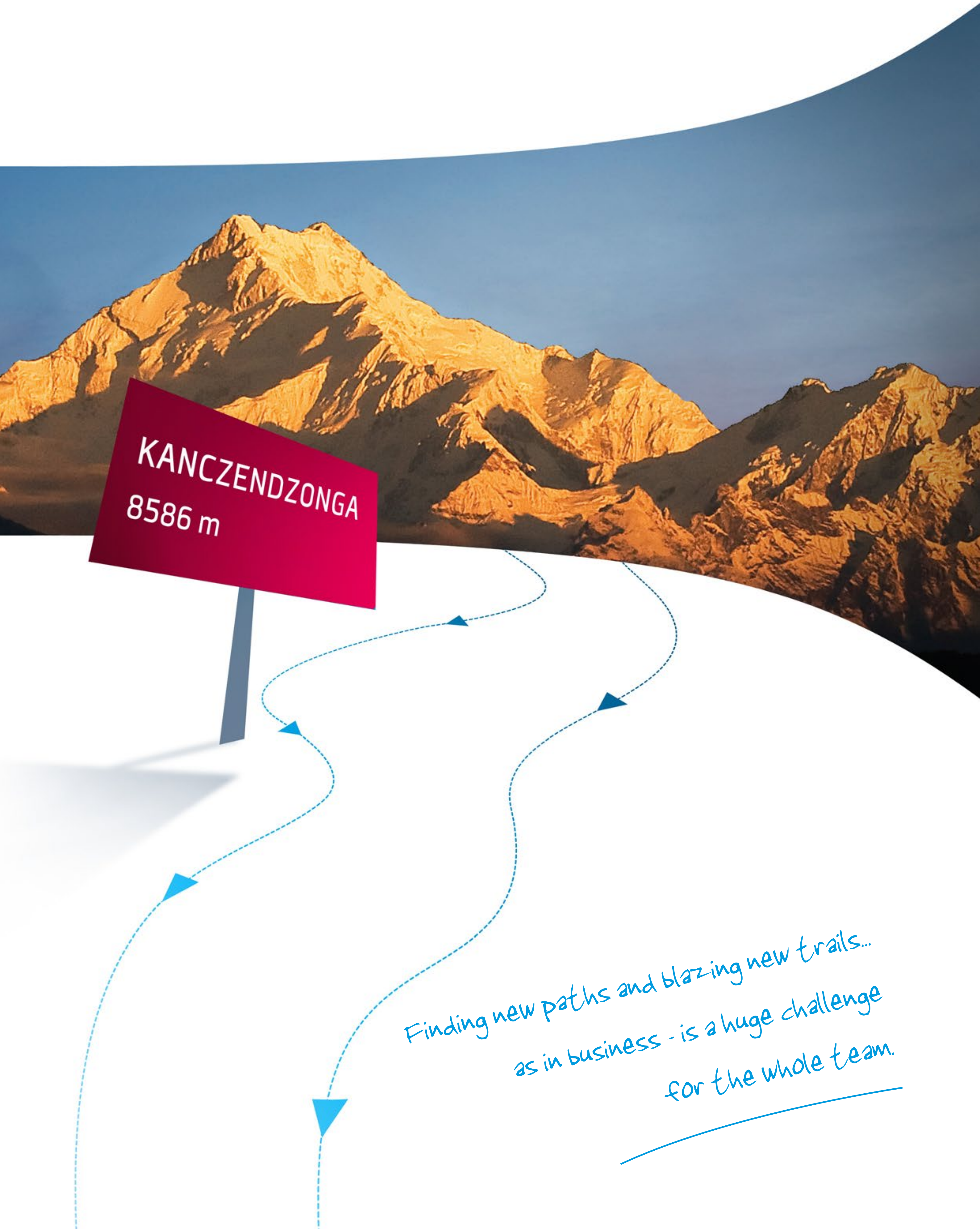
	PERIOD ENDED DEC 31		
	2012	2011	CHANGE
Revenue	**342,992**	**274,031**	**25%**
EBITDA	144,008	101,422	42%
Operating profit (EBIT)	136,673	95,995	42%
Net profit for the period	81,194	66,392	22%
Cash flows from operating activities, including	**-54,488**	**-340,830**	**-84%**
Debt purchases	-309,269	-568,879	-46%
Cash recoveries	451,329	341,122	32%
Cash flows from investing activities	-5,804	-6,954	-17%
Cash flows from financing activities	66,816	363,213	-82%
Total net cash flows	**6,524**	**15,429**	**-58%**
Total assets	**971,430**	**800,466**	**21%**
Equity	317,632	238,383	33%
Return on equity	**26%**	**28%**	
Earnings per share (PLN)			
Basic	4.80	4.03	19%
Diluted	4.78	4.03	19%

Source: Consolidated Financial Statements
Return on equity (ROE) = net profit for the period / total equity

TABLE 2. Change in purchased debt portfolios for cash-flow statement purposes (PLN '000)

	PERIOD ENDED DEC 31	
	2012	2011
Purchased debt portfolios at beginning of the period	**718,706**	**263,228**
Purchase of debt portfolios	309,269	568,879
Adjustment following change in valuation	-347	-
Purchase price adjustment for discount	-793	-5,174
Cash recoveries	-451,329	-341,122
Liabilities to debtors due to overpayments	1,097	-
Revenue from debt purchase (interest and revaluation)	302,996	232,895
Fair value translation differences	-6,102	-
Purchased debt portfolios at end of the period	**873,492**	**718,706**
Increase/(Decrease) in financial assets at fair value through profit or loss	**154,786**	**455,478**

Source: Consolidated Financial Statements


KANCZENDZONGA
8586 m
Finding new paths and blazing new trails...
as in business - is a huge challenge
for the whole team.

2. MARKET AND REGULATORY ENVIRONMENT – EXTERNAL FACTORS WITH A BEARING ON THE GROUP'S BUSINESS

2.1

Structure and description of the debt management market

The key segmentation criterion on the debt management market is the type of debt. Based on this criterion, there are three market segments:

- Consumer debt market, comprising all debts of consumers (natural persons) to businesses (B2C sector), i.e. receivables of banks, insurers, service providers (such as telecommunications or cable TV operators), or housing cooperatives; this market segment may be further subdivided into the market of unsecured consumer debt and secured consumer debt (with real property being the prevailing type of collateral provided);
- Corporate debt market, comprising debts of businesses, primarily resulting from outstanding financial liabilities towards banks (often collateralised), with significant unit nominal values;
- Commercial debt market (B2B sector), comprising outstanding debts of businesses owed to other businesses, primarily resulting from unpaid invoices.

The following business segments can be distinguished based on the business models adopted by debt collection agencies:

- Credit management services;
- Collection of purchased debt portfolios.

The Group's primary markets in 2012 were the markets of unsecured consumer debt to banks in Poland, Romania, the Czech Republic and Slovakia. In 2012, the KRUK Group also purchased corporate debt on the Polish market.

The situation in the debt management industry in the countries where the Group operates depends on the prevailing macroeconomic conditions. The key macroeconomic factors which may affect the Group's financial performance include in particular unemployment rate, average pay level in the economy, household debt, GDP growth rate, investment growth rate, inflation rate, budget deficit, and the PLN exchange rate against other currencies. The macroeconomic environment has a two-fold effect on the Group's standing in each phase of the economic cycle.

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

- Real growth in household incomes translates into consumers' greater willingness to spend and borrow, a natural consequence of which is the subsequent increase in banks' lending activity and the resultant growing number of indebted individuals;
- Increase in the lending activity and the number of indebted individuals translates into a rising overall debt level in the economy and, consequently, into more cases being processed on the credit management market;
- Growing incomes of the population result in a higher loan repayment rate, which improves collectability of debt held by the Group and, in the subsequent periods, reduces the number of collection cases outsourced to debt collection agencies, unless the effect is compensated by an increase in the overall debt level in the economy.

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

- Deteriorating loan repayment rates in the economy translate into a greater number of cases being processed on the credit management market; an increase in the number of outsourced debt collection cases follows with a lag of several months, whereas an increase in the stream of debt coming up for sale follows the trend up to a few years later;
- Reduction of lending activity by banks translates into a lower number of new debtors in the banking sector;
- Growing unemployment rate and lower incomes are followed by deteriorating loan repayment rates, and thus may adversely affect the recoverability of debt portfolios held by the Group;
- Any increase or decrease in the exchange rate of the currency in which debts are denominated and repaid in foreign markets may increase or decrease, respectively, the amount of payments expressed in the Polish zloty or the fair value of debt portfolios denominated in foreign currencies.

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

The Group's clients, on the Polish and foreign markets, adopt a variety of debt collection strategies. The Group is exposed to the risk that their interest in outsourcing debt collection or selling receivables will be reduced, with the corresponding increase in the volume and value of debts collected by creditors using their own resources. Such lesser interest in outsourcing debt collection or selling receivables would suppress demand for external debt collection services rendered by the Group, and reduce the supply of debt portfolios available for purchase, in turn adversely affecting the Group's revenue.

The Group has operated on the Romanian debt collection market since 2007; in 2011 it launched its operations on the Czech and Slovak markets. In 2012, the Group continued to develop its activity in the two new markets. In 2012, the foreign markets accounted for 30% of the Group's total revenue. In foreign markets, the Group purchases debt portfolios denominated in local currencies for its own account. Exchange rate fluctuations affect the fair value of the debt portfolios held by the Group and require revaluation of such investments.

The KRUK Group is a party to credit facility and lease agreements, and issues floating interest notes. There is a risk that any potential increase in market interest rates will lead to higher finance costs incurred by the Group on any new financing or refinancing of the existing debt.

One of the sources of financial inflows to the Group are proceeds from default interest accruing at the statutory default interest rate. Although these inflows do not represent any material benefit in the Group's operations, any significant reduction of the statutory interest rate could have a negative effect on the Group's performance.

The credit management industry is highly competitive. Entities which provide debt collection services to financial institutions compete primarily in terms of the range of their operations, recovery rates (effectiveness), prices and personal data protection standards. The Group is exposed to the risk of losing one or more clients and being forced to reduce prices of its services, which may have an adverse effect on the Group's revenue.

Competition in the segment of debt collectors purchasing debt portfolios for their own account is less intense than in the credit management segment, owing to the market's higher barriers of entry. These include: access to capital, historical data on debt portfolio recovery rates as the basis for valuation of debt portfolios, as well as the size of the operations enabling large-scale collection of significant debt portfolios. Receivables are purchased in auctions, where the primary award criterion is the price. There is still a risk of new competitors entering the market and building their own history of debt recovery, which may translate into pressure on the Group to offer higher prices in auctions. In the first half of 2012, competition in the debt purchase segment was stronger than in previous years, contributing to a temporary rise of auctioned debt prices. Starting from the second quarter of 2012, the competition began to weaken, and gradually subsided to its previous levels.

2.1.1

Debt management market in Poland

According to the Group's estimates, the nominal value of debt transferred for management in 2012 was PLN 19.1bn (2011: PLN 18.4bn). This comprised two segments:

- The credit management segment – nominal value of PLN 9.7bn (down 6% year on year);
- The debt purchase segment – nominal value of PLN 9.4bn (up 6% year on year).

In 2012, banks continued to be the largest client group in the credit management segment. The nominal value of cases outsourced by banks to credit managers in 2012 was PLN 8.1bn, ca. 9% down on 2011. The banks are clearly becoming less interested in outsourcing debt collection services and are increasingly more willing to sell their debt portfolios instead.

In 2012, there was a considerable growth in the volume of debt portfolios sold, and banks were the largest group of institutions selling debt. According to the Group's estimates, in 2012 banks sold debt with a total nominal value of PLN 8.6bn, compared with PLN 7.2bn a year earlier. The total value of non-mortgage retail loans sold by banks, which represent the main segment for KRUK's debt collection services, rose by over 10%, from PLN 6.0bn to PLN 6.6bn.

2012 was therefore another year of record-high nominal values of retail debt offered for collection by banks and other institutions. Some banks continued a policy of regularly auctioning their debt portfolios.

TABLE 3. Structure of the credit management market by market shares of debt collection agencies, based on the value of cases processed in Poland in 2012 (PLNm)

	DEBT PURCHASED		DEBT OUTSOURCED FOR COLLECTION		TOTAL	
	2012	2011	2012	2011	2012	2011
KRUK	2,548.0	2,130.0	2,957.0	3,998.0	5,505.0	6,128.0
GK BEST	1,252.2	1,175.1	370.6	434.2	1,622.8	1,609.3
NAVI GROUP	686.9	148.5	621.0	192.8	1,307.9	341.3
CF BANKU BPS	75.0	110.0	1,180.0	905.0	1,255.0	1,015.0
E-KANCELARIA	38.4	93.3	1,018.8	795.8	1,057.2	889.1
ULTIMO	900.0	1,100.0	0.0	0.0	900.0	1,100.0
KREDYT INKASO	776.2	1,427.8	0.0	0.0	776.2	1,427.8
GK PRAGMA INKASO	409.1	345.0	166.5	172.4	575.6	517.4
DTP	320.0	288.0	214.0	97.0	534.0	385.0
PRESCO GROUP	488.0	305.0	0.0	0.0	488.0	305.0
EGB INVESTMENTS	89.9	561.6	382.9	211.4	472.8	773.0
KACZMARSKI INKASSO	0.0	0.0	394.0	316.0	394.0	316.0
COMPLEX CREDIT SOLUTION	1.6	6.4	234.8	232.1	236.4	238.5
ALEKTUM INKASSO	33.3	5.1	180.8	60.5	214.1	65.6
VINDEXUS	9.0	16.0	132.0	242.0	141.0	258.0
ŁĄCZNIE	**7,627.6**	**7,711.8**	**7,852.4**	**7,657.2**	**15,480.0**	**15,369.0**

Source: "Debt collection market in Poland is holding up well", "Gazeta Giełdy Parkiet", February 18th 2013.

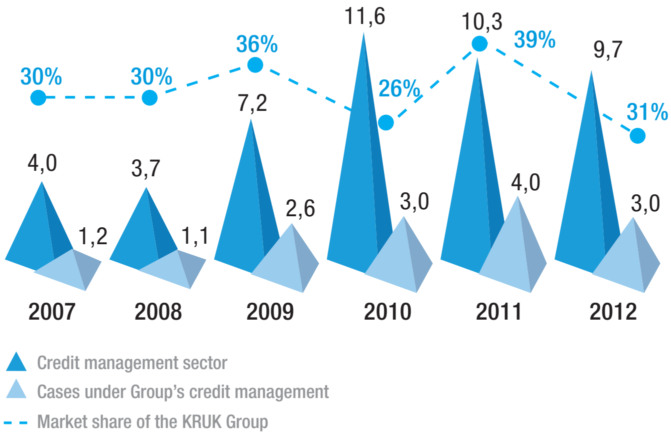
Another trend seen in 2012 was a growing supply of corporate bank debt. The nominal value of debt sold in this segment was about PLN 2bn, nearly 60% up on 2011. The nominal value of non-bank portfolios sold remained stable.

The list includes entities which provided "Gazeta Giełdy Parkiet" with data on the value of debts accepted for collection and debts purchased. The total value of debt purchased by and outsourced for collection to the KRUK Group is higher than the aggregate of debt managed by the debt collectors ranking second to fifth in the above classification.

Taking into account smaller operators and branches of foreign debt collection companies which were not included in "Gazeta Giełdy Parkiet's" ranking, the KRUK Group estimates the size of the credit management market in 2012 at about PLN 9.7bn, and of the debt purchase market at PLN 9.4bn.

According to KRUK's estimates, the Group is the leader of the credit management market, in which it enjoys a share of nearly 31%. The Group achieved the high shares in the credit management services market by processing debt cases originating from many segments of the economy, but its activities focused on the largest segment, i.e. financial services, and consumer bank debt in particular. In 2012, the Group provided its services to 9 of the top 10 banks in Poland.

CHART 2. Group's estimated position on the market of credit management of retail portfolios, by nominal value (PLNbn)



Source: KRUK S.A.'s estimates

CHART 3. Estimated position of the Group on the market of unsecured (non-mortgage) retail and corporate portfolios, by purchase value (PLNbn)

Source: NBP, IBnGR, KRUK S.A.'s estimates

In 2012, the Group incurred considerable expenditure on purchase of retail debt portfolios. Its investments in Polish debt portfolios totalled PLN 224m and were 40% lower than a year earlier. In 2012, the KRUK Group's share in the market of unsecured (non-mortgage) retail and corporate debt purchase market was 20%. A considerable portion of the Group's investments involved acquisition of retail, non-mortgage bank debt, although in 2012 the Group purchased also corporate debt with a nominal value of over PLN 1.2bn.

The debt management industry in Poland is characterised by relatively high competition, whether in the credit management or in the debt purchase segment. There are a number of debt collection agencies in the credit management market, and clients typically have relationships with a few competing entities from the sector. The growth of competition in the debt purchase market was manifest in an intensified activity of debt collection operators and the rise in prices paid for the portfolios in the first half of 2012. The key debt collection agencies operating in the Polish market in 2012 are listed above, in the table 3 "Structure of the credit management market by market shares of debt collection agencies, based on the value of cases processed in Poland in 2012."

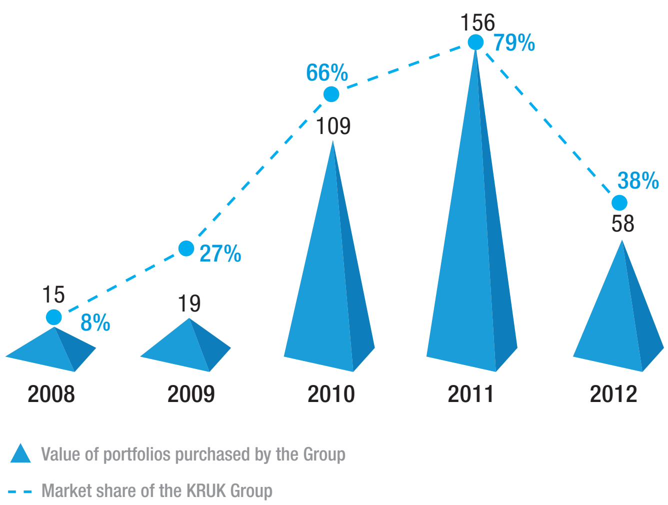
2.1.2
Foreign markets

Romania

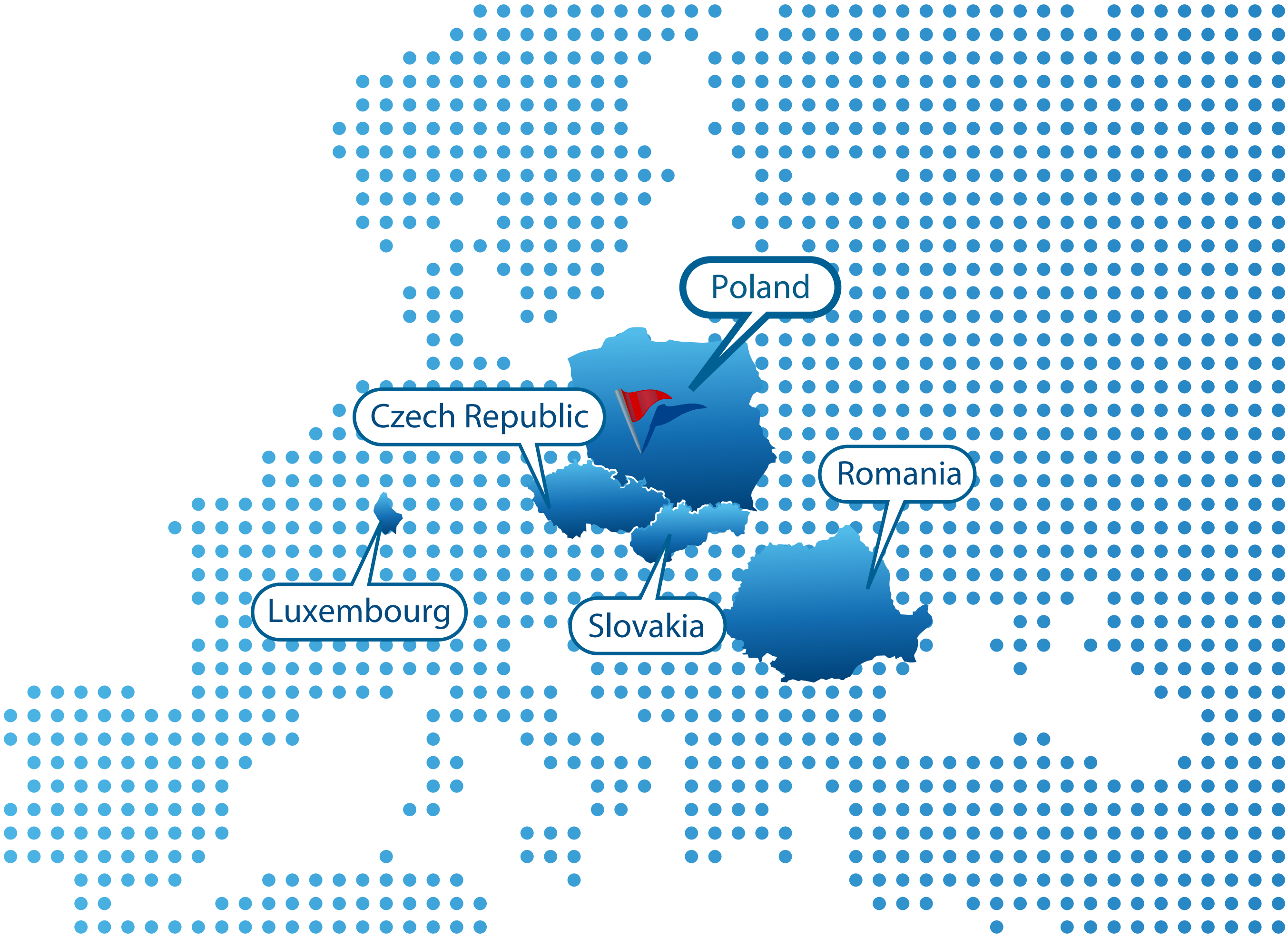
The Company estimates that in 2012 Romanian banks and companies transferred to third-party collectors or sold debts with a nominal value of nearly PLN 5.2bn (data for unsecured retail debt), compared with PLN 7.5bn in 2011. The nominal value of debt outsourced for management was approximately PLN 2.7bn, while the nominal value of unsecured retail debt portfolios sold was approximately PLN 2.5bn.

In 2012, the Group incurred expenditure of over PLN 58m on debt purchases in Romania, which represents a 62% decline on 2011. The expenditure allowed the Company to gain a 38% share in the unsecured retail debt purchase market. In 2012, in Romania, the Group accepted for management debts with a nominal value of PLN 325m (down 5%), which represented a 12% market share (compared with a 7% market share in 2011).

CHART 4. Group's estimated market position in the segment of unsecured retail portfolios purchased on the Romanian market, by purchase value (PLNm)



Source: KRUK S.A.'s estimates



The area of the Group's operations

The Romanian debt collection market is less fragmented than the Polish market. The two key operators on the Romanian debt purchase market are international players: the EOS Group and the KRUK Group. The Romanian credit management segment is more fragmented.

Czech Republic and Slovakia

According to the Company's estimates, the value of the market for unsecured retail debt purchases in the Czech Republic and Slovakia in 2012 was ca. PLN 1.8bn in nominal terms. The capital expenditure incurred on debt purchases in this segment was over PLN 340m.

In 2012, the Group continued to operate on the Czech and Slovak markets. Following the package purchase of Czech and Slovak debt portfolios in 2011, the Group executed its first stand-alone debt purchase transaction in Slovakia in October 2012. In 2012, the KRUK Group invested a total of PLN 27m in the purchase of unsecured retail debt on both markets. Thus the Group achieved an 8% share in the debt purchase market, based on the value of incurred expenditure. In August 2012, the Group launched credit management services in Slovakia and in September 2012 – in the Czech Republic. The KRUK Group provides its services to two of the top six banks in the Czech Republic and holds discussions with leading non-financial institutions. As at the end of 2012, the Group provided its services to three of the top four banks in Slovakia.

The credit management market in the Czech Republic and Slovakia is highly fragmented. The Group estimates that there are over 150 debt collection companies on the Czech and Slovak markets. The largest competitors include the EOS Group, Intrum Justitia, MBA Finance, Profidebt and Transcom.

2.2 Legal and regulatory environment

The Company was incorporated and operates under the laws of Poland. The Group also conducts activities on foreign markets. The foundation of the continental European legal systems, Polish law including, is the statute law.

Large number of laws and regulations governing issue of and trade in securities, shareholders' rights, foreign investments, corporate activities and governance, trade and business activities, including consumer bankruptcy, as well as tax reliefs and benefits available to investment funds, have been and may be amended. These regulations are subject to differing interpretations, hence the risk that they may be applied in an inconsistent manner, which is further exacerbated by the fact that not all court judgements are published in official collections of judicial rulings. As a rule, court judgements, not regarded as an official source of law, are not binding in other cases, however, they have a certain influence on shaping the practice of law construction and application. Therefore, no assurance can be given by the Company that its interpretation of Polish law or laws of other countries applicable to the Group's business, will not be challenged, which may, in turn, result in fines or penalties being imposed on the Company, or the Company being required to change its policies. This may have an adverse effect on the Group's operations, financial standing and image.

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

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

The nature of the Group's operations involves extensive personal data processing as part of the Group's everyday business. Personal data processing by the Group must comply with the laws and regulations on personal data protection in effect in the countries where the Group is present. No assurance can be given by the Company that, despite employing technical and organisational measures to protect the personal data it processes, the Group will not fail to comply with its legal obligations in this respect, and in particular that personal data will not be disclosed to unauthorised persons.

Certain segments of the Group's business, in particular operation of securitisation funds and of investment fund companies managing such funds, management of the funds' securitised debt, as well as operations involving the provision of detective services, are subject to special regulations under the Polish, Romanian and EU laws. To be able to conduct such activities, the Group is required to obtain authorisations or consents from public administration authorities, including the PFSA, and is supervised by those authorities.

Tax systems in the countries where the Group conducts business are subject to changes. Certain tax laws are imprecise and there is no consistent and clear interpretation or practice of their application by tax authorities. Due to differing tax law interpretations, the tax risk in Poland and the other countries where the Group is present is greater than in the legal systems on developed markets. No assurance can be given by the Company that tax authorities will not establish different tax interpretations, being unfavourable to the Group, which may have a material adverse effect on the Group's operations, financial standing or performance. Furthermore, as the Group is active in different jurisdictions, double-tax treaties also have an effect on its business.

2.2.1

Securitisation funds

Operations of the Group's securitisation funds (Prokura NSFIZ and Prokulus NSFIZ) are regulated. Securitisation funds which operate in Poland as closed-end investment funds are supervised by the PFSA, which is equipped with broad supervisory powers and legal instruments.

The PFSA's powers include: grant of an authorisation for the management of the securitised debt of a securitisation fund by an entity other than an investment fund; supervision of entities which manage the securitised debt of a securitisation fund, including their compliance with applicable laws, the fund's articles of association, agreements executed with the investment fund management company and the relevant authorisation; and imposition of penalties and other measures in the event of a breach of laws governing investment funds' operations, including pecuniary penalties or withdrawal of authorisations.

Pursuant to the amended Act on Investment Funds (Dz. U. of 2011, No. 234, item 1389), the PFSA no longer has the authority to grant authorisations to establish closed-end investment funds issuing only investment certificates, which according to such fund's articles of association will not be offered in a public offering, admitted to trading on a regulated market or introduced to trading in an alternative trading system. Such closed-end investment funds are formed upon their entry in the register of investment funds.

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

By virtue of the decision of May 8th 2012, the Polish Financial Supervision Authority authorised KRUK Towarzystwo Funduszy Inwestycyjnych S.A. to conduct business activities consisting in creation and management of investment funds, including intermediation in the sale and redemption of investment fund units, representation of investment funds in dealings with third parties, and management of collective securities portfolios. On December 7th 2012, KRUK Towarzystwo Funduszy Inwestycyjnych S.A. took over the management of the KRUK Group's securitisation funds (Prokura NS FIZ and Prokulus NS FIZ).

2.2.2

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 transferring debt for collection by the Group. Nonetheless, the Group companies are subject to the PFSA's oversight with respect to the performance of such collection outsourcing agreements.

2.2.3

Exchange of business information

The operations of the ERIF BIG S.A.'s Debtor Register is governed by the Act on access to business information and sharing of business data of April 9th 2010 (Dz.U. of 2010, No. 81, item 530, as amended). The supervision of compliance of ERIF operations involving providing access to and exchange credit information with the applicable laws is exercised by the Minister competent for the economy.

2.2.4

Other authorities materially involved in oversight of the Group's operations

The Group is also subject to oversight by other authorities which regulate specific areas of its business. 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.

▶ 2.2.5

Personal data protection

The extent of personal data processing in the Group's day-to-day operations make personal data protection regulations materially important for the Group's activities. Personal data processing must be conducted in strict compliance with the relevant laws and with the use of technical and organisational measures which ensure personal data protection, in particular against unauthorised disclosure. In addition, individuals whose data are processed must have the right to access and correct such data.

Operations of the ERIF Debtor Register, which involve providing access to credit information, are also governed by the Act on Access to Business Information. Furthermore, relevant provisions of the Banking Law concerning banking secrecy apply to the servicing of bank debts.

▶ 2.2.6

Change in consumer loan regulations

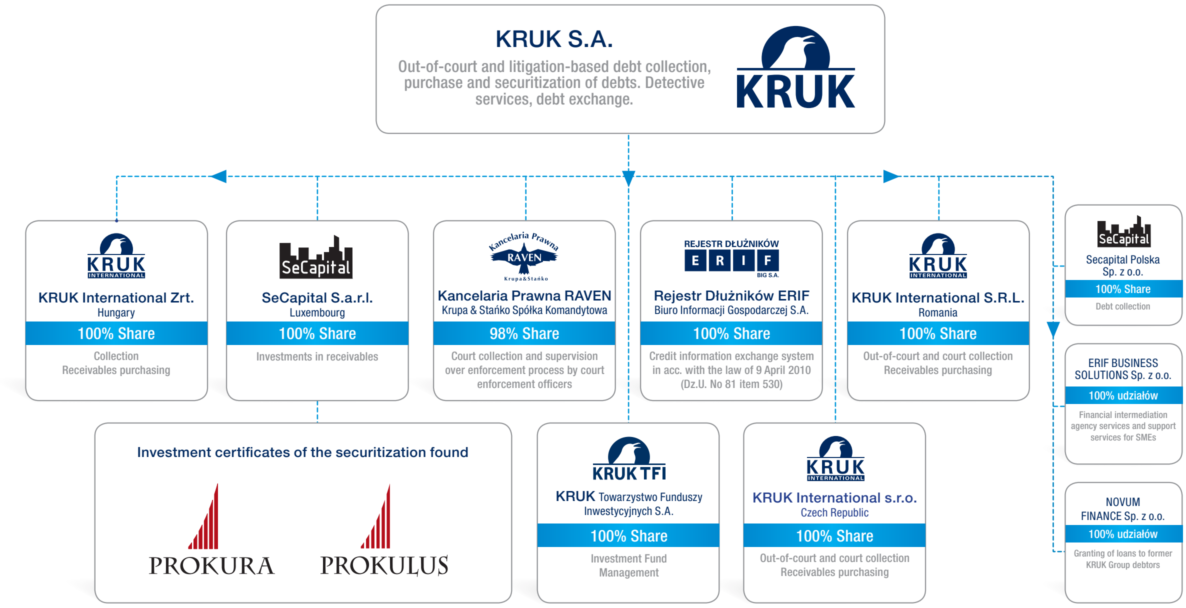
On December 19th 2011, the Consumer Loan Act of May 12th 2011 (Dz. U. of 2011, No. 126, item 715, as amended) came into force, having effect on the execution and contents of extension of debt payment agreements and of borrowing agreements. The Company and its subsidiary Novum Finance Sp. z o.o. (until February 15th 2012: Polski Rynek Długów Sp. z o.o.) brought their operating activities into conformity with the above requirements.

3. GENERAL INFORMATION ABOUT THE GROUP

3.1
Structure of the Group

3.1.1
Description of the Group's structure

The structure of the KRUK Group as at December 31st 2012, with information on KRUK S.A.'s ownership interests in subsidiaries, is presented below:



As at December 31st 2012, the Group comprised KRUK S.A., the Parent, and twelve subsidiaries:

- **Kancelaria Prawna RAVEN Krupa & Stańko** of Wrocław, a law firm providing comprehensive debt litigation and enforcement services exclusively in connection with debt collection processes conducted by the Group and its partners;
- **Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A.** of Warsaw, a credit reference agency serving as a platform for collecting, processing and providing information on natural persons and businesses, both delinquent debtors and timely payers;
- **ERIF Business Solutions Sp. z o.o.** of Wrocław, the company's core business consists in financial and agency services, and support for Small and Medium-Sized Enterprises;
- **KRUK International S.R.L.** of Bucharest, Romania, a credit management and debt purchase company;
- **Secapital S.a.r.l.** of Luxembourg, a special-purpose securitisation vehicle whose business consists chiefly in investing in debt or debt-backed assets;
- **Prokura NSFIZ and Prokulus NSFIZ**, securitisation funds which are securitisation and investment vehicles relying on professional risk assessment and credit management methodologies. All certificates issued by the securitisation funds are held by Secapital S.à.r.l., and consequently any gains on an appreciation in the value of the certificates issued by Prokura NSFIZ and Prokulus NSFIZ are taxed in Luxembourg. Name of the investment fund company managing the funds: Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A.;
- **Secapital Polska Sp. z o.o.** of Wrocław, securitised debt company;
- **Novum Finance Sp. z o.o.** of Wrocław, a company whose main business consists in providing consumer loans;
- **KRUK International S.r.o.** of Prague, Czech Republic, a credit management and debt purchase company;

- **KRUK Towarzystwo Funduszy Inwestycyjnych S.A.** of Wrocław, an investment fund management company;
- **KRUK International S.R.L.** of Budapest, Hungary, a credit management and debt purchase company.

Until the date of approval of these financial statements, there were no changes in the composition of the KRUK Group and in the information on the Group companies presented above. However, in February 2013, changes of the names of KRUK International S.R.L. of Bucharest, Romania, and KRUK International S.r.o. of Prague were registered by registry courts in Romania (February 21st 2013) and the Czech Republic (February 22nd 2013). Currently, the companies operate under the names: KRUK ROMÂNIA S.R.L of Romania and KRUK Česká a Slovenská republika S.r.o. of the Czech Republic, respectively.

3.1.2
Changes in the Group's structure

On February 24th and September 18th KRUK TFI S.A.'s share capital was increased by PLN 0.20m and PLN 0.35m respectively. The difference between the new and the previous par value per share was covered with cash contributions. In December 2012, KRUK TFI S.A. took over the management of Prokura NSFIZ and Prokulus NSFIZ securitisation funds.

Pursuant to a decision by the sole shareholder in KRUK International S.R.L. of December 27th 2012, the share capital of KRUK International S.R.L. was increased from RON 1,000 to RON 2m (PLN equivalent of 923.20 and 1.8m respectively, translated at the exchange rate quoted by the National Bank of Poland on December 27th 2012). The Company's liability under its contribution into the subsidiary's share capital was offset against the loans advanced by the Company to KRUK International S.R.L.

In 2012, the Company increased the share capital of Secapital S.à.r.l. by a total of PLN 123m.

In 2012, the Company acquired KRUK International Zrt. for a total of PLN 1.3m.

On December 27th, by way of conversion of loans (PLN 1.85m) into shares and cancellation of loans (PLN 5.84m) of KRUK International S.r.l. of Bucharest, the Company increased the share capital of the subsidiary.

TABLE 4. PROKURA NSFIZ – redemption and allotment of Investment Certificates in 2012

				2012
NO.	DATE AND TIME OF DISCLOSABLE TRANSACTION ON CERTIFICATES	SERIES	TYPE	NUMBER
1	Redemption of Investment Certificates: January 23rd 2012	Series K	Non-Public Registered Investment Certificates	2,080,481
2	Redemption of Investment Certificates: January 23rd 2012	Series M	Non-Public Registered Investment Certificates	22,639
3	Redemption of Investment Certificates: February 16th 2012	Series M	Non-Public Registered Investment Certificates	1,604,097
4	Allotment of Certificates: May 28th 2012	Series S	Non-Public Registered Investment Certificates	1,277,372
5	Redemption of Investment Certificates: July 18th 2012	Series M	Non-Public Registered Investment Certificates	501,113
6	Allotment of Certificates: September 25th 2012	Series T	Non-Public Registered Investment Certificates	1,413,044
7	Redemption of Investment Certificates: October 19th 2012	Series M	Non-Public Registered Investment Certificates	842,105
8	Redemption of Investment Certificates: November 19th 2012	Series M	Non-Public Registered Investment Certificates	726,141
9	Allotment of Certificates: December 21st 2012	Series U	Non-Public Registered Investment Certificates	6,591,837
				2013
1	Redemption of Investment Certificates: January 16th 2013	Series M	Non-Public Registered Investment Certificates	743,310
2	Redemption of Investment Certificates: February 6th 2013	Series M	Non-Public Registered Investment Certificates	833,334
3	Redemption of Investment Certificates: February 18th 2013	Series M	Non-Public Registered Investment Certificates	736,740

Source: the Company

TABLE 5. PROKULUS NSFIZ – allotment of Investment Certificates in 2012

NO.	DATE AND TIME OF DISCLOSABLE TRANSACTION ON CERTIFICATES	SERIES	TYPE	NUMBER
1	Allotment of Certificates: June 26th 2012	Series B	Non-Public Registered Investment Certificates	500,000
2	Allotment of Certificates: September 17th 2012	Series C	Non-Public Registered Investment Certificates	300,000

Source: the Company

On April 23rd 2012, the Company's Extraordinary General Meeting adopted a resolution to approve a disposal of an organised part of KRUK's business to Novum Finance Sp. z o.o., a wholly-owned subsidiary of the Company. Within the Company's internal organisational structure, it was an organisationally, financially and functionally separated unit, Consumer Finance Division, whose core business was consumer lending. The organised part of business comprised a portfolio of consumer loans as well as all obligations, infrastructure and personnel relating to this part of business. The employees were transferred pursuant to Art. 23 of the Polish Labour Code. On April 27th and on May 30th, the Company increased the share capital of Novum Finance Sp. z o.o. of Wrocław, respectively by PLN 6.4m and PLN 0.8m, by way of additional contributions to equity in connection with the transfer of lending activity from KRUK to this entity.

At PROKURA NSFIZ, the following transactions of redemption or allotment of Investment Certificates were concluded (table 4).

Following these transactions, as at December 31st 2012 Secapital S.à.r.l. held 62,491,592 Investment Certificates and as at the date of this report – 60,178,208 Investment Certificates. Secapital S.à.r.l. holds 100% PROKURA NSFIZ's Investment Certificates.

At PROKULUS NSFIZ, the following transactions of allotment of Investment Certificates were concluded in 2012 (table 5).

Following these transactions, as at December 31st 2012 Secapital S.à.r.l. held 1,000,000 Investment Certificates and as at the date of this report its holding remained unchanged. Secapital S.à.r.l. holds 100% PROKULUS NSFIZ's Investment Certificates.

3.1.3
Changes in the Group's significant management policies

In the financial year 2012, there were no changes in the significant policies of managing the Parent and its subsidiaries, with the exception of KRUK TFI S.A. taking over the management of Prokura NSFIZ and Prokulus NSFIZ securitisation funds.

3.1.4
Consolidated entities

All Group entities are fully-consolidated.


GRUPA KAPITAŁOWA KRUK S.A.
SeCapital
KRUK
INTERNATIONAL
RAVEN

3.1.5
Company branches

The Company has eight registered branches located in Poznań, Warsaw, Kraków, Katowice, Bydgoszcz, Łódź, Gdynia, and Szczawno-Zdrój.

The branches do not keep separate accounting books.

3.2
Share capital

3.2.1
Share capital structure

As at December 31st 2012 and as at the date of this report, the share capital of KRUK was PLN 16,900,340.00 and was divided into 16,900,340 shares with a par value of PLN 1.00 per share, including:

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

3.2.2
Changes in share capital

In the financial year 2012 and until the date of this report there were no changes in KRUK's share capital.

3.3
Human capital

3.3.1
Qualified personnel

Highly qualified staff represents one of the key success factors for the KRUK Group. The Group employs experts with broad debt collection and credit management experience. Some of the managers have previous experience of working for banks, financial brokerage firms, telecoms, and large distribution companies. The Company's professional risk management team performs a central role in analysing and valuing purchased debt, and in analysing the effectiveness of debt collection operations. The Company also has a strong team of software developers focusing on development of IT infrastructure. As at the end of 2012, approximately 65% of the Group's staff were university graduates.

The Group puts emphasis on its employer branding efforts aimed at reaching a broad group of potential employees for the Group and at increasing the job market's awareness of its operations and development prospects. In 2012 these efforts were manifest by the Company's participation in four career fairs and involvement in the "Polish Champion" and "Me in Wrocław in ten years" programmes.

The table below sets out the Group's employment data (full and part time positions under employment contracts) as at the dates indicated.

TABLE 6. The Group's workforce in 2012

	AS AT DEC 31 2012
Company	985
Subsidiaries	820
Total	1,805

Source: the Company

The table 7 sets out the Group's employment data (full and part time positions under employment contracts) as at the dates indicated, by geographical regions of the Groups' operations.

TABLE 7. The Group's workforce in 2012 in Poland and foreign markets

	AS AT DEC 31 2012
Number of employees, including:	1,805
Poland	1,395
Foreign markets	410

Source: the Company

In 2012, the Group employed personnel both under employment contracts and managerial contracts. It also commissioned work under temporary employment contracts and piecework contracts.

Since highly-qualified staff is a vital asset, the Group makes efforts to ensure development of its team and to offer optimum terms of employment. In 2012, the Group operated:

- An extensive internal training system, designed to improve the personnel's skills in negotiation techniques, and to expand their knowledge of legal and psychological aspects of the debt collection process;
- A series of management trainings for the Group's entire management staff designed to develop management competence and broaden the necessary knowledge;
- External trainings for female staff carried out as part of the "KRUK Rozwija Skrzydła" project co-financed by the EU Social Fund.

The Group personnel, both employed under employment contracts and engaged under civil-law contracts, participate in the incentive schemes operated by the Group. Additional benefits offered to the employees include co-financing of post-graduate studies, training, acquisition of qualifications, specialist English courses, private medical care, fitness club membership, as well as rewards for special accomplishments. The Company's employees and persons providing services to the Company at its organisational units or holding positions eligible to participate in the incentive scheme may also receive performance-based remuneration, including bonuses for accomplishment of tasks assigned to particular employees or bonuses for achievement of annual profit targets by the Company.

Members of the Company's Management Board and other key personnel of the Group are a strong team of experts in such areas as credit management, sales, high-volume process management, finance, debt valuation, HR management, legal support, IT and public relations. Stability of the Group's management team, manifest by its low turnover rate, and the extensive expertise developed over the years, are a source of important competitive advantages of the Group. The key managers are also covered by an incentive scheme.

3.3.2 Incentive Scheme

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

The rules of the Incentive Scheme for 2011–2014 were adopted in Resolution No. 1/2011 of the Extraordinary General Meeting of KRUK, dated March 30th 2011, and modified by virtue of a resolution of the Extraordinary General Meeting dated August 29th 2011. Under the scheme, eligible persons will be granted options to acquire Company shares on preferential terms set forth in the resolution and in the Rules for the Option Plan. The eligible persons comprise members of the Management Board (excluding the President), Company employees and employees of 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 implementation of the Option Plan, the 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 objective 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 Option Plan. Holders of Subscription Warrants will be entitled to exercise the rights to subscribe for Series E Shares attached to the Subscription Warrants, at an issue price equal to the issue price of Company shares in the initial public offering, not earlier than six months after the acquisition of the Subscription Warrants and not later than on June 30th 2016.

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

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

- The growth of EPS in a given financial year preceding the year when the Subscription Warrants are offered in a given Tranche is no less than 17.5%;
- The growth of EBITDA in a given financial year preceding the year when the Subscription Warrants are offered in a given Tranche is no less than 17.5%;
- ROE in a given financial year preceding the year when the Subscription Warrants are offered in a given Tranche is no less than 20%.

The Resolution of the KRUK Supervisory Board reviewing the fulfilment of conditions set forth in the Management Stock Option Plan 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 I for 2011, became effective on June 20th 2012. The Supervisory Board established that the requirements set forth in the Incentive Scheme for granting the maximum number of Subscription Warrants in Tranche I for 2011 under the Scheme were fulfilled, and determined the List of Eligible Persons in Tranche I for 2011 and the list of persons eligible in Tranche I for 2011 from the Reserve Pool. Pursuant to the Resolution, issued on the basis of the 2011–2014 Incentive Scheme for key management personnel of the Company and the Group subsidiaries, the Supervisory Board allotted Subscription Warrants from the 2011 Management Stock Option Plan to the persons specified in the lists, including members of the Management Board. The Eligible Persons were presented with an offer to acquire subscription warrants that would entitle them to purchase new KRUK shares at an issue price of PLN 39.70 per share. Subscription warrants were delivered to Management Board Members on September 3rd 2012.

Number of warrants allotted to Management Board Members as part of Tranche 1 for 2011:

TABLE 8. Number of warrants allotted to Management Board Members as part of Tranche 1 for 2011

NAME	POSITION	NUMBER OF WARRANTS ALLOTTED IN TRANCHE 1 FOR 2011
Rafał Janiak	Member of the Management Board	10 507
Urszula Okarma	Member of the Management Board	10 507
Agnieszka Kułton	Member of the Management Board	10 507
Iwona Słomska	Member of the Management Board	9 257
Michał Zasępa	Member of the Management Board	10 507

Source: the Company

The Management Board Members identified above hold no entitlements in respect of KRUK shares other than the subscription warrants. The President of the KRUK Management Board holds no entitlements to Company shares under the Programme.

A total of 189,790 Warrants was granted to eligible persons under Tranche I.

The remaining 21,464 Warrants to be allotted in 2011 were transferred to Tranche II for 2012.

Subscription Warrants may be inherited, but may not be encumbered or disposed of.

3.4
Dividend policy

3.4.1
Historical data on dividend payments

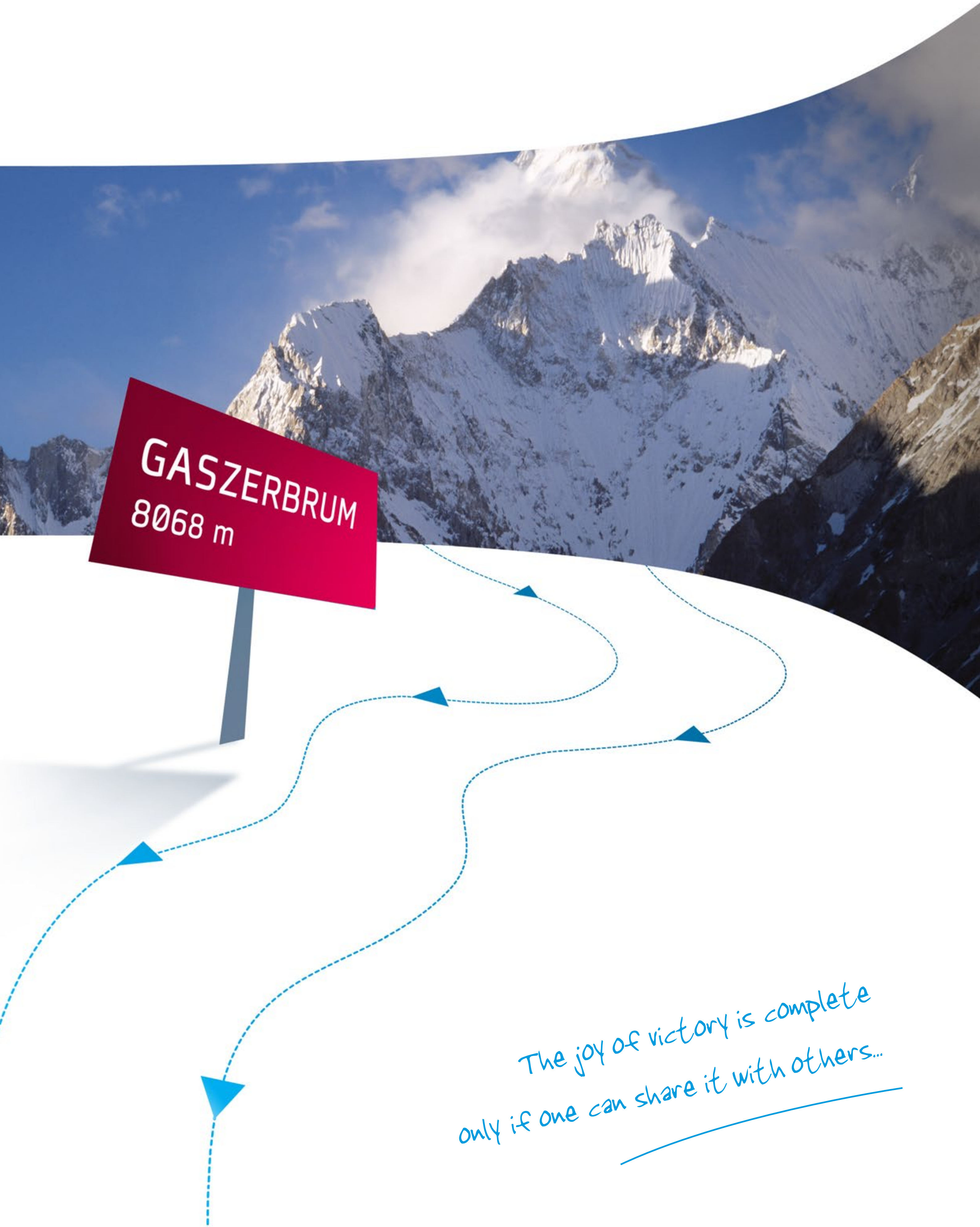
In the period covered by the historical financial information, the Company did not pay dividend from net profit.

Concurrently, in the reporting period and until the date of release of this report a total of PLN 95.0m and PLN 8.5m was received by KRUK S.A. from the Luxembourg-based subsidiary Secapital S.à.r.l. and Kancelaria Prawna Raven Krupa & Stańko Sp. k., respectively, as part of distribution of profit for 2011 and 2012.

Kancelaria Prawna Raven Krupa & Stańko Sp. k. also paid PLN 187,775.90 to its general partners as part of profit distribution.

3.4.2
Dividend policy

In the medium term, the Group's strategy provides for reinvestment of all profits in business development, to utilise the Group's potential to increase its value. In view of its plans to continue the dynamic development of debt purchase activities, the Parent does not plan to pay dividend from 2012 profits. However, the Parent may pay out dividend in subsequent years to the extent such dividend does not affect its ability to raise financing required for further expansion.



The joy of victory is complete
only if one can share it with others...

4. OPERATIONAL AND FINANCIAL REVIEW

4.1

Principles applied in the preparation of annual consolidated financial statements

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

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

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

Purchased debt portfolios comprise mass overdue consumer debt (such as debt under consumer loans, unpaid utility bills, etc.) purchased by the Group under debt assignment agreements for prices lower than the nominal value of the debt. The Group recognises purchased debt portfolios as financial assets designated as measured at fair value through profit or loss, because the Group manages the portfolios and the Group's results of 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.

As of July 1st 2012, a compartment (or a distinct part of business for which separate accounting is maintained) was established within subsidiary Secapital S.à.r.l., whose purpose is to purchase debt portfolios denominated in the Romanian Leu (RON). Therefore RON is the functional currency of the new compartment. This approach is consistent with IAS 21 which requires each individual entity preparing separate financial statements to determine its functional currency, being the currency in which the majority of its cash flows are generated, and measure its results, assets and financial position in that currency.

The decision was made based on the prevailing economic conditions, in order to reflect the actual economic transactions, developments and factors in the most precise manner possible.

4.2

General information about current and expected financial position

There are no material risks to the Group's current and expected financial position. In 2012, the Group's net profit was PLN 81m, up PLN 14.8m (22.29%) year on year.

In 2012, in the debt purchase segment the Group invested PLN 309m in new debt portfolios. The Group also gained a substantial share of the credit management market, which can be a source of future business growth.

The consolidated income statement is presented in table 9.

TABLE 9. Consolidated income statement (PLN '000)

	JAN 1 2012 – DEC 31 2012	JAN 1 2011 – DEC 31 2011
Revenue	342,992	274,031
Other income	2,516	1,367
Employee benefits expense	(87,813)	(70,519)
Depreciation and amortisation expense	(7,335)	(5,427)
Third-party services	(46,263)	(46,838)
Other expenses	(67,424)	(56,619)
	(208,835)	**(179,403)**
Operating profit	**136,673**	**95,995**
Finance income	1,232	2,934
Finance costs	(52,811)	(30,383)
Net finance costs	**(51,579)**	**(27,449)**
Profit before tax	**85,094**	**68,546**
Income tax	(3,900)	(2,154)
Net profit for the period	**81,194**	**66,392**
Net profit attributable to:		
Owners of the parent	81,039	66,205
Non-controlling interests	155	187
Net profit for the period	**81,194**	**66,392**
Earnings/(loss) per share		
Basic (PLN)	4.80	4.03
Diluted (PLN)	4.78	4.03

Source: the Company

4.3
Revenue by product

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

Below is presented a historical breakdown of cash inflows from purchased debt portfolios as a share in the amount of funds spent to purchase the portfolios.

TABLE 10. Weighted average recovery curve in 2005–2012

WEIGHTED AVERAGE RECOVERY CURVE IN 2005–2012	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	TOTAL
Cash recoveries in each of the years as % of funds spent	24%	52%	44%	36%	25%	24%	27%	18%	+	**249%**

Source: the Company

TABLE 11. Performance of individual reporting segments (PLN '000)

	JAN 1 2012 – DEC 31 2012	JAN 1 2011 – DEC 31 2011
Revenue	**342,992**	**274,031**
Purchased debt portfolios	302,996	230,351
Collection services	32,883	40,966
Other products	7,113	2,714
Direct and indirect costs	**(148,882)**	**(130,360)**
Purchased debt portfolios	(122,176)	(103,123)
Collection services	(20,515)	(23,265)
Other products	(6,191)	(3,972)
Gross profit	**194,110**	**143,671**
Purchased debt portfolios	180,820	127,228
Collection services	12,368	17,701
Other products	922	(1,258)

Source: the Company

In 2012, the Group's total revenue was PLN 343.0m, 25% up on 2011. The main driver of this strong increase was the Group's growth, fuelled by the expansion of the credit management market in Poland and abroad. The Group continued to pursue the strategy of consolidating its leading position on the growing debt collection market. In 2012, the Group particularly focused on the segment of debt purchase. As a consequence, revenue from debt purchase reached PLN 303.0m, while revenue from credit management amounted to PLN 32.9m in 2012.

Each segment's performance is discussed in table 11. The efficiency of each segment is assessed based on the segment's gross profit.

In 2012, the Group's gross profit was PLN 194.1m, having risen by PLN 50.4m, or 35%, on 2011. This strong increase in gross profit was mainly attributable to record-high investments in debt portfolios purchased in 2011, which had a positive effect on the 2012 performance, and significant expenditure on debt portfolios incurred in 2012.

Revenue derived from the purchased debt portfolios increased by 32% relative to 2011, which translated into an improved gross profit of the debt purchase segment (up 42% year on year).

Gross profit generated by the credit management segment dropped by PLN 5.3m, or 30% year on year, mainly as a result of the shrinking of the debt collection market and fewer debt collection cases in the Polish market.

4.4 Geographical structure of sales

The Group conducts operations in three main geographical areas: in Poland, Romania and the other foreign markets (the Czech Republic and Slovakia).

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

TABLE 12. Performance of individual geographical segments (PLN '000)

	JAN 1 2012 – DEC 31 2012	JAN 1 2011 – DEC 31 2011
Revenue	**342,992**	**274,031**
Poland	240,099	170,010
Romania	85,103	102,892
Other foreign markets	17,790	1,128
Direct and indirect costs	**(148,882)**	**(130,360)**
Poland	(115,485)	(106,785)
Romania	(24,130)	(23,275)
Other foreign markets	(9,267)	(300)
Gross profit	**194,110**	**143,671**
Poland	124,614	63,225
Romania	60,973	79,617
Other foreign markets	8,523	828

Source: the Company

In 2012, the Polish market's share in the Group's total revenue and gross profit increased. The Group achieved this increase mainly through higher investments in 2011 and 2012 compared with previous years (over the last two years, the Group incurred record-high expenditure on debt portfolios, totalling PLN 375m in 2011 and PLN 224m in 2012).

In the foreign markets, the Group's gross profit declined relative to 2011. This drop was attributable to a lower margin earned in the Romanian market, which was driven by lower investments in debt portfolios purchased and the weakening of the Romanian currency against the Polish złoty in 2012.

4.5 Structure of assets and liabilities in the consolidated statement of financial position

The Group's total assets were PLN 971.4m, having grown by 21% relative to the end of 2011.

Debt under bank borrowings and other debt instruments increased substantially in connection with new capital raised to finance debt purchases.

TABLE 13. The Group's assets (PLN '000)

	DEC 31 2012	DEC 31 2011	CHANGE
Assets			
Non-current assets			
Property, plant and equipment	17,209	14,326	20%
Other intangible assets	7,646	6,651	15%
Goodwill	1,024	1,024	0%
Deferred tax assets	1,603	1,837	-13%
Total non-current assets	**27,482**	**23,838**	**15%**
Current assets			
Inventories	879	537	64%
Current investments	880,012	721,928	22%
Trade receivables	12,019	12,804	-6%
Income tax receivable	767	-	-
Other receivables	5,160	3,354	54%
Prepayments and accrued income	2,382	1,800	32%
Cash and cash equivalents	42,729	36,205	18%
Total current assets	**943,948**	**776,628**	**22%**
Total assets	**971,430**	**800,466**	**21%**

Source: the Company

TABLE 14. The Group's equity and liabilities

	DEC 31 2012	DEC 31 2011	CHANGE
Equity and liabilities			
Equity			
Share capital	16,900	16,900	0%
Share premium	45,107	45,107	0%
Exchange differences on translating foreign operations	(3,774)	330	-1,244%
Other capital reserves	45,711	43,365	5%
Retained earnings	213,532	132,493	61%
Equity attributable to owners of the parent	**317,476**	**238,195**	**33%**
Non-controlling interests	**156**	**188**	**-17%**
Total equity	**317,632**	**238,383**	**33%**
Non-current liabilities			
Non-current liabilities under bank borrowings and other debt instruments	409,179	339,497	21%
Total non-current liabilities	**409,179**	**339,497**	**21%**
Current liabilities			
Current liabilities under bank borrowings and other debt instruments	187,204	137,503	36%
Trade and other payables	38,508	66,947	-42%
Current tax payable	-	660	-
Employee benefits payable	18,643	17,212	8%
Current provisions	264	264	0%
Total current liabilities	**244,619**	**222,586**	**2%**
Total liabilities	**653,798**	**562,083**	**10%**
Total equity and liabilities	**971,430**	**800,466**	**12%**

Source: the Company

4.6
Cash flows

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

- Financing debt purchases with own funds, bank loans and notes issues;
- Leasing property, plant and equipment and intangible assets or financing them with own funds;
- Financing other operations with own funds.

For a description of financial risk management, see section "Objectives and methods of financial risk management." The Company holds cash in PLN, EUR, USD, RON and CZK.

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

As the Group recognises debt purchases under operating activities, the Group's investing activities related to the purchase of debt portfolios and the related increase in carrying fair value of the purchased debt portfolios reduce net cash from operating activities.

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

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

4.8
Financial ratios

The EBIT margin was 40% in 2012, having risen by 5 pp year on year. The growth follows from the fact that revenue expanded quicker than operating expenses. The net margin remained unchanged at 24% in 2012. The slower growth of net profit relative to EBITDA is primarily attributable to the Group's finance costs.

The Group maintained its high ROA, which stood at 8%.

TABLE 15. Change in value of debt portfolios in 2012

Purchased debt portfolios as at Jan 1 2012	**718,706**
Purchase of debt portfolios	309,269
Adjustment following change in valuation	(347)
Purchase price adjustment for discount	(793)
Cash recoveries	(451,329)
Liabilities to debtors due to overpayments	1,097
Revenue from debt purchase (interest and revaluation)	302,996
Fair value translation differences	(6,102)
Purchased debt portfolios as at Dec 31 2012	**873,497**

Source: the Company

TABLE 16. Profitability ratios

	PERIOD ENDED	
	DEC 31 2012	DEC 31 2011
EBITDA margin (operating profit plus depreciation/amortisation)	42%	37%
EBIT margin (operating profit)	40%	35%
Pre-tax margin	25%	25%
Net margin	24%	24%
Return on assets (ROA)	8%	8%
Return on equity (ROE)	26%	28%

Source: the Company.

Formulas used to calculate the ratios:
EBITDA margin – (operating profit for the period + depreciation/amortisation) / total revenue
EBIT margin – operating profit for the period / total revenue
Pre-tax margin – pre-tax profit for the period / total revenue
Net margin – net profit for the period / total revenue
Return on assets (ROA) – net profit for the period / total assets at end of the period
Return on equity (ROE) – net profit for the period / total equity at end of the period

TABLE 17. Debt ratios

	PERIOD ENDED	
	DEC 31 2012	DEC 31 2011
Total debt ratio	67%	70%
Debt to equity ratio	206%	236%
ROE	43%	40%
Short-term debt ratio	25%	28%
Long-term debt ratio	42%	42%
Current ratio	3,9	3,5
Quick ratio	3,9	3,5

Source: the Company.

Formulas used to calculate the ratios:
Total debt ratio – total liabilities / total equity and liabilities
Debt to equity ratio – total liabilities / total equity
ROE – operating profit/(loss) for the period / equity excluding non-controlling interests at end of the period
Short-term debt ratio – total current liabilities / total equity and liabilities
Long-term debt ratio – total non-current liabilities / total equity and liabilities
Current ratio – total current assets / total current liabilities
Quick ratio – (total current assets – inventory)/ total current liabilities

In 2012, the KRUK Group's net debt ratio remained at 1.74, i.e. 6% below the 2011 level and 30% below the debt limit set out in the covenants [formula used to calculate the ratio: net debt ratio = (non-current liabilities under loans and borrowings, and other financial liabilities – cash and cash equivalents) / total equity].

In accordance with its capital management policy, the Group maintains a solid capital base to ensure business growth while maintaining the trust and confidence of investors, lenders and other partners. The Parent's Management Board monitors return on equity on an on-going basis to ensure the ratio's high level.

In 2012, the total debt ratio was 67%, down 3 pp year on year. The decline in the total debt ratio was primarily attributable to the fact that equity grew faster than debt, which was the effect of a year-on-year increase in the Group's net profit. This also resulted in a lower debt to equity ratio, which fell to 206% as at the end of 2012.

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

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

The KRUK Group did not publish any financial forecasts for 2012.

4.10 Financial instruments

4.10.1 Use of financial instruments

The Group 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 Group under claim assignment agreements for prices lower than the nominal value of the debt);
- Loans and receivables (financial assets with determined or determinable payments, but not listed on any active market; loans and receivables include cash and cash equivalents and trade receivables).

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

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

Credit risk

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

Liquidity risk

Liquidity risk is the risk of potential difficulties that the Group may have with meeting its financial liabilities settled through delivery of cash or other financial assets. The Group's liquidity risk management policy is designed to ensure that the Group's liquidity is sufficient to meet liabilities in a timely manner, without exposing the Group to a risk of loss or damage to its reputation.

Market risk

Market risk is related to changes in such market factors as exchange rates, interest rates or stock prices, which affect the Group's performance or the value of financial instruments it holds. The objective behind market risk management is to maintain and control the Group's exposure to market risk within assumed limits, while seeking to optimise the rate of return.

4.10.2 Objectives and methods of financial risk management

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

Assets relating to credit risk are presented in table 18.

TABLE 18. Assets relating to credit risk (PLN '000)

	DEC 31 2012	DEC 31 2011
Poland	681,847	525,562
Romania	197,518	210,559
Czech Republic	60,555	38,170
	939,920	**774,291**

Source: the Company

Financial instruments at fair value through profit or loss

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

Loans

The Group advances loans to natural persons who previously repaid their debts towards the Group. The Group's activities on the open market are currently limited to researching and testing the market. The Group has defined a set of required information allowing it to determine the borrower's creditworthiness.

Liquidity risk

The Group mitigates the liquidity risk through continuous debt collection which secures uninterrupted cash flows. The Group also monitors and takes actions to ensure proper performance of its borrowing agreements. Debt portfolio purchases involve making large one-off payments. To secure necessary funding, the Group relies on external financing in the form of bank borrowings or notes.

Market risk

In the Management Board's opinion, the market risk relates primarily to the Group's exposure to the risk of changes in the PLN exchange rate against foreign currencies, in particular RON, given the Group's considerable investments in debt portfolios denominated in the Romanian currency. Other market risks follow mainly from changes in interest rates on financial liabilities and cash and equivalents, as well as from changes in the risk-free rate adopted to estimate the fair value of purchased debt portfolios. The KRUK Group reinvests recoveries from assets on local markets, without converting currencies. Therefore, the Company did not use financial instruments to hedge the exchange rate risks in 2012. The Company did not use interest rate hedges, either.

4.10.3 Assessment of financial resources management

The Group mitigates the financial resources management risk through continuous debt management, which ensures uninterrupted cash inflows. The Group relies on external financing, however it also monitors and ensures proper performance under its bank borrowing agreements and other financial liabilities.

In the opinion of the Management Board, there are no significant risks to the Group'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 reasonably. For detailed information, see Note 27 to the financial statements.

4.11

Important events with a bearing on the Group's operating and financial performance

4.11.1

Material events during the financial year

In October 2011, the KRUK Supervisory Board adopted a resolution approving the purchase of 100% shares in SH Money Ingatlanfinanszírozási és Pénzügyi Zártkörűen Működő Részvénytársaság of Debrecen, Hungary. SH Money holds authorisations to purchase debt portfolios in Hungary, however the company is virtually dormant. Following the approval by the Hungarian financial regulator of KRUK's acquisition of the Hungarian company and its continued operation under the name KRUK International Zrt., on April 24th 2012 the company's Deed of Incorporation was signed. On June 6th 2012, the KRUK Management Board resolved to suspend for indefinite time preparations to enter the Hungarian market. The Management Board believes that currently the estimated size of the Hungarian debt purchase market does not guarantee satisfactory development of the KRUK Group's business in that country, which, however, does not preclude the possibility of the Company entering that market in the future.

With a view to ensuring a transparent and effective information policy aimed at providing general access to information on the Company's and the Group's financial standing and prospects, on October 10th 2012 the Company decided to adopt a practice to release information on the nominal value of and expenditure on debt cases purchased by the KRUK Group companies in a given quarter. Such information will be released on a regular basis, i.e. by the tenth day of a month following the end of each subsequent quarter (see Current Report No. 39.2012 of October 10th 2012).

Other events and circumstances which had a significant effect on the operations of the Parent and its subsidiaries in 2012 are discussed in detail in other sections of this report. Such events include primarily significant agreements concluded in the course of business, which are discussed in detail in section "Agreements executed by the KRUK Group".

4.11.2

Non-recurring factors and events

In 2012, there were no non-recurring factors or events.

Success and delivery
of stated objectives is a result
of efforts by all team members.

5. THE GROUP'S OPERATIONS AND DEVELOPMENT DIRECTIONS

5.1

The Group's business model

The primary area of the Group's operations is management of consumer debt for financial institutions and other institutional clients, but also for the Group's own account. The KRUK Group manages receivables of banks, loan brokers, insurers, leasing companies, as well as debt portfolios of landline and mobile telecommunications operators, cable TV operators, digital TV operators, and companies from the FMCG sector. The Group focuses on the banking market and relies on long-term relations with its key accounts.

The core segments of the Group's operations include:

- Purchase and management of debt portfolios purchased for the Group's own account (purchased debt portfolios);
- Credit management services.

In the area of purchased debt, the key element of the Group's business is an appropriate approach to the valuation of debt portfolios and their subsequent management. From 2002 to the end of 2012, the KRUK Group purchased 246 debt portfolios with a total nominal value of approximately PLN 14.2bn. The Group purchases debt portfolios primarily from creditors holding high-volume receivables in the four geographic markets: Poland, Romania, the Czech Republic and Slovakia. The number of debt cases purchased by the Group in 2002–2012 was approximately 2.4m, whereas in 2012 alone, the Group purchased over 400 thousand cases. Each debt portfolio transferred to the KRUK Group is thoroughly analysed and valued based on detailed information and data about the debtors, products and related security, behavioural data, as well as information on current and expected macroeconomic conditions in a given market. Debt portfolios are valued with the use of advanced statistical tools and behavioural data, which the Company has been accumulating since 2003. The Group performed over 1,400 debt portfolio valuations until the end of 2012.

Depending on the specifics and status of the debt, as well as client's preferences, the credit management process is tailored to client's individual needs, and is carried out in a professional manner, in accordance with applicable laws. In the area of debt portfolios purchased, the Group's main strategy is to agree with the debtor the best terms of debt repayment, considering the debtor's current financial capabilities. This strategy involves spreading repayment over instalments which the debtor would be able to pay. In the area of credit management, the Group manages receivables for third parties at all stages of delinquency, and applies instruments tuned to a specific debt portfolio (servicing period, tools and process used) and client's specific requirements. The Group makes extensive use of efficient operational methods which rely on advanced IT systems, such as the Delfin debt collection platform, which supports the entire credit management process. The Group's innovative offering in Poland includes credit reference agency services (ERIF), and legal services provided by the Group's law firm (Kancelaria Prawna RAVEN), enabling the Group to provide a full range of tailor-made loss prevention and collection services, in line with the client's credit management policies. The Group launched its operations on the Romanian market in 2007 and on the Czech and Slovak markets in 2011. The Group continued to develop those operations in 2012.

5.2

Comprehensive and innovative product and service offering.

The Group provides comprehensive and innovative service offering targeted directly at businesses. The Group's offering includes loss prevention services, collection services and other services, including detective and specialist services. All services specified below were provided by the KRUK Group in 2012.

Loss prevention services

Provision of reports through ERIF

ERIF's Debtor Register is a platform for collecting, processing and providing information on liabilities incurred by individuals and businesses. The functionalities of ERIF's Debtor Register include: checking the credit worthiness of a person or business (positive and negative information in the form of reports), entering delinquent payers in the database, monitoring of individuals' or businesses' creditworthiness, and checking the authenticity of documents via a data transmission system.

Preventive monitoring

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

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.

Collection services

Collection monitoring

Reminding and monitoring activities are undertaken immediately after the payment deadline. It serves to more effectively predict, control and minimise the level of provisions for non-performing loans, while maintaining a high level of client satisfaction. The objective of collection monitoring is to ensure regular debt repayments and prevent payment delays. Collection monitoring involves quick and frequent contact with debtors. It is usually applied with respect to payments late by 5 to 45 days. This service is performed through the contact centre.

Amicable collection of commercial and consumer debts

The purpose of amicable collection is to recover debt as quickly as possible, using the most effective tools for particular debt categories. In performing this service, the Group relies on a comprehensive array of collection actions and

tools. As part of the service, the Group handles cases at any stage of delinquency and with different statuses. Delfin, the proprietary collection system used by the Group, enables it to both provide mass collection services and process all cases in a highly individualised manner.

Doorstep debt collection

The collection process may involve a field negotiator's visit or detective activities at a debtor's domicile or place of business. During a visit, the negotiator and debtor may agree upon the terms of debt repayment or settlement, and the negotiator may also collect cash or collateralised assets. Doorstep collection is 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 the collateralised assets. The comprehensive service comprises collection and transport of collateralised assets, as well as their storage, valuation and sale.

Administration of mortgage-backed debt cases

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

ERIF's debt collection support tools – entering debtors on the Debtors List

This category of ERIF tools serves to enhance debt collection performance and may be flexibly incorporated into the client's existing collection processes. The tools may be applied both at the early stage of debt monitoring and after the implemented collection efforts prove ineffective.

Debt collection support services offered by Rejestr Dłużników ERIF include entering new debtors on the Debtors List and sending relevant notices informing the debtors that their data has been published on the ERIF Debtors List. Using the credit reference agency and the ERIF brand in individual debt collection proceedings helps improve debt turnover ratios and reduce the levels of bad debt or bad loans for clients. Clients may also request a hybrid service, which involves expanding the set of tools offered by KRUK with an option to enter a debtor on the Debtors List as part of the same collection procedure. The penalising effect of being entered on the Debtors List comes from two sources: the size of the database and the number of database queries made by creditors. Rejestr Dłużników ERIF is the only credit reference agency in Poland which subjects its database to regular reviews by an independent audit and advisory firm. The review is performed every three months. According to a report of January 7th 2013, as at the end of 2012 the Debtors Register contained 1.35 million records.

Debt collection by way of litigation and enforcement

Litigation and enforcement activities are conducted by Kancelaria Prawna RAVEN, a law firm being a part of the Group. Kancelaria Prawna RAVEN represents the Group and clients in court proceedings initiated to obtain a final court judgment with an enforcement clause, as well as during enforcement procedures. The year 2012 was another year of gaining competence in the use of the EPU (Elektroniczne Postępowanie Upominawcze, Electronic Proceedings by Writ of Payment) system in debt management. In 2012, the Group used the platform to file another several hundred thousand cases with courts of law.

Pegaz hybrid service

This service consists in using the tools and activities specific to amicable proceedings in a court action, which makes it possible to recover debts more quickly without having to resort to means of state coercion. As part of this service, employees of Kancelaria Prawna RAVEN, specialising in negotiations with debtors, contact the persons against whom a court action is pending in order to persuade them to voluntarily repay their debt without the need to engage a bailiff.

Other services

e-KRUK

e-KRUK is an interactive web-based multimedia service supporting the collection process. Currently it is the only web service on the market designed to help debtors clear their debts. Through e-KRUK, debtors may access information on their debt and take steps to solve their problems on a 24/7 basis.

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

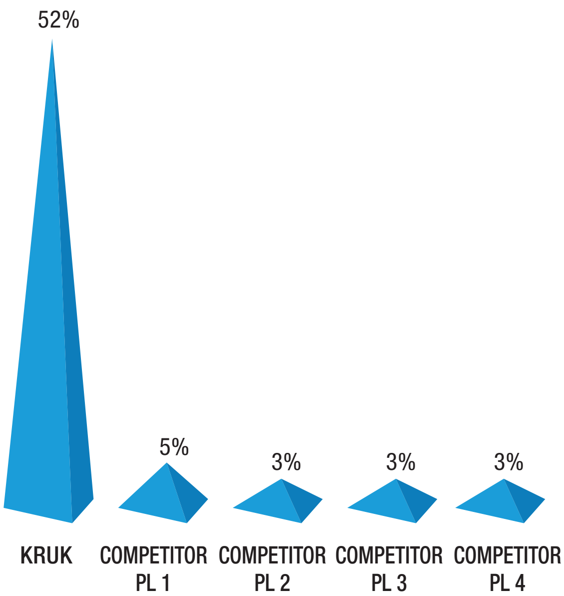
The Novum loan service

As part of the service, the Group grants short-term cash loans to former debtors who have a track record of repaying their liabilities to the Group in a timely manner. As part of the Novum business line, consumer loans are granted of up to PLN 2,500 for periods from 3 to 15 months. The lending service is also intended to diversify the Group's revenue sources. Revenue from the Novum area reported by the Group in 2012 was PLN 3.8m, up 175% year on year, as the Group extended 7,299 Novum cash loans with a net value of PLN 12.1m.

5.3
Amicable settlement strategy for debt collection

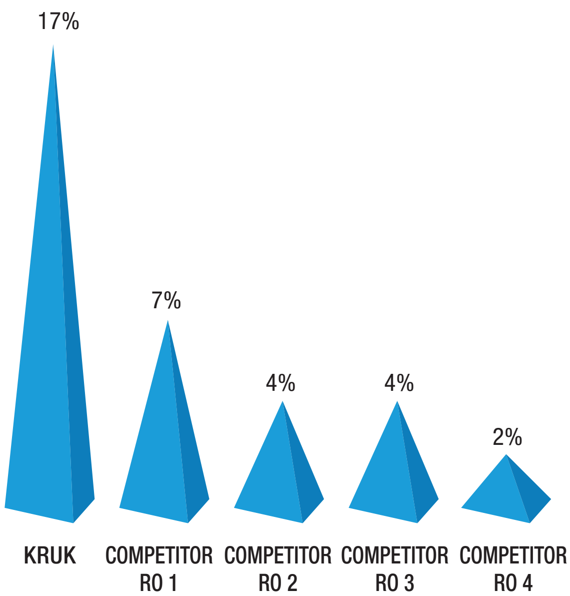
Since mid-2008, the Group has consistently pursued a strategy focused on amicable debt settlement with debtors. Under the strategy, debtors are treated as consumers who are unable to pay debts for reasons beyond their control, and who acknowledge that obligations once incurred must be settled and have the will to settle them. As a result, the Group gears its debt collection efforts to achieving the optimum solution given the debtor's current financial capabilities (e.g. through instalment-based repayments). The strategy has yielded

CHART 5. Awareness of KRUK brand versus competitors in Poland



Source: Report on PBS's survey measuring awareness of debt collection brands among the Polish population

CHART 6. Awareness of KRUK brand versus competitors in Romania



Source: Report on TNS CSOP Romania's survey measuring awareness of debt collection brands among the Romanian population improved efficiency of the collection efforts and has led to more regular payment streams from debtors. The solution's implementation was reinforced by a media campaign targeted at debtors, which contributed to the Group's positive image and made it the most recognisable brand on the Polish and Romanian debt management markets. In 2012, over 62% of repayments received by the Group were made under amicable debt settlements.

5.4 Promotional activities and image building

Image-related activities

In 2012, the Group's activities in the field of image building involved information and media campaigns targeted at debtors and businesses. Apart from standard activities in these areas, information and advertising initiatives were also pursued in Poland and abroad, which included television and radio advertising campaign in Autumn 2012.

In 2012, the amicable settlement strategy was supported by a series of educational publications featured in consumer and regional magazines and press in Poland, Romania and the Czech Republic. Throughout 2012, the Group authored over 100 press releases, consumer advice articles and individual statements for the press. As a result, over 1,000 publications about the KRUK Group appeared in various media, including the television, the press, the radio and the Internet.

In 2012, the Group held seven press events important to the implementation of its strategy:

- January 18th 2012, Warsaw – over 1 million records in the database of Rejestr Dłużników ERIF and first positive records;
- January 31st 2012, Prague – press conference concerning the official launch of the KRUK Group's operations in the Czech Republic – KRUK International S.r.o.;
- March 6th 2012, Warsaw – social survey Behaviour Patterns of Poles in Debt and Debt Collection Report 2011;
- March 21st 2012, Warsaw – official publication of KRUK's Annual Report and consolidated accounts of the KRUK Group;
- November 14th 2012, Prague – press event in connection with the first "Day without Debt" in the Czech Republic;
- November 14th 2012, Bucharest – press event in connection with the second "Day without Debt" in Romania;
- November 15th 2012, Warsaw – press event in connection with the fourth "Day without Debt" in Poland.

Marketing activities

In 2012, the Group's marketing activities were focused on communication with debtors. As part of these activities, one campaign was carried out, in September-December 2012. Integrated multi-channel communication with debtors was conducted through commercials broadcast on television and radio, advertisements printed in the press, as well as by using direct mailing and the Internet channels (website and mailing campaigns).

As part of the Group's operations on foreign markets, in 2012 an information campaign targeted at indebted individuals was carried out by KRUK International in Romania. This campaign was held in September-December 2012, in the same form as in Poland, including integrated communication through the television, radio, press, by direct mailing and over the Internet.

At the beginning of 2012, communication activities in the Czech Republic were launched with two press conferences. They were devoted to the market entry of a new credit management company, its unique strategy and the Czech's approach to debt.

2012 saw the next editions of the "Day without Debt" in Poland (fourth edition) and Romania (second edition). The event was also held for the first time in the Czech Republic. In connection with the event, the Group commenced its image-building activities on Facebook. Through its Domowy Plan Finansowy (Household Financial Plan) profile, it is educating Poles on saving methods, good spending habits, and management of household budgets.

5.5

The Group's geographical markets

The Group operates in the Polish, Romanian, Czech and Slovak markets. The operations in the Czech Republic and Slovakia were commenced in 2011. On all of those markets, in 2012 the Group purchased 53 debt portfolios with the total nominal value in excess of PLN 3.5bn, incurring expenditure of PLN 309m.

The Group's operations on all of the markets include debt collection with respect to the purchased debt portfolios. The Company's head office and the offices of Kancelaria Prawna RAVEN are situated in Wrocław, where the Group also operates a contact centre, including the associated technical and support facilities. The Szczawno-Zdrój branch accommodates an operating centre and a back-up centre. As at the end of 2012, it had 310 full-time employees, including 272 telephone consultants. In Romania, the Group has the main office in Bucharest and a contact centre in Targoviste. The total headcount in Romania as at the end of 2012 was 328, including 151 telephone consultants. In the Czech Republic, the Group operates and office in Prague, where the headcount as at the end of 2012 was 82, including 35 telephone consultants. As at the end of 2012, the Group did not have an office in Slovakia, and the operations in this country are handled by the Czech subsidiary with registered office in Prague.

5.6

Key factors with a bearing on the Group's core business and revenue sources

The Group's core business comprises two operating segments:

- Purchase of debt portfolios – collection of debts purchased for the Group's own account;
- Credit management services – fee-based collection of debts for and on behalf of clients.

The Group's activities are focused on the banking sector. Accordingly, the amount of debt collected for the clients and purchased for the Group's own account depends chiefly on the conditions prevailing on financial markets, in particular the level of corporate debt and the related value of non-performing loans. An important feature of the market affecting the volume of the Group's revenue is clients' willingness to outsource debt collection; in other words, clients may decide to use their in-house debt collection

TABLE 19. KRUK Group's investments in 2012 on each geographical market of its operations

	NUMBER OF PORTFOLIOS	NOMINAL VALUE (PLNm)	EXPENDITURE (PLNm)
Poland	20	2,517	224
Romania	18	923	58
Czech Republic and Slovakia	15	144	27
Total	**53**	**3,585**	**309**

Source: the Company

resources or transfer debt collection to specialised external agents, either under outsourcing arrangements or by selling their debt. The KRUK Group operates in the Polish and foreign markets. Since 2007, it has been present on the Romanian market, and in 2011 it launched operations in the Czech Republic and Slovakia. A detailed description of key external factors affecting the Group's operations is presented in section "Structure and description of the debt collection market".

5.7 Agreements executed by the KRUK Group

5.7.1 Material agreements

Below is presented an overview of agreements, annexes and transactions executed by the KRUK Group in 2012 which may be considered material for the Group's operations.

Annex to the credit facility agreement concluded between KRUK and Bank Zachodni WBK S.A.

For detailed information on the annex, see **"New and terminated loan or credit facility agreements"**.

Annex to the postal services agreement concluded between KRUK and Poczta Polska S.A.

On March 20th 2012, an annex ("Annex") was executed to the agreement on the provision of postal services paid for in arrears ("Agreement"), concluded on February 19th 2006 with Poczta Polska S.A., under which the Agreement was extended for an indefinite period. Previously, the Agreement had been extended annually. As the Agreement was extended for an indefinite period, KRUK estimated the value of services to be provided under the Agreement over the next five years at PLN 30m. Following execution of the Annex, the aggregate value of agreements concluded by the KRUK Group with the Poczta Polska Group in the period from the admission of KRUK shares to trading on the regulated market, i.e. from May 5th 2011, to March 21st 2012 reached PLN 35.3m (exclusive of VAT) (see Current Report No. 11/2012 of March 21st 2012).

Signing of declaration and annex to the debt purchase agreement with Bank Zachodni WBK S.A.

On April 6th 2012, the parties to the debt sale agreement of December 5th 2011 ("Agreement"), i.e. PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (PROKURA NSFIZ) and Bank Zachodni WBK, submitted a declaration and signed an annex to the Agreement whereby they agreed on the price payment deadline. The signing of the declaration and annex was reported by KRUK in Current Report No. 16/2012 of April 6th 2012. Subsequently, in Current Report No. 18/2012 of April

17th 2012, KRUK announced the fulfilment of the last condition precedent under the Agreement.

Annex to the pledge agreement with Bank Zachodni WBK S.A.

On May 14th 2012, an annex was signed to the pledge agreement concluded between KRUK and Bank Zachodni WBK S.A. (the "Bank") on June 21st 2011. Under the annex, the registered pledge amount, representing the maximum security amount covering the Bank's receivables comprising principal, interest, cost of recovery, commission fees and other fees under the credit facility agreement of April 8th 2011 as well as the annex to the credit facility agreement of March 7th 2012, was raised from PLN 114,285,715 to PLN 200,000,000 (see Current Report No. 24/2012 of May 14th 2012).

Debt assignment agreement between PROKURA NSFIZ and Euro Bank S.A.

On June 6th 2012, PROKURA NSFIZ executed a debt assignment agreement (the "Agreement") with Euro Bank S.A. (the "Bank"), a subsidiary of the Societe Generale Group. Following the execution of the Agreement, the total value of agreements concluded between the KRUK Group and the Societe Generale Group in the 12 months preceding the Agreement execution date reached PLN 36.2m. In terms of value, the Agreement was the largest of agreements executed in this period. Under the Agreement, the Company purchased from the Bank a portfolio of 7,892 debt claims with an aggregate nominal value of PLN 118.5m, for a price of PLN 11.3m. The debt claims covered by the Agreement were related to incurred and outstanding bank loans (Current Report No. 29/2012 of June 6th 2012).

Annexes to agreement on provision of services relating to securitised debt between KRUK and PROKURA NSFIZ

Following the execution on July 10th 2012 by KRUK and PROKURA NSFIZ of annexes to the agreement on provision of services relating to securitised debt of February 27th 2006, the total value of agreements concluded between the KRUK Group and Secapital S.à.r.l., the Company's subsidiary, and PROKURA NSFIZ, a subsidiary of Secapital S.a.r.l., in the period from November 3rd 2011, i.e. from the date of release of Current Report No. 66/2011, to July 11th 2012, reached PLN 32.8m. In terms of value, the largest of these agreements was the debt assignment agreement of December 15th 2011 between KRUK International S.R.L and Secapital S.à.r.l., under which Secapital S.à.r.l. purchased from KRUK International S.R.L debt portfolios comprising a total of 12,413 due debt claims with a total nominal value of RON 106.7m, for a price of RON 8.3m. The debt purchased under the agreement had been acquired by KRUK International S.R.L from BRD-Groupe Société Générale S.A. under an agreement of December 2nd 2011 (Current Report No. 34/2012 of November 7th 2012).

Debt purchase agreement between PROKURA NSFIZ and Bank Zachodni WBK S.A.

On September 14th 2012, PROKURA NSFIZ, the Company's subsidiary, executed a debt purchase agreement with Bank Zachodni WBK S.A. (the "Bank"), a Santander Group company. Following the execution of the agreement, the total value of agreements concluded between the KRUK Group and the Santander Group in the period from December 5th 2011, i.e. from the date of release of Current Report No. 75/2011, to September 14th 2012, reached PLN 47.5m. In terms of value, the largest of these agreements was the debt purchase agreement of June 21st 2012 between the Bank and PROKURA NSFIZ (the "Agreement"). The Agreement provided for the purchase of three debt portfolios (Portfolio I, Portfolio II, Portfolio III) comprising the Bank's receivables from its debtors under agreements and other actions at law, i.e. approximately 9,308 debt claims with a total nominal value of PLN 138.9m, for a price of PLN 25.8m. The total value of agreements concluded with the Santander Group was reported by the Company in Current Report No. 36/2012 of September 14th 2012. Concurrently, on October 4th 2012 the final condition precedent of the debt purchase agreement referred to above was fulfilled. The condition precedent was fulfilled by payment by PROKURA NSFIZ of the price for the debt comprised in Portfolio III. The price for Portfolio III was paid on October 4th 2012, i.e. within seven days of the execution of an annex to the Agreement, defining the final purchase price. As a result of the execution of the annex, the final number of debt claims was determined at 9,269 and their nominal value at PLN 139.6m. The total purchase price for the three debt portfolios was PLN 22.6m (Current Report No. 38/2012 of October 5th 2012).

Debt assignment agreement between KRUK and Secapital S.à.r.l., a subsidiary

Following the execution on November 5th 2012 by KRUK International S.R.L and Secapital S.à.r.l. (Secapital) of annexes to the framework agreement on provision of services relating to securitised debt of October 10th 2007, the total value of agreements concluded between the KRUK Group and Secapital, the Company's subsidiary, and PROKURA NSFIZ, a subsidiary of Secapital, in the period from July 11th 2012, i.e. from the date of release of Current Report No. 34/2012, to November 5th 2012, reached PLN 34m. In terms of value, the largest of these agreements was the debt assignment agreement of September 28th 2012 between the Company and Secapital (the "Agreement"), whereby Secapital purchased from the Company three debt portfolios comprising a total of 31,507 due debt claims with a total nominal value of PLN 376.8m, for a price of PLN 22.7m. (Current Report No. 42/2012 of November 5th 2012). On March 6th 2013, the Agreement was amended to extend the payment deadline from March 31st 2013 to June 30th 2013. The other terms of the Agreement remain unchanged.

Annex to revolving credit facility agreement between KRUK and Raiffeisen Bank Polska S.A.

For detailed information on the annex, see "New and terminated loan or credit facility agreements".

Execution of significant debt assignment agreement with Credit Agricole Bank Polska S.A.

On November 30th 2012, KRUK was notified that PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("PROKURA NSFIZ", the "Buyer"), a subsidiary, won an auction to purchase a debt portfolio from Credit Agricole Bank Polska S.A. (the "Bank") (see Current Report No. 48/2012 of November 2012).

Subsequently, on December 14th 2012 PROKURA NSFIZ and the Bank executed a debt assignment agreement (the "Agreement") that provided for the purchase of a portfolio of the Bank's due monetary claims against its debtors, as at September 25th 2012 comprising 37,419 debt claims with a total nominal value of PLN 367.6m, for a price of PLN 59m, less the value of a bid bond of PLN 0.5m, payable in two instalments. Following the execution of the Agreement, the total value of agreements concluded between the KRUK Group and the Credit Agricole Group in 12 months from December 14th 2012 reached PLN 59.5m (Current Report No. 51/2012 of February 14th 2012).

The condition precedent specified in the Agreement, i.e. payment of instalment II, was fulfilled on December 21st 2012 (Current Report No. 54/2012 of December 21st 2012).

5.7.2

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

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

5.7.3

New and terminated loan or credit facility agreements

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

On March 7th 2012 (see Current Report No. 7/2012 of March 7th 2012), the Company (as a borrower) and Bank Zachodni WBK S.A. signed an annex to the revolving credit facility agreement of April 8th 2011, whereby Bank Zachodni WBK S.A. granted to the Company a revolving credit facility of up to PLN 80,000,000 (the "Facility") to finance or refinance acquisition of debt portfolios on the Polish market by the Company and some of its subsidiaries. The subject matter of the annex was:

- Advance by Bank Zachodni WBK S.A. of a Supplementary Facility of up to PLN 60,000,000 to finance or refinance up to 70% of the purchase price of debt portfolios acquired by the Company and some of its subsidiaries on the Polish market;
- Change of maturity date of the PLN 80,000,000 Facility.

Under the Annex, the maturity date of the Facility referred to in the Agreement was changed compared with the date specified in the Agreement and was set at February 28th 2015, and the maturity date of the Supplementary Facility was set at March 6th 2013.

Amounts drawn under the Supplementary Facility bear interest at a variable rate, based on the 1M WIBOR rate plus margin set forth in the agreement. Interest is payable on a monthly basis.

The other material terms of the agreement remained unchanged.

On October 26th 2012, the Company and Bank Zachodni WBK S.A. signed an annex to the revolving credit facility agreement of April 8th 2011 (see Current Report No. 41/2012 of October 26th 2012), whereby:

- PLN 80m revolving credit line was divided into two separate lines of PLN 63m and PLN 17m, respectively;
- Facility expiry date was changed to July 31st 2014 with respect to the PLN 17m credit line and July 31st 2015 with respect to the PLN 63m credit line;
- Final repayment date was changed to July 31st 2016 with respect to the PLN 63m credit line and July 31st 2015 with respect to the PLN 17m credit line.

The other material terms of the agreement remained unchanged.

The Facility and Supplementary Facility are secured with multiple instruments, including a registered and financial pledge (under the Polish law) and a pledge (under the Luxembourg law) established on shares in the Luxembourg-based subsidiary Secapital S. a.r.l.

Under an annex of May 14th 2012 to the pledge agreement of April 14th 2011, the registered pledge amount, which is the maximum security amount covering the Bank's receivable, was increased from PLN 114,285,715 to

PLN 200,000,000. The annex did not change the pledged assets, which comprised 77,784 Class E shares in Secapital S.à.r.l. with a par value of PLN 77,784,000 (see Current Report No. 24/2012 of May 14th 2012).

As at December 31st 2012, the pledge was established over 84,908 Class E shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 93,398,800.

Credit facility agreement with Bank Pocztowy S.A.

On March 30th 2012, the Company (as a borrower) and Bank Pocztowy S.A. executed a revolving credit facility agreement, whereby Bank Pocztowy S.A. granted to the Company a revolving credit facility of up to PLN 10,000,000 to finance or refinance acquisition of debt portfolios by the Company and some of its subsidiaries. Pursuant to the agreement, amounts drawn under the facility bear interest at a variable rate, based on the 1M WIBOR rate plus the Bank's margin set forth in the agreement. Interest is payable on a monthly basis.

The agreed repayment date is March 29th 2016.

The facility is secured with a number of instruments, including a registered pledge over Company's shares in its subsidiary, Secapital S.à.r.l. of Luxembourg. As at December 31st 2012, the pledge was established over 8,649 Class C shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 9,513,900.

Annex to credit facility agreement with Raiffeisen Bank Polska S.A.

On November 20th 2012 (see Current Report No. 47/2012 of November 21st 2012), the Company (as a borrower) and Raiffeisen Bank Polska S.A. signed an annex to the revolving credit facility agreement of September 13th 2011, whereby Raiffeisen Bank Polska S.A. granted to the Company a revolving credit facility of up to PLN 30,000,000 to finance or refinance acquisition of debt portfolios on the Polish and Romanian markets by the Company and some of its subsidiaries (execution of the revolving credit facility agreement of September 13th 2011 was reported in Current Report No. 49/2011 of September 14th 2011). The subject matter of the annex was:

- Increase of the credit line by PLN 30,000,000, to PLN 60,000,000;
- Change of the Facility's maturity date to November 30th 2016.

The other material terms of the agreement remained unchanged.

Pursuant to the agreement, amounts drawn under the facility bear interest at a variable rate, based on the 1M WIBOR rate plus the Bank's margin set forth in the agreement. Interest is payable on a monthly basis.

The facility is secured with a number of instruments, including a registered pledge over Company's shares in its subsidiary, Secapital S.à.r.l. of Luxembourg. As at December 31st 2012, the pledge was established over 27,342 Class B shares in Secapital S.à.r.l., with a carrying amount in KRUK S.A.'s accounting books of PLN 30,076,200.

Issue of debt securities

In 2012, the Company issued unsecured Series M^1, N^1, O^1, O^2 and P^1 notes, with a total nominal value of PLN 190,000,000. The notes were issued at par. In line with the terms of each of the note issues, the notes are ordinary bearer notes existing in book entry form and have been registered with the Polish National Depository for Securities (KDPW S.A.) and introduced into the Catalyst Alternative Trading System. The notes bear interest at 3M WIBOR plus a fixed margin determined separately for each series of notes. The interest on the notes will be calculated on a 365-day basis. It will accrue in consecutive three-month interest periods and be payable in arrears, at the end of each interest period.

The note issues in 2012 were carried out in order to raise funds for the financing of debt purchases by the Group or refinancing of the Company's debt.

Issue of series M^1 notes

Under the Management Board's resolutions of February 13th 2012 and March 21st 2012, the Company issued 70,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 70,000,000. The notes are due 48 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series N^1 notes

Under the Management Board's resolutions of March 8th 2012 and April 13th 2012, the Company issued 50,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 50,000,000. The notes are due by March 21st 2016 and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue. Based on a resolution of the Management Board of KDPW S.A. of July 31st 2012, Series N^1 notes were consolidated with Series M^1 notes on August 3rd 2012.

Issue of series O^1 notes

On the basis of Management Board's resolutions which came into force on October 2nd 2012 and November 5th 2012, the Company issued 30,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 30,000,000. The notes are due 48 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series O^2 notes

On the basis of Management Board's resolutions which came into force on November 13th 2012 and December 6th 2012, the Company issued 20,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 20,000,000. The notes are due 48 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue.

Issue of series P^1 notes

On the basis of Management Board's resolutions which came into force on November 30th 2012 and December 6th 2012, the Company issued 20,000 notes with a nominal value of PLN 1,000 per note. The total value of the issue was PLN 20m. The notes are due 48 months from the allotment date, and may be redeemed prior to maturity in the event of liquidation or transformation of the Company or if a noteholder calls for early redemption in the circumstances specified in the terms and conditions of the issue. The Company intends to assimilate Series P^1 notes with Series O^2 notes following the end of the first interest period.

Use of issue proceeds

Proceeds from the note issues in 2012 were used in line with the issue objectives.

Redemption of debt securities

In 2012, the Company redeemed the following debt securities at maturity:

- 15,882 series B notes at nominal value, for a total amount of PLN 15,882,000. The notes were redeemed on February 24th 2012;
- 12,500 series E1 notes at nominal value, for a total amount of PLN 12,500,000. The notes were redeemed on July 15th 2012;
- 17,500 series E2 notes at nominal value, for a total amount of PLN 17,500,000. The notes were redeemed on September 2nd 2012;
- 10,000 series J1 notes at nominal value, for a total amount of PLN 10,000,000. The notes were redeemed on July 11th 2012;
- 20,000 series K1 notes at nominal value, for a total amount of PLN 20,000,000. The notes were redeemed on September 6th 2012;
- 10,000 series L1 notes at nominal value, for a total amount of PLN 10,000,000. The notes were redeemed on June 5th 2012;
- 5,000 series L2 notes at nominal value, for a total amount of PLN 5,000,000. The notes were redeemed on December 5th 2012.

Moreover, in 2012 the Company bought back and then redeemed the following notes:

- 7,000 series G2 notes at nominal value, for a total amount of PLN 7,000,000;
- 7,500 series H1 notes at nominal value, for a total amount of PLN 7,500,000;
- 6,600 series H2 notes at nominal value, for a total amount of PLN 6,600,000;
- 8,496 series I2 notes at nominal value, for a total amount of PLN 8,496,000.

The buyback of the notes was reported by the Company in Current Reports No. 19/2012 of April 20th 2012, 22/2012 of April 27th 2012 and 25/2012 of May 25th 2012.

Liabilities under debt securities

As at December 31st 2012, the nominal value of liabilities under notes issued by the Company by the end of 2012 was PLN 426,404,000.

Termination of credit facility and loan agreements

In 2012, 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.

5.7.4
Loans advanced, sureties and guarantees granted; sureties and guarantees received

Loans advanced by KRUK to its subsidiaries (eliminated on consolidation)

In 2012, KRUK granted loans to its subsidiaries for a total value of PLN 14m (translated into PLN at the exchange rates quoted by the National Bank of Poland for the agreement dates). Loans were advanced to KRUK International S.R.L of Bucharest, Rejestr Dłużników ERIF BIG S.A. of Warsaw and Novum Finance Sp. z o.o. of Wrocław. Also, the subsidiary KRUK International S.r.o. of Prague has liabilities of PLN 11.3m towards KRUK under loans advanced to it in 2011. The loans bear interest at 3M WIBOR plus a margin. The agreed maturities of the loans ranged from 86 days to one year.

Loans advanced to KRUK International S.R.L of Bucharest

The loans were granted to KRUK International S.R.L of Bucharest to finance debt purchases or its operating activities. The value of the loan advanced to finance debt purchase was RON 2.1m (i.e. PLN 2.0m, as translated into PLN at the exchange rate quoted by the National Bank of Poland for the agreement date). The value of loans advanced to finance the operating activities amounted to RON 10.2m (i.e. PLN 9.4m, as translated into PLN at the exchange rate quoted by the National Bank of Poland for the agreement dates).

Debt under some loans advanced in 2012, totalling RON 6.3m (i.e. PLN 5.8m, as translated into PLN at the exchange rate quoted by the NBP for the agreement dates), was cancelled. Loans of RON 2m (i.e. PLN 1.9m, as translated into

PLN at the exchange rate quoted by the NBP for the agreement dates) were set off against liabilities arising under the Resolution on share capital increase at KRUK International S.R.L by KRUK S.A.

As at December 31st 2012, the liabilities of KRUK International S.R.L towards KRUK under loans totalled RON 2.5m (i.e. PLN 2.3m as translated into PLN at the exchange rate quoted by the National Bank of Poland for December 31st 2012).

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

Loans advanced to Rejestr Dłużników ERIF BIG S. A. of Warsaw were intended for the financing the company's operating activities. The aggregate amount of the loans advanced to the company in 2012 was PLN 1.96m.

As at December 31st 2012, Rejestr Dłużników ERIF BIG S.A.'s outstanding liabilities towards KRUK under loans were PLN 0.42m.

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

Loans advanced by KRUK to Novum Finance Sp. z o.o. of Wrocław were intended for the financing the company's operating activities. The aggregate amount of the loans advanced to the company was PLN 0.65m.

As at December 31st 2012, Novum Finance Sp. z o.o.'s outstanding liabilities towards KRUK under loans were PLN 0.65m.

Loans advanced to KRUK International S.r.o. of Prague

In 2012, KRUK did not grant any loans to KRUK International S.r.o. of Prague.

As at December 31st 2012, KRUK International S.r.o.'s liabilities towards

KRUK under loans advanced to it in 2011 were PLN 11.3m (as translated into PLN at the exchange rate quoted by the National Bank of Poland for December 31st 2012).

Novum loans advanced by the KRUK Group

In 2012, the KRUK Group advanced an aggregate of 7,299 Novum cash loans, with a net value of PLN 12.1m. Since May 2012, the lending business has been conducted by Novum Finance Sp. z o.o. (earlier, loans were advanced by KRUK itself). As part of the business, consumer loans of up to PLN 2,500 are granted for periods of 3 to 15 months. Initially, the Novum service was addressed exclusively to KRUK's debtors who have repaid their debts but have been excluded from the banking market. In mid-November 2012, Novum Finance Sp. z o.o. started distribution of loans on the open market in a selected, limited area of Poland. Revenue from Novum loans posted by the Group in 2012 was PLN 3.8m, which represented a year-on-year increase of 175%.

Guarantees

On January 19th 2012, KRUK and Alior Bank S.A. executed an annex to the payment guarantee agreement securing KRUK's payments under the agreement for the lease of office space at ul. Legnicka 56 from Legnicka Business House Sp. z o.o. The guarantee of EUR 168 thousand is valid until January 24th 2013. It is secured with a deposit of PLN 450 thousand and a power of attorney over KRUK's accounts held with Alior Bank S.A.

On February 23rd 2012, KRUK and Towarzystwo Ubezpieczeń Europa S.A. executed an insurance guarantee agreement covering proper performance by KRUK of its obligations under the agreement for the lease of office space at Wrocławski Park Biznesu 2, complex B1A at ul. Wołowska 4, and complex B2A at ul. Wołowska 20. The guarantee of EUR 114.5 thousand is valid until February 24th 2013. It is secured with a blank promissory note issued by KRUK.

On October 31st 2012, an annex was signed to the insurance guarantee agreement of February 23rd 2012 between the Company and Towarzystwo Ubezpieczeń Europa S.A. whereby:

- The guarantee amount was raised by EUR 20.9 thousand, to EUR 135.4 thousand;
- The scope of the guarantee was extended to secure proper performance by KRUK of its obligations under the agreement for the lease of office space at Wrocławski Park Biznesu 2, complex B1B at ul. Wołowska 6.

On August 3rd 2012, PROKURA NSFIZ, represented by Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A., executed two bank guarantee agreements with Bank Zachodni WBK S.A., valid through September 14th 2012, to secure repayment of all liabilities towards Kredyt Bank S.A. related to PROKURA NSFIZ's participation in the sale of non-performing debt portfolios by Kredyt Bank S.A. The amounts covered by the guarantees were PLN 1m and PLN 5m. The bank guarantees were secured with powers of attorney over KRUK's bank accounts held with Bank Zachodni WBK S.A. and sureties under civil law issued by KRUK. The guarantees were not called.

Sureties

On August 3rd 2012, KRUK executed two surety agreements covering the liabilities of PROKURA NSFIZ towards Bank Zachodni WBK S.A. (under two agreements to issue bank guarantees executed between PROKURA NSFIZ and Bank Zachodni WBK S.A. on August 3rd 2012 and running through September 14th 2012). The sureties issued by KRUK covered liabilities of up to PLN 2m and PLN 10m, respectively. The sureties expired as the underlying guarantees had not been called.

5.8

Important events after December 31st 2012

In the period from January 1st 2013 to the date of this report, there were no significant changes in the financial or trading position of the Group, save for the following:

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

- On February 18th 2013 (as reported by the Company in Current Report No. 9/2013 of February 19th 2013), the Company and its subsidiary PROKURA Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty concluded a trilateral agreement with Bank Zachodni WBK S.A. ("PROKURA Agreement") on a revolving credit facility of up to PLN 70m, whereby:
  - As of March 1st 2013 the Bank will make available to the Borrower a Credit Facility of up to PLN 40m, divided into two lines, i.e.:
    - A credit limit available under the facility until July 31st 2015, repayable by July 31st 2016, of up to PLN 31.5m;
    - A credit limit available under the facility until July 31st 2014, repayable by July 31st 2015, of up to PLN 8.5m.
  - As of March 1st 2013 the Bank will make available to the Borrower a Supplementary Credit Facility of up to PLN 30m, available until the final repayment date, i.e. March 6th 2013, or upon payment on that day of the contractually agreed commission fee – until March 6th 2014.

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

    The facilities bear interest at 1M WIBOR rate plus bank margin set at market terms.

    The Bank's receivables under the PROKURA Agreement are secured with:
    - A power of attorney over funds deposited in the Borrower's special account and the Company's selected accounts to satisfy the Bank's claims under the PROKURA Agreement;
    - Registered pledges over KRUK's shareholding in Secapital S.à.r.l. of Luxembourg (Secapital);
    - A surety under civil law issued by KRUK for the benefit of the Bank.

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

    In connection with the PROKURA Agreement, on February 18th 2013 the Company executed a surety agreement with the Bank ("Surety Agreement"). Under the Surety Agreement, the Company issued a surety covering the Borrower's liabilities towards the Bank under the PROKURA Agreement, thus becoming a joint and several debtor in respect of the liabilities.

- On February 18th 2013 (see Current Report No. 9/2013 of February 19th 2013), the Company and Bank Zachodni WBK S.A. signed an annex (the "Annex") to the revolving credit facility agreement of April 8th 2011, as amended (the "Company's Credit Facility Agreement").

  Under the annex:
  - The PLN 80m facility granted under the Company's Credit Facility Agreement is reduced, with effect as of March 1st 2013, in the following manner:
    - The credit limit available under the facility until July 31st 2015, repayable by July 31st 2016, is reduced from PLN 63m to PLN 31.5m;
    - The credit limit available under the facility until July 31st 2014, repayable by July 31st 2015, is reduced from PLN 17m to PLN 8.5m.
  - The PLN 60m additional facility granted under the Company's Credit Facility Agreement is reduced, with effect from March 1st 2013, to the amount of PLN 30m;
  - The repayment and availability dates of the additional facility granted under the agreement was set for March 6th 2013 or, upon payment of a commission fee specified in the Annex – for March 6th 2014.

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

- On February 5th 2013, (see Current Report No. 5/2013 of February 5th 2013), the Company's Management Board (the "Issuer") adopted Resolution No. 3/2013 on the issue of unsecured Series P^2 notes.
  The issue proceeds will be used to finance the acquisition of debt portfolios by the KRUK Group or to refinance the Company's debt.
  Pursuant to the Resolution, as part of the Unsecured Note Issue Programme adopted in the Supervisory Board's Resolution, KRUK S.A. resolves to issue up to 30,000 Series P^2 unsecured bearer notes, with a par value of PLN 1,000 per note, maturing 48 months after the Issue Date, understood as the allotment date.
  The par value of the Notes will be PLN 1,000 per Note. The Notes will be offered at the issue price equal to their par value. The Notes will bear interest based on the variable WIBOR 3M rate plus a fixed margin defined in a relevant resolution of the Management Board. The Interest will be paid out every three months. The Notes were issued under the Polish law and all legal relations under the Notes will be governed by the Polish law. The Notes were offered to no more than 99 investors under Art. 9.3 of the Bond Act.
  The Notes were not offered under the Issuer's public offering, nor will the Issuer seek their admission to trading on a regulated market. The Issuer will seek admission of the Notes to trading in the alternative trading system on the Catalyst market, operated by the Warsaw Stock Exchange. The Notes were allotted on March 7th 2013.

- On February 12th 2013, (see Current Report No. 8/2013 of February 12th 2013), the Company's Management Board (the "Issuer") adopted Resolution No. 6/2013 on the issue of unsecured Series P3 notes.
  The issue proceeds will be used to finance the acquisition of debt portfolios by the KRUK Group or to refinance the Company's debt.
  Pursuant to the Resolution, as part of the Unsecured Note Issue Programme adopted in the Supervisory Board's Resolution, KRUK S.A. resolves to issue up to 30,000 Series P3 unsecured bearer notes, with a par value of PLN 1,000 per note, maturing on March 7th 2017 (the "Notes").
  The par value of the Notes will be PLN 1,000 per Note. The Notes will be offered at the issue price equal to their par value. The Notes will bear interest based on the variable WIBOR 3M rate plus a fixed margin defined in a relevant resolution of the Management Board. The Interest will be paid out every three months. The Notes were issued under the Polish law and all legal relations under the Notes will be governed by the Polish law. The Notes were offered to no more than 99 investors under Art. 9.3 of the Bond Act.
  The Notes were not offered under the Issuer's public offering, nor will the Issuer seek their admission to trading on a regulated market. The Issuer will seek admission of the Notes to trading in the alternative trading system on the Catalyst market, operated by the Warsaw Stock Exchange. The Notes were allotted on March 14th 2013.

- On February 27th 2013, Secapital S.a.r.l. ("Secapital", the "Assignee"), and Ceska sporitelna a.s. (the "Assignor", the "Bank"), the Erste Group company, executed a framework debt assignment agreement (the "Agreement"), as a result of which the total value of agreements executed by the KRUK Group and the Erste Group within 12 months from the Agreement execution date reached PLN 47m, thus exceeding 10% of the KRUK Group's revenue for the last four financial quarters. In terms of value, the largest of these agreements is the Agreement. It provides for the assignment of the Bank's receivables under bank borrowing agreements executed by the Assignor with its customers. Under the Agreement, debt portfolios are to be purchased on a regular basis. The Agreement remains in force until December 31st 2013. Prices for debt portfolios will be determined in an additional agreement executed for each debt portfolio separately on the basis of the nominal value of debt in a given portfolio and a discount rate. In view of the above, the Issuer estimated the value of the Agreement at CZK 152m, which is the equivalent of PLN 24.7m translated at the mid-exchange rate quoted by the NBP for February 27th 2013 (Current Report No. 11/2013 of February 27th 2013).

- On February 28th 2013, KRUK S.A. published a notice of Extraordinary General Meeting. The date of the Extraordinary General Meeting was set for March 27th 2013. The agenda includes adoption of resolutions on increasing the number of the KRUK Supervisory Board members from five to seven, on removal of the Supervisory Board of the previous term, and on appointment of the Supervisory Board for a new term of office. Also, the Meeting will discuss changes and amendments to the Company's Articles of Association regarding powers of the Supervisory Board.

5.9

Development directions and prospects of the Group

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

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

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

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

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

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

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

Enhancing competitive advantages in debt collection services through:

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

Building a strong market position in collection of corporate debt

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

Selective foreign expansion

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

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

The objectives of the foreign expansion strategy include:

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

Development of new products

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

Development of the Novum loan service

As of May 1st 2012, the Company transferred its lending activity to the newly established subsidiary, Novum Finance sp. z o.o. The Group intends to use its database of debtors' credit history for the purposes of the Pożyczka Novum cash loan project.

Expansion of the ERIF resources, also to include positive credit histories

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

- The volume of records and quality of database;
- The profile of debtors registered in the database, being adequate for risk management;
- The quality of sales and aftermarket services;
- The development of technologies for exchanging data and developing complementary services.

ERIF, operating as a credit reference agency within the Group, provides significant support for the Group's collection activities. The Group's ambition is to create Poland's largest database of debtors, both consumers and businesses, as a platform for business information exchange. At the end of 2012, ERIF resources comprised over 1.35m cases. The number of clients in 2012 was nearly 32 thousand.

5.10
New products and services

In 2012, the Group launched the following new services:

- It expanded debt collection services, attracting first credit management clients in the Czech Republic and Slovakia;
- In October 2012, the Group executed its first stand-alone transaction involving debt portfolio purchase on the Slovak market. By the end of 2012, the Group acquired three portfolios;
- It also expanded its credit management product offering dedicated for insurance companies in Poland. Further, the KRUK Group launched innovative projects aimed at promoting insurance awareness, exchange of experiences, discussion of issues and development of common solutions for the insurance market.

5.11
The Group's investment programme

5.11.1
Capital expenditure

In 2012, the main items of capital expenditure made by the Group included PLN 4.1m spent on new vehicles (including under finance lease agreements) and PLN 3.1m spent on plant and equipment. The Group also made material investments of PLN 3.7m in licences and computer software, including PLN 2.3m invested in proprietary software.

5.11.2
Investments within the Group

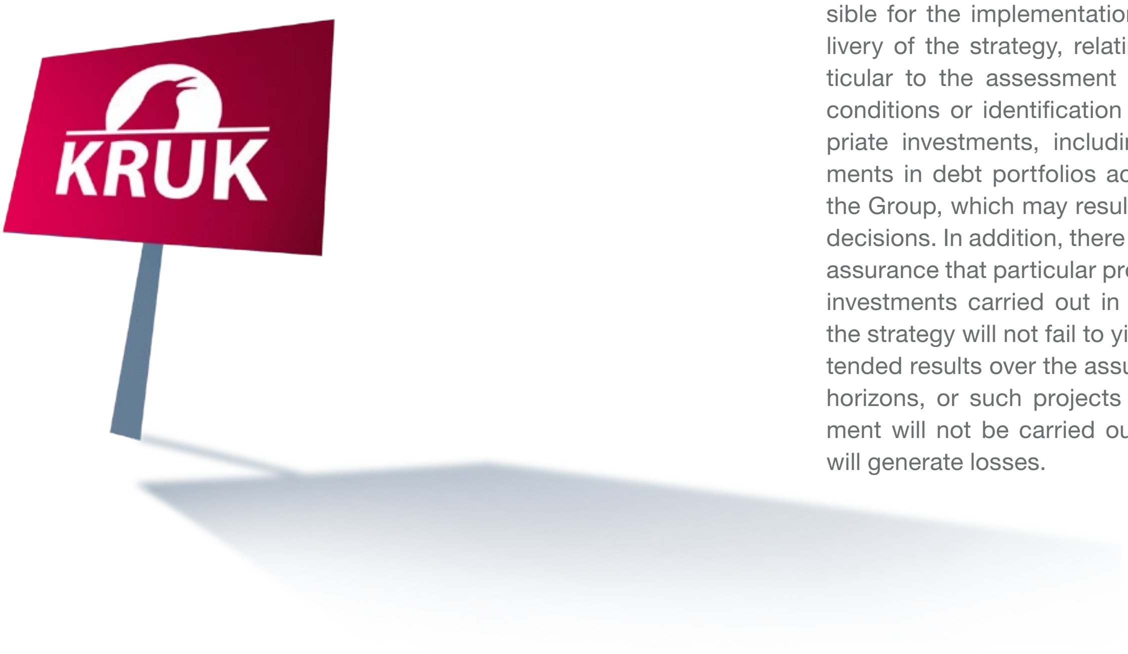
In 2012, KRUK increased the share capital of its subsidiaries:

- The share capital of KRUK International S.r.l. of Bucharest was increased on December 27th, by way of a debt-to-equity swap (PLN 1.85m) and cancellation of loans (PLN 5.84);
- The share capital of Novum Finance Sp. z o.o. of Wrocław was increased on April 27th and on May 30th, respectively by PLN 6.4m and PLM 0.8m, by way of additional contributions to equity in connection with the transfer of lending activity from KRUK to this company;
- The share capital of Rejestr Dłużników ERIF BIG S.A. of Warsaw was increased on December 31st, by way of cancellation of a PLN 1.54m loan advanced to the company;
- The share capital of KRUK TFI S.A. was increased on February 24th by PLN 0.20m, and on September 18th by PLN 0.35m, in connection with the need to meet the minimum capital adequacy requirement specified in Art. 50.1 of the Act on Investment Funds dated May 27th 2004;

- In 2012, the Company increased the share capital of Secapital S.à.r.l. by a total of PLN 123m;
- In 2012, the Company acquired KRUK International Zrt. for a total of PLN 1.3m.

5.11.3
Assessment of the feasibility of investment plans

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



5.12
Risk factors – internal factors

5.12.1
Material risk factors

Risk of failure to achieve the Group's strategic objectives

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

The Group's development strategy provides in particular for increasing revenues through such measures as expansion into new geographical markets. Entering a new market involves expenditure on adapting the range of offered services to the local requirements (including consideration of legal barriers on the local markets) and developing completely different sales strategies. In addition, potential cultural differences between the existing and planned markets of the Group should be taken into account. There is a risk that benefits related to entering new markets may not be achieved, may be smaller than expected, or may be achieved over a longer period than assumed by the Group.

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

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

The core business of the Group includes purchase of debt portfolios for the Group's own account. If purchased debt portfolios do not generate expected cash flows over specified time horizons it may be necessary to make a downward revaluation of the portfolios. This risk applies in particular to debt portfolios purchased on new markets, where the Group has not invested before. An additional factor affecting the risk of error in estimating cash flows on foreign markets are potential fluctuations of currency exchange rates. Any weakening or strengthening of a foreign currency against PLN may translate into higher or lower payments, respectively, expressed in PLN.

Operational risk related to the Group's business

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

Debt risk

The KRUK Group uses and intends to use in the future bank loans, notes and other debt instruments to finance purchases of debt portfolios. Moreover, the Group enters into lease arrangements to finance investments in property, plant and equipment. Any material deterioration in the Group's liquidity may result in the Group being unable to repay principal and interest or fulfil other obligations under the financing agreements it has concluded or under debt instruments in issue. If the Group fails to meet the terms of the loan agreements it has signed, the Group companies' debt under bank loans may be accelerated, in whole or in part, and in the event of failure to repay the debt financial institutions will be entitled to enforce their claims against the collateral created over the Group's assets.

Risk of losing experienced management staff

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

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

Risk of IT systems' failure

A key asset of the Group and an element crucial for its market success are the modern technologies it applies, based on advanced IT systems, which facilitate a smooth execution of debt collection processes and valuation of debt portfolios. The systems used by the Group include the Delfin debt collection platform, a billing system, a Management Information System, a contact centre, the e-KRUK web service, and other. A potential loss of all or part of data due to failure of the computer systems used by the Group could have an adverse effect on the Group's day-to-day operations. The security of the IT systems is also important given the need to protect the personal data of debtors. Failure of any of the IT systems used by the Group or the occurrence of any of the above circumstances may have an adverse effect on the Group's operations.

Risk connected with related party transactions

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

Credit risk

Credit risk (commercial risk) arises when a client or the counterparty to a transaction involving financial instruments fails to meet its contractual obligations. In such circumstances the Group may incur a financial loss.

Risk of negative PR in relation to the Group

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

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

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

5.12.2 Risk management system

The risk management policies applicable at the KRUK Group are designed to:
- Identify and analyse the risks to which the Group is exposed;
- Define appropriate limits and procedures;
- Control and monitor the risk level and adequacy of the risk management tools.

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

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

Management of credit risk relating to debt purchase activities

The credit risk involved in debt purchases is an investment risk. Based on its many years' experience, the Group has developed a system for analysing and assessing that risk. The key tools making up the system are as follows:
- Detailed and thorough analysis and estimation of the risk as at the date of purchasing a given debt portfolio, based on advanced economic and statistical tools (the results of the analysis and estimation are reflected in the price offered in the auction);
- Quarterly revaluation of each debt portfolio held;
- Purchasing various types of debt, representing different degrees of difficulty and delinquency statuses.

Management of credit (trade) risk

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

The Group's credit policy followed in client relations includes the following components:
- Assessment of each client's creditworthiness prior to offering payment dates and other terms of the agreement;
- Regular monitoring of payment timeliness;
- Diversification of the client base (in 2012, revenue from the Group's largest customer accounted for less than 1% of total revenue).

Management of liquidity risk

Liquidity risk is the risk of the occurrence of a situation where the Group faces difficulties in meeting its financial liabilities that are to be settled by way of delivering cash or other financial assets. The liquidity risk management policy is designed to ensure that the Group has sufficient liquidity to meet its liabilities as they fall due, without exposing the Group to a risk of loss or impairment of its reputation.

Liquidity risk management tools used at the Group include:
- Regular monitoring of cash requirements and expenses;
- Flexible management of cash flows between the Group entities;
- Conducting collection activities on an on-going basis, ensuring continuous cash inflow;
- Actions designed to ensure that the Group meets financial covenants under financing agreements;
- Use of external sources of financing, in the form of bank borrowings or notes.

Management of market risk

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

Management of operating risk

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

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

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

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

Team passion is a force
that can move mountains.

6. CORPORATE GOVERNANCE

6.1

Statement of compliance with corporate governance standards

Acting under Par. 92.4 in conjunction with Par. 91.5.4) of the Regulation on current and periodic information, the KRUK Management Board hereby presents the Statement of compliance with corporate governance standards in 2012.

6.1.1

Adopted code of corporate governance

The Company is subject to corporate governance standards described in the Code of Best Practice for WSE Listed Companies (Corporate Governance Standards), which constitutes an appendix to the WSE Supervisory Board's Resolution No. 19/1307/2012 of November 21st 2012. The document is publicly available on the website of Giełda Papierów Wartościowych w Warszawie S.A. (the 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 Company series A, AA, B, C and D Shares on the Warsaw Stock Exchange, on April 6th 2011 the Company's Management Board adopted a resolution containing a representation that the Company and its governing bodies observe the corporate government standards set in Code of Best Practice for WSE Listed Companies within the scope specified in the appendix to the resolution. The text of the appendix, which includes Code of Best Practice for WSE Listed Companies along with the declared scope of the Company's compliance with the standards set out in the document, is available on the Company's website.

Concurrently, by way of a resolution of December 20th 2012, the KRUK Management Board amended the appendix to the resolution, in order to incorporate the amendments introduced by WSE Supervisory Board's Resolution No. 19/1307/2012 of November 21st 2012. The text of the declaration, specifying the extent to which the Company intends to comply with the principles, is available at KRUK's 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.

6.1.2

Corporate governance standards which the Company elected not to comply with

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

Regarding the rule set out in part I, section 1 of the Code whereby a company should pursue a transparent and effective information policy using both traditional methods and modern technologies, the Company stated that it would not fully comply with the rule recommending companies to enable on-line broadcasts of general meetings over the Internet, record general meetings, and publish the recordings on the company website. For the time being, a decision to comply with that recommendation would require the Company to incur too much expenditure on appropriate technical infrastructure which, in the Management Board's opinion, is not justified. In addition, non-compliance with the recommendation is intended to protect the shareholders, who have the right to refuse publication of their images and discussions recorded during General Meetings. However, the Company is considering the option to record its General Meetings and publish the recordings on its website. Moreover, the Management Board declares that – should a wider group of shareholders so request – it will take every effort to comply with the rule in its entirety.

Regarding the rule whereby a company should have a remuneration policy and rules of defining that policy, the Management Board informs that the Company did not implement a remuneration policy for Management and Supervisory Board members. The rules governing remuneration for 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 Supervisory Board members is determined by the General Meeting pursuant to Par. 12.5 of the Company's Articles of Association. The amounts of remuneration for members of the Company's governing bodies are disclosed in its annual reports. However, the Company is considering the development of a remuneration policy and rules of defining that policy at some point in the future.

In 2012, 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 should be 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 the 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 under an obligation to publish resolutions adopted during General Meetings. The Company's position is that the above requirements fully ensure 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.

Regarding the obligation to have its website available in English, in 2012 the Company complied with that rule with certain exceptions. In line with the representation made by the Company, the English version of its website contains key corporate documents, annual reports, quarterly reports to the extent relating to the Company's financial performance (financial statements), as well as times, venues and agendas (without resolutions or their drafts) of General Meetings. In the Company's opinion, the availability of the above information in English adequately protects the interests of its existing shareholders. However, if the Company is advised by its shareholders of the need to extend the scope of information available in English, it is prepared to publish on its website the English language version of all information specified in the Code.

In 2012, the Company incidentally failed to comply with the principle expressed in part III, section 3 the Code of Best Practice for WSE Listed Companies (Best practices for Supervisory Board members), pursuant to which "A General Meeting should be attended by members of the Supervisory Board who are competent to answer questions that may be put forth at the General Meeting." The failure to comply with this principle was due to the fact that after the publication of Notice of the General Meeting concerned, circumstances of professional nature emerged which prevented the Supervisory Board members from personally attending the meeting. This situation was of incidental nature, and in the future the principle of a General Meeting being attended by Supervisory Board members who are competent to answer questions that may be put forward at the meeting will be applied without the need to implement additional measures.

6.2

Shareholder structure

6.2.1

Shareholders holding directly or indirectly large blocks of shares in KRUK

As at December 31st 2012, the structure of shareholders holding directly or indirectly large blocks of shares in KRUK was as follows in table 20 (based on shareholder notifications received by the Company).

After the end of the reporting period, i.e. on January 25th 2012, the Company received a notification from Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. that following acquisition of Company shares, effected on January 18th 2013, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK (Aviva OFE) increased its share in the total vote in the Company above 5%. In accordance with the notification, as at January 23rd 2013 Aviva OFE held 887,388 Company shares comprising 5.25% of the Company's share capital and conferring the right to 887,388 votes, i.e. 5.25% of the total vote. The receipt of the notification was reported in the Company's Current Report No. 4/2013 dated January 25th 2013.

As at the date of release of this report, the structure of shareholders holding directly or indirectly large blocks of shares in KRUK was as follows in table 21 (based on shareholder notifications received by the Company).

TABLE 20. Shareholders with large holdings of shares in KRUK as at December 31th 2012

SHAREHOLDER	NUMBER OF SHARES/VOTES AT THE GENERAL MEETING	% OF SHARE CAPITAL AND THE TOTAL VOTE AT THE GENERAL MEETING
Polish Enterprise Fund IV, private equity fund managed by Enterprise Investors	4,196,550	24.83
Piotr Krupa	2,625,928	15.54
Generali Otwarty Fundusz Emerytalny	866,101	5.12

Source: the Company

TABLE 21. Shareholders with large holdings of shares in KRUK as at the report date

SHAREHOLDER	NUMBER OF SHARES/VOTES AT THE GENERAL MEETING	% OF SHARE CAPITAL AND THE TOTAL VOTE AT THE GENERAL MEETING
Polish Enterprise Fund IV, private equity fund managed by Enterprise Investors	4,196,550	24.83
Piotr Krupa	2,625,928	15.54
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	887,388	5.25
Generali Otwarty Fundusz Emerytalny	866,101	5.12

Source: the Company

6.2.2
Changes in large shareholdings in the reporting year

The following changes in large shareholdings of KRUK shares occurred in 2012.

On April 5th 2012 KRUK received a notification from ING Otwarty Fundusz Emerytalny of its holding being reduced below 5% of the total vote at the General Meeting. In accordance with the notification, ING Otwarty Fundusz Emerytalny held 769,413 shares in the Company as at April 5th 2012, which represents 4.55% of its share capital. The shares confer the right to 769,413 votes (4.55% of the total vote) at the KRUK General Meeting. The receipt of the notification was reported in the Company's Current Report No. 15/2012 of April 5th 2012.

On July 24th 2012 KRUK received a notification from Mr Piotr Krupa, President of the Company's Management Board, concerning a disposal of 29,862 KRUK shares, which took place on July 18th 2012. The Company reported the disposal in Current Report No. 35.2012 dated July 24th 2012.

6.2.3
Treasury shares

On October 20th 2011, the Extraordinary General Meeting of KRUK authorised the Company's Management Board to re-acquire the Company's own shares listed on the main market of the WSE, in the period from October 25th 2011 to April 30th 2015 provided that the total par value of the shares so reacquired may not exceed PLN 1m, and the maximum value of the funds to be spent by the Company on the buy-back may not exceed PLN 40m, including the price of the shares 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 be bought back in block transactions Shares reacquired 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 of the Extraordinary General Meeting of KRUK of March 30th 2011;
- To retire the Company's own shares and reduce its share capital;
- For further resale.

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

In 2012, the Company did not reacquire any of its shares.

6.2.4
Holders of securities conferring special control powers

Until the date of this report, KRUK S.A. has not issued any securities conferring special control powers on its shareholders.

6.2.5
Limitations on the exercise of voting rights

As at the date of this report, KRUK's Articles of Association did not provide for any limitations concerning the exercise of voting rights at the General Meeting.

6.2.6
Limitations on transfer of ownership of securities

As at the date of this report, the Company's Articles of Association did not provide for any limitations on transfer of ownership of KRUK securities.

6.2.7
Agreements which may give rise to changes in ownership interests held by the existing shareholders or bondholders

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

6.3

The Parent's governing bodies

6.3.1

Management Board

6.3.1.1

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

The Company's management body is the Management Board. The Management Board of the Parent is composed of six members.

The composition of the Management Board in the period January 1st – December 31st 2012 was as follows:

- Piotr Krupa
  – President of the Management Board;
- Rafał Janiak
  – Member of the Management Board;
- Agnieszka Kułton
  – Member of the Management Board;
- Urszula Okarma
  – Member of the Management Board;
- Iwona Słomska
  – Member of the Management Board;
- Michał Zasępa
  – Member of the Management Board.

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

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

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

The 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.

At present, the Management Board consist of six members and was appointed by the Supervisory Board on March 19th 2012.

6.3.1.2

Powers of the Management Board

The Management Board, led by the President, manages the Company's business and assets, and represents the Company before courts, government authorities and third parties. Pursuant to Par. 8.1 of the Articles of Association, the Management Board makes decisions in all matters which are not in the exclusive competence of the Supervisory Board or the General Meeting under the Articles of Association or other applicable laws. In turn, the President of the Management Board has exclusive competence to take decisions on the establishment and liquidation of all the Company's organisational units.

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

A declaration of will on behalf of the Company may be made by: (i) two members of the Management Board acting jointly; (ii) a member of the Management Board acting jointly with a commercial proxy; or (iii) an agent with the power to perform certain types of activities, acting on his/her own, under a power of proxy granted to him/her by the Company. Apart from the above, the Company's Articles of Association provide for no additional powers for the managing personnel, such as the power to adopt decisions on the issue or purchase of shares.

TABLE 22. Shares in the Company held by members of the Management Board

NAME AND SURNAME	POSITION	NUMBER OF SHARES HELD AS AT THE DATE OF THE REPORT	PAR VALUE AS AT THE REPORT DATE
Piotr Krupa	President of the Management Board	2,625,928	PLN 2,625,928
Rafał Janiak	Member of the Management Board	91,870 and 52,840 shares held indirectly	PLN 91,870 and PLN 52,840
Urszula Okarma	Member of the Management Board	110,350	PLN 110,350
Agnieszka Kułton	Member of the Management Board	117,220	PLN 117,220
Iwona Słomska	Member of the Management Board	40,858	PLN 40,858
Michał Zasępa	Member of the Management Board	8,000	PLN 8,000

Source: the Company

By way of Resolution No. 4/2011 dated October 20th 2011, the Extraordinary General Meeting of KRUK authorised the Company's Management Board to reacquire the Company's own shares listed on the main market of the WSE, i.e. the official stock exchange market, pursuant to such procedure and on such terms as provided for in the said resolution.

6.3.1.3

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

Members of the management staff of KRUK S.A. holding shares in the Company and the Company's subsidiaries as at December 31st 2012. As at the date of this report, the number of shares in the Company and the subsidiaries held by the management remained unchanged.

No members of the Management Board hold shares in the subsidiaries.

On June 18th 2012 KRUK received a notification from Ms Iwona Słomska, member of the KRUK Management Board, concerning a disposal of a total of 1,530 KRUK shares. The Company reported the disposal of shares in Current Report No. 31/2012 dated June 18th 2012. On June 19th-22nd 2012, Ms Iwona Słomska disposed of further 7,212 KRUK shares, of which she also notified the Company. The receipt of the notification and of corrected notification was reported in Current Report No. 31/2012 dated June 25th 2012 and Current Report No. 32/2012 K dated July 2nd 2012, respectively.

6.3.1.4

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

Pursuant to Par. 7.8 of the Parent'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 that 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

TABLE 23. Members of the Management Board

NAME AND SURNAME	EFFECTIVE DATE OF THE CONTRACT	POSITION
Piotr Krupa	March 19th 2012	President of the Management Board
Rafał Janiak	March 19th 2012	Member of the Management Board in charge of Finance
Agnieszka Kułton	March 19th 2012	Member of the Management Board in charge of Credit Management
Urszula Okarma	March 19th 2012	Member of the Management Board in charge of Strategic Transactions and Customer Relations
Iwona Słomska	March 31st 2004; the agreement was amended on March 19th 2012	Member of the Management Board in charge of Marketing, Public Relations and Human Resources
Michał Zasępa	March 19th 2012	Member of the Management Board in charge of Investments and Development

Source: the Company

members of the Management Board presented in the table 23.

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

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

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

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

- 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
- for performance of the Company's financial plan for the given financial year, in the amount specified in the relevant contract, based on the percentage of the plan performance.

The terms of the managerial contracts correspond to the terms of mandates of the Management Board members: they expire with the expiry of a given mandate, including as a result of removal or resignation from office of the Management Board member. Furthermore, a managerial contract may be terminated by its parties on three months' notice. In the case of the President of the Management Board, the notice period is nine months. A managerial contract may also be terminated by its parties without notice in circumstances indicated in the contract.

The contracts concluded with the Management Board members contain provisions prohibiting the members, without the Company's written consent, from taking additional paid jobs while the contract is in force, as well as non-compete clauses effective during the contract term and for 2 (two) years from the day on which a given person ceases to be

TABLE 24. Remuneration of the members of the Management Board in 2012 (PLN '000)

NAME AND SURNAME	REMUNERATION FROM THE COMPANY FOR 2012	ADDITIONAL BENEFITS* FROM THE COMPANY FOR 2012	REMUNERATION FROM THE SUBSIDIARIES FOR 2012	ADDITIONAL BENEFITS* FROM THE SUBSIDIARIES FOR 2012
Piotr Krupa	744	11,7	15,75	1,86
Rafał Janiak	414,91	7,68	-	-
Agnieszka Kułton	366	8,09	11,76	1,86
Urszula Okarma	366	7,06	-	-
Iwona Słomska	292,46	6,72	-	-
Michał Zasępa	400,36	12,78	15,75	1,86

Source: the Company

*Additional benefits include medical care, company cars and directors and officers liability insurance.

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

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

The table 24 presents the amounts of remuneration and additional benefits received by the Management Board members (who were in office in 2012) from the Company and its subsidiaries for 2012.

The total value of remuneration and additional benefits for 2012 received from the Company and the subsidiaries by the Management Board members named above amounted to PLN 2,637.76 thousand and PLN 48.84 thousand, respectively. In 2012, Piotr Krupa, the general partner in Kancelaria Prawna Raven Krupa & Stańko, received PLN 93,887.95 as distribution from the law firm's profit.

Additional benefits received from the Company for 2012 do not include bonuses and awards for members of the Management Board for 2012. The bonuses will be paid in 2013, in the amount reflecting the performance of the Company's financial plan or – in the case of the discretionary bonus – in an amount depending on the Supervisory Board's decision. The Company recognised a PLN 1,967 thousand provision for this purpose.

In addition, in accordance with the Supervisory Board's resolution of July 20th 2012, issued 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 to the members of the Management Board (except for the President) subscription warrants conferring the right to acquire shares in KRUK. For detailed information on the Incentive Scheme operated by the Company, including information on subscription warrants granted to members of the Management Board, see the "Incentive Scheme" section.

6.3.2
Supervisory Board

6.3.2.1

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

The Supervisory Board is composed of five to 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 this report, the Supervisory Board of the Company is composed of five members.

The Supervisory Board is appointed and removed by the General Meeting, subject to the provisions below.

If Polish Enterprise Fund IV, L.P. or its legal successor holds shares in the Company conferring the right to 40% or more of the total vote at the General Meeting, it has the right to appoint and remove from office:
- 3 (three) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;
- 4 (four) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board.

If Polish Enterprise Fund IV, L.P. or its legal successor holds shares in the Company conferring the right to 20% or more, but less than 40% of the total vote at the General Meeting, it has the right to appoint and remove from office:
- 2 (two) members of a five-member Supervisory Board, including the Chairman of the Supervisory Board;
- 3 (three) members of a seven-member Supervisory Board, including the Chairman of the Supervisory Board.

If Mr Piotr Krupa holds shares in the Company conferring the right to 8% or more of the total vote at the General Meeting, he has the right to appoint and remove from office:
- 1 (one) member of a five-member Supervisory Board, including the Deputy Chairman of the Supervisory Board;
- 2 (two) members of a seven-member Supervisory Board, including the Deputy Chairman of the Supervisory Board.

The right to appoint and remove from office members of the Supervisory Board as specified above, conferred upon Polish Enterprise Fund IV, L.P. and Mr Piotr Krupa, are exercised by delivery to the Company of a written statement on appointment or removal of a Supervisory Board member.

As at January 1st 2012 and December 31st 2012, the composition of KRUK's Supervisory Board was as follows:
- Dariusz Prończuk – Chairman of the Supervisory Board;
- Józef Wancer – Member of the Supervisory Board;
- Piotr Stępniak – Member of the Supervisory Board;
- Krzysztof Kawalec – Member of the Supervisory Board;
- Wojciech Małek – Member of the Supervisory Board.

Following approval of the financial statements for 2011 by the General Meeting on June 5th 2012, the mandates of the persons listed above expired with effect as of that date. At the same time, the General Meeting reappointed all of those persons to the Supervisory Board for another term of office with effect as of June 5th 2012.

6.3.2.2
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;
- Submitting to the General Meeting an annual written report on the results of the review referred to in item 1 above;
- Appointing and removing from office the President of the Management Board;

- Appointing and removing from office members of the Management Board (including Vice-Presidents);
- Suspending from office members of the Management Board and delegating members of the Supervisory Board to temporarily perform functions of the Management Board members who are unable to perform their duties;
- Determining the rules and amount of remuneration for the Management Board members at the request of the President of the Management Board;
- Determining the amount of remuneration of the President of the Management Board;
- Approving the Company's annual financial plans (the budget) and strategic economic plans;
- Granting consent to contracting loans by the Company, other than loans provided for in the annual budget, in excess of a cumulative annual amount of PLN 5m, with the exception of loans contracted from related parties;
- Issuing sureties and encumbering the Company's assets, assuming commitments under guarantees and other off-balance-sheet commitments and liabilities, in excess of a cumulative annual amount of PLN 5m, except where the sureties, encumbrances, commitments or liabilities are provided for in the budget or the transactions are executed solely with a related party of the Company;
- Granting consent to contracting liabilities by the Company as part of a single transaction or a series of related transactions with a total value in excess of PLN 2m in a financial year, other than liabilities provided for in the budget approved in accordance with these Articles of Association or arising in the Company's ordinary course of operations;
- Granting consent to assignment by way of security, or creation of a pledge, mortgage or other encumbrances over the Company's assets other than provided for in the budget approved in accordance with these Articles of Association, in excess of a cumulative annual amount of PLN 2m;
- Granting consent to acquiring of or subscribing for shares in other commercial companies or joining other businesses by the Company;
- Granting consent to the acquisition or disposal of the Company's assets exceeding 15% (fifteen per cent) of the Company's net book value as determined on the basis of the last audited financial statements;
- Granting consent to the disposal or transfer of copyrights or other intellectual property, in particular rights to patents, technologies and trademarks;
- Granting consent to engaging advisers and other third-party individuals as consultants, lawyers or agents by the Company or its subsidiary if the resulting total annual cost to the Company other than provided for in the budget would exceed PLN 500,000.00 (five hundred thousand złoty);
- Approving the rules of management stock option plans;
- Selecting an auditor to audit the Company's annual financial statements, referred to in Art. 395 of the Polish Commercial Companies Code, in accordance with the Polish and international accounting standards;
- Granting consent to the execution of or amendment to agreements concluded between the Company or its subsidiary and Management or Supervisory Board members;
- Granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary within the scope of the Company's business in an amount exceeding PLN 1,000,000.00 (one million złoty) in a financial year;
- Granting consent to making any gratuitous disposals or commitments by the Company or its subsidiary outside the scope of the Company's business in an amount exceeding PLN 200,000.00 (two hundred thousand złoty) in a financial year;
- Granting consent to the issue of bonds by the Company;
- Granting consent to the purchase or disposal of real estate, perpetual usufruct rights or interests in real estate by the Company;
- Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board. The Rules of Procedure of the Supervisory Board define the detailed rules for its meetings;
- Supervisory Board resolutions are passed with an absolute majority of votes 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.

TABLE 25. Remuneration of the members of the Supervisory Board in 2012

NAME AND SURNAME	REMUNERATION FROM THE COMPANY FOR 2012 (PLN '000)
Piotr Stępniak	76.22
Dariusz Prończuk	-
Krzysztof Kawalec	64.27
Wojciech Małek	-
Józef Wancer	199.91*

Source: the Company

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

6.3.2.3

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

As at December 31st 2012 and as at the date of this report, members of the Supervisory Board did not and do not hold any shares in the Company or its subsidiaries.

6.3.2.4

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 amounts of remuneration payable to the members of the Supervisory Board are determined by virtue of a resolution of the General Meeting.

The table 25 presents the amounts of remuneration received by the Supervisory Board members (who were in office in 2012) from the Company and its Subsidiaries for 2012.

The total value of remuneration for 2012 received from the Company by the Supervisory Board members named above amounted to PLN 340.4 thousand. The amount includes the remuneration payable in the euro, translated into the złoty using the exchange rate quoted by the National Bank of Poland for the day preceding the payment day.

In 2012, neither the Company nor its Subsidiaries paid any additional benefits to the members of the Supervisory Board.

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

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

6.3.2.5

Supervisory Board Committees

Pursuant to the Rules of Procedure of the Supervisory Board, the following committees operate within the KRUK Supervisory Board:

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

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

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

The Audit Committee's responsibilities include in particular:
- Monitoring financial reporting processes;
- Monitoring the effectiveness of the internal control, internal audit and risk management systems;
- Monitoring the financial audit function;
- Monitoring the independence of the chartered auditor and the entity qualified to audit the financial statements;
- Reviewing the Company's financial statements and presenting opinions on the financial statements to the Supervisory Board;
- Reviewing related-party transactions;
- Recommending an auditor to the Supervisory Board with relevant grounds.

In 2012, the Audit Committee consisted of:
- Wojciech Małek – Chairman of the Audit Committee;
- Piotr Stępniak – Member of the Audit Committee;
- Krzysztof Kawalec – Member of the Audit Committee.

In particular, apart from statutory duties, the tasks of the Audit Committee in 2012 included:
- Summary of findings from review of the annual report for 2011;
- Discussion of interim financial statements of the Company and the Group and the Company's and the Group's performance in H1 2012;
- Analysis of the accounting policy with respect to exchange differences relating to acquisition of debt portfolios.

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; independent Supervisory Board members should form the majority of the Remuneration and Appointment Committee.

The Remuneration and Appointment Committee's responsibilities include in particular:
- Planning the policy of remuneration of the Management Board members;
- Aligning the remuneration of the Management Board Members with the Company's long-term interests and its financial performance;
- Recommending candidates for the Management Board to the Supervisory Board;
- Providing periodical assessment of the structure, number of members and performance of the Management Board and recommending changes in this respect to the Supervisory Board, providing periodical appraisal of the skills, expertise and experience of the individual Management Board Members to the Supervisory Board.

As of May 24th 2012, the composition of the Remuneration and Appointment Committee, as appointed by virtue of a Supervisory Board resolution of May 4th 2011, was as follows:
- Dariusz Prończuk – Chairman of the Remuneration and Appointment Committee;
- Krzysztof Kawalec – Member of the Remuneration and Appointment Committee;
- Piotr Stępniak – Member of the Remuneration and Appointment Committee.

The composition of the Remuneration and Appointment Committee, as appointed by the KRUK Supervisory Board on July 25th 2012, was as follows:
- Dariusz Prończuk – Chairman of the Remuneration and Appointment Committee;
- Krzysztof Kawalec – Member of the Remuneration and Appointment Committee;
- Józef Wancer – Member of the Remuneration and Appointment Committee.

In 2012, the Remuneration and Appointment Committee held meetings as part of the meetings of the Supervisory Board.

Pursuant to the Rules of Procedure of the Supervisory Board, the Finance and Budget Committee is composed of two to four Supervisory Board members. In 2012, the Finance and Budget Committee consisted of:
- Dariusz Prończuk – Chairman of the Finance and Budget Committee;
- Piotr Stępniak – Member of the Finance and Budget Committee.

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

- Drafting budget resolutions, issuing opinions and assessing draft resolutions of the Supervisory Board concerning matters related to the finances of the Company;
- Supporting oversight of the performance of the Company's budget;
- Performing the on-going analysis of the Company's financial performance and standing;
- Addressing 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 2012, the Finance and Budget Committee held meetings during the meetings of the Supervisory Board.

6.3.3 General Meeting

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

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

- Review and approve the Directors' Report on the Company's operations and the financial statements for the previous financial year;
- Adopt a resolution concerning distribution of profit or coverage of loss;
- Grant discharge to members of the Company's governing bodies in respect of their performance of duties.

An Extraordinary General Meeting may be convened by the Management Board (acting on its own initiative or at the request of shareholders representing at least half of the share capital or voting power within the Company), by the Supervisory Board (if it deems it advisable to do so) or by shareholders authorised to do so by the registry court under Art. 430.3 of the Commercial Companies Code.

Shareholders representing at least one-twentieth of the share capital may request that an Extraordinary General Meeting be convened and that particular items be placed on the Meeting's agenda. Any such requests should be made in writing or in the electronic form and submitted to the Management Board. An Extraordinary General Meeting should be convened within two weeks from the date when the Management Board receives a relevant request.

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

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

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

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

Resolutions of the General Meeting are passed with an absolute majority of the 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 of the General Meeting and the Rules of Procedure of the Supervisory Board;
- Consideration and resolution of proposals put forward by the Supervisory Board;
- Other matters reserved for the General Meeting under the provisions of the Articles of Association or the applicable laws.

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

6.4 Rules governing amendments to the Company's Articles of Association

The rules governing the introduction of amendments to the Company's Articles of Association are stipulated in the Commercial Companies Code. Pursuant to Art. 430 of the Code, any amendment to the Company's Articles of Association requires a relevant resolution by the General Meeting and must be entered in the relevant court register. In accordance with Art. 415 of the Commercial Companies Code, a resolution by the General Meeting concerning 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.

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

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

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

7. OTHER INFORMATION

7.1

Court, arbitration or administrative proceedings

General information

As part of the ordinary course of business, the Company and Subsidiaries are parties to court and enforcement proceedings concerning their operations. In 2012, the Company and Subsidiaries were plaintiffs or participants in 130,739 court proceedings (including bankruptcy proceedings), where the total value of claims was approximately PLN 786,172,787.55. Moreover, in 2012 435,397 enforcement proceedings instituted by the Company or Subsidiaries were pending, where the value of claims being enforced totalled approximately PLN 2,392,043,039.79. Court and enforcement proceedings are one of the stages of enforcing claims against debtors of the Company and Subsidiaries.

In 2012, the Company and Subsidiaries were defendants in 39 court proceedings, where the total value of litigation was approximately PLN 617,431.00. In 13 of these cases the rulings were in favour of the Company or Subsidiaries. In one case the ruling granted the claim to declare ineffectiveness of a loan agreement giving rise to a debt claim purchased by a Subsidiary. The Company and Subsidiaries believe other claims to be without merit and expect them to be dismissed. There are no proceedings pending against the Company or Subsidiaries where the value of claims would exceed 10% of the Company's equity.

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

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

There was one proceeding, initiated upon a motion filed by a subsidiary, where the value of litigation exceeded 10% of the Company's equity: bankruptcy proceedings concerning Pascal Construction Sp. z o.o. w upadłości (in bankruptcy). The value of claim was PLN 18,166,719.36, the proceedings were instigated on January 25th 2006, and the parties to the proceedings were PROKURA NSFIZ and Pascal Construction Sp. z o.o. w upadłości (in bankruptcy). As part of the proceedings, the claim of PROKURA NSFIZ has been satisfied in part and PROKURA NSFIZ expects no further payments to be made.

Proceedings with the largest value of claims, not exceeding 10% of the Company's equity and concerning the Company's liabilities

Among the proceedings concerning the Company's liabilities, where the value of claims did not exceed 10% of the Company's equity, proceedings with the largest value of the claim – PLN 200,000.00, were the proceedings against KRUK S.A. instigated by a natural person on September 27th 2010 for infringement of personal rights. The proceedings were discontinued on March 30th 2012.

Proceedings with the largest value of claims, not exceeding 10% of the Company's equity and concerning debts owed to the Company

Among the court proceedings concerning debts owed to the Company, where the value of claim did not exceed 10% of the Company's equity, proceedings with the largest value of the claim – PLN 12,713,340.74, were the bankruptcy proceedings concerning the Company's claims, pending against the NISCO INVEST S.R.L of Romania. The Company expects its claim to be satisfied in part. In addition, a case against JORDY IMPEX S.R.L of Romania was pending, where the value of the Company's claim was PLN 6,274,758.00. The Company's claim has been satisfied in part and it expects no further payments to be awarded by the court.

7.2
Auditors

On July 26th 2012, the Company and KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. executed an agreement for the audit of separate and consolidated financial statements for 2012 and review of separate and consolidated financial statements for H1 2012. The fee for auditing the annual separate financial statements, auditing the annual financial statements of subsidiaries, reviewing the annual financial statements of subsidiaries, and auditing the annual consolidated financial statements was set at PLN 504 thousand (2011: PLN 396 thousand); while for other certification services, including the review of semi-annual consolidated financial statements – at PLN 70 thousand (2011: PLN 155 thousand). The separate and consolidated financial statements for 2011 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

7.3
Major research and development achievements

Research and development work is focused on improving Delfin, a debt collection IT platform designed to facilitate 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 2012, the strategy of building the platform to support the debt collection area remained unchanged – it was being continually developed by the Company's internal resources, which resulted in improved the system's flexibility and scalability. The Company is also becoming increasingly open to the idea of outsourcing the implementation of solutions designed to support its back-office functions and key debt collection processes.

7.4
Environmental issues

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

7.5
Company shares on the Warsaw Stock Exchange

2012 was the first full year in which KRUK shares were listed on the Warsaw Stock Exchange. After the successful IPO of in 2011 and having appreciated by more than 10% by the end of December 2011, the stock opened at PLN 43.82 on the first trading session in 2012 (i.e. January 2nd 2012). The chart 7 presents the performance of KRUK stock from its first listing in May 2011 to the end of 2012 (at closing prices).

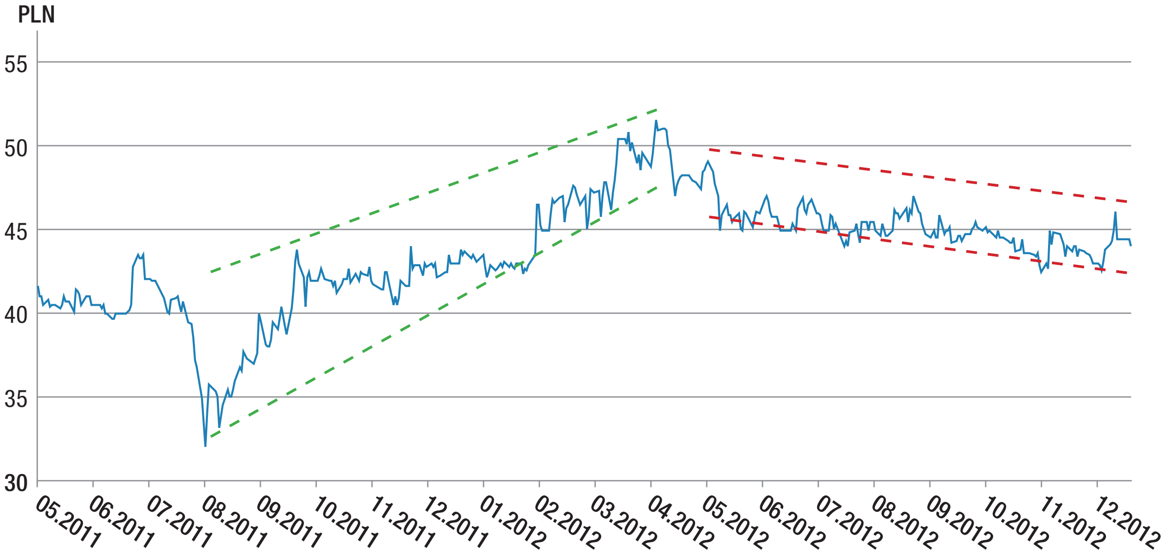
From the beginning of 2012 to April, the stock was moving in an upward trend, which started with a rebound following the sharp decline of the stock market in August 2011. It traded at the highest price (PLN 52.0) at the opening of the session on April 13th 2012. From the trough in the second half of 2011 to the peak in May 2012, the share price gained over 60%.

Starting from May 2012, the stock price was on a mildly downward trend, ending the year at PLN 44.06.

The table 26 presents the 2012 key statistics on the KRUK stock (at closing prices).

For the entire year 2012, the rate of return on the stock was +0.55%. In the same period, market indices offered higher returns. The broad-market WIG index gained 26%. The index of mid-caps mWIG40, which in 2012 included KRUK, grew 17% over the year.

CHART 7. KRUK share price performance since the IPO



Source: Company data

TABLE 26. Share price performance in 2012

	ISSUE PRICE	DEC 31 2012	AVERAGE PRICE	LOW	HIGH
KRUK	39.7	44.06	46.25	42.15	51.60

Source: Company data

TABLE 27. KRUK share price performance against the mWIG40 and WIG indices

	KRUK	mWIG40	WIG
Jan 2 2012 (opening)	43.82	2,188.77	37,716.67
Dec 28 2012 (closing)	44.06	2,552.54	47,460.59
Rate of return	**+0.55%**	**16.62%**	**+25.83%**

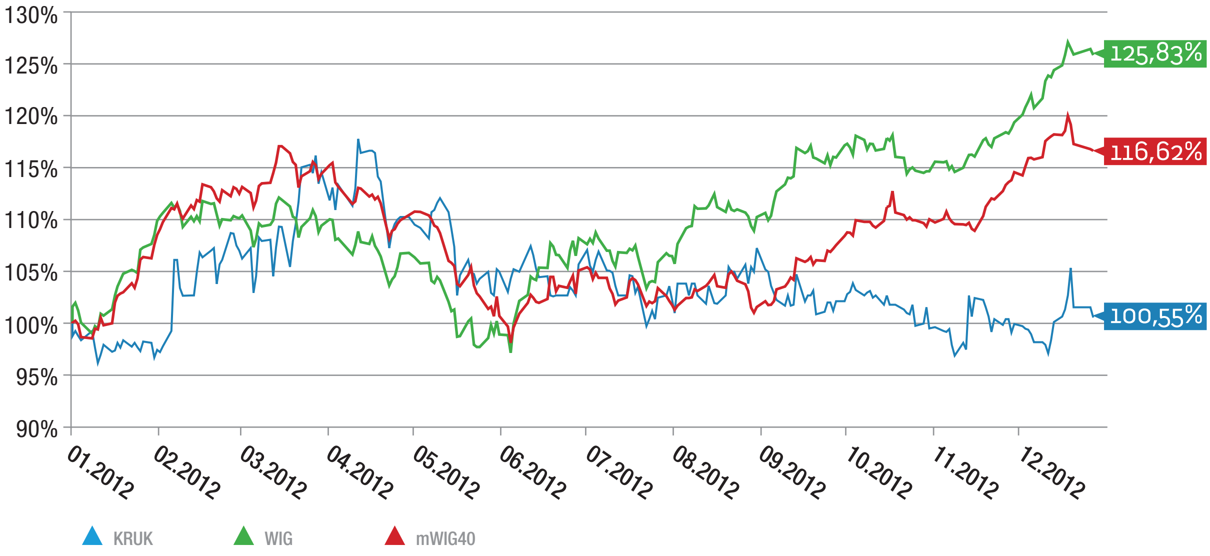
Source: Company data

The chart 8 presents the performance of KRUK stock relative to WIG and mWIG40 indices.

The total number of KRUK shares traded in 2012 was 2.8 million, which represents 16.7% of the Company's share capital. The average number of KRUK shares traded daily was 11,306. The highest trading volumes were seen in March and October, when the total volumes of were 694 and 435 thousand shares, respectively.

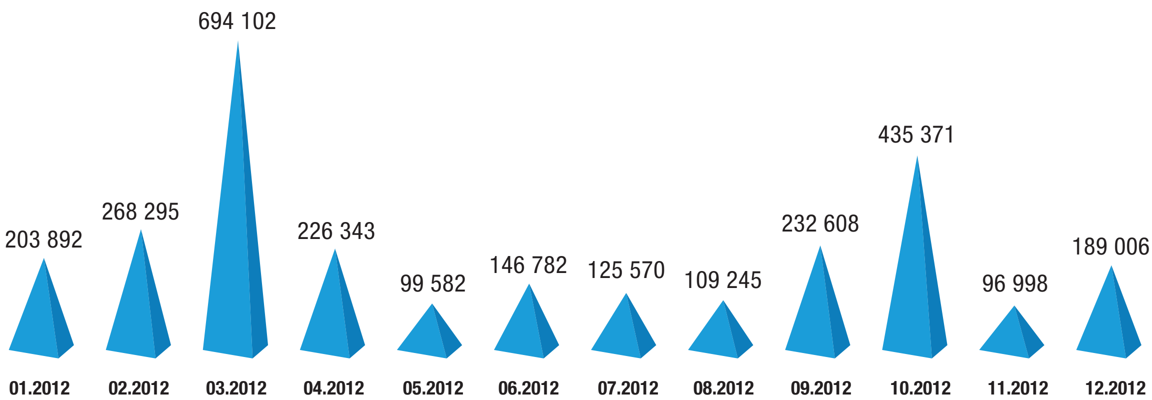
The chart 9 presents the monthly trading volumes for KRUK stock in 2012.

CHART 8. KRUK share price performance against the mWIG40 and WIG indices



Source: Company data

CHART 9. Monthly volumes of trading in KRUK shares in 2012



Source: Company data

7.6

CSR policy

As KRUK is not a production company, the overview presented below does not address any matters traditionally associated with corporate social responsibility, such as environmental protection. However, the Company can boast certain socially relevant initiatives, both on a small scale (employees) and in a wider arena (regional or – as in the case of initiatives supporting financial education – nationwide projects).

Educational initiatives

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

Articles, guidelines and advice

The Group regularly authors and distributes to the nationwide, local and thematic media general-knowledge articles concerning indebtedness, which describe potential consequences of default and ways of dealing with indebtedness.

As part of such information activities, guidelines containing tips and advice for the indebted are prepared. So far, the guidelines have been published in such dailies as "Fakt" and "Super Express", as well as regional press and consumer magazines. They explained such matters as ways of dealing with indebtedness, steps to be taken after receiving a letter from a debt management firm, the best ways to reach an agreement with the creditor, and consequences of failure to repay debt. Responsible dealing with indebtedness has also been the subject of TV and radio programmes. In addition, KRUK authored and ran the "Good Plan" campaign, as part of which debtors were offered professional aid of legal advisers and coaches (from the Polish Association of Coaching and Development).

"Day without Debts" and "Our Debts"

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

Active support for voluntary blood donation

The Group has for several years regularly partnered with the Regional Centre for Blood Donation and Chemotherapy (RCKiK) in Wrocław and Wałbrzych. In partnership with those institutions, KRUK organises among its employees regular blood donation events and campaigns encouraging donor registration with the National Polish Bone Marrow Donor Registry. KRUK also supports public blood donation events coordinated by the Centre, such as "Wrocławska akcja KREW" ("Wrocław's BLOOD Campaign"). For the past two years, the Company has also been supporting the "Wampiriada" campaign ("Vampire Feast") organised by the National Student Association.

Organisation of free first aid courses for employees

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

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

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

Encouraging and supporting employees to engage in charitable campaigns

The employees of the KRUK Group, including the Company's employees, have also been undertaking independent charitable initiatives. The Company supports its employees in the organisation and technical implementation of the undertaken projects.

7.7

Awards and distinctions

As an undisputed leader of the credit management market, the KRUK Group is required to constantly improve the quality of its processes and customer service, in particular with respect to the debtors. The effects of those efforts have been noticed by independent competition boards, as evidenced by a number of awards and distinctions received by the Company. In 2013 and 2012, KRUK was awarded the following distinctions:

Good Company 2012 (Dobra Firma 2012). The KRUK Group won the Good Company 2012 title and joined the prestigious group of 20 most dynamic and efficient Polish businesses. The title is awarded by the "Rzeczpospolita" daily as part of the annual ranking of the largest Polish companies (Lista 2000). KRUK was the only company from the debt management sector to be awarded the title.

Bulls and Bears 2011. KRUK received the Bulls and Bears award for the most successful IPO on the Warsaw Stock Exchange in 2011.

Effie Award 2012. The "We help pay your debts" media campaign launched by KRUK received the silver Effie Award 2012 in the banking category. This was the first time in the history of the media market in Poland, and perhaps also globally, that a campaign organised by a credit management company was singled out for this prestigious award.

Book of Lists 2012. Top position in the ranking of credit management companies. Compiled by Warsaw Business Journal, the Book of Lists is the most comprehensive and longest-running business publication in Poland available in Polish and English; it provides an overview of the best performers in the respective business segments of the Polish market.

"The Best Annual Report 2011". The annual report prepared by the KRUK Group was recognised as one of the most useful for readers in the banks and financial institutions category of "The Best Annual Report 2011" contest. The competition is organised by the Institute for Accountancy and Taxes.

Golden Laurel 2011 (Złoty Laur Klienta 2011). The award attests to the popularity of the brand and the positive opinion it enjoys among customers. "Laur Klienta" is the largest consumer award programme in Poland. It is organised by Rzecz o Biznesie, a nationwide business supplement of the "Rzeczpospolita" daily. A nationwide survey carried out as part of the programme shows which products and services are current popularity leaders in their categories. This means that the distinctions granted by the organisers are in fact granted by Polish consumers.

TOP BRAND 2013 in the LAUR KLIENTA/KONSUMENTA contest. The Top Brand award is given by a selection panel consisting of journalists working for the daily based on how well a given brand fared in the previous editions of the Laur Konsumenta contest. KRUK has been awarded Złoty Laur each year since 2008.

Entrepreneur of the Year 2012 according to Ernst & Young. Piotr Krupa, President of the KRUK Management Board, was among ten finalists of the 10th edition of the prestigious Entrepreneur of the Year 2012 contest organised by Ernst & Young. The initiative promotes entrepreneurs who are most effective in business and espouse CSR principles.

Best Product for Your Business 2012. KRUK was named the "Best Product for Your Business" by "Gazeta Finansowa" in the debt collection category.

7.8

Glossary of terms

B2B	*Business-to-Business relations*
B2C	*Business-to-Consumer relations*
Auditor	*KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., ul. Chłodna 51, 00-867 Warsaw, the Company's auditor*
EUR	*The lawful currency of the Eurozone countries*
FMCG	*Fast Moving Consumer Goods*
WSE	*Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)*
the Group, the KRUK Group	*The Company as the parent along with its Subsidiaries and Non-Standard Securitisation Closed-End Investment Funds*
GUS	*Polish Central Statistics Office*
IBnGR	*The Gdańsk Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową)*
RAVEN Law Firm	*Kancelaria Prawna RAVEN Krupa & Stańko sp. k. of Wrocław*
Polish NDS	*Polish National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. of Warsaw)*
PFSA	*Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)*
KRS	*National Court Register*
ERIF Business Solutions	*ERIF Business Solutions Sp. z o.o. of Wrocław*
KRUK International of Romania	*KRUK International S.R.L of Romania*
KRUK International of the Czech Republic	*KRUK International S.r.o. of the Czech Republic*
IAS	*International Accounting Standards as endorsed by the European Union*
IFRS	*International Financial Reporting Standards as endorsed by the European Union*
NBP	*National Bank of Poland*
Non-Standard Securitisation Closed-End Investment Funds	*Prokura NSFIZ, Prokulus NSFIZ*
GDP	*Gross Domestic Product*
PLN	*The Polish Złoty, the lawful currency in Poland*
Polski Rynek Długów; PRD Sp. z o.o.	*Polski Rynek Długów sp. z o.o. of Wrocław*
UOKiK President	*President of the Office of Competition and Consumer Protection*
Incentive Scheme	*An incentive scheme for 2011–2014 implemented by the Company, addressed to the Management Board members, except for the President of the Management Board, selected employees of the Company and selected members of management boards and employees of the Subsidiaries, under which up to 845,016 registered subscription warrants will be issued, conferring the right to subscribe for a total of 845,016 ordinary bearer shares issued as part of a conditional share capital increase.*
Prokura NSFIZ	*Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty*
Prokulus NSFIZ	*Prokulus Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty*
Supervisory Board	*The Company's Supervisory Board*
Monetary Policy Council (RPP)	*The Monetary Policy Council, a body of the National Bank of Poland*
ERIF	*Rejestr Dłużników ERIF Biuro Informacji Gospodarczej S.A. of Warsaw*
RON	*The Romanian Leu; the lawful currency in Romania*
Regulation on current and periodic information	*The Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. of 2009, No. 209, item 1744, as amended)*
Regulation on the Market and Issuers	*The Minister of Finance's Regulation on detailed conditions to be met by an official stock exchange market and issuers of securities admitted to trading on that market, dated October 14th 2005 (Dz. U. of 2005, No. 206, item 1712)*
Secapital Luksemburg	*Secapital S.à.r.l. (Luxembourg)*
Secapital Polska	*Secapital Polska Sp. z o.o. of Warsaw*
Consolidated Financial Statements	*The Group's consolidated financial statements for the reporting period ended December 31st 2012, 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 Accountancy Act, and Kancelaria Prawna RAVEN*
Articles of Association	*The Company's Articles of Association*
Eurozone	*The group of countries which have adopted the Euro, including Austria, Belgium, Cyprus, Finland, France, Greece, Spain, Netherlands, Ireland, Luxembourg, Malta, Germany, Portugal, Slovakia, Slovenia, Italy, Estonia*
KRUK TFI S.A	*KRUK Towarzystwo Funduszy Inwestycyjnych S.A. of Wrocław*
UOKiK	*Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)*
General Meeting	*The Company's General Meeting*
Management Board	*The Company's Management Board*

SIGNATURES OF MANAGEMENT BOARD MEMBERS

The KRUK Group Directors' Report 2012 is submitted by the Company's Management Board composed of:

Piotr Krupa
President of the Board ....

Rafał Janiak
Member of the Board ....

Urszula Okarma
Member of the Board ....

Agnieszka Kułton
Member of the Board ....

Iwona Słomska
Member of the Board ....

Michał Zasępa
Member of the Board ....

Wrocław, 13.03.2013

KRUK Group

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