

Letter from the President of the Management Board

Dear Shareholders,

I would like to present the Directors' Report on the operations of the KRUK S.A. in 2020. Due to the nature of the debt collection industry (particularly operation of securitisation funds) and the wide range of services and activities performed by the KRUK Group (including in particular litigation-based debt collection, credit reference agency services, provision of consumer loans), separate results of the Company do not reflect the Group's actual performance. Only an analysis of the combined potential of the Company and its subsidiaries, taking into account the nature of their operations, gives a comprehensive picture of the KRUK's business model and enables proper assessment of its operating and financial performance.

As a Group, despite headwinds due to Covid-19, our organisation ended the year with a profit of PLN 81m. The profit of the Company itself was at PLN 81m as well.

Never before in our over twenty-year history had we experienced such unsatisfactory performance against expected cash recoveries and such significant downward revaluations of future cash recoveries. At that challenging time, the KRUK Group demonstrated high resilience. Due to low debt and other factors our liquidity remained stable. As a result of cost savings, we managed to return to generating net profit in short time. 2020 was also a time when we continued and accelerated a number of earlier initiatives aimed at improving our operational performance and developing online tools. Those initiatives as well as considerable commitment of our employees, working mostly remotely, resulted in record collections of over PLN 1.8bn. The net profit of PLN 81m is a modest result, especially compared to the PLN 277m we posted in 2019, but given the extraordinary circumstances I consider it a sound figure. At the same time, we delivered a record cash EBITDA of PLN 1.2bn, up by 10% year on year. This is the effect of improvement recorded after the first lockdown in payments made by our clients under the portfolios purchased by the Group, and of the cost savings made in 2020.

In 2020, when in March the debt sale market practically froze and began to slowly reopen at the end of the third quarter, we invested PLN 456m in debt portfolios with a nominal value exceeding PLN 3.1bn. We purchased portfolios mainly in Poland and Romania, with smaller purchases in Spain and the Czech Republic. The best period in terms of debt purchases was the fourth quarter, when we practically doubled the spending made in the first three quarters of the year. The purchases we made in Poland gave us a nearly 40% market share, which is one of the best results in our history.

In 2020, we maintained very good access to financing. We had at our disposal credit facilities of up to PLN 1.87bn and at the end of 2020 the credit limit available for new investments was PLN 1bn. In these uncertain times, we issued one series of bonds with a total value of PLN 25m. We also redeemed bonds with a total value of over PLN 88m and maintained conservative debt levels counted on the Group level—at the end of 2020, the ratios of net debt to cash EBITDA and net debt to equity were 1.7x and 1.0x, respectively.

Last year, we focused on projects and initiatives that improved the efficiency of our processes. As envisaged in our strategy, we developed online tools and products, which proved extremely important in the extraordinary year of 2020. Despite observable growing importance of digital channels in dealings with clients, traditional forms of contact still remain strong.

We also addressed the needs of local communities. For example, we made a donation to a hospital to support its medical staff in the fight against the COVID-19 pandemic.

In 2020, we were also faced with difficult decisions to temporarily cut salaries, freeze pay rises or abandon several marketing projects. However, the decisions were necessary to curb the potential

adverse impact of the pandemic on KRUK Group's operations. The results prove that it was a good decision.

Last year was also marked by significant changes in the management of our organisation, including changes in the composition of the Management Board and appointment of CEO Poland. KRUK's Management Board was joined by Adam Łodygowski, in charge of debt portfolio valuation and IT, and by Piotr Kowalewski, in charge of the purchased debt business line, who replaced Agnieszka Kulon. In the light of the Group's strategy and the existing challenges, I consider the current composition of the Management Board to be complete and complementary, enabling KRUK to pursue further growth. The position of CEO Poland was taken by Tomasz Ignaczak, the former CEO Romania. This will enable us, the Management Board of KRUK S.A., to manage a business present in seven European countries even more effectively.

I encourage you to read this Director's Report on Operations of KRUK S.A. for 2020 together with Director's Report on Operations of KRUK Group for 2020. Like many of us, I do believe that 2021 will be a better year – one which will see us stronger and even more consistent in the pursuit of our goals and dreams.

Respectfully yours,
Piotr Krupa

