



# **QUARTERLY REPORT – PART III** **ADDITIONAL INFORMATION FROM THE** **MANAGEMENT BOARD ON THE KRUK GROUP'S** **OPERATIONS**

for the period January 1st –  
March 31st 2020

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## 1. Financial and operating highlights for Q1 2020

Portfolio investments	Recoveries	Net result	Cash EBITDA		
PLN 57m	PLN 477m	PLN -62m	PLN 326m		
-68%	+12%	-164%	+15%		
million	PLN		EUR		
	Q1 2020	Q1 2019	change	Q1 2020	Q1 2019
Expenditure on debt portfolios	57	180	-68%	12	41
Gross recoveries	477	426	12%	108	99
Carrying amount of purchased portfolios	4,075	4,108	-1%	895	965
Gross estimated remaining collections (120 months)	7,396	7,197	3%	1,625	1,690
Total revenue	200	307	-35%	46	71
Revenue from purchased portfolios	155	280	-45%	35	65
including revaluation of debt portfolios	-125	25	-600%	-28	6
EBIT	-8	126	-106%	-2	29
EBITDA	5	136	-97%	1	32
CASH EBITDA**	326	282	15%	74	66
Net loss	-62	97	-164%	-14	23
Basic EPS (PLN)	-3.27	5.18	-163%	-0.74	1.21
Diluted EPS (PLN)	-3.22	5.08	-163%	-0.72	1.18
ROE***	-3%	5%	-	-	-
Net interest-bearing debt to equity	1.2	1.3	-	-	-
Net interest-bearing debt to cash EBITDA	2,1	2,3	-	-	-

\* EBITDA = EBIT + depreciation and amortisation

\*\* Cash EBITDA = EBITDA – revenue from purchased portfolios + recoveries

\*\*\* ROE = (net profit)/(equity at end of period)

## 2. Overview of the KRUK Group's operations in Q1 2020

### Investment in new debt portfolios

Investment in debt portfolios purchased by the Group in Q1 2020 totalled PLN 57m. The 68% year-on-year decline in investment was brought about by the global coronavirus pandemic, which made the Group scale down its investing activity. In the first quarter of the year, KRUK invested primarily in retail debt portfolios in Poland and Romania. The total nominal value of the purchased portfolios was PLN 505m, down 64% year on year.

### Recoveries and revaluation of portfolios

In Q1 2020, recoveries from portfolios purchased by the KRUK Group totalled PLN 477m, up 11.8% year on year and 0.4% quarter on quarter. This was an effect of the recoveries coming in above operational targets over the first two months of 2020, particularly in Poland, Romania and Italy. However, in the wake of the COVID-19 outbreak in March 2020 the KRUK Group recorded lower-than-expected recoveries in Spain and Italy, and in the last days of March the recoveries fell short of targets also in Romania and Poland. Following the epidemic outbreak, April saw a decline in recoveries, to 85% of the total operational target set in the 2020 budget (Operational Target).

The KRUK Group reviewed the accounting estimate of recoveries to reflect the expected impact of the COVID-19 pandemic, and as a result recognised a PLN 125m revaluation loss on the portfolios in Q1 2020.

For a detailed overview by geographical segments, see below.

### Poland

Despite exceeding the level of recoveries assumed in the accounting estimate in Q1 2020 the KRUK Group recognised a PLN 31m downward revaluation reflecting expected deterioration in future recoveries due to the epidemic:

- visits from field consultants had been suspended since mid-March (they neither collected cash nor signed any settlements with clients). Consultants partly resumed field work in late April; before that they had only served clients by telephone;
- access to payment channels (postal services, payment intermediaries) was restricted;
- due to restrictions on court work, KRUK suspended the filing of claims to courts but continued referring relevant cases to bailiff enforcement.

Given the legal requirements (Act on Investment Funds and Management of Alternative Investment Funds), the valuation of Polish portfolios was booked as at March 31st 2020. Recoveries in April deviated negatively from the Operational Goal by less than the total percentage deviation in the Group. The main reason was the Group's failure to achieve the target recoveries from secured portfolios.

As at the date of issue of this report, the KRUK Group identified the following material legislative changes attributable to the coronavirus pandemic that could affect the value of the Group's debt portfolios:

- Pursuant to the Act on Special Solutions Related to Prevention, Counteracting and Combating of COVID-19, Other Infectious Diseases and Emergencies Caused by them and Certain Other Acts of March 31st 2020, which entered into force on April 1st 2020 ( 'Shield 1.1.'):
  - the running of procedural/court time limits was suspended until May 16th 2020 (Art. 15zszs),

- court work was reorganised, e.g. open court hearings were limited to urgent cases (mainly criminal; Art. 14a-b),
- evictions were suspended for the duration of the epidemic/epidemic emergency (Art. 15zzu);

The estimated loss of recoveries resulting from the aforementioned changes was reflected in the accounting estimate as at the end of Q1 2020.

- In the Act Amending Certain Acts on Protective Measures in Connection with the Spread of SARS-CoV-2 of May 14th 2020, which entered into force on May 15th 2020 ('Shield 3.0'), The amount free from bailiff seizure was increased by 25% (per each non-income earning family member that is the employed person's dependant) for persons who, due to measures taken in Poland to prevent the spread of SARS-CoV-2, have had their wages reduced (or whose family member has lost their source of income). The solution is temporary, but no end date has been indicated.

KRUK is analysing the impact of that change on the value of its portfolios, but since it was not yet precisely estimated at the end of Q1, the impact was not reflected in the accounting estimate made in the period.

## Romania

Despite exceeding the level of recoveries assumed in the accounting estimate in Q1 2020 the KRUK Group recognised a PLN 33m downward revaluation reflecting expected deterioration in future recoveries due to the epidemic:

- visits from field consultants had been suspended since mid-March (they neither collected cash nor signed any settlements with clients). Consultants partly resumed field work in early May; before that they had only served clients by telephone;
- access to payment channels (postal services, payment intermediaries, including voluntary payments via bailiffs) was restricted;
- legal restrictions were introduced with respect to bailiff enforcement against pensions and wages for those furloughed (with furlough benefits funded by the state) due to the pandemic; some enforcement proceedings will be suspended for 60 days after the lifting of the state of exception, i.e. until July 15th 2020.

Recoveries in April came in below the Operational Target, with the deviation deeper than the Group-wide percentage deviation. KRUK expects recoveries to improve in the coming months as certain effects of the economic lockdown subside.

As at the date of issue of this report, the KRUK Group identified the following material legislative changes attributable to the coronavirus pandemic that could affect the value of the Group's debt portfolios:

- Special regulation no. 32 amending and supplementing special regulation no. 30/2020 and establishing an additional social protection measure, promulgated and entered into force on March 30th 2020, prohibits enforcement against pensions until the state of exception is lifted.

The estimated loss of proceeds from court enforcement proceedings due to the regulation was reflected in the accounting estimate as at the end of Q1 2020.

- Special regulation no. 53/2020 amending and adding regulations establishing social protection measures, promulgated and entered into force on April 21st 2020, prohibits attachment of furlough benefits during the state of exception and for two months after it is lifted.

The estimated loss of proceeds from court enforcement proceedings due to the regulation was reflected in the estimate as at the end of Q1 2020.

- Act No. 143/2020 on amendments to special regulation No. 37, which is now subject to a constitutional review (hearing set for June 17<sup>th</sup>, 2020), prohibits any enforcement until December 31st 2020.

KRUK considers it unlikely that the act will come into force and therefore its impact, albeit potentially significant, has not been reflected in the accounting estimate.

## Italy

Despite exceeding the level of recoveries assumed in the accounting estimate in Q1 2020 the KRUK Group recognised a PLN 34m downward revaluation reflecting expected deterioration in future recoveries due to the epidemic:

- visits from field consultants had been suspended since mid-March (they neither collected cash nor signed any settlements with clients). Consultants partly resumed field work in mid-May, but before that they had only served clients by telephone;
- access to payment channels (postal services, payment intermediaries) was restricted;
- restrictions on/suspension of court work, leading to delays in court proceedings.

Recoveries in April were below the Operational Target, their percentage deviation comparable to the Group-wide percentage deviation. The degree of target achievement in that month was boosted by high unit recoveries under court proceedings.

As at the date of issue of this report, the KRUK Group did not identify any material legislative changes attributable to the coronavirus pandemic that could affect the value of the Group's debt portfolios.

## Other markets

Despite exceeding the level of recoveries assumed in the accounting estimate in Q1 2020 the KRUK Group recognised a PLN 28m downward revaluation on debt portfolios in the 'other markets' segment. Its largest portion was a PLN 25m revaluation loss on debt portfolios in Spain reflecting expected deterioration in future recoveries due to the epidemic:

- visits from field consultants had been suspended since mid-March (they neither collected cash nor signed any settlements with clients);
- access to payment channels (postal services, payment intermediaries) was restricted;
- restrictions on/suspension of court work (given that courts intermediate in the transfer of funds at the court enforcement stage) halted payments from debtors to creditors.

Recoveries in April were far below the Operational Target, their deviation much deeper than the Group-wide percentage deviation, both in the case of unsecured consumer and corporate debts. The Group expects recoveries to improve in the coming months as the economy is unlocked.

As at the date of issue of this report, the KRUK Group identified the following legislative change attributable to the coronavirus pandemic as material: prohibition on companies' bankruptcies in Spain until the end of 2020. The change was enacted by Royal Decree-Law 16/2020 of April 28th on procedural and organisational measures to address COVID-19 in the administration of justice from March 14th (retrospectively) to the end of 2020. KRUK is in the process of analysing the impact of the act on the value of the portfolios and the estimated effect was not reflected in the forecast at the end of Q1 2020.

Recoveries on the Czech, Slovak and German markets were relatively strong, deviating only negligibly from the Operational Target.

### **Consumer loans in Poland**

Following the outbreak of the COVID-19 epidemic and the resulting legislative changes, Wonga and Novum temporarily limited the sale of loans, while introducing additional changes and restrictions to the creditworthiness assessment process.

In Q1 2020, the KRUK Group recognised an allowance for expected credit losses reflecting an anticipated adverse impact of COVID-19 on the repayment of loans totalling PLN 5m, including PLN 4.2m for the Wonga portfolio.

As at the date of issue of this report, the KRUK Group identified the following legislative change attributable to the coronavirus pandemic as material: introduction – as part of the programme to mitigate the effects of COVID-19 – of a cap on non-interest costs of consumer loans of 21% until March 31st 2021 and of 45% of the loan amount over the entire loan period. This will undermine the profitability of products offered by loan companies. At the same time, Wonga enjoys a strong brand recognition and has its own acquisition channels, marked by a low loss ratio and low lending costs (mainly the cost of data required for the credit analysis process, the lending process at Wonga being fully automated) compared with the broad consumer loan market.

### **Performance in Q1 2020**

The KRUK Group's performance figures for Q1 2020 reflect its best knowledge at the time of their preparation, with the reservation that the spreading COVID-19 pandemic and its consequences carry a number of risks and uncertainties which the KRUK Group may not have been able to predict at the time of preparing its Q1 2020 results.

The negative revaluation of debt portfolios translated directly into the Q1 2020 net result, of PLN -62m, down PLN 160m year on year. At the same time, cash EBITDA in Q1 came in at PLN 326m, having improved 15% on Q1 2019.

### **COVID 19 – operational measures taken**

The physical safety of personnel and continuity of the KRUK Group's operations became key challenges in the face of the coronavirus pandemic. These goals were achieved on all markets with remote work and preventive measures designed to protect clients' and employees' health in line with recommendations from local sanitary units.

The KRUK Group's IT systems used in remote work made it possible to maintain the continuity of operations with technical efficiencies uncompromised. This applies both to the purchased portfolio operations and

services provided to business partners. The Group is now ramping up the use of its online tools, including online payments and the e-kruk platform enabling remote settlements. Depending on the market and on government measures implemented on each such market to curb the pandemic spread, courts and bailiffs were made to partly change their mode of operation. Both out-of-court and court procedures are carried on, albeit in challenging conditions, in each country where the Group has its operations.

### Financial and liquidity position

The Group's financial and liquidity position remained stable as at the end of the first quarter of 2020 and the date of issue of this report.

As at March 31st 2020, the KRUK Group's cash and cash equivalents amounted to PLN 236m, up by PLN 86m on December 31st 2019. The undrawn amount of lines of credit was PLN 712m as at March 31st 2020, having grown by PLN 156m compared with December 31st 2019. As at March 31st 2020, the Group's investments in debt portfolios accounted for 85% of its assets. Equity accounted for 41% of the financing for the Group's operations.

The KRUK Group's liquidity risk is managed by pursuing the following objectives:

- to protect the KRUK Group against the loss of ability to pay its liabilities,
- to secure funds to finance the Group's day-to-day operations and growth,
- to effectively manage the available financing sources.

In the opinion of the KRUK Management Board, a measure helpful to assess the liquidity risk is the ratio of liabilities maturing within 12 months to cash EBITDA (debt maturing within 12 months/LTM cash EBITDA). As at March 31st 2020, the ratio stood at 0.37, reflecting the Group's strong ability to cover its maturing debt.

#### As at March 31st 2020

PLN '000

Debt maturing within 12 months	435,474
LTM cash EBITDA	1,173,424
<b>Maturing debt/cash EBITDA</b>	<b>0.37</b>

Source: Company

As at March 31st 2020, defined below financial ratios were as follows:

1.2 – Debt Ratio

2.1 – Net Financial Debt / Cash EBITDA Ratio;

where:

Debt Ratio means the ratio of Net Financial Debt to Equity;

**Net Financial Debt** represents the KRUK Group's Financial Liabilities less the KRUK Group's cash;

**Equity** means the KRUK Group's equity;

**Financial Liabilities** means total financial liabilities under:

- bonds or other similar debt securities; or
- non-bank borrowings; or
- bank borrowings; or
- finance leases; or
- promissory notes issued by way of security for liabilities of non-KRUK Group entities; or
- guarantees or sureties provided in respect of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- accession to debt owed by non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- assumption of liabilities of non-KRUK Group entities under bank or non-bank borrowings, finance leases, bonds or other similar debt securities; or
- liabilities arising under derivatives contracts;

**Cash EBITDA** represents profit (/loss) before tax plus finance costs, amortisation, depreciation and cash recoveries from purchased debt, less revenue from purchased debt and revaluation gains on assets other than purchased debt and consumer loans advanced, if their total amount in the last 12 months exceeds PLN 5m. Cash EBITDA is computed for the KRUK Group for the last 12 months. The key factor with a bearing on financial performance in the reporting period was investments in debt portfolios made in the reporting and previous periods.

### 3. Dividends paid (or declared)

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

After the reporting date and by the date of issue of this report, the Company's Management Board did not resolve on a proposed allocation of the Company's net profit for 2019.

Following legislative amendments under the government's anti-crisis shield package, public companies are allowed to hold annual general meetings by August 31st 2020. Such postponement of the annual general meeting applies to all matters referred to in Art. 395.2 of the Commercial Companies Code, i.e. to resolutions on the distribution of profit/coverage of loss and liability discharge for members of the company's governing bodies.

KRUK intends to avail itself of the amendments provided for under the COVID-19 legislation and to hold its Annual General Meeting by August 31st 2020.

### 4. Changes in the KRUK Group's structure

In Q1 2020, there were no changes in the KRUK Group's structure.

However, after the end of the reporting period Secapital Polska Sp. z o.o. of Wrocław, wholly-owned by KRUK S.A., sold one share in InvestCapital LTD of San Ġwann, Malta, to ERIF Business Solution Sp. z o.o. of Wrocław. KRUK S.A. holds directly 100% of shares in ERIF Business Solutions Sp. z o.o. and – indirectly – in InvestCapital LTD.

## 5. Related-party transactions concluded by the Parent

In the period January 1st–March 31st 2020, the Parent executed related-party transactions. For details, see the *condensed interim separate financial statements for the period January 1st–March 31st 2020, section 11. Related-party transactions concluded by the Parent.*

All transactions in Q1 2020 between the Group companies were executed at arm's length.

## 6. Sureties for repayment of loans and guarantees issued by KRUK S.A. or its subsidiary

In the reporting period, KRUK S.A. and the Group companies issued sureties for repayment of loans and guarantees. For details, see the *condensed interim separate financial statements for the period January 1st–March 31st 2020, section 16. Information on changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year.*

## 7. Assessment of financial resources management

### 7.1 Financial forecasts

On May 22nd 2020 in Current Report No. 13/2020, KRUK S.A. published the preliminary estimates of the KRUK Group's financial results for Q1 2020. The preliminary estimate of the Group's consolidated net loss for Q1 2020 was PLN -62m, consistent with the finally reported consolidated net loss.

### 7.2 Assessment of future financial condition

The KRUK Group's business is being continued across all markets and business lines. However, the spread of the coronavirus and its impact in the countries where the Group operates are bound to adversely affect its performance in 2020. The impacts will be particularly pronounced in the Group's principal business of purchased debt management:

- the epidemic and its consequences set to bear adversely on the amount of recoveries in the coming months of 2020. As a result, in Q1 the Group made a downward revaluation of its debt portfolios, totalling PLN -125m, which was directly reflected in the Q1 2020 performance figures, but further COVID-related negative remeasurements of the portfolios cannot be ruled out;
- a 68% year-on-year decline in investment was brought about by the global spread of the coronavirus pandemic, which caused the Group to scale down its investing activity. The KRUK Group is preparing for, and will actively participate in, an expected post-pandemic increase in the supply of debt driven by an increase in non-performing bank loans.

Both in Q1 2020 and as at the date of issue of this quarterly report, the KRUK Group was operating efficiently on all markets, with no significant legal restrictions applicable to its business. As at the date of issue of this report, the freedom of movement was restored and field consultants, provided they take precautionary measures, can again pay their visits. In all markets, courts are resuming their work, which had been temporarily restricted or suspended.

Additionally, the COVID 19-induced disruptions and obstacles are also affecting the regularity and continuity of debt outsourcing by primary creditors, which may adversely affect the performance of the Group's credit

management line, but in subsequent months the scale of debt outsourcing to specialised debt collectors like KRUK should increase.

The Group also expects the COVID-19 pandemic to have a negative impact on its loan business line in Poland. The temporary reduction of a cap on non-interest costs to 21% until March 31st 2021, enacted as part of the package of anti-crisis legislation, will erode the profitability of lending on the Polish market in 2020, while the impending economic downturn may lead to an increase in the number of non-performing loans.

Therefore, the Group's focus is on ensuring operational stability and cost savings to minimise the negative impact of the pandemic on its performance in 2020, and getting ready for a potential increase in the supply of debt put out for sale and the demand for credit management services and other products in the coming quarters.

Having reviewed its expenses, KRUK has been implementing savings, set to reduce costs in 2020. The Group identified potential for lowering its operating expenses and overheads in Q2 2020 by PLN 41m relative to the budget and by approximately PLN 26m relative to Q1 2020. The difference will be achieved partly on the back of savings and partly on costs being moved forward to future periods. One of the many savings is a 25% reduction in the salaries of Management and Supervisory Board members, and a 20% reduction in the salaries of senior managers for May–July 2020.

At the same time, the KRUK Group's financial and liquidity position remains stable. The Group mitigates risks associated with management of financial resources through a continuous debt management process, which ensures an uninterrupted inflow of cash. In the opinion of the Management Board, given the Group's current and projected financial position there are no significant risks related to its liquidity management. The Company is able to control and service its debt and manages its financial resources in a prudent manner.

## 8. Shareholders

### 8.1 Shareholding structure

Shareholders holding, directly or indirectly, 5% or more of total voting rights at the General Meeting of the Company as at the report issue date, and changes in major holdings of Company shares since the issue of the previous interim report

#### As at the date of issue of the previous periodic report (March 5th 2020)

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
Piotr Krupa	1,886,666	9.94	1,886,666	9.94
NN PTE*	2,055,000	10.83	2,055,000	10.83
Aviva OFE*	1,740,000	9.17	1,740,000	9.17
PZU OFE*	1,056,178	5.57	1,056,178	5.57

(\*) Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on June 25th 2019.

### Information on changes in the structure of major holdings

Shareholder	Number of shares	Ownership interest (%)	Number of votes held	Share in total voting rights at GM (%)
Piotr Krupa	1,856,666	9.79	1,856,666	9.79
NN PTE*	2,055,000	10.83	2,055,000	10.83
Aviva OFE*	1,740,000	9.17	1,740,000	9.17
PZU OFE*	1,056,178	5.57	1,056,178	5.57

(\*) Data based on the list of shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of KRUK S.A. held on June 25th 2019.

Changes in holdings of KRUK S.A. shares by major shareholders in the period from the issue date of the previous full-year report to the issue date of this interim report:

On April 28th 2020, the Company received a notification from Piotr Krupa, President of the Management Board of KRUK S.A., who is also a major shareholder of the Company, stating that on April 27th 2020 he had sold 30,000 KRUK S.A. shares at the average price of PLN 79.95 per share in ordinary session trades on the Warsaw Stock Exchange.

## 8.2 Management or supervisory board members holding shares or rights to shares

Members of the management or supervisory personnel holding Company shares or rights to Company shares as at the date of issue of this interim report, and changes in their holdings after the issue of the previous interim report

Name and surname	Position	Number of shares held
Piotr Krupa	CEO and President of the Management Board	1,856,666
Agnieszka Kułton	Member of the Management Board	45,000
Urszula Okarma	Member of the Management Board	107,001
Iwona Słomska	Member of the Management Board	39,348
Michał Zasępa	Member of the Management Board	26,356
Tomasz Bieske	Member of the Supervisory Board	1,222

From the date of issue of the previous periodic report (the 2019 report released on March 5th 2020) to the issue date of this report, there were no changes in the holdings of shares by Management Board and Supervisory Board members save for the change referred to in Section 8.1, concerning the President of the Management Board.

To the best of the Company's knowledge, the Supervisory Board members other than Tomasz Bieske did not hold any Company shares or rights to Company shares in the period from the issue of the previous periodic report to the date of issue of this report.

### Incentive scheme at Kruk S.A.

#### Incentive scheme for 2015–2019

The 2015–2019 incentive scheme was approved by Resolution No. 26/2014 of the Annual General Meeting of May 28th 2014 (2015–2019 Incentive Scheme)

It is the second incentive scheme operated by the Kruk Group. Details of the 2015–2019 Incentive Scheme can be found in the Directors' Report on the operations of the Kruk Group in 2019.

As at March 31st 2020 and as at the issue date of this report, members of the Parent's Management Board held no rights to Kruk S.A. shares other than those under the subscription warrants discussed below.

From the date of issue of the previous periodic report (the 2019 report released on March 5th 2020) to the issue date of this report, there were no changes related to the factual status of the 2015–2019 Incentive Scheme.

#### Number of subscription warrants held by Management Board members as at March 31st 2020

Name and surname	Position	Number of warrants held under Tranche 1 for 2015	Number of warrants held under Tranche 2 for 2016	Number of warrants held under Tranche 3 for 2017	Number of warrants held under Tranche 4 for 2018
Piotr Krupa	CEO and President of the Management Board	7,000	10,820	14,556	20,564
Agnieszka Kulon	Member of the Management Board	3,250	9,915	9,947	17,301
Urszula Okarma	Member of the Management Board	3,250	9,915	9,947	17,301
Iwona Słomska	Member of the Management Board	-	-	9,947	17,301
Michał Zasępa	Member of the Management Board	-	-	9,947	17,301

## 9. Material court, arbitration or administrative proceedings

No material court, arbitration or administrative proceedings are pending against the Company or its subsidiaries in relation to their liabilities or claims.

## 10. Material risk factors

The risk management policies operated by the KRUK Group are designed to:

- Identify and analyse the Group's risk exposures;
- Define appropriate limits and procedures;
- Control and monitor the risk level and suitability of the risk management tools.

The risk management policies in place at the 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.

In the period from January 1st to March 31st 2020, there were no material changes to the risk management approach, therefore the Management Board of KRUK S.A. identified the same risks as those specified in the most recent full-year Directors' Report on the Group operations in 2019, in:

**3.16 Significant risk factors and their management** The report is available at [https://pl.kruk.eu/media/article/file/grupa\\_raport\\_roczny\\_z\\_2019.pdf](https://pl.kruk.eu/media/article/file/grupa_raport_roczny_z_2019.pdf)

In addition, it identified a risk associated with adverse effects of the COVID-19 pandemic on the economic condition and financial performance of the KRUK Group.

Risk	Description of risk/effects	Management method
Risk related to adverse effects of the COVID-19 pandemic on the economic condition and financial performance of the KRUK Group	The Company believes that the COVID-19 pandemic and its consequences in Poland and other countries where the KRUK Group operates will adversely affect the Group's economic condition and financial performance. Such adverse impacts are likely to be seen mainly in the amount of recoveries from purchased debt portfolios, which may come in lower than expected, potentially leading to a negative revaluation of those debt portfolios. The epidemic may also adversely affect the performance of Wonga.pl and Novum, as well as the other business lines pursued by KRUK. The KRUK Group's operations are being continued on each	Taking various scenarios into account, the KRUK Group intends to manage its operations in a way that would minimise any adverse effects on KRUK's assets and financial performance. In this respect, a number of measures have been taken, such as the switchover to remote work (with 95% of the employees having opted to work from home during the pandemic period), reduction of investments in new portfolios, and cost saving initiatives in 2020.

market and within each business line, and the Group's liquidity position remains stable. However, as at the date of this report for Q1 2020, it is not possible to predict the full scale of the negative impact of the coronavirus spread and its effects on the Group's economic condition and financial performance, apart from the PLN 125m negative revaluation of the portfolios recognised for Q1 2020.

## 11. Corporate social responsibility

The KRUK Group operates in compliance with applicable legal regulations, standards and principles of corporate social responsibility. In line with its mission statement and vision, KRUK educates and promotes sustainable development.

In Q1 2020, KRUK S.A. responded to the pandemic crisis by getting involved in the #graMYdlaKOSZAROWEJ campaign in Wrocław: it donated PLN 200,000 to purchase protective equipment, i.e. protective masks and semi-masks, face shields and biosecurity boots for medical staff of the J. Gromkowski Provincial Specialist Hospital in Wrocław.

In Q1 2020, both KRUK S.A. and ERIF BIG S.A. submitted to an annual ethics audit, conducted by the Association of Financial Companies in Poland (the organisation established by the Minister of Finance). As members of the Association of Financial Companies in Poland, KRUK S.A. and ERIF BIG S.A. have committed to comply with the Code of Best Practice. Both companies were successfully audited and certificated by the Ethics Committee, confirming their adherence to the principles of ethics. Notably, at the time when the epidemic was declared, KRUK made a special effort to individualise its approach to clients (debtors), especially those who found themselves in difficulties due to the epidemic. The Company intensified its efforts to encourage clients to use the e-kruk.pl platform, enabling remote debt repayments. It also launched an online education campaign for senior citizens, helping them safely repay debts without leaving home and overcome fear of using the Internet.

In the face of COVID-19, measures were also taken to ensure the safety of employees. As many as 95% of the KRUK Group's personnel chose to work remotely. Employees whose work required presence at the office were also subject to safety procedures, based on recommendations from local sanitary supervision units. In particular, the KRUK Group supplied them with protective gloves and masks and provided sanitiser gels in general access areas. The safety of our employees and clients has been and remains a priority.

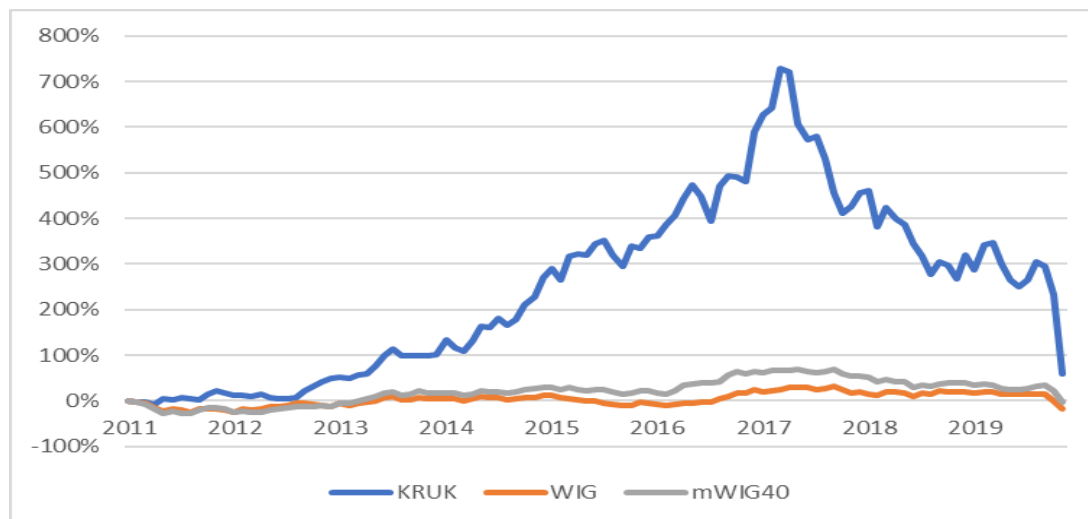
## 12. Investor Relations summary

### 12.1 Performance of Company shares on the Warsaw Stock Exchange.

Over Q1 2020, the price of KRUK shares on the stock exchange market fell 60.90%. Our stock underperformed both the WIG and mWIG40 indices, which delivered rates of return of -28.03% and -27.07%, respectively.

From its IPO on the Warsaw Stock Exchange in May 2011 to the end of Q1 2020, the rate of return on KRUK shares reached 59.72%. Over the same period, the all-cap WIG index dropped by 15.62%, while the mid-cap mWIG40 index lost 2.57%.

**Performance of KRUK stock against WIG and mWIG40 from the Company's IPO on the WSE in May 2011 to the end of Q1 2020**

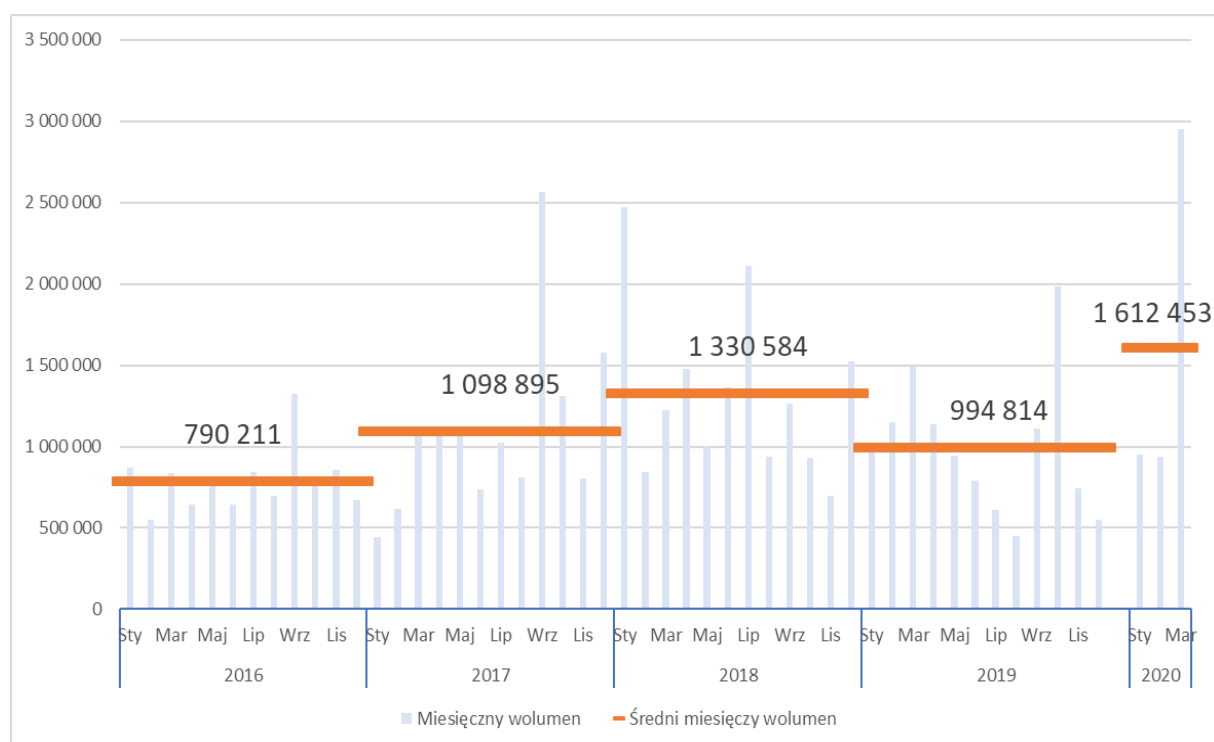


Source: in-house analysis, based on stooq.pl

### Stock liquidity

The total volume of KRUK S.A. shares traded in Q1 2020 was 4.8 million, and the total value of trading reached PLN 545m. The average daily trading volume of KRUK shares was 76.8 thousand, and the average daily trading value stood at PLN 8.4m. In Q1 2020, KRUK was the 20th most liquid stock on the WSE (in terms of the total trading value).

### Monthly volume in individual months and the year's average monthly volume of trading in KRUK shares in 2016–Q1 2020



Source: in-house analysis based on [www.gpw.pl](http://www.gpw.pl)

#### 12.2. Additional information

Given the COVID-19 crisis and the risk of its adverse effects on the Group's economic condition and financial performance, the Management Board of KRUK S.A. decided to change the issue date of the Q1 2020 report. Additional time was needed to collect and analyse data so as to properly reflect such data in the KRUK Group's performance figures for the first quarter. The date of this report was originally set for May 7th 2020.

**Piotr Krupa**  
*President of the  
Management Board*

**Agnieszka Kułton**  
*Member of the  
Management Board*

**Urszula Okarma**  
*Member of the  
Management Board*

**Iwona Słomska**  
*Member of the  
Management Board*

**Michał Zasępa**  
*Member of the  
Management Board*

Wrocław, May 28th 2020