22 June 2011

Research Report

BRE Bank Securities

Financial industry

Poland

Current price	**PLN 39.7**
Target price	**PLN 53.0**
Maket cap	PLN 671m
Free float	PLN 369m
Avg. daily traing volume (3M)	PLN 5.62m

Shareholders

Polish Enterprise Fund IV, LP	24.8%
Piotr Krupa	15.7%
Employees	4.4%
Others	55.0%

Sector outlook

In 2010, the value of the debt recovery market reached PLN 16.6bn in Poland and PLN 6.6bn in Romania. In both markets, outsourced debt collection services accounted for 69% of the total, and purchased debt for the remaining 31%. We believe that the debt buying market has entered a period of rapid growth in both Poland and Romania, as is usually the case after a period of rapid growth in collection services.

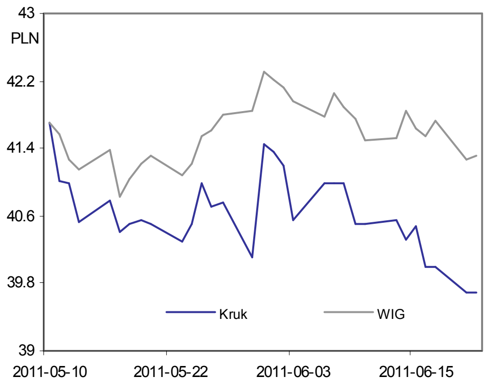
Company profile

Kruk is the leader of the debt recovery market in Poland and Romania, with estimated 2010 market shares of 23% and 31%, respectively. Its focus are retail receivables. Both in Poland and in Romania the Company operates two complementary segments, outsourced debt collection services on the one hand and debt purchasing on the other.

Important dates

30.08.11 - H1 2011 report
14.11.11 - Q3 2011 report

Kruk vs. WIG



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Kruk

Buy

KRU.WA; KRU PW

(New)

Lucrative Debts

Kruk is not merely the leader of the rapidly expanding debt recovery market in Poland and Romania, but also a creator of new products and procedural solutions for the entire industry. It focuses on retail receivables of banks and operates through two complementary segments. The experience and competences it has acquired during its long spell in the market for debt collection services for third parties are now being successfully employed in investment activities, i.e. in the purchase of debt for own account. Calculated based on our net profit estimates of PLN 62m (+71%) in 2011 and PLN 74m in 2012 (+19%), Kruk is trading at attractive price-to-earnings ratios of 10.6x and 9.2x, respectively, showing respective 20% and 18% discounts to peer averages. We are initiating coverage of Kruk with a buy rating and a price target of PLN 53.0 per share.

Kruk is the leader of fast-growing markets in Poland and Romania

Kruk is the leader of the debt recovery markets in Poland and Romania, with 2010 estimated respective market shares of 23% and 31%. In 2010, the value of the Polish market reached PLN 16.6bn, after average annual growth of 23% over the past three years. The Romanian market expanded at 55% per year in 2008-2010, reaching PLN 6.6bn.

We expect rapid growth in the market for purchased debt

Taking into account average purchase prices, we forecast that the debt buying market will expand quickly in 2010-2012, on average at 59% per year in Poland and at 51% in Romania. Because debt tends to be sold two years after default, on average, this expected growth reflects the growth in non-performing loans in 2009-2010.

32% earnings growth between 2010 and 2013

After three years of growth averaging 49% per year, with net income rising from PLN 16.5m in 2008 to PLN 36.1m in 2010, Kruk's profits will decelerate to a still-impressive annual rate of 32%. Our net income forecasts are PLN 61.8m in 2011 (+71% y/y), PLN 73.7m in 2012 (+19%), and PLN 82.7m in 2013 (+12% y/y).

34% upside potential

Based on two valuation methods, relative valuation with a 40% weight and a residual income valuation with a 60% weight, we set our nine-month price target on Kruk at PLN 53.0 per share.

(PLN m)	2009	2010	2011F	2012F	2013F
Revenues	128.6	164.3	264.3	344.3	426.3
Indirect margin	57.0	74.7	127.5	163.0	192.0
Operating profit	31.7	42.6	82.6	108.6	127.3
Net profit	23.4	36.1	61.8	73.7	82.7
ROE (%)	26.5	31.1	33.5	26.9	23.4
EPS (PLN)	1.48	2.34	3.75	4.34	4.80
BVPS (PLN)	6.34	8.62	14.05	18.20	22.76
DPS (PLN)*	0.00	0.00	0.00	0.00	2.15
P/E (x)	26.7	16.9	10.6	9.2	8.3
P/BV (x)	6.26	4.60	2.83	2.18	1.74
Dividend yield (%)	0.0	0.0	0.0	0.0	5.4

** Dividends from the profits for the given year, paid out the following year*

Contents

Investment Overview

Kruk is the leader of the Polish and Romanian debt recovery market

Kruk is the leader of the debt recovery market in Poland and Romania, with estimated 2010 market shares of 23% and 31%, respectively. Its focus are retail receivables of banks, which account for the lion's share of the market and show the fastest growth. Both in Poland and in Romania the Company operates two complementary segments, outsourced debt collection services on the one hand and debt purchasing on the other. The Company launched operations in 1999 as a provider of debt collection services, and since 2002 it has been buying debt portfolios for its own account. In 2010, purchased debt generated 72% of Kruk's revenues.

At present, Kruk has some 230 B2C customers, and its clients include 8 out of the 10 biggest retail banks in Poland and 5 out of the 10 biggest banks in Romania. In 2002-2010, the Company bought more than 140 debt portfolios with nominal value of PLN 6.1bn at a cost of PLN 520m. During the same period, the Company conducted valuations for over 800 portfolios put up for sale, or 99% of all receivables auctioned. Since mid-2008, Kruk has been successfully using a pro-settlement approach to collection on a mass scale, being the first Polish debt collector to do so. According to the Company, the likelihood of the debtor making a declared repayment is much higher under the pro-settlement approach than under the classic approach (70-80% vs. 40-50%). In 2010, over 57% of all payments received by the Company were generated through the pro-settlement approach.

Competent and motivated Board as one of the key success factors

Note that in the case of Kruk, one of the key success factors is its competent, highly motivated and growth-oriented Management Board, whose composition has been very stable. The CEO, Mr. Piotr Krupa, is one of the Company's main shareholders, and all the remaining Board members have been with the Company for at least than 7 years.

Banks account for 70% of the debt recovery market, which is worth PLN 16.6bn in Poland and PLN 6.6bn in Romania

In 2010, the value of the Polish market reached PLN 16.6bn, after average annual growth of 23% over the three preceding years. The Romanian market grew by 55% per year on average in 2008-2010, reaching PLN 6.6bn. Note that bank receivables (of which 79% are retail loans) are not just the biggest segment of the debt recovery market (70% in Poland in 2009), but also the fastest growing one (in 2009, bank receivables outpaced the market as a whole by 30% on average).

We expect rapid growth in purchased debt due to NPL growth in 2009-2010

We believe that the purchased debt market has entered a period of rapid growth in both Poland and Romania, as is usually the case after a period of rapid growth in collection services, which tend to dominate in the early stages of development of the market. Taking into account average purchase prices, we forecast that the purchased debt market will expand quickly in 2010-2012, on average at 59% per year in Poland and at 51% in Romania. Because debt tends to be sold two years after default, on average, the anticipated growth reflects the growth in non-performing loans in 2009-2010.

Kruk will use its competitive advantages to strengthen its standing in the Polish and Romanian debt recovery market...

We believe that Kruk will use its competitive advantages to strengthen its position as the leader of the Polish and Romanian debt recovery markets. We assume that thanks to its access to financing and its debt portfolio valuation skills, Kruk will increase its share in the Polish market for purchased debt to 25% in 2013 (from 19% in 2010) and keep the position of the unchallenged leader of the Romanian market with a 25% share (vs. 65% in 2010). We also estimate that thanks to its efficient and effective collection process and extensive ties with banks, the Company will be able to defend the position of the leader of the Polish market for debt collection services with a market share of 24%, and to control 20% of the Romanian market in 2013 (vs. 16% in 2010). In consequence, we expect that the value of portfolios bought for Kruk’s own account will increase by a staggering 105%, from PLN 193m in 2010 to PLN 395m in 2013, while the value of portfolios accepted for collection will increase by 4%, from PLN 3.7bn in 2010 to PLN 3.9bn in 2013.

... supported by expanding product range

Kruk is constantly introducing innovative solutions to its product base. In Q2 2010, the Company launched a product called Novum loan, a consumer loan for people who are unable to get a bank loan and who have repaid their debt to Kruk in full or nearly in full. We expect this short-term, high-margin loan to generate revenues of PLN 10m and an indirect margin of PLN 4m in 2013. In addition, thanks to the new law on business information that came into force in 2010, the ERIF Register of Debtors, which has been a supporting tool until now, will also become a source of revenues, estimated at PLN 20m in 2013 (PLN 6m indirect margin).

The Company will keep margins high thanks to economies of scale...

In the case of Kruk, one of the key success factors has been its major scale of operations, which has allowed for cost-effective servicing of big portfolios. We expect that the Company's operating margin will increase from 26% in 2010 to 30% in 2013. In consequence, the average rate of revenue growth forecasted for 2010-2013 (37% per year) will translate into 44% y/y operating profit growth.

... and attain average profit growth of 32% per year in 2011-2013

In 2008-2010, Kruk’s profits grew at 49% per year, from PLN 16.5m to PLN 36.1m. In the next three years, we expect the bottom line to grow at an average rate of 32% per year. Our net income forecast is PLN 61.8m in 2011 (+71% y/y), PLN 73.7m in 2012 (+19% y/y) and PLN 82.7m in 2013 (+12% y/y).

Kruk will continue its expansion abroad

Four years after its entry into the Romanian market, where the Company has successfully employed the business model developed in Poland, Kruk is planning further expansion abroad. In Q3 2011, it is planning to begin operations in the Czech Republic, followed by entry into Hungary sometime later (most likely in 2012), with an objective of becoming the leader in both markets (at the moment, it is involved in exclusive negotiations for the purchase of PLN 230m worth of receivables in the Czech market). Note that the aggregate value of these two markets is comparable to the value of the Romanian market, which accounted for 39% of Kruk’s indirect margin in 2010 (PLN 29m, indirect margin is the operating profit before general and administrative expenses). Note that our forecasts do not factor in the Czech and Hungarian expansion plans.

Kruk is trading at FY11 P/E of 10.6x, with a 21% discount to peer average

Kruk is trading at an FY11 P/E of 10.6x and FY12 P/E of 9.2x, i.e. 21% and 18% below the average for its six peers. On the P/BV multiple, Kruk is trading at 2.33x for 2011 and 2.02x for 2012. Although this entails a premium to peer average (21% and 8%, respectively), we believe it is fully explained by its much higher return on equity.
In our opinion, Kruk’s multiple-based valuation is attractive, and the very high discount to peer average is not warranted. Note that we expect 36% growth in earnings per share between 2010 and 2012 for Kruk, compared to 23% growth expected for peers.

Buy rating with PLN 53.0 per-share price target

Based on two valuation methods, relative valuation weighed at 40% and income-based valuation weighed at 60%, we set nine-month price target for Kruk at PLN 53.0 per share. Since this entails a 34% upside, we recommend buying the stock.

Valuation

Relative Valuation

(A short description of peers has been attached as Schedule 2 on page 49).

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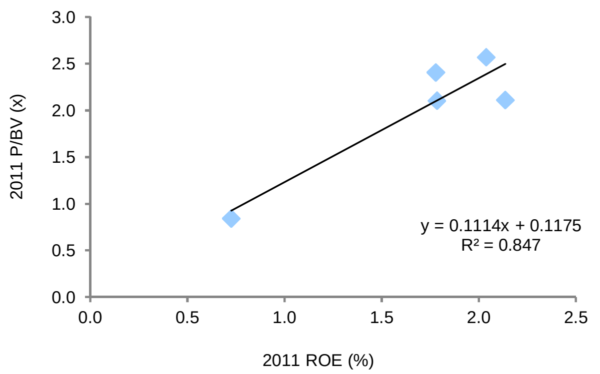
Relative Valuation

Company	Market cap (EUR m)*	P/E (x)		EPS CAGR	P/BV (x)		ROE (%)	
		2011F	2012F	2010-2012	2011F	2012F	2011F	2012F
Kruk	**168**	**10.6**	**9.2**	**36**	**2.83**	**2.18**	**33.5**	**26.9**
Portfolio Recovery	1 008	14.8	12.4	25	2.40	2.02	17.8	17.9
Intrum Justitia	768	12.8	11.3	17	2.57	2.31	20.4	21.4
Encore Capital	502	12.7	10.1	20	2.10	1.79	17.9	19.4
Credit Corp	161	10.4	7.9	41	2.11	1.85	21.4	21.0
AACC	76	12.1	7.4	-	0.84	0.77	7.3	11.2
Asta Funding	73	10.3	13.1	57	n/d	n/d	n/d	n/d
Market-cap-weighed average		**13.3**	**11.2**	**24**	**2.33**	**2.02**	**18.5**	**19.2**
Premium/discount to average (%)		*-21*	*-18*	*48*	*21*	*8*	*81*	*40*
Implied fair value (PLN)		**50.0**	**48.7**	**-**	*54.1***	*52.3***	**-**	**-**

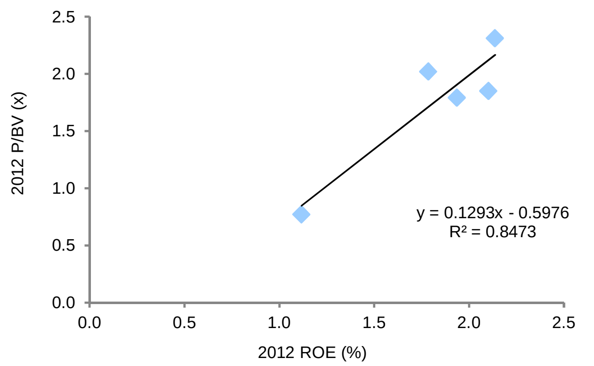
*Source: Bloomberg, BRE Bank Securities; *prices as of 20 June 2011; **valuation based on P/BV takes into account the expected return on equity*

Comparison with peers implies per-share fair value in the PLN 48.7-54.1 range
Based on the average levels of the P/E multiple for 2011-2012, we estimate the fair value of Kruk at PLN 50.0 and PLN 48.7 per share, respectively.
Based on the P/BV multiple for 2011-2012, and taking into account the expected return on equity (or, in other words, using the equations from regressions shown below, i.e. 2011 P/BV = 0.1114 * ROE + 0.1175 and 2012 P/BV = 0.1293 * ROE +0.5976), the Company's value is PLN 54.1 and PLN 52.3 per share, respectively.

P/BV vs. ROE regression (2011)



P/BV vs. ROE regression (2012)



Source: Bloomberg, BRE Bank Securities

Income-Based Valuation

Discounted residual income valuation

As is the case with other companies from the financial sector in our coverage universe, our income-based valuation of Kruk is based on the discounted residual income model. It is based on adding the sum of share offering proceeds, discounted excess return on capital over the cost of capital (within the forecast horizon, 2010-2013, and in the transitional period, 2014-2020) and discounted residual value (after the forecast horizon) to equity as of the end of 2010.

Our terminal value calculations are based on the following assumptions:

- Risk-free rate is set at 5.9% (yield on 10Y Treasury bonds);
- Risk premium is 5.0%;
- Beta is 1.0x;
- The resulting cost of capital is 10.9%;
- Long-term return on equity is 21.3%, i.e. equal to the return expected in 2015;
- Long-term profit growth (g) is 4.0%;
- The target dividend payout ratio is 81.2%, calculated from 1-(g/ROE)

Discounted residual income valuation

(PLN m)	2010	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	+	FV
Net profit	36.1	61.8	73.7	82.7	91.6	100.3	108.3	115.4	121.4	126.5	131.5		
Y/Y change (%)	54.1	71.4	19.2	12.2	10.8	9.4	8.0	6.6	5.2	4.2	4.0	4.0	
Equity	132.0	237.5	311.4	394.4	448.8	494.0	520.9	548.4	576.1	604.0	632.9		
Dividend payout ratio (%)	0.0	0.0	0.0	45.0	60.0	81.2	81.2	81.2	81.2	81.2	81.2	81.2	
ROE (%)	31.1	33.5	26.9	23.4	21.7	21.3	21.3	21.6	21.6	21.4	21.3	21.3	
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	
Excess return (%)		22.6	16.0	12.5	10.8	10.4	10.4	10.7	10.7	10.5	10.4	10.4	
Residual income		42	44	44	46	49	53	57	60	62	64	929	
Discount factor		0.94	0.85	0.77	0.69	0.62	0.56	0.51	0.46	0.41	0.37	0.37	
Discounted residual income		39	37	34	32	30	30	29	27	26	24	345	
Equity as at year-end 2010													132
Stock-offering proceeds													44
YTD excess of comprehensive income over net income													0
PV of residual income, 2011-2013F													110
PV of residual income, 2014-2020F													197
Present value of the terminal value													345
Fair value													828
Number of shares (millions)													17.3
Fair value per share (PLN)													47.8

Source: Kruk, BRE Bank Securities

We estimate fair value at PLN 47.8 per share

Based on the discounted residual income model, we estimate the fair value of Kruk at PLN 47.8 per share.

Discounted residual income valuation (fair value): sensitivity analysis (PLN per share)

Earnings growth		Long-term ROE				
		-2.0pp	-1.0pp	-	+1.0pp	+2.0pp
		19.3%	20.3%	**21.3%**	22.3%	23.3%
-2.0pp	2.0%	39.1	40.6	42.1	43.6	45.1
-1.0pp	3.0%	41.1	42.9	44.6	46.3	48.1
-	**4.0%**	43.8	45.8	**47.8**	49.8	51.9
+1.0pp	5.0%	47.3	49.7	52.1	54.5	56.9
+2.0pp	6.0%	52.4	55.3	58.2	61.2	64.1

Earnings growth		Cost of capital				
		+1.0pp	+0.5pp	-	-0.5pp	-1.0pp
		11.9%	11.4%	**10.9%**	10.4%	9.9%
-2.0pp	2.0%	36.4	39.1	42.1	45.5	49.3
-1.0pp	3.0%	38.1	41.1	44.6	48.5	53.0
-	**4.0%**	40.2	43.7	**47.8**	52.5	58.0
+1.0pp	5.0%	42.9	47.2	52.1	58.0	65.1
+2.0pp	6.0%	46.6	51.9	58.2	66.1	75.9

Source: BRE Bank Securities

Valuation Summary

Buy rating with a 9M per-share price target of PLN 53.0

Based on two valuation methods, relative valuation weighed at 40% and income-based valuation weighed at 60%, we set nine-month price target for Kruk at PLN 53.0 per share. Since this entails a 34% upside, we recommend buying the stock.

Valuation Summary

(PLN per share)	Average	Income-based valuation	P/E (X) 2011F	P/E (X) 2012F	P/BV (X)* 2011F	P/BV (X)* 2012F
Implied fair value		47.8	50.0	48.7	54.1	52.3
Weight (%)		60	10	10	10	10
Fair value (weighted average)	49.2					
9-month target price	**53.0**					
Current price	39.7					
Upside/downside (%)	**33.5**					

*Source: BRE Bank Securities; *valuation based on P/BV takes into account the expected return on equity*

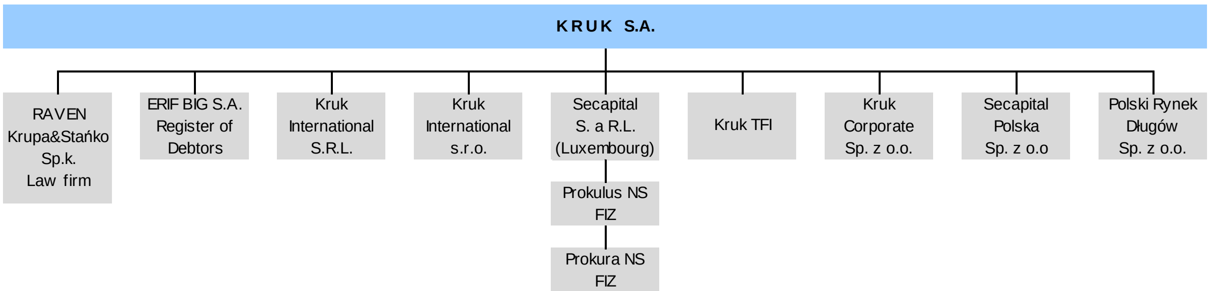
Business Profile

Structure of the Group and overview of individual companies

Kruk: Collection services

The parent company of the Kruk Group is Kruk S.A. (Kruk), which provides debt collection services and handles debt portfolios purchased by the Group in Poland. In addition, the Company is listed in the register of detective agencies maintained by the Ministry of Home Affairs and Administration and employs licensed detectives.

Structure of the Kruk Group



Source: Kruk, BRE Bank Securities

Raven Law Firm

The Raven Law Firm provides litigation and legal enforcement services in support of the debt recovery activities of the Group and its partners. In addition, Raven provides advice on the purchase and handling of debt portfolios (including within securitization projects), conducts due diligence on debt portfolios and provides debt recovery litigation services in B2B and corporate cases and for secured debt.

ERIF Register of Debtors

ERIF Register of Debtors is a platform for the gathering, processing and sharing information on individuals and companies, both those who are and those who are not in default. At the moment, the main function of ERIF is making the Group's debt recovery efforts more effective.

Kruk International

Kruk International S.R.L was set up in 2007 in order to provide debt collection services for external customers and for debt portfolios purchased for the Group in the Romanian market. Kruk International s.r.o. (previously Rebifera) will be responsible for operations in the Czech and Slovak markets. It was acquired in April 2011.

Secapital Luxembourg

Secapital Luxembourg is a special purpose securitization company, whose business encompasses investing in debt purchases and debt-backed assets. Secapital Luxembourg, which benefits from the special tax regime in force in Luxembourg, is responsible for debt purchases for the Group's own account.

Prokura NS FIZ and Prokulus NS FIZ

Prokura NS FIZ and Prokulus NS FIZ are securitization funds which bid for debt portfolios available for purchase. The owner of the certificates issued by these funds is Secapital Luxembourg, as a result of which gains on the increase in value of these certificates are taxed in Luxembourg.

Other companies

In addition to these entities, the Kruk Group also comprises Secapital Polska, a company that services securitized debt, Kruk Corporate, a company focusing on the recovery of business debt, Polski Rynek Długów, a company which supports the debt recovery process, and Kruk TFI, which is going to take over the management of the closed investment funds in the future.

History

Established in 1998, Kruk became the leader of the debt recovery market in 2003

Kruk was set up in 1998 in Wrocław by two lawyers, Piotr Krupa and Wojciech Kuźnicki. In the early days, its main line of business was publishing. In 1999, the Company added debt management services, initially for mobile telephony providers and installment plan providers. In December 2002, Kruk purchased the first debt portfolio for its own account. After a period of rapid growth, in 2003 the Company became the leader of Poland's debt recovery market.
In the same year, Enterprise Investors acquired a 70% stake in Kruk, One year later, EI increased Kruk's share capital through an investment of USD 10m. In total, EI has invested USD 21m in the Company.

Presence in Romania since 2007

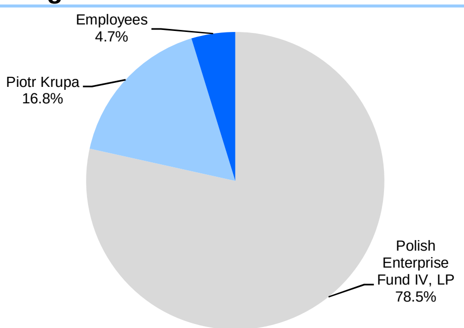
Another milestone in Kruk's development was its 2007 decision to expand abroad by entering the Romanian debt recovery market. In 2007, after several months of presence in the Romanian market for outsourced collection services, Kruk bought the first debt portfolio for its own account, taking advantage of its Polish experience, as well as of its ties with the Polish subsidiaries of international banking groups. In the same year, the Company bought one of Poland's three credit bureaus, KSV BIG, which now operates under the name ERIF Register of Debtors. In mid-2008, the Company changed its classic debt collection approach to a pro-settlement one, and in 2010 it launched new products, including the e-Kruk online platform and the Novum loan.

Shareholder structure

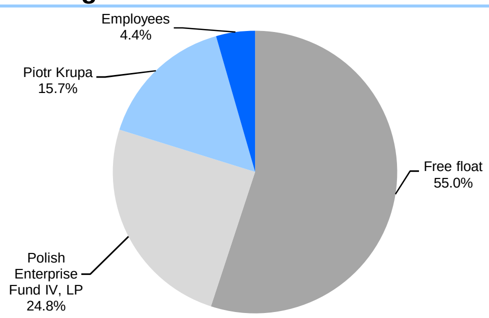
Free float stands at 55%

Within the public offering, Kruk issued 1.1m new shares, and Enterprise Investors sold 8.2m existing shares, reducing its stake to 4.2m shares and 24.9% of equity vs. 78.5% prior to the offering. The interest of Mr. Piotr Krupa was diluted from 16.8% to 15.7%. Free-floating shares now account for 55.0% of the total stock.

Pre-offering shareholder structure



Post-offering shareholder structure



Source: Kruk, BRE Bank Securities

Lock-up agreements

It should be stressed that Mr. Piotr Krupa, the CEO, has undertaken not to sell his shares for 360 days following allocation day (i.e. 26 April 2011), that is through 20 April 2012. In addition, Kruk has decided that no new shares will be issued within 180 days following allocation day, i.e. through 22 September 2011. Note also that in general, C-stock shares allotted to employees and executives under the recently-concluded incentive program are subject to a 12 month lock-up from the first day of trading, i.e. through 10 May 2012 (subject to certain qualifications).
Finally, the main shareholder, Polish Enterprise Fund IV, represented by Enterprise Investors, made a general commitment not to sell its shares within 270 days of allocation (i.e. through 21 January 2012). However, the lock-up period will be suspended if the share price increases by more than 5% above offer price (i.e. above PLN 41.69 per share).

Management stock option plan

Terms of the program in 2011-2014

On 30 March 2011, the shareholders of Kruk approved an incentive program for the years 2011-2014. The Company will issue up to 845,015 subscription warrants/shares, i.e. 2.9% of the current stock. The program is addressed to Management Board members, excluding the CEO, and to selected employees, including Management Board members and employees of subsidiaries.

The program was divided into four equal tranches of 211,254 each for each of the four years (with the option to transfer unallocated warrants onto the following fiscal years). The warrants will be issued and granted free of charge provided that the Company attains the following targets in a given fiscal year:

1) Increase in earnings per share by at least 17.5%, and
2) Increase in EBITDA by at least 17.5% or a ROE of at least 20%.

Each warrant will entitle its holder to acquire one common share at issuing price (PLN 39.7) no earlier than six months after the warrant has been issued.

We take into account share dilution in 2011-2012

Because our forecasts indicate that the criteria of the incentive scheme will be met in 2011 and 2012, we dilute the number of shares by a total of 0.4m to 17.3m, recognizing the costs of the program (i.e. difference between issuing price and current market price) as other operating expenses.

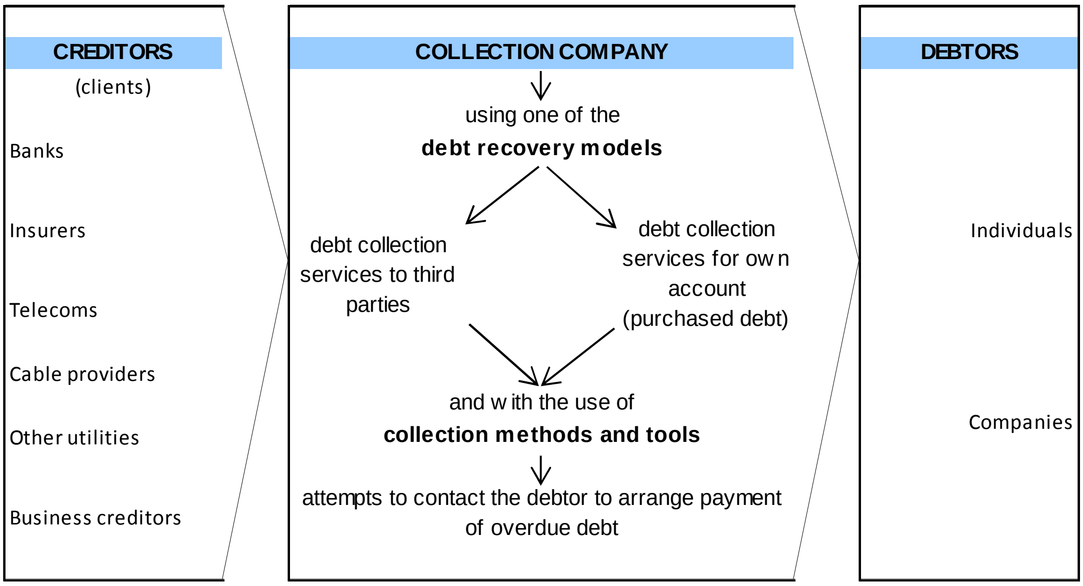
Business

Business model

Kruk manages mass debt with special focus on consumer debt owed to banks

Kruk's main area of business is recovery of consumer debt owed to financial institutions (banks) and other institutions, as well as purchased debt. The Company manages the receivables of banks, credit intermediaries, insurance and leasing companies, as well as portfolios of receivables of fixed and mobile telephony providers, cable networks, DTH platforms and FMCG and B2B companies. The banking market, where Kruk has built long-term relationships with key clients and which accounts for 70% of the total market, is its major focus.

The business model of Kruk



Source: Kruk, BRE Bank Securities

Two models of debt collection

Kruk manages receivables using two models, which also constitute the two major segments of its business. One of them are debt collection services for third parties (Polish *inkaso*), and the other is the recovery of purchased debt.

In both models, Kruk's revenues hinge on the effectiveness of its collection activities. In the case of debt collection services for external parties, Kruk's remuneration takes the form of a success fee, while investment in debt is aimed at maximizing the return on invested capital.

Debt collection methods and tools underpin the success of the process

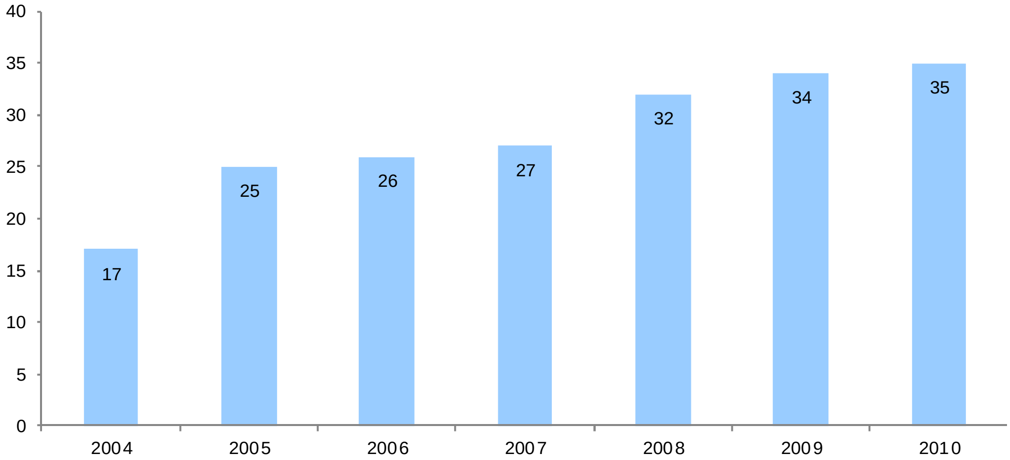
Debt management is guided by the nature and status of the receivables, the client's preferences and internal procedures. Kruk manages all kinds of overdue debt and uses instruments that are appropriate for the given portfolio (collection period, appropriate tools and processes).

Demand-driving factors in debt collection

From in-house debt collection to outsourced services and debt selling

In the 1990s, Polish creditors tended to carry out debt collection activities themselves. As the market developed, creditors became more inclined to outsource debt collection, which led to the market for such services arising. Starting in 2003-2005, a third model has gained popularity, i.e. selling overdue debt to third parties.

Number of Polish banks and credit intermediaries cooperating with Kruk



Source: Kruk

A debt collection company is more flexible than the original creditor

Banks, which account for over 70% of the debt collection market, are bound by many regulations. The debt collector's approach to restructuring and renegotiation is much more flexible.

Debt restructuring by a bank tends to be a long process which is subject to numerous constraints, including the need to recalculate credit capacity, examine creditworthiness, create provisions and sign a new loan agreement.

Creditors can focus on their core business

As the market growths - be it the value of loans in the economy or the number of subscribers – so does the number and value of overdue payments. Instead of expanding the internal debt collection department, the creditor may chose to sell the problem to a third party in order to concentrate on its core business.

Image: creditors are not associated with debt collection

In an environment where brand recognition and image are prime assets, extensive debt-collection campaigns carried out by the creditors themselves could harm their perception by clients.

Specialization boosts effectiveness and lowers costs

A debt collection company's large-scale activities supported by state-of-the art technologies allow it to improve effectiveness and lower costs, compared to in-house collection by the creditor.

Philosophy of the debt collection process

The traditional approach to debt collection reflects the stereotype of a debtor

The classic approach to debt collection aims to "encourage" the debtor to pay their debt as soon as possible in one go. It is a reflection of the stereotype of a debtor as someone who purposefully refuses to meet their obligations, taking advantage of legal loopholes, and who takes on even more debt in awareness of the ineffectiveness of the legal system.

Kruk's pro-settlement approach boosts effectiveness

Since mid-2008, Kruk, as the first debt collection company in the market, has been consistently employing a pro-settlement approach on a mass scale, and finding that it is a fit replacement for the classic approach. The new approach is based on perceiving debtors as a consumers who are unable to repay their debt due to external causes, but who are aware of the fact that they need to do so.

Under the pro-settlement approach, Kruk focuses on obtaining the best possible outcome in the debtor's current financial situation. The Company makes a settlement offer, for example by proposing repayment in installments whose amount will be determined by the debtor. At the same time, the Company delivers a clear warning on the consequences of a refusal to sign such a settlement, or not honoring it. A debtor who refuses to sign a settlement or who defaults on it is entered into the ERIF Register of Debtors. If there is no repayment, litigation and court-approved enforcement follow. The entire process, i.e. the encouragement to sign and abide by the settlement on the one hand, and the inevitable consequences of not doing so on the other, are supported by an intensive, awareness-building television campaign.

According to the Company, the likelihood of the debtor making a declared repayment increases sharply under the pro-settlement approach compared to the classic approach, from ca. 40-50% to 70-80%. Since the introduction of the pro-settlement approach, Kruk has signed 178k settlements, including 25k for cases purchased in 2010. In addition, in 2010 over 57% of all payments received by the Company were generated by the pro-settlement approach. It is worth stressing that the financial impact of the implementation of the new approach includes maximized effectiveness and more stable and predictable incoming payments.

Models of debt recovery

Two debt recovery models

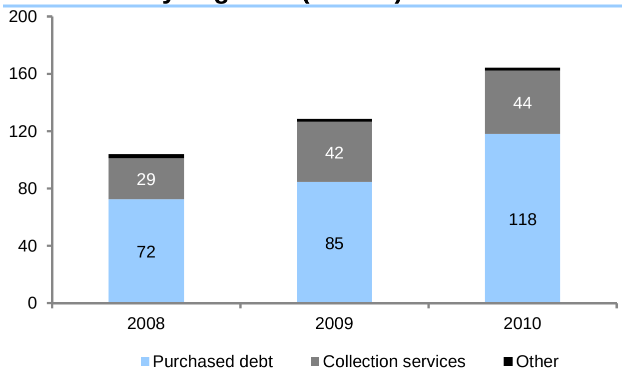
Debt recovery by third parties can follow one of two models. The main criterion is whether the debt is collected as a service to the creditor, or whether it is bought from the creditor.

Kruk is present in both segments...

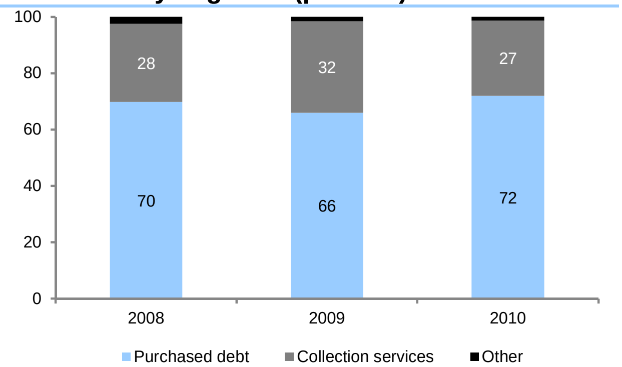
Kruk commenced its operations with the provision of debt collection services, as is typical for early stages of the development of a market for receivables management. Since late 2002, the Company also started to buy debt portfolios and carry out collection activities for its own account. At the moment, purchased debt is the core source of revenues (PLN 118m in 2010, or 72% of all revenues).

We believe that Kruk's long presence in the market for outsourced collection services has allowed it to acquire knowledge (in the form of extensive databases) as well as experience in cooperation with the original creditors (mostly banks) and debtors. An extensive database makes it possible to make a more precise valuation of debt packages available for purchase (because the Company has frequently serviced a similar package without buying it), which reduces the risk of a failed investment. On the other hand, depending on current market trends and its own strategic decisions, Kruk has the option to reallocate funds between both segments.

Revenues by segment (PLN m)



Revenues by segment (percent)

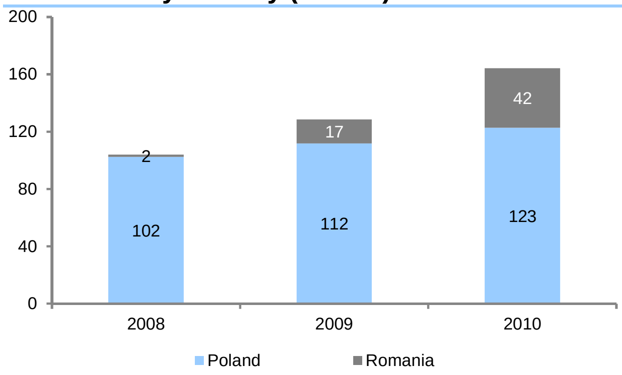


Source Kruk

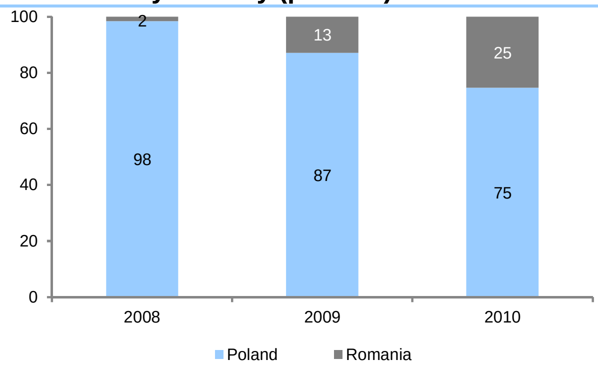
... in Poland as well as in Romania

It is worth stressing that Kruk is active in both segments in both of its core markets, i.e. Poland and Romania. While Poland remains the main market, the share of the Romanian market is growing fast, from just 2% in 2008 to 25% in 2010.

Revenues by country (PLN m)



Revenues by country (percent)



Source: Kruk

Close cooperation between headquarters and the Romanian branch

Kruk's Romanian branch was set up in 2007, and is now managed primarily by local managers. That year, not only did the Company start to provide debt collection services to creditors, but it made its first debt purchase as well. The Romanian branch is successfully implementing solutions originally developed and implemented in Poland, including the pro-settlement approach. At the moment, the Romanian company employs 210 people, i.e. 18% of the Group's total workforce, including 90 employees of the call center in Targoviste (80 km from Bucharest). In addition to its own call center, the Romanian subsidiary operates the country's only detective agency. It is worth stressing that portfolio valuation and strategic decisions are taken at the Polish headquarters in Wrocław, which ensures ongoing control over the activities of the branch.

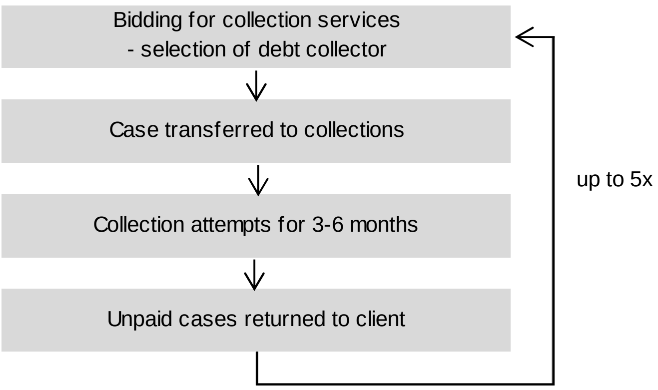
Debt collection services

Within outsourced debt collection services, the Company manages receivables on behalf of the client and for their account. Under this model, the lender has the final say as far as debt collection tools and methods are concerned, as well as the form and frequency of contact with the debtor. Moreover, the creditor and the debt collection company are in constant contract, exchanging information on incoming payments. Such cooperation on one debt portfolio usually lasts 3-6 months.

A debt collection company receives a commission on the value of incoming repayments. The amount of the commission reflects the nature of the given debt portfolio and is negotiated with the creditor. Factors that affect commission amount include how the receivables arose (bank loans, cable or mobile payments), the average value of a receivable in the package, how overdue it is, whether collection efforts were undertaken in the past.

Another typical feature of the debt collection service is the fact that lenders cooperate with multiple debt collection companies (usually 2-4), and can monitor their effectiveness on an ongoing basis. A company's ranking for a given month determines how many cases it will receive in the following month.

Debt collection services for third parties at Kruk



Source: Kruk

Kruk has been present for the market for collection services since 1999 in Poland and 2007 in Romania

Kruk began providing debt collection services in Poland in 1999, and since 2007 it has also been present in the Romanian market, where it has successfully transferred solutions developed in Poland. The Company has more than 4,000 clients in total, a minority of whom are B2C clients. In 2008-2010, Kruk accepted cases with a total value of PLN 8.3bn, of which 81% were in the Polish market. Kruk's clients include, inter alia, 8 out of the 10 biggest retail banks in Poland and 5 out of the 10 biggest banks in Romania. Kruk's comprehensive services, high standards and high effectiveness are reflected by its high cooperation propensity ratio (defined as the number of months when a bank submits a debt portfolio for collection to the number of calendar months in the period), which exceeds 90%.

Cooperation propensity ratio for 8 out of Poland's top 10 retail banks

Year when Kruk started providing services	Number of retail banks from Poland's top 10	Cooperation propensity ratio (percent)			
		2007	2008	2009	2010
2003	3	100	97	100	100
2004	2	96	92	96	100
2005+	3	75	83	94	82
Total	**8**	**92**	**91**	**97**	**93**

Source: Kruk

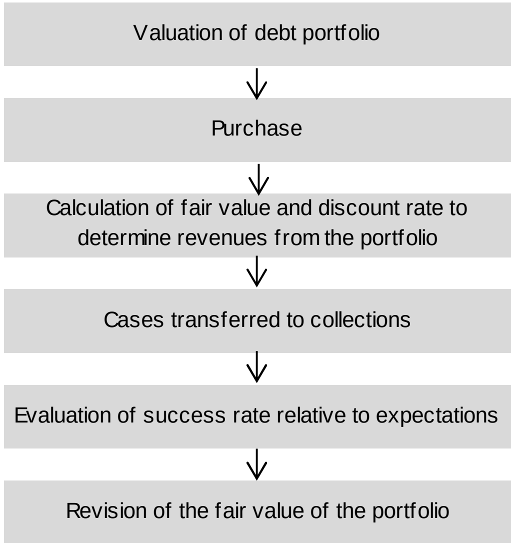
Since 2007, Kruk also been providing services on portfolios of corporate bank debt on the order of foreign entities and funds (as a sub-contractor, which is why this business is called secondary-market debt collection). The nominal value of debt under collection by the Company is some PLN 4bn. According to the Company's estimates, it is the leader in this market, with a ca. 40% share in all corporate bank debt sold in 2006-2010.

Purchased debt

Debt portfolios are sold through competitive bidding. In the invitation to tender, the lender provides statistical information on the portfolio in question (in the case of corporate portfolio, a due diligence process is conducted through a legal analysis of documentation, especially documentation on collaterals). On this basis, the debt collection company makes a valuation and submits a quote. The price at which the debt is bought is the fair value of the investment, and the company uses the expected repayment curve to calculate the discount rate (IRR). Based on the calculated discount rate, the Company then calculates its revenues pursuant to IAS 39.

The purchased portfolios are submitted for collection, which begins with an attempt to contact the debtor in order to outline to them the possible scenarios and convince them to settle. In contrast to debt collection provided as a service to the original creditor, in the case of purchased debt the choice of methods and tools belongs to the debt collection company only, i.e. to Kruk. The result of the work (repayments received) are reviewed each quarter and compared to the original assumptions, which leads to revaluation of the fair value of the given portfolio.

The process of purchasing and collecting debt at Kruk



Source: Kruk

Since 2002 Kruk has bought 140 debt portfolios, having conducted valuations for the vast majority of portfolios put on sale

Kruk has been buying debt portfolios since 2002. Altogether, the Company has bought 140 portfolios with total nominal value of PLN 6.1bn at a total cost of PLN 520m. In 2002-2010, the Company conduced valuations for more than 800 portfolios, i.e. nearly all that were put on sale. It is worth noting that almost all of the debt bought by Kruk comes from institutions to which it provides debt collection services (and includes portfolios previously serviced), which gives it a knowledge edge over competition.

Comparison and overview of debt recovery models

Criterion	Debt collection services	Purchased debt
1) Debt shows on the balance sheet of	the creditor	the debt collection company
2) Decisions on collection strategy are taken by	the creditor	the debt collection company
3) How long in default?	as little as a few days	over 2 years on average
4) How long in collection?	3-6 months	no upper limit, up to 10 years
5) Revenues of the debt collection company depend on	commission on the recovered amount	discount rate used in the calculation of the fair value of the portfolio, which is reviewed quarterly based on the effectiveness of recovery in the given period

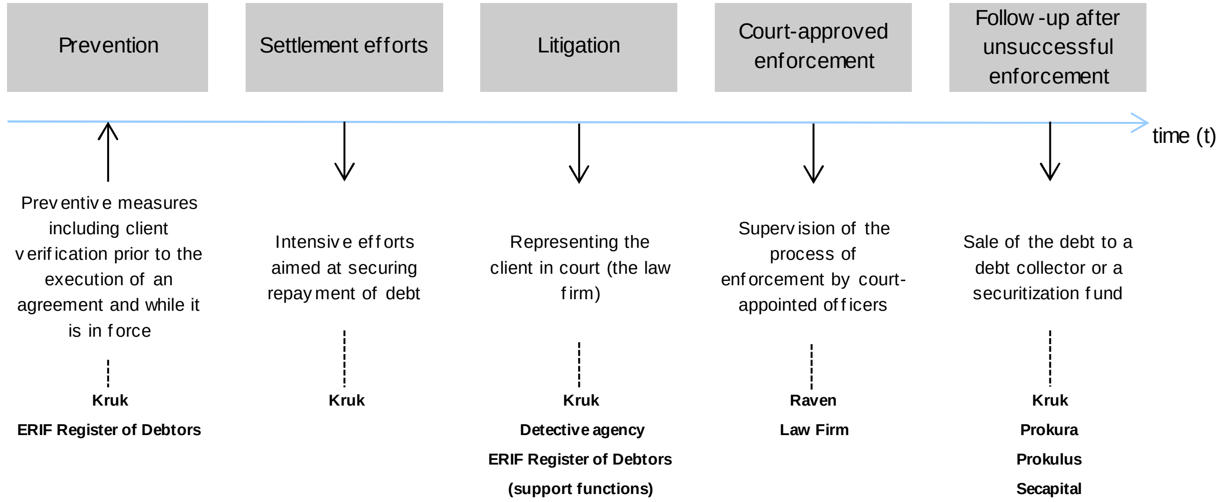
Source: BRE Bank Securities

Debt collection methods and tools

Kruk offers a broad range of debt collection methods for every stage of the process

Kruk offers a broad range of services that encompass prevention, settlement, litigation, court-approved enforcement and follow-up actions after unsuccessful enforcement.

Debt recovery methods offered by Kruk



Source: Kruk

Debt collection tools, or ways to contact a debtor

Kruk uses a broad range of debt collection tools, which include various forms of contacting the debtor and ways of determining their contact details. These include: skip tracing (determination of contact details through publicly available databases), phone calls, text messages, collection letters (which indicate the amount due and the consequences of non-payment), settlement (a written agreement with the debtor, which allows for repayment in installments, as determined individually with each debtor), direct negotiation, e-KRUK (an interactive web service supporting the collection process), ERIF Register of Debtors and a warning stamp (which is affixed to invoices and states that collection will be performed by Kruk in the event of default). Because the success of a debt collection company hinges to a large extent on its ability to successfully contact the debtor, Kruk maintains a large call center which has two branches in Poland which can fit up to 278 employees (the main center in Szczawno-Zdrój near Wałbrzych and a back-up center in Wrocław). In addition, the Company maintains a call center in Romania, which can fit up to 90 employees.

Growth strategy

Further growth in the Polish and Romanian debt recovery market

Maintaining market position in debt collection services and retail debt purchase in Poland and Romania

Kruk is aiming to sustain its leadership position in the Polish and Romanian debt recovery markets, focusing on clients from the banking sector, which is the biggest market segment with the greatest potential for growth. The Company is aiming to sustain its market share in the market for debt collection services in Poland (26% in 2010) and its leadership position in the Romanian market for purchased debt, where it has a considerable advantage over the runner-up (in 2010, Kruk's market share was 65%). In addition, Kruk's strategic objectives include strengthening its standing in the Polish market for retail debt purchase (20% in fair value in 2010) and in the Romanian market for debt collection services (16% in 2010).

In order to meet its targets in the market for purchased debt, Kruk is planning to develop its portfolio valuation know-how, and to expand its access to debt financing through broader cooperation with banks and investors interested in acquiring its bonds. In addition, it is planning to reinvest profits in debt purchases. As for outsourced debt collection services, Kruk is planning to strengthen its ties with strategic clients, using such tools as IT integration. It is also planning to offer non-standard debt collection tools.

Growth in the Polish corporate debt purchase market

Taking advantage of the knowledge and competences acquired in the market for secondary debt collection (i.e. the servicing of corporate debt portfolios for foreign entities), Kruk is planning to expand its corporate debt purchase business and is aiming to become the leader of this market segment, taking advantage of its a ca. 40% market share in corporate debt servicing.

Expansion into Hungary and Czech Republic

Czech Republic: Building a subsidiary

Kruk is planning to actively participate in the growth of the Central and Eastern European market for debt collection services. Its success in the Romanian market shows that the business model developed in Poland can be successfully duplicated elsewhere. In April 2011, Kruk bought a 100% stake in the Czech company Rebifera (now renamed to Kruk s.r.o.), with share capital of CZK 0.2m (ca. PLN 0.03m), based on which it will create its own organization in the country. At the moment, it is assumed that operations will begin in Q3 2011. The strategic objective is becoming the leader of the local market.

At the moment, the Company is involved in exclusive negotiations with one of the local banks (whose related companies operate in Poland as well) concerning the purchase of a portfolio of debt worth ca. PLN 230m (nominal), including ca. PLN 180m (CZK 1.1bn) in Czech receivables and ca. PLN 50m (EUR 12.8m) in Slovak receivables.

Kruk estimates the current value of revenues in the Czech market for debt collection services at some PLN 30m, with the fair value of debt portfolios sold at some PLN 100m per year. The main players in the debt collection market in the Czech Republic include Profidebt, Intrum Justitia, EOS KSI and Transcom.

Hungary: Most likely through acquisition

In the next step (most likely not before 2012), Kruk is planning to enter the Hungarian market, probably through the acquisition of a company which holds a license to buy and service receivables in that market. Just as in the case of the Czech market, the Company is aiming to become a market leader, both in debt collection services and in debt purchases.

Kruk estimates the current value of revenues in the Hungarian market for debt collection services at some PLN 25m, with the fair value of debt portfolios sold ranging between PLN 50-75m per year. Debt collection companies present in Hungary include Intrum Justitia, Credit Express, Dijbeszedo and many small companies of local reach.

New products

ERIF Register of Debtors as a source of revenues

At present, the ERIF Register of Debtors is used as a tool that enhances the effectiveness of the debt recovery process. Kruk expects that the importance of credit bureaus will increase considerably now that a new law on business information has come into force (14 June 2010). According to the new law, any creditor (including secondary creditors such as Kruk) can submit

the data of their debtors to credit bureaus. Earlier, the law limited the right to do so to some creditors only. Kruk estimates that within the next few years, credit bureaus will receive the data on some 3-4 million debtors. ERIF is one of Poland's three credit bureaus, in addition to Krajowy Rejestr Długów and InfoMonitor.
The Company is planning to make debtor data widely available for a fee. ERIF will make it possible to verify or confirm applicant creditworthiness (with positive and negative information provided in the form of reports). The product is addressed to big players with mass receivables, as well as to small and medium enterprises.

Novum loan

Kruk is planning to further develop is Novum consumer loan, which was introduced in Q2 2010 and is addressed to individuals who have repaid all or most of their debt to Kruk (and are not in default on other debts). The typical loan is extended for a short term (one year) and its average value does not exceed PLN 2 thousand. The return on such a loan is very high, comparable to para-banking loans. In our opinion, the risk Kruk is incurring is relatively limited (revenue-wise), because it knows how these concrete debtors bahave. The Company aims to extend several dozen thousand of such loans per year three years from now, compared to 3,000 loans extended in 2010.

Debt Recovery Market

Poland: Market size and structure

Lending as the primary determinant of debt recovery market growth

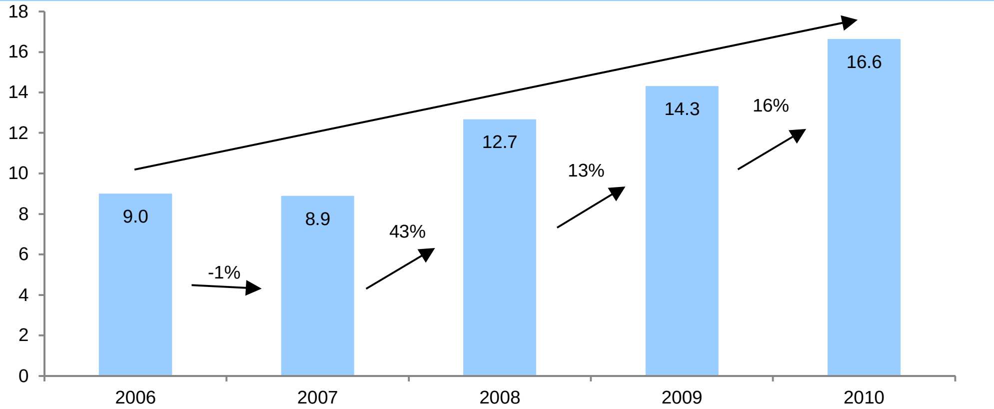
The main factor shaping the size of the debt recovery market is lending growth. The higher the value of credit across the economy, the higher the value of overdue debt, even if loan portfolio quality remains stable. Another factor affecting the value of the market is the propensity of the original lenders (mostly banks) to outsource debt collection services.

(An outline of the system we use to analyze and forecast the debt recovery market is attached as Schedule 4 on page 51).

Debt recovery market was worth PLN 16.6bn in 2010

In 2010, the value of the debt recovery market defined as the nominal value of cases submitted to external debt collection companies amounted to PLN 16.6bn, representing a 16% increase vs. the preceding year. In the four years between 2006 and 2010, the market increased by 85%, or 17% per year on average. Note that 2007 was a year of stability, followed by three years of rapid growth.

Debt recovery market in Poland (PLN bn)

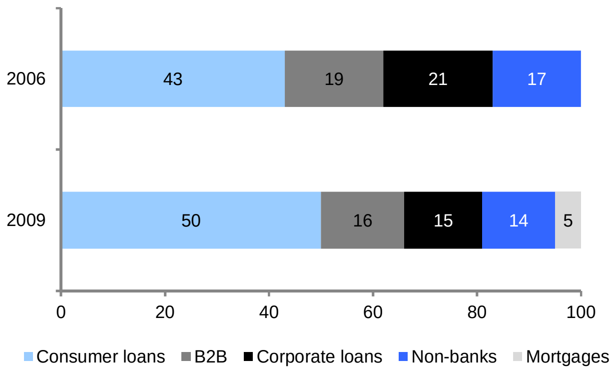


Source: Gdańsk Institute for Market Economics, BRE Bank Securities

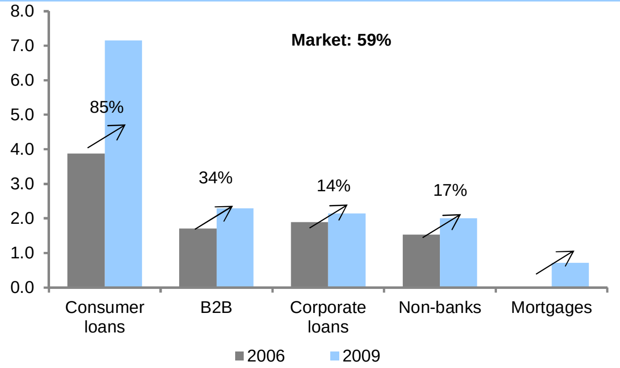
Bank receivables, which account for 70% of the market, increased by 74% in 2006-2009

In 2009, consumer loans accounted for half of the debt recovery market, compared to 43% in 2006. In 2006-2009, they were also the fastest-growing segment of the market, with aggregate growth of 85%, compared to 59% growth rate for the market as a whole (to PLN 14.3bn in 2009). The second major segment of the market was business-to-business debt, whose share declined from 19% in 2006 to 16% 2009, followed by corporate loans (15%) and non-bank receivables, i.e. the receivables of insurance companies, cable operators, telecoms, housing cooperatives and public institutions (14%). Note that banks (i.e. all debt except for B2B debt and non-bank debt) accounted for 70% of the market, having increased by 74% between 2006 and 2009.

Debt recovery market by segment in 2009 vs. 2006 (percent)



Debt recovery market by segment (PLN bn)

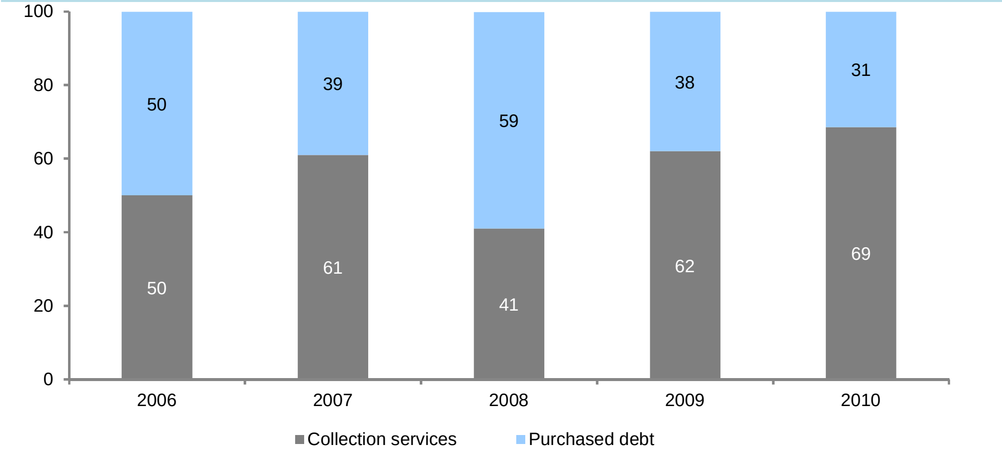


Source: Gdańsk Institute for Market Economics, BRE Bank Securities

Outsourced debt collection services account for 69% of the market

The debt collection market can also be broken down according to how debt collection companies acquire receivables, i.e. outsourced services and debt purchase. The former is the dominant business model with a 69% share in 2010.

Breakdown of the debt recovery market by method of acquisition in 2006-2010 (percent)



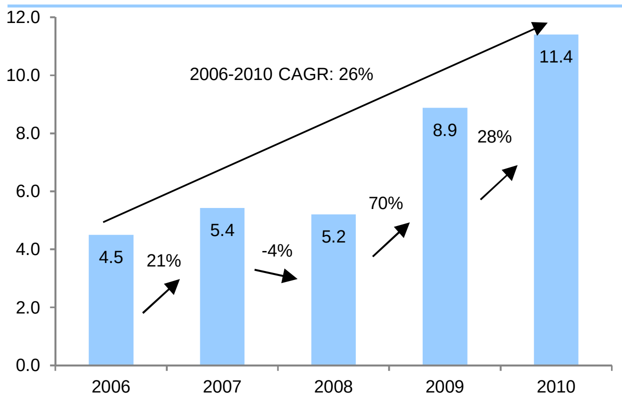
Source: Gdańsk Institute for Market Economics, BRE Bank Securities

Poland: Debt collection services

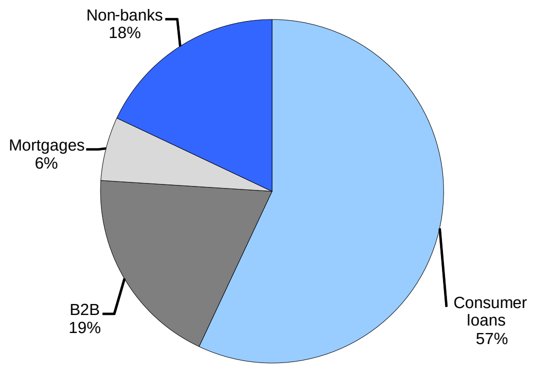
The value of the debt collection services amounted to PLN 11.4bn in 2010, including 63% in the banking sector

The value of the Polish market for debt collection services amounted to PLN 11.4bn in 2010, which means that in the four years since 2006 the market had expanded by 153% or 26% per year. The fastest growth was observed in 2009-2010, i.e. the years of economic slowdown and rapid growth in non-performing loans. It was also a period of rapid increase in the demand for outsourced debt collection services, which supported the lenders in their efforts to recover difficult receivables.

Market for outsourced debt collection (PLN bn)



Breakdown of the market for debt collection services (2009)



Source: Gdańsk Institute for Market Economics, BRE Bank Securities

An analysis of the debt collection market by product shows that bank loans account for 63% of the market, of which 57% are consumer loans. Thus, debt owed to entities other than banks accounts for 37% of the market, split nearly evenly between B2B debt and non-bank debt.

Expectations for non-performing loans are a good harbinger of future demand for debt collection services

We believe that loan quality developments are a good indication of the banks' future demand for debt collection services. In our opinion, household debt repayment to non-banks is swayed by the same trends as bank loan repayment, and so is business-to-business loan repayment. Note, however, that a given debt or debt portfolio may go to collection several times (typically up to five times), which is not reflected in bank loan quality statistics. In addition, the lender may decide to submit a case for collection before it is classified as a non-performing loan, e.g. even just a few days into default. Such cases are also not reflected in loan quality statistics.

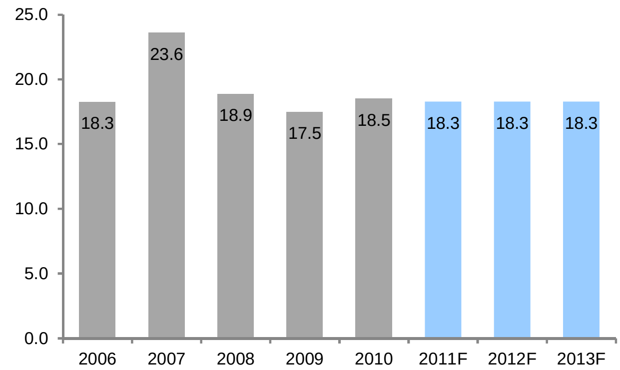
Outsourcing propensity ratio illustrates the relationship between the market for debt collection services and non-performing loans

In order to illustrate the relationship between the value of the debt collection market and the value of non-performing loans in the industry, we will use the outsourcing propensity ratio, defined as the value of the debt collection market in a given year divided by the value of non-performing loans at the end of that year.

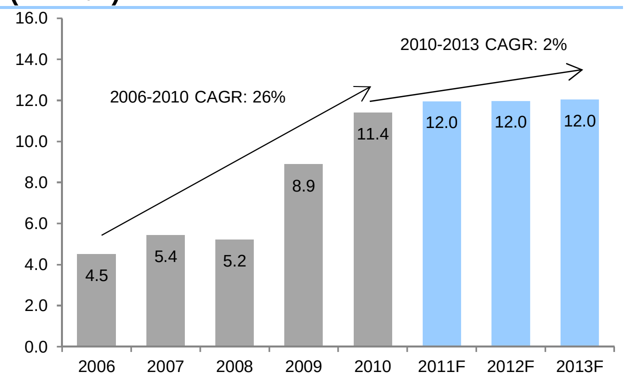
Outsourcing propensity plateaued at 18.3% in 2008-2010

Over the past five years, the outsourcing propensity ratio has averaged 19.3%, ranging between 17.5% in 2009 and 23.6% in 2007. Note that in 2008-2010 the ratio plateaued at an average level of 18.3%.

Outsourcing propensity ratio (percent)



Value of the debt collection services market (PLN bn)



Source: Gdańsk Institute for Market Economics, NBP, BRE Bank Securities

We expect the market for outsourced debt collection to grow to PLN 12.0bn in 2011, followed by a period of stability

We assume that in 2011-2013 the outsourcing propensity ratio will remain constant at 18.3%, i.e. the average for 2008-2010. As a result, we expect that following several years of rapid growth, the market will expand by a further 5% in 2011 to PLN 12.0bn, and then remain at that level for a certain period of time.

The stabilization forecasted in 2012-2013 is a consequence of our expectation that the value of NPLs in the period will not be increasing. While we expect that lending will accelerate gradually, we believe this will be accompanied by loan quality improvements.

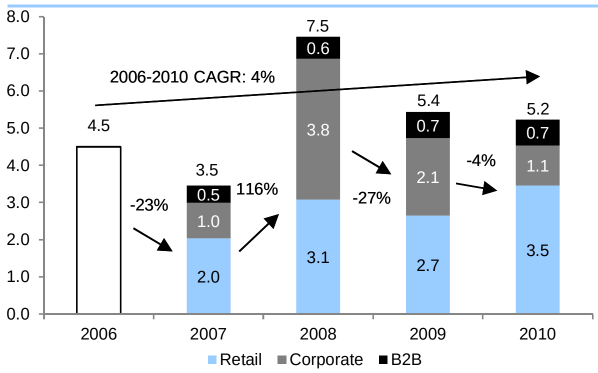
Poland: Purchased debt market at nominal value

The value of the Polish market for purchased debt amounted to PLN 5.2bn...

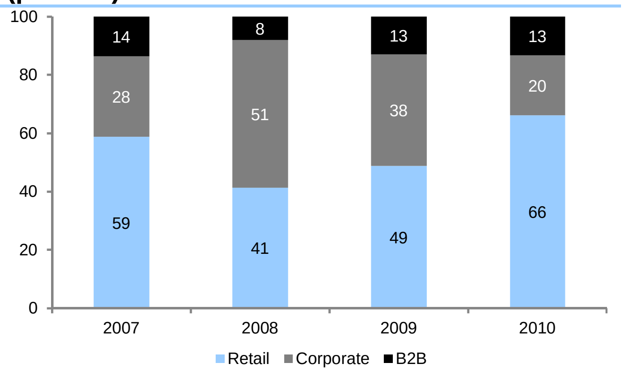
In 2010, the value of the Polish market for purchased debt amounted to PLN 5.2bn vs. PLN 4.5bn in 2006, which entails an average growth rate of just 4% per year, i.e. much below the average for outsourced debt collection (26%). Note that there is a considerable discrepancy between the growth rate of retail and corporate debt purchase: in 2007-2010, the average growth rate of the retail segment was 19%, compared to 4% for the corporate segment. Importantly, it is the corporate segment that is responsible for the fluctuations in the market for purchased debt (which fell from PLN 7.5bn in 2010 to PLN 5.4bn in 2009) , because corporate debt is put on sale at long intervals, and the portfolios tend to be relatively big (compared to the retail segment) as far as the nominal value of the transactions is concerned.

We attribute the temporary shrinking of the debt buying market in 2009-2010 to the economic slowdown and accompanying uncertainty as to the country's future economic situation. On the one hand, debt collection companies reduced debt portfolio purchases due to uncertainty as to future repayment trends, as well as due to reduced access to financing (banks tightened their business lending criteria considerably in 2008). On the other hand, lenders (banks in particular) aimed to restructure their receivables themselves, partially because of low prices available in the market. This made them less prone to sell overdue debt to third parties.

Purchased debt market, nominal value (PLN bn)



Breakdown of the purchased debt market (percent)



Source: Gdańsk Institute for Market Economics, BRE Bank Securities

Just as in the case of outsourced debt collection services, the banking industry accounts for a lion's share of debt sold at ca. 90% (86% in 2010). Similarly, just as in the case of debt collection services, most of the overdue receivables of the banking industry come from the retail segment (66% in 2010).

The value of the business-to-business segment was some PLN 700m in 2009-2010, a figure we expect to be stable in the future.

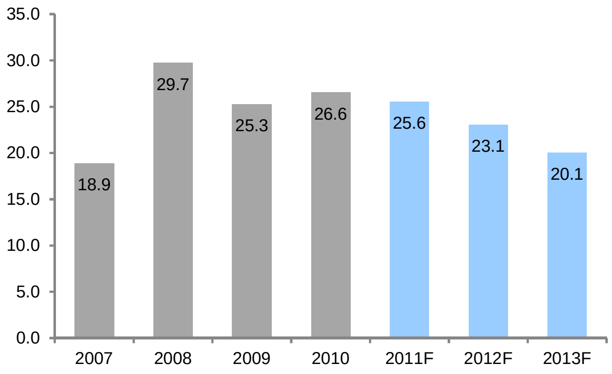
... including PLN 3.5bn in the retail segment

In 2010, the value of the market for purchased retail debt increased to PLN 3.5bn from PLN 2.0bn in 2007. This entails an average growth rate of 28% per year, which is comparable to the market for outsourced collection. In our opinion, 2009 represented a temporary slowdown in a long-term upward trend, which we attribute to the economic slowdown in Poland.

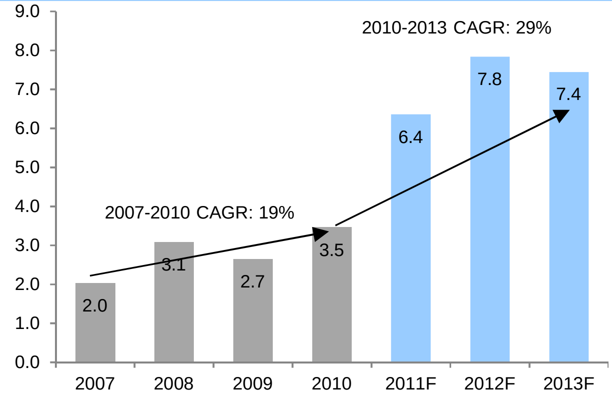
Creditors decide to sell debt when it is approximately 2 years past due

In order to illustrate the relationship between the debt buying market and non-performing loans, we use the propensity-to-sell ratio, which is similar (though not identical) to the outsourcing propensity ratio in the case of the market for outsourced collection. Note that creditors make the decision to sell the defaulted debt with a delay vs. the moment of default and the decision to outsource its collection. The decision to sell is usually preceded by in-house collection attempts, followed by outsourced collection (while the debt remains on the original lender's balance sheet). It is only when these steps fail that the lender decides to remove the debt from its balance sheet by selling it to a collection company. Our analysis of the purchased debt market relative to the banking industry's non-performing loans shows that the decision to sell tends to be taken some two years after default. Therefore, we have defined the propensity-to-sell ratio as the relationship of the value of the purchased debt market in a given year to the value of non-performing loans two years before (e.g. the value of debt purchased in 2010 to the value of NPLs at the end of 2008). We calculate the ratio in the same way (i.e. with the same two-year delay) for both the retail and corporate segment.

Propensity to sell in retail (percent)



Retail debt buying market at nominal value (PLN bn)



Source: Gdańsk Institute for Market Economics, NBP, BRE Bank Securities

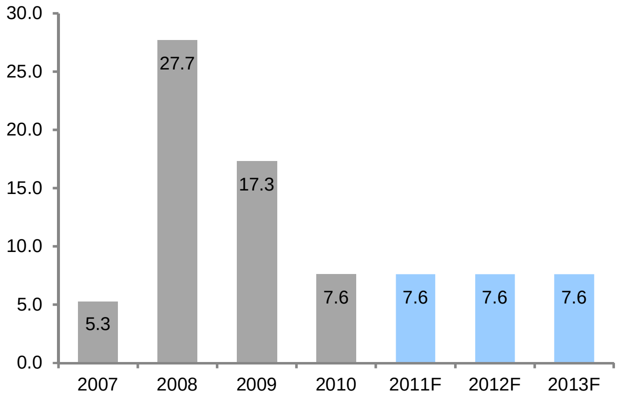
Market expected to surge following rapid NPL growth in 2009-2010

In 2007-2010, the propensity-to-sell ratio for retail receivables ranged between 18.9% (2007) and 29.7% (2008). Our forecasts for 2011-2013 conservatively assume that the ratio will gradually decline. Nonetheless, we still expect rapid growth in the market for the purchase of retail receivables. In our opinion, the market will expand by 84% this year to PLN 6.4bn, by 23% in 2012 to PLN 7.8bn, which will be followed by a slight 5% decline in 2013 to PLN 7.4bn. This path is a consequence of the rapid increase in retail NPLs in 2009-2010. At the end of 2010, the value of retail NPLs amounted to PLN 34bn, which entails growth by 161% vs. the end of 2008. In accordance with the mechanism outlined above, we expect that debt that was defaulted on in 2009 and 2010 will be appearing on the market in 2011 and 2012.

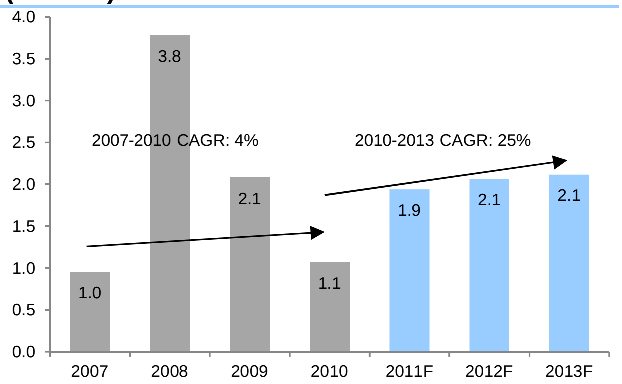
Corporate debt buying market is subject to considerable fluctuations...

In 2010, the value of corporate debt buying market amounted to PLN 1.1bn, just 12% more than in 2007. However, the market did reach a much higher level in 2008-2009, when several big debt portfolios sold to foreign investment banks (including Lehman Brothers) and hedge funds appeared on the market. It should also be remembered that the timing of actions is irregular, and a single portfolio may be of much higher value than the typical retail portfolio.

Propensity to sell for corporate debt (percent)



Corporate debt buying market at nominal value (PLN bn)



Source: Gdańsk Institute for Market Economics, NBP, BRE Bank Securities

Due to considerable variability in the market, the propensity-to-sell ratio also fluctuates, between 5.3% in 2007 and 27.7% in 2008 (7.6% in 2010).

... and we are cautiously forecasting market growth to PLN 2.1bn in the medium term

Due to the high uncertainty as to the timing and incidence of auctions, we are conservative in our forecasts. We assume that the propensity to sell will be stable at the 2010 low level of 7.6% in the medium term. In consequence, we expect the market to grow by 81% y/y to PLN 1.9bn in 2011, followed by stabilization at PLN 2.1bn. Note that the forecasted increase in the value of this market follows from the growth of corporate NPLs in 2009 and 2010 (+92% to PLN 27bn).

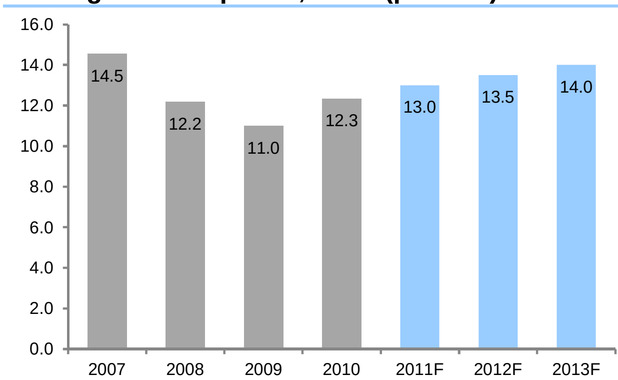
Poland: Purchased debt market at fair value

Price at which debt is purchased is as important as market growth potential at nominal value

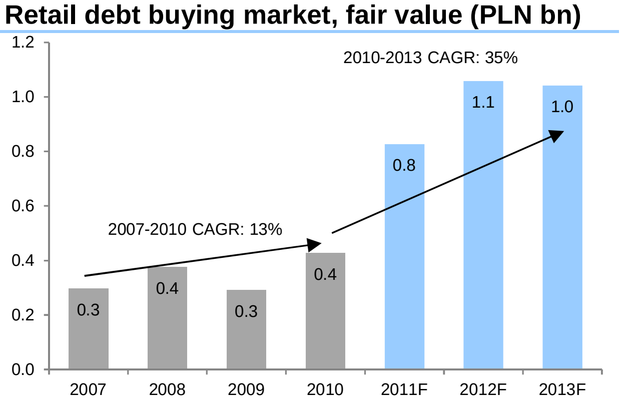
Although the value of the debt market is measured in nominal values, from the point of debt collection companies that engage in debt buying, the key issue is market value at fair value, or the price at which a given portfolio is purchased. The price is expressed as a fraction of the nominal value of the portfolio, which reflects the scale of recovery expected by the buyer. It should be noted that the price is positively correlated with GDP growth.

In 2010, the average price of a retail portfolio increased to 12.3% from 11% the year before, approaching the 4-year average of 12.5%. In the case of corporate portfolios, the average price amounted to 3.0% in 2010 compared to 1.3% in 2009 and a four-year average of 3.5%. It should be noted that while the average price of a retail portfolio is 4.8-times higher than the average price of a corporate portfolio, these two market segments cannot be compared on this parameter, primarily because corporate debt is much more difficult to recover than retail debt. The creditor's situation is much worse, as the borrowers are frequently in liquidation.

Average market prices, retail (percent)



Retail debt buying market, fair value (PLN bn)

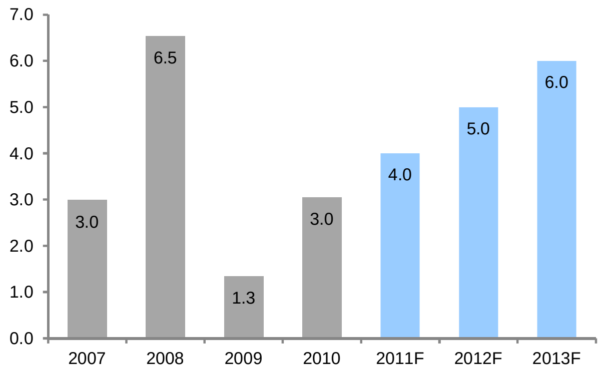


Source: Kruk, Gdańsk Institute for Market Economics, NBP, BRE Bank Securities

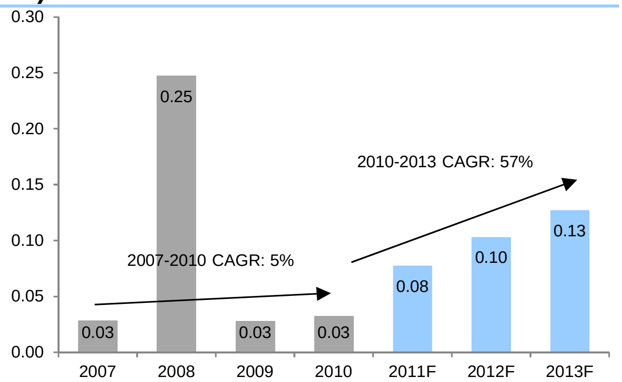
We expect rising market prices as the economic revival progresses

Our forecasts assume that average market prices in the individual segments will increase gradually in 2011-2013 as GDP growth accelerates. For the retail portfolio, we expect a gradual increase from 12.3% in 2010 to 14.0% in 2013, and for the corporate portfolio, from 3% to 6% in 2013.
In consequence, we expect that the retail debt buying market expressed at fair value will grow at 35% per year to PLN 1.0bn in 2013, while the corporate debt buying market will grow at 57% per year on average to PLN 127m in 2013.

Average market prices for corporate debt (percent)



Corporate debt buying market, fair value (PLN bn)



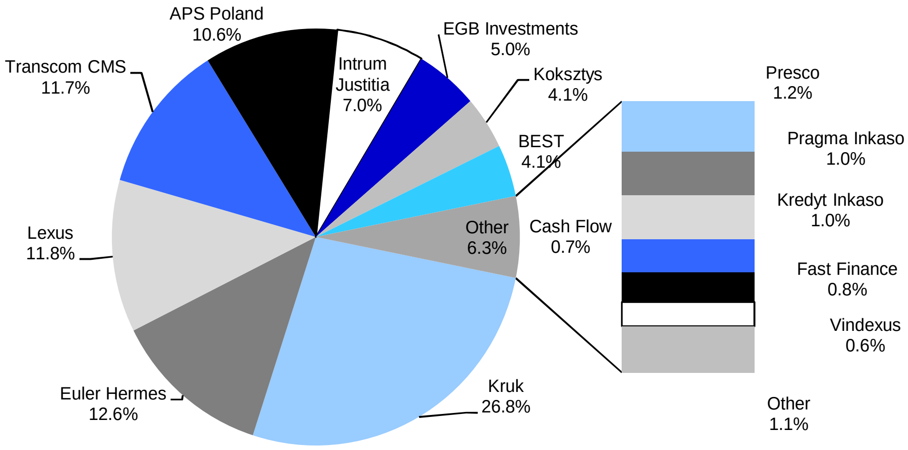
Source: Kruk, Gdańsk Institute for Market Economics, NBP, BRE Bank Securities

Poland: Competition

Kruk is the market leader with a 27% share

In the Polish debt recovery market (measured as the sum of the nominal value of the market for outsourced collection services and purchased debt) there are a dozen or so companies, of which the biggest five account for 74% of the market. The share of Kruk, the market leader, stood at 27% in 2009. The second-biggest player, Euler Hermes, which specializes in receivables insurance, accounts for ca. 13% of the market, or less than half of Kruk's share. The law firm Lexus occupies the third position with a market share of 12%.
Note that Kruk has been the market leader at least since 2007. That year, its market share approached 29.7% (21.7% in 2008).

Market shares in debt recovery market* in 2009



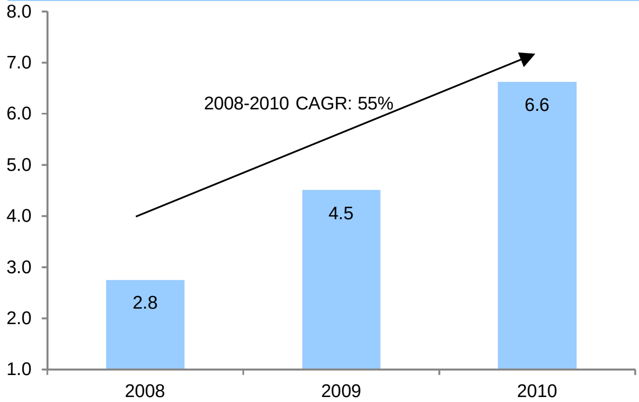
*Source: Rzeczpospolita, Kruk, companies; * measured at nominal value as the sum of debt collection services and purchased debt*

Romania – Market size and structure

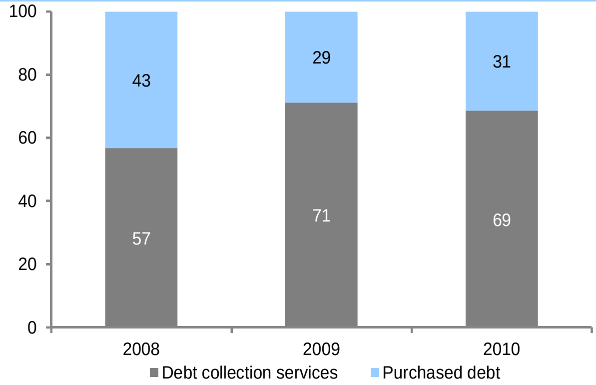
At PLN 6.6bn, the Romanian market was 2.5x smaller than the Polish market in 2010

The Romanian debt recovery market followed a strong upward momentum in the last three years, growing from PLN 2.8bn in 2008 to PLN 6.6bn in 2010 at an annual rate of a whopping 55% compared to a 15% pace observed in Poland.

Romanian debt recovery market (PLN bn)



Market breakdown by manner of account acquisition (%)



Source: Kruk, BRE Bank Securities

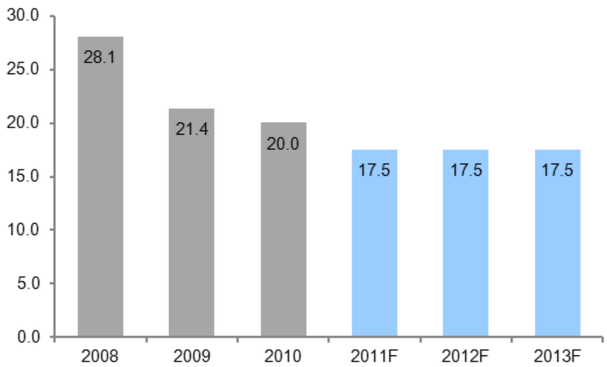
Like in Poland, outsourced debt collection constitutes the largest segment of the market (increasing from 57% in 2008 to 69% in 2010).

Romania: Debt collection services

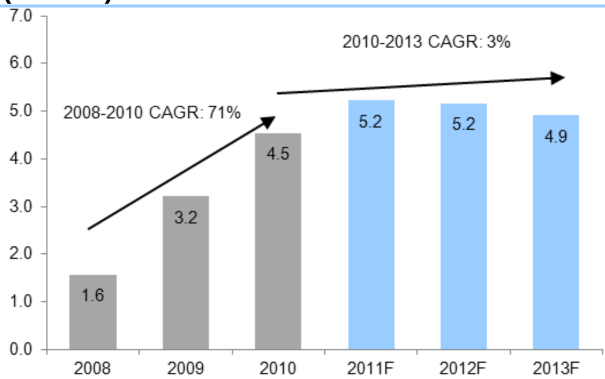
Market grows at 71% CAGR to PLN 4.5bn between 2008 and 2010

The value of the Romanian market for outsourced debt collection surged 191% between 2008 and 2010, reaching PLN 4.5bn. Though fast, its growth was less rapid than the rate of expansion of non-performing loans which soared by a total 308%, i.e. by an average 102% per year. As a result, the propensity to outsource accounts receivable management decreased from 28.1% in 2008 to 20.0% in 2010.

Outsourcing propensity ratio (percent)



Value of the market for debt collection services (PLN bn)



Source: Kruk, NBR, BRE Bank Securities

Predicting steadier market growth after 2011

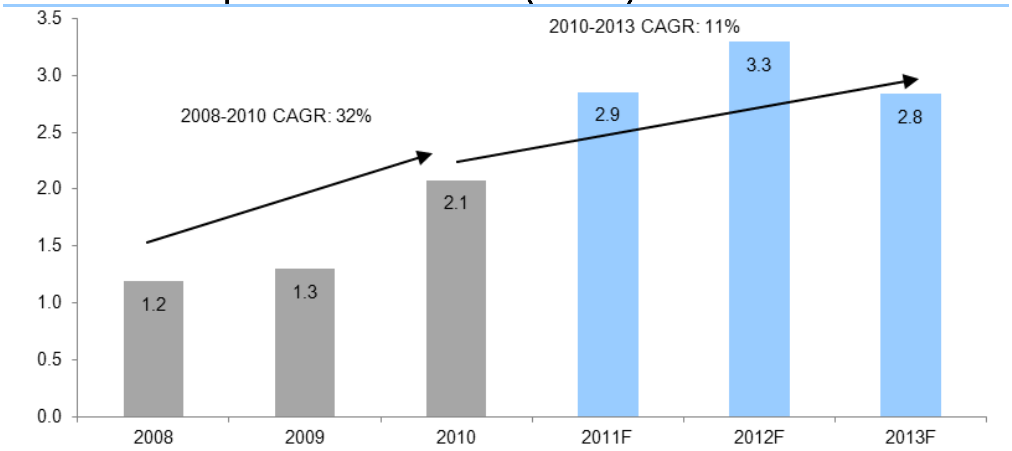
Going forward, the Romanian propensity to outsource debt collection is expected to remain under pressure from fast-growing bad debt. We assume that the outsourcing propensity ratio will decrease to 17.5% in 2011 and remain at that level in the following years. As a result, we expect 15% market growth to PLN 5.2bn in 2011 (representing slower growth than the 29% pace predicted for non-performing loans), followed by a steadying at PLN 4.9-5.2bn in subsequent years.

Romania: Purchased debt market at nominal value

Debt purchases reach PLN 2.1bn in 2010

Like in Poland, the value of Romanian debt purchases increases at a slower pace than the value of the market for debt collection services, rising to PLN 2.1bn after 32% annual average growth between 2008 and 2010. Because of faster expansion in NPLs (two years earlier), the indicator representing the propensity of Romanian creditors to sell accounts receivable decreased from a relatively high level of 52.5% in 2009 to 37.3% in 2010.

Nominal value of purchased debt market (PLN bn)



Source: Kruk, NBR, BRE Bank Securities

Predicting rapid acceleration in 2011

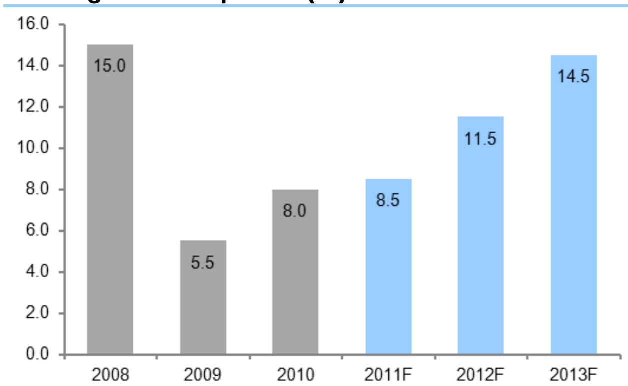
Assuming that the Romanian market is following the path of the Polish market, the propensity to sell can be expected to decrease further to an estimated 19% in 2011. At the same time, the rapid growth in NPLs observed in the years 2008-2010 (when average annual growth was 112%) should drive the market for debt purchases at an estimated annual rate of 11% in the next three years, to PLN 2.8bn in 2013.

Romania: Purchased debt market at fair value

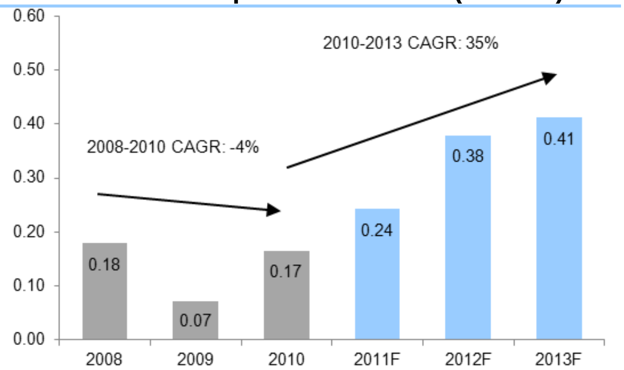
2008-2009 price downturn in wake of economic crisis

Romania experienced an economic downturn in 2009 (with real GDP down 7.1% after a 7.4% increase in 2008) which drove the average prices of portfolios down from 15.0% in 2008 to 5.5% in 2009. After GDP recovered to a negative 1.2% in 2010, average debt prices increased to 8.0%. As a result, the 2010 fair value of the purchased debt market was 7% lower than in 2008 at PLN 166m.

Average market prices (%)



Fair value of debt purchase market (PLN bn)



Source: Kruk, NBR, BRE Bank Securities

Predicting price rebound and a growing market

The International Monetary Fund (IMF) anticipates an increase in Romania's real GDP to 4.4% in 2012 from a negative 1.2% in 2010. Since there is a positive correlation between prices and GDP growth, we expect a gradual increase in average prices from 8.5% in 2011 to 14.5% in

2013. Consequently, the fair value of the purchased debt market will be increasing faster than its nominal value, growing by an estimated 46% to PLN 242m in 2011, 56% to PLN 379m in 2012, and 9% to PLN 411m in 2013.

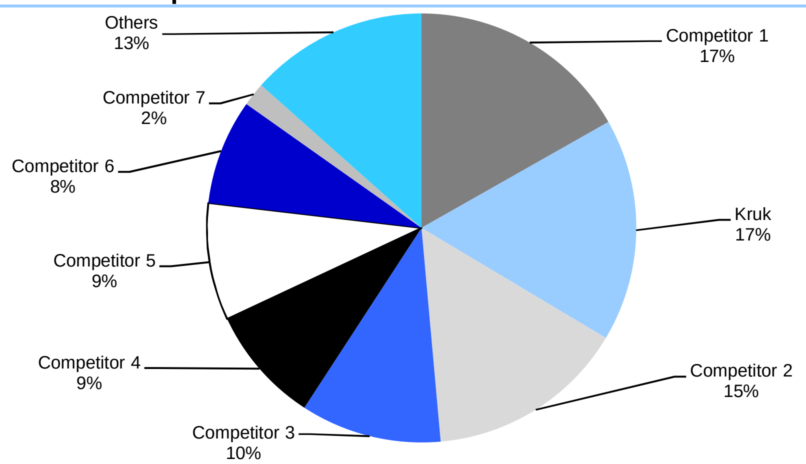
Romania: Competition

Strong presence in debt purchases makes Kruk market leader in Romania

Like in Poland, two-thirds of the Romanian market (68% vs. 74% for Poland) for debt collection and purchases are controlled by five major players. In 2009, Kruk shared market leadership with one of its competitors, with both companies gaining 17% market share. The third largest player had a market share of 15%.

Kruk's overall 17% Romanian market share can be broken down into a 15% share in debt collection services and a 27% share in the fair value of debt purchases made in 2009. The company increased its share of both market segments to 16% and 65% respectively in 2010.

Romanian market* pie in 2009



*Source: Kruk, BRE Bank Securities; * measured in nominal terms as a sum of debt collections and debt purchases*

2011 First-Quarter Earnings

Net earnings soar 97% to PLN 14m

At PLN 14.2m, Kruk's net income for Q1 2011 was 97% higher than in the same period a year ago, and accounted for 23% of our 2011 full-year estimate (i.e. PLN 61.8m, +71% Y/Y); in Q1 2010, the company achieved 20% of the yearly bottom-line target.

Overview of Q1 2011 results

(PLN m)	1Q10	1Q11	*Y/Y*	Q1'10 as pct. of FY2010	Q1'11 as pct. of FY2011F
Revenue	**33.4**	**53.2**	***59%***	**20%**	**20%**
purchased debt	22.0	42.9	*95%*	19%	20%
collection services	11.0	9.7	*-12%*	25%	22%
other	0.3	0.6	*98%*	14%	10%
Direct and indirect costs	**-18.3**	**-25.3**	***38%***	**20%**	**19%**
purchased debt	-12.0	-18.4	*53%*	20%	18%
collection services	-5.8	-6.2	*5%*	23%	22%
other	-0.4	-0.8	*86%*	15%	13%
Indirect margin	**15.1**	**27.8**	***85%***	**20%**	**22%**
purchased debt	10.0	24.5	*145%*	17%	22%
collection services	5.2	3.5	*-32%*	28%	22%
other	-0.1	-0.2	*55%*	17%	85%
G&A expenses incl. D&A	-6.9	-9.5	*38%*	21%	22%
Other operating income/expenses	-0.5	-0.3	*-40%*	442%	33%
Operating profit	**7.7**	**18.1**	***134%***	**18%**	**22%**
Financial income/expenses	-0.4	-3.9	*930%*	5%	21%
Pre-tax income	**7.3**	**14.2**	***94%***	**21%**	**22%**
Tax	-0.2	-0.1	*-31%*	-32%	4%
Minority interests	0.0	0.0	*130%*	24%	-
Net income	**7.2**	**14.1**	***97%***	**20%**	**23%**
Portfolio revenues as % of cash collections	53.7%	64.8%		-	-
Purchased debt costs as % of cash collections	29.3%	27.8%		-	-
Indirect margin (%)	45.2%	52.3%		-	-
purchased debt (%)	45.4%	57.1%		-	-
collection services(%)	47.0%	36.3%		-	-
EBIT margin (%)	23.1%	34.0%		-	-
Net profit margin (%)	21.4%	26.5%		-	-
Financing costs (spread over 3M WIBOR, %)	0.3%	9.1%		-	-
Effective tax rate (%)	2.2%	0.8%		-	-
ROE (%)	28.3%	40.5%		-	-
ROA (%)	12.3%	15.6%		-	-
Portfolio value at period-end	167.4	307.0	*83%*	-	-
Total assets	259.2	405.5	*56%*	-	-
Equity	102.4	146.0	*43%*	-	-
Debt	86.9	166.1	*91%*	-	-
Net debt	28.8	134.9	*369%*	-	-
Investments in purchased debt	36.0	69.2	*92%*	19%	18%
Cash collections	41.0	66.2	*61%*	21%	18%
Net debt / Equity (%)	28%	92%		-	-

Source: Kruk, Bloomberg, BRE Bank Securities

Earnings growth driven by purchased debt

Kruk invested PLN 69.2m (+92% Y/Y) in ten debt portfolios with a total nominal value of PLN 739.0m in Q1 2011. We estimate that about 70% of the CAPEX was spent in Romania, and the remaining 30% or so in Poland. At the same time, the company recorded cash collections in the amount of PLN 66.2m, marking a 61% increase over the year-ago figure. Consequently, the book value of Kruk's debt portfolio as of 31 March 2011 stood at PLN 307.0m, which was 83% more than in the same period a year ago and 17% more than in the preceding quarter.

Purchased debt revenues surged 95% relative to Q1 2010, reaching PLN 42.9m. Kruk explained during the earnings conference that the cash collection on Romanian portfolios was better than predicted, but the company decided to hold off upward value adjustments on these portfolios (recognizing just the surplus of the actual cash collections over the expected cash collections in the period's revenues). Since direct and indirect costs of purchased debt increased at a slower rate than the revenues (+53% Y/Y to PLN 18.4m), the Q1 2011 indirect margin soared 145% to PLN 24.5m, with the margin-to-revenue ratio up an impressive 11.7ppts to 57.1%. We attribute this expansion to the successful recovery of Romanian portfolio debts.

Contracting revenues from secondary debt collection services

Kruk recorded a 12% drop to PLN 9.7m in revenues from the debt collection services relative to Q1 2010, when the company achieved higher incoming payments on corporate portfolios taken over from banks (secondary debt collection services). As for primary debt collection services, the company acquired a portfolio of retail delinquencies approximating PLN 0.6 billion in Q1 2011, 26% less than in Q1 2010. With revenues growing at a faster rate than the value of acquired portfolios, the debt collection margins widened from 1.3% in Q1 2010 to 1.6% in Q1 2011.

Direct and indirect costs of debt collection services increased 5% in spite of lower revenues. Kruk is working on measures aimed at improving the recovery ratios and consequently also the profit margins and revenues generated by the debt collection business. On lower revenues and higher costs, the Q1 2011 indirect margin showed a 32% Y/Y shrinkage to PLN 3.5m, with the margin-to-revenue ratio down 10.7ppts to 36.3%.

Operating profit soars 134% to PLN 18m

Kruk reported a 38% Y/Y increase to PLN 9.5m in Q1 2011 general and administrative expenses including depreciation and amortization. On higher total revenues, these expenses expressed as percentage of revenues decreased from 20.5% in Q1 2010 to 17.8% in Q1 2011. As a result, the Q1 2011 operating profit came in 134% higher than a year earlier at PLN 18.1m, with the operating margin up 10.9ppts to 34.0%.

Financing costs rise due to F/X fluctuations

Kruk's cost of net debt (the financial result including FX result) showed a substantial increase by 8.7ppts to 13.1% in Q1 2011. This means that the spread over average 3M WIBOR widened by 8.7ppts to 9.1%. The financing costs were driven by F/X losses which increased by PLN 1.2m to PLN 0.9m. If we adjust the financial result for the F/X losses, the cost of net debt is 1.5ppts higher than a year earlier at 10.3%, and the spread is 1.6ppts wider at 6.3%.

Prudent balance sheet management

Even after rising 16ppts to 92% since the end of 2010, Kruk's ratio of net debt to equity remains at a safe level.

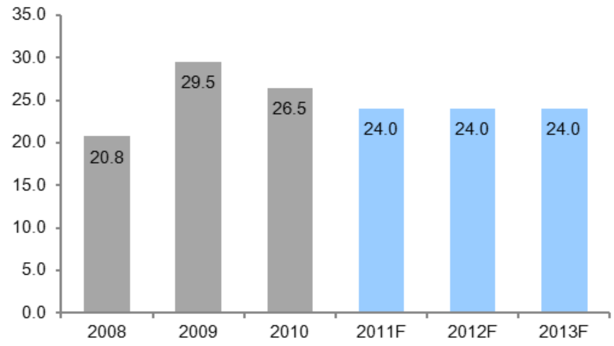
Financial Forecasts

Indirect Profits From Debt Collection Services

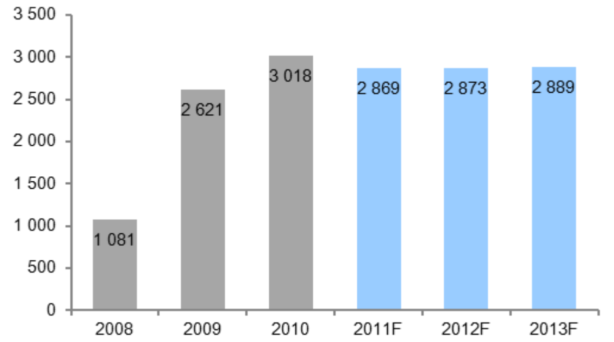
Kruk will remain Poland's leader with 24% market share…

Kruk's share in the Polish market for debt collection services fluctuated between 21% and 30% in the last three years, reaching 26.5% in 2010. We expect that the company will retain 24% market share in the years ahead, supported by long-standing relationships with leading Polish banks and premium-quality services. Combined with the expected steadying of the collection services market in the next three years, we predict that the value of accounts placed for collection by Kruk will stabilize around PLN 2.9bn over the period from 2011 through 2013.

Kruk's share in Polish collection services market (%)



Value of portfolios placed for collection in Poland (PLN m)*



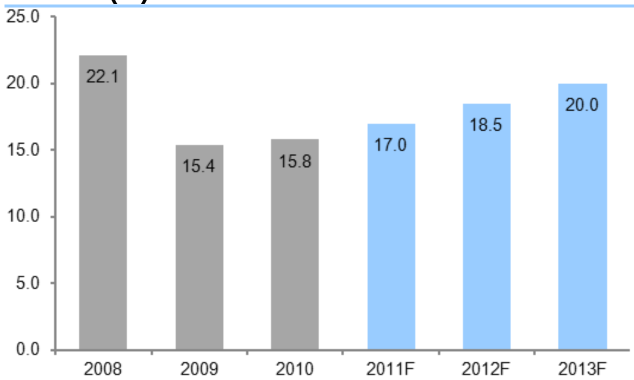
*Source: Kruk, BRE Bank Securities; * by original creditors*

… and capture 20% of the Romanian market

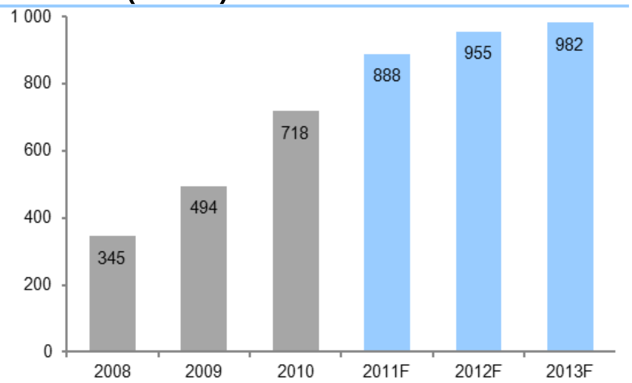
In 2008, its second year since moving into Romania, Kruk acquired PLN 345m outstanding accounts for collection, gaining a 22.1% market share. A year later, this share dropped to 15.4% in spite of a 43% year-on-year surge in acquired accounts which totaled PLN 494m. The reason behind this drop was Kruk's conscious choice to focus on debt purchases in a bid to leverage the weakness of local competition (which had restricted access to credit) and low market prices.

Going forward, we expect Kruk to continue growing its Romanian market share, from 15.8% in 2010 to an estimated 20.0% in 2013. Consequently, the value of accounts placed annually for collection by the Polish company will increase by an average 11% a year, from PLN 718m in 2010 to PLN 987m in 2013.

Kruk's share in Romanian collections services market (%)



Value of portfolios acquired for collection in Romania (PLN m)

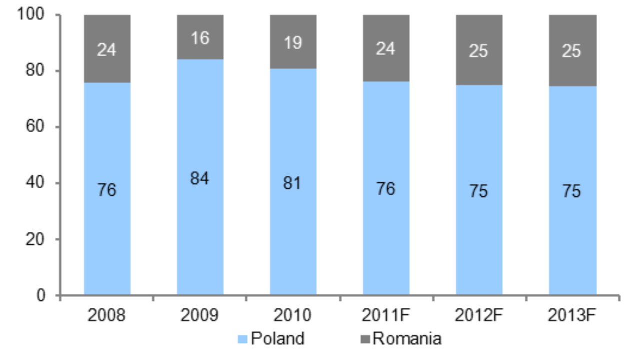


Source: Kruk, BRE Bank Securities

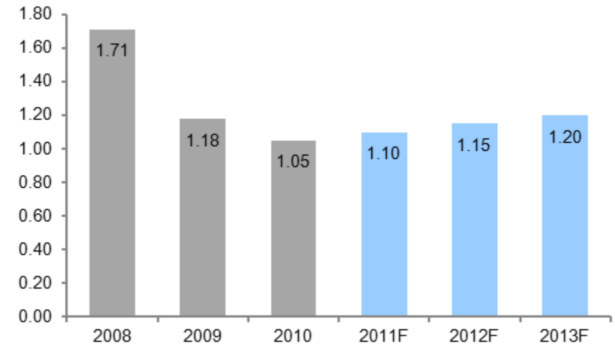
Positive collection margin correlation with GDP growth

Kruk experienced a contraction in its 2010 collections margins (defined as a ratio of revenue to the value of portfolios acquired for collection) to 1.05% from 1.71% in 2008 and 1.18% in 2009. The company attributes this decline to the economic slowdown and less effective recovery, rather than to lower prices. Going forward, as both Polish and the Romanian economies embark on an upward path, Kruk will be able to make more effective collections and improve its margins. That said, we do not think margins can rebound to their 2008 highs because of downward pressure stemming from intense competition in the Romanian market.

Collections portfolio by country (%)



Collection margins (original creditors) (%)



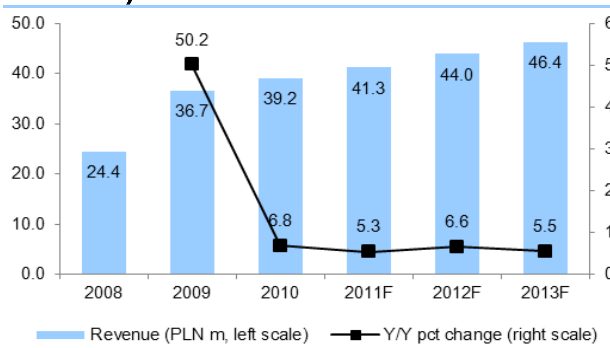
Source: Kruk, BRE Bank Securities

Predicting revenue growth from PLN 44m in 2010 to PLN 47m in 2013

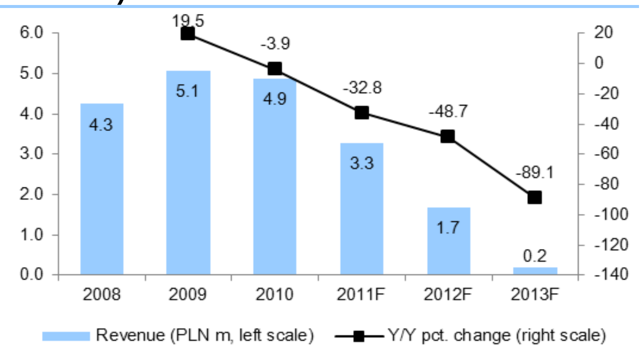
We expect a slight deceleration in Kruk's revenues from collection services for primary creditors from a 7% growth rate recorded in in 2010 to 5-6% in the period 2011-2013. Revenues from recovery of outstanding corporate accounts for banks (see page 16 for details) are set for a decline from PLN 4.9m in 2010 to PLN 0.2m in 2013, in line with the company's plans to discontinue these services and focus on acquisitions of corporate debt portfolios for its own account.

In concrete terms, we expect marginal growth in the range of 1-2% (from PLN 44.1m in 2010 to PLN 46.6m in 2013) in Kruk's annual collection services revenues in the next three years.

Collection services revenues (primary creditors)



Collection services revenues (secondary creditors)



Source: Kruk, BRE Bank Securities

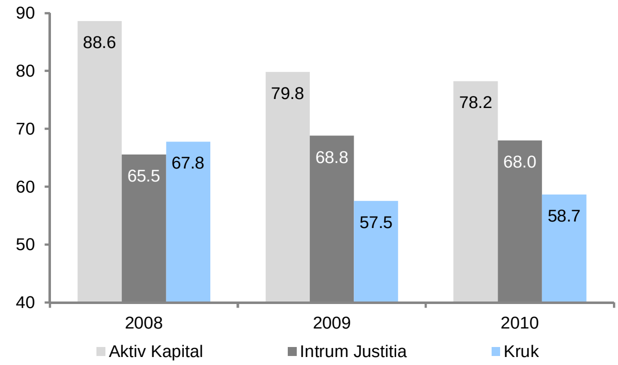
Indirect margins will remain above 34%

Compared to its two European peers, Norway's Aktiv Kapital and Sweden's Intrum Justitia, Kruk is the most cost-effective of the three debt collectors with a cost-to-income ratio which averaged 58% in the years 2009 and 2010, compared to 79% for Aktiv Kapital and 68% for Intrum Justitia. Even after a rise to an anticipated 65% average in the period from 2011 to 2013, Kruk's cost-income ratio will remain below the historical peer averages.

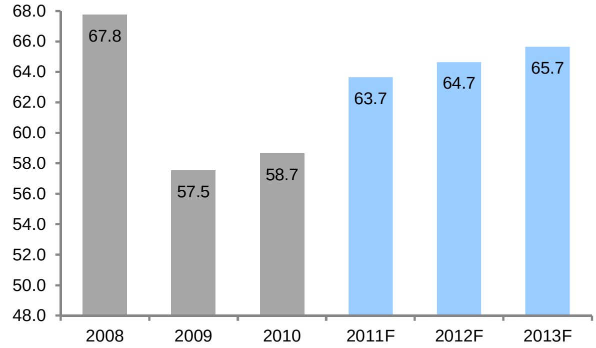
The Polish company's cost advantage probably stems from its focus on developing markets – both Aktiv Kapital and Intrum Justitia are established exclusively (in case of the former) or largely (in case of the latter) in developed countries.

As emerging economies continue to grow, Kruk's cost effectiveness in the medium and long term will converge to levels characteristic of developed markets.

Debt Collection Services C*/I ratios – Kruk vs. peers (%)



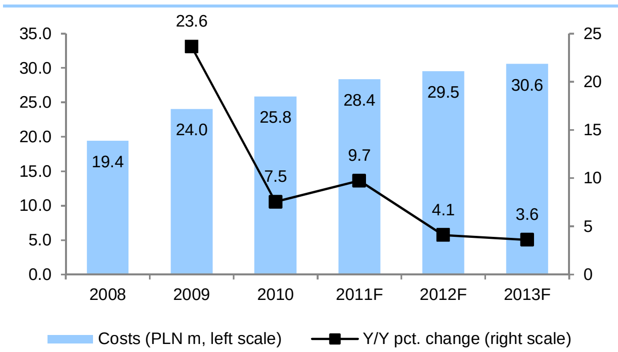
Kruk's Cost*/Income ratios (%)



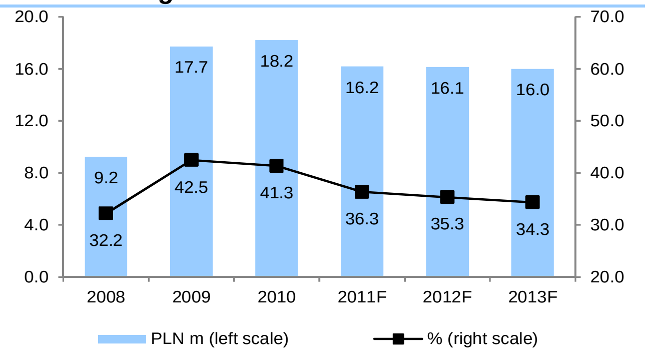
*Source: Kruk, BRE Bank Securities; * indirect and direct costs ex SG&A and D&A expenses*

Our estimates indicate that Kruk's direct and indirect costs of debt collection services will increase 10% to PLN 28.4m in 2011, to slow down to a steady average annual rate of 4% in the years 2012 and 2013. The indirect margins earned on this line are expected to decline from 41.3% in 2010 to a still strong 34.3% in 2013.

Indirect and direct costs of debt collection



Indirect margins in debt collection



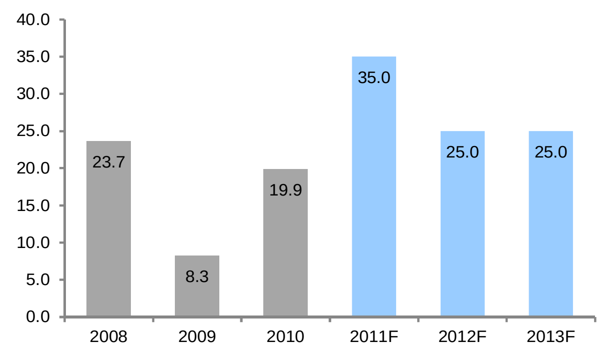
Source: Kruk, BRE Bank Securities

Indirect Profits From Purchased Debt

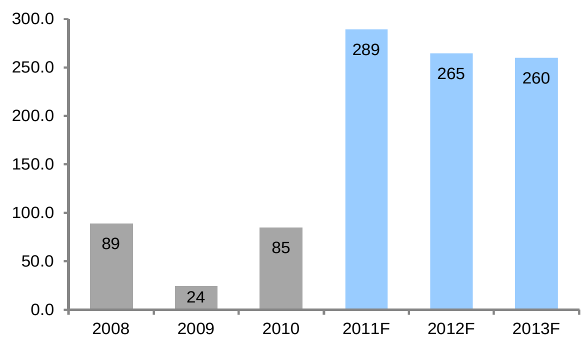
By 2013, Kruk will have a 25% market share in Polish retail debt …

Kruk will capitalize on the anticipated expansion in the Polish market for retail purchased debt, expanding its market share to 25% in 2013. In 2011, there will be a temporary gain in market share to a record 35% driven by two major acquisitions completed in Q2'11, one with nominal value of PLN 541m from PKO BP, the other one worth PLN 621m from BRE. As a result, portfolio investment is expected to increase 241% to PLN 289m in 2011, to decrease 8% to PLN 265m in 2012 and a further 2% to PLN 260m in 2014.

Kruk's share in Polish retail purchased debt market* (%)



Fair value of Kruk's Polish retail portfolio purchases (PLN m)

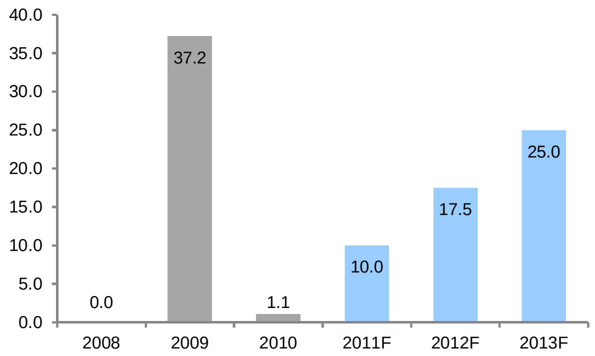


*Source: Kruk, BRE Bank Securities; *measured in fair value*

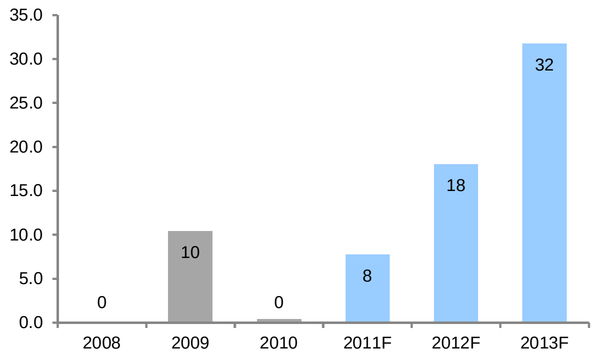
… and corporate debt, …

Kruk can leverage the experience and skill gathered over four years of recovering outstanding corporate bank accounts against collateral (as a third-party collections agency for secondary creditors) to grow its share in the Polish market for corporate purchased debt to an estimated 10% in 2011, 18% in 2012, and 25% in 2013. At the same time, the value of corporate portfolios acquired by the company will increase to ca. PLN 8m in 2011, PLN 18m in 2012, and PLN 32m in 2013.

Kruk's share in Polish corporate purchased debt market* (%)



Fair value of Kruk's Polish corporate portfolio purchases (PLN m)



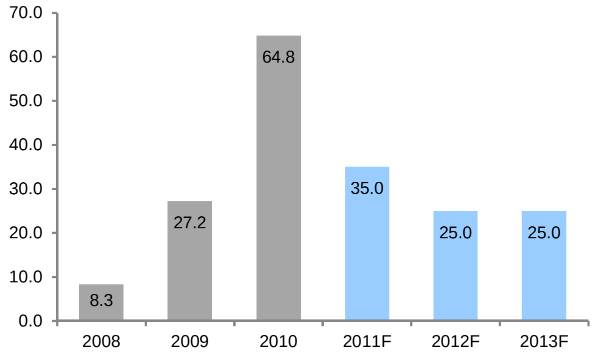
*Source: Kruk, BRE Bank Securities; *measured in fair value*

… and in Romanian debt portfolios

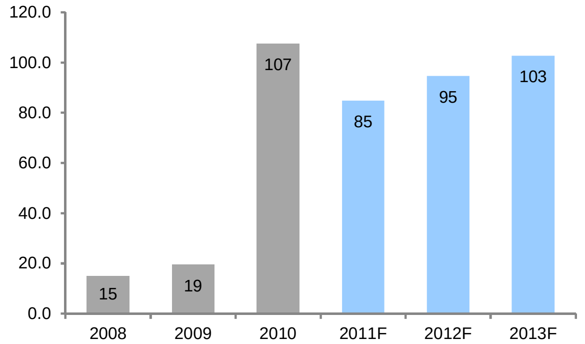
In 2010, Kruk made purchased debt the focus of its operations in Romania. By acquiring portfolios totaling PLN 107m, the company gained a share of nearly 65% in the Romanian market. Going forward, while its market share will probably contract, we believe the company can further cement its position as market leader by controlling 25% of the market in a medium-term horizon.

Fueled by Romania's robust market for debt sales, Kruk's annual portfolio acquisitions there are expected to hover around PLN 95m, i.e. just about 10%-15% less than in 2010, in spite of a narrowing market share.

Kruk's share in Romanian purchased debt market* (%)



Value* of Romanian portfolio acquisitions (PLN m)

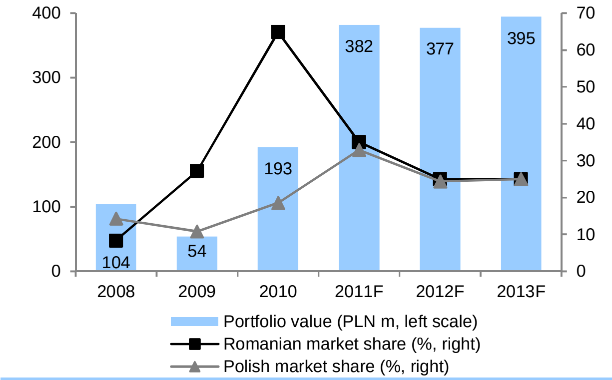


*Source: Kruk, BRE Bank Securities; *measured in fair value*

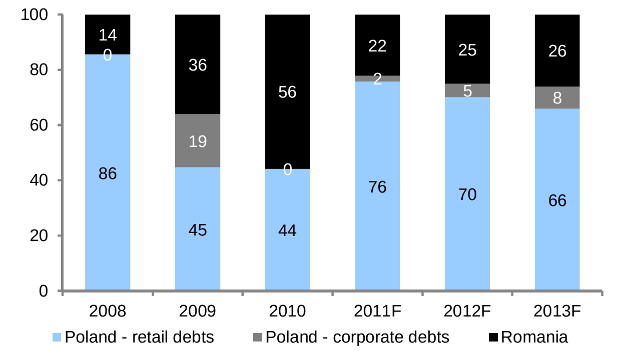
Kruk will buy accounts receivable totaling PLN 395m in 2013

We predict that the value of Kruk's purchased debt will increase from PLN 193m in 2010 (after a 257% year-on-year surge) to PLN 382m in 2011 (+98% Y/Y), PLN 377m in 2012 (-1%), and PLN 395m in 2013 (+5% Y/Y).

Value* of total portfolio acquisitions (PLN m)



Portfolio breakdown* (%)



*Source: Kruk, BRE Bank Securities; *measured in fair value*

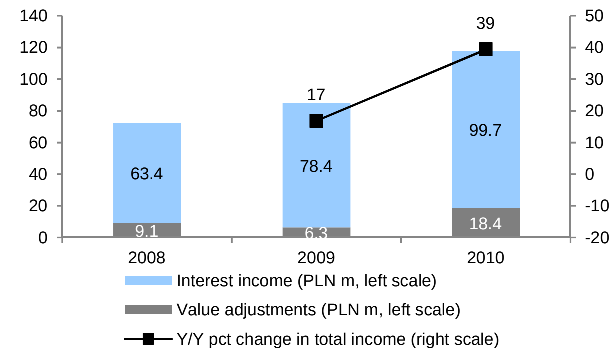
IAS 39 reporting

Kruk reports its revenues in accordance with International Accounting Standard 39 (for details, refer to Schedule 3 on page 50). Revenues from purchased debt comprise interest income and gains from portfolio valuations.

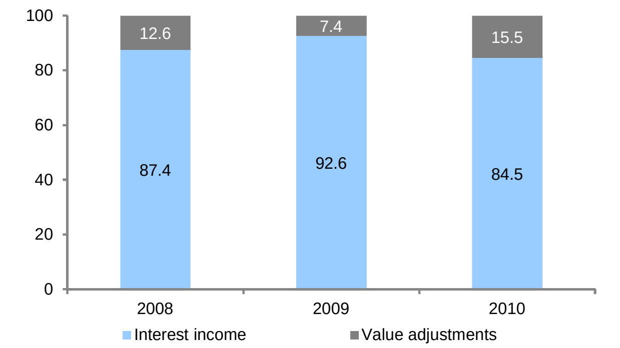
Recognition of interest income is governed by two basic rules. Firstly, income comprises only the money earned on payments (not including amortized principal) – a version of the rule that banks apply to interest income recognition (income generated by a debt portfolio throughout the repayment period is equal to the total amount of cash collections less the capital invested in the acquisition of the portfolio). Secondly, income is computed based on average internal rates of return expected for each portfolio. After acquiring a portfolio, Kruk makes predictions about the future cash flow distribution of collections on that portfolio. Based on such cash flow projections, the company calculates the internal rate of return which remains constant until the portfolio is fully amortized. Income is calculated by multiplying IRR by the book value of the debt portfolio as at the beginning of the reporting period.

Value adjustments are made either to account for differences between actual and expected collections in a reporting period, or when the company revises its expectations as to future collections.
If adjustments of expected cash collections to actual cash collections produce a gain, this means that the actual amount of payments received during a period was higher than the expected amount, and that this variation was not taken into account in the original calculation of the internal rate of return on the portfolio (IRR remains constant until the portfolio is fully amortized). Accordingly, such revaluation is equivalent to recognition of future income. In short, valuation gains can be summarized as an excess of actual cash collections over expected cash collections.
Upward adjustments to expected cash collections mean that, at the time of the adjustment, Kruk expects to recover more outstanding accounts than it had originally anticipated. Again, this means that the higher portfolio value is not factored in its original IRR. Kruk calculates the present value of the expected additional collections and applies IRR as the discount rate to obtain fair value.

Purchased debt revenues (PLN m)



Purchased debt revenue structure (%)

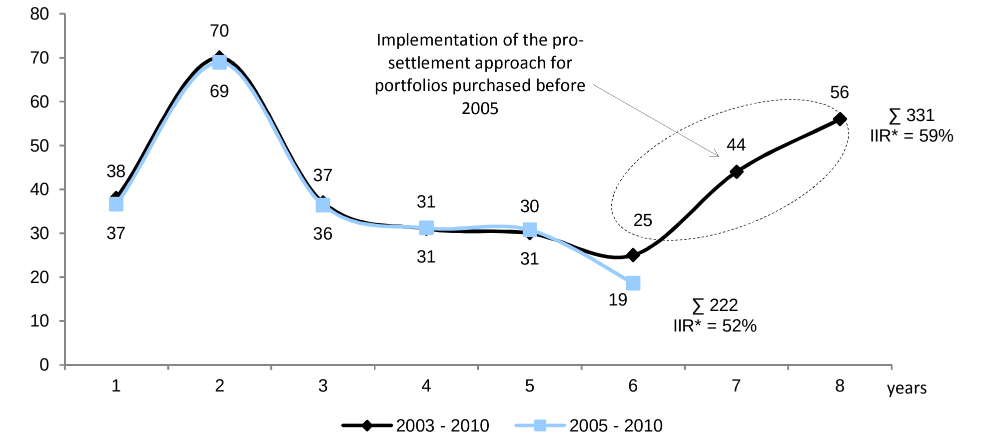


Source: Kruk

Analysis of historical collections curve

Based on actual cash collections, Kruk constructed a cash flow distribution of collections (collections curve) showing the historical distribution of annual repayments recovered on its investment portfolios measured as a percentage of the costs of these portfolios. The diagram below shows two collection curves, one spanning the years 2003-2010, and the other covering the period from 2005 to 2010. Note the distortion in the former resulting form the implementation of the pro-settlement strategy in 2008. Kruk saw its cash collections peak on portfolios acquired in 2003 and 2004.

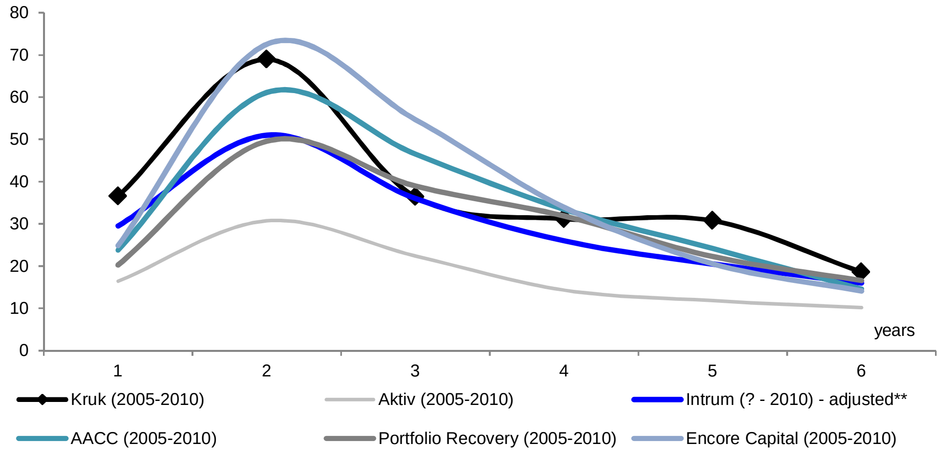
Kruk's historical collections curve (%)



*Source: Kruk, BRE Bank Securities; * IRR – annualized discount rate calculated for six-month collection cycles over the entire collections period*

Compared to similar six-year collection curves of other companies, Kruk's curve (for the 2005-2010 period) shows a high recovery rate during the first two years followed by a rapid flattening in the third and fourth year. This means that even though the company recorded collection totals not much higher than those of its most effective peers such as Encore Capital and AACC, its internal rates of return during the six-year period were the highest at an estimated 52%. Intrum, the only competitor with operations in the CEE region, had a much lower IRR of 33%. We think this can be explained with Intrum's lower collections-to-price multiple (179% compared to Kruk's 222%), a different portfolio composition (with a 23% share of telecom receivables compared to Kruk's 14%), and the fact that the economic crisis in Western Europe was much more severe than in the CEE region.

Comparison of six-year collection curves (based on latest available data) (%)

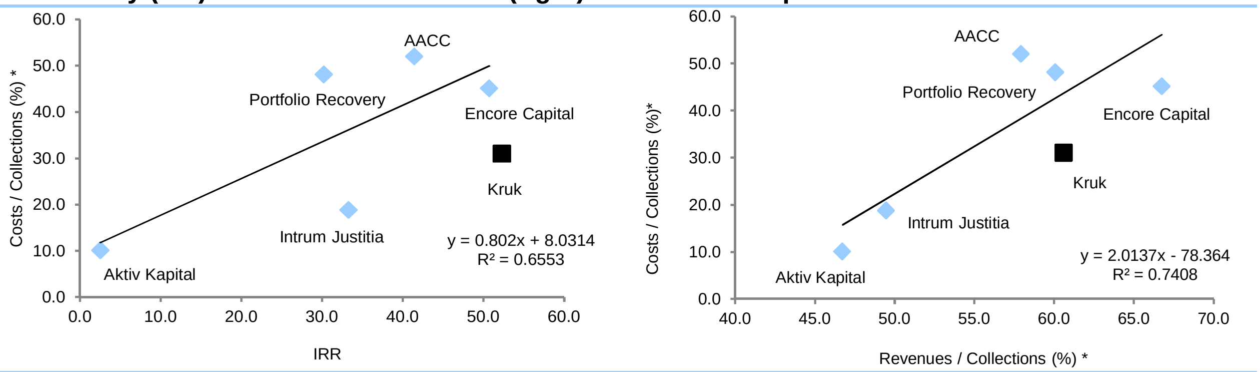


	Collecttions 6Y total (%)	IRR* (%)
Kruk	**222**	**52**
Encore Capital	221	51
AACC	204	41
Portfolio Recovery	180	30
Intrum Justitia	179	33
Aktiv Kapital	106	3

*Source: Companies, BRE Bank Securities; * IRR - annualized discount rate calculated for six-month collection cycles over six-year collection periods; ** adjusted for comparability with peer curves by replacing cycles of 12 consecutive months following portfolio acquisition with cycles defined by the calendar year and assuming that all portfolios were purchased in mid-year*

In our opinion, both the collection totals and the rate at which they are recovered, and hence also IRR, are closely correlated with the amount of costs that need to be incurred to achieve the desired repayment curve. The following diagrams show that Kruk generated much stronger profitability (represented by IRR and revenue as percentage of cash collections) than competition relative to costs.

Profitability (left) and cost effectiveness (right) – Kruk vs. competition



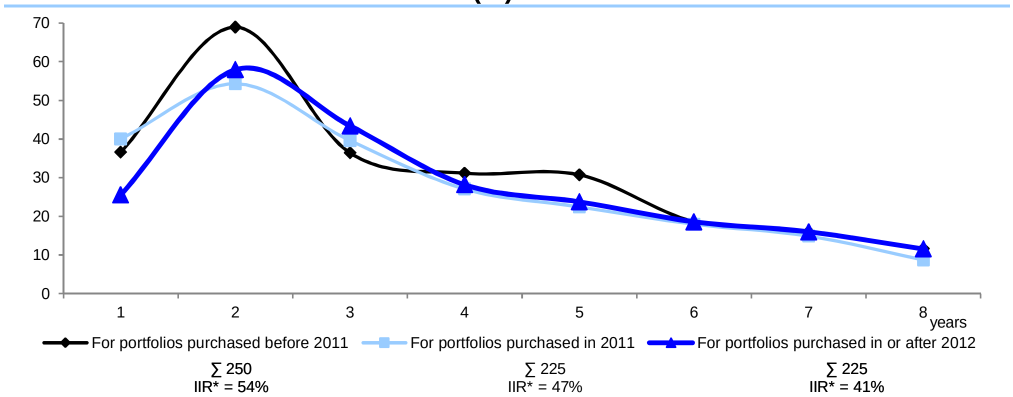
*Source: Kruk, BRE Bank Securities; *average for 2008-2010*

Collection curves used for forecasts

We believe that Kruk can continue to recover high collections (measured as percentage of the fair value of its portfolio) on its debt portfolios over a long-term horizon. The company's competitive edge comes from an extensive database and an effective pro-settlement collection policy. Note that Kruk started to charge interest on purchased debt only last year. Before that, the company expected debtors to pay back only the amounts owed to the original creditors. An analysis conducted by Kruk showed that the additional charges do not significantly influence either debtor willingness to settle, or the timeliness of payments. In our opinion, the additional interest fees will have a positive influence on the shape of the future repayment curve.
At the same time, there is a risk that rising portfolio pricing will depress future cash collections (with rising costs, to achieve the same amount of collections as percentage of purchase prices, Kruk has to generate higher collections as percentage of the nominal value). Further, as competitive pressures increase and the success-rate gap between Kruk and other players narrows, maintenance of cash collections at their high initial levels (especially in the first two years) will be a challenge on portfolios which have already been partly recovered (by banks themselves and by third-party agencies) prior to being taken over by Kruk. Moreover, we assume that Kruk will not be recognizing income from portfolio valuations in the future, meaning that the actual collection curve will not be more favorable than the estimated curve.

Consequently, we are using three curves for forecasting purposes. For the portfolios purchased through to the end of 2010, we add two years to the 2005-2010 collections curve which shows accumulated cash collections equivalent to 250% of the purchase price, with IRR at 54%. For portfolios acquired in and after 2012, the repayment curve is flatter than the curve reflecting historical data, and it shows total collections representing 225% of the purchase price and an IRR of 41%. For portfolios acquired in 2011, the collections curve is a modified version of the curve used for 2012+ acquisitions. Because we expect Kruk to spend as much as 75% of the total estimated 2011 portfolio budget in the first half of the year (given the two major acquisitions completed in Q2 2011), we assume that the collections on these portfolios will be recorded ahead of the curve which assumes a steady rate of annual portfolio acquisitions, i.e. one quarter earlier on average than the collections recovered on the portfolios purchased in 2012 and beyond. For this curve, collections as percentage of the purchase price are estimated at 225%, and IRR is 47%.

Collection curves used for forecasts (%)



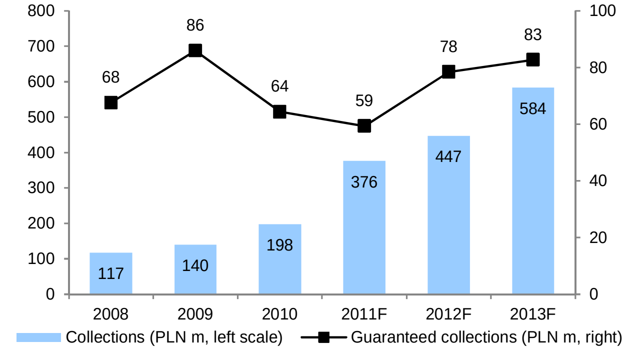
*Source: Kruk, BRE Bank Securities; * IRR - annualized discount rate calculated for six-month collection cycles over a six-year period*

Collections can be predicted a year in advance with 80% certainty

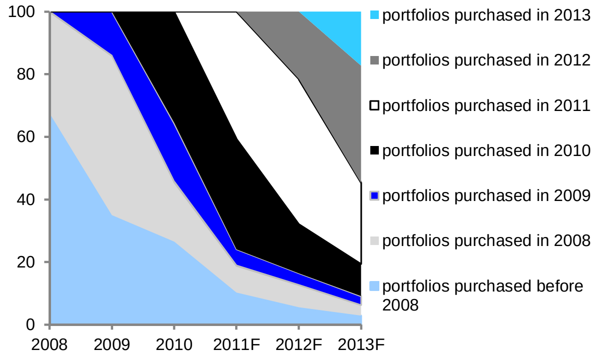
Based on historical and projected collection curves, we expect Kruk's cash collections to increase 90% to PLN 376m in 2011, 19% to PLN 447m in 2012, and 30% to PLN 584m in 2013. Note that an average 74% of annual collections expected in 2011 through 2013 are guaranteed by repayments on portfolios acquired in the preceding calendar years. This means that the amount of annual collections can be predicted with a high degree of certainty one year in advance.

Being long-term assets, Kruk's portfolios generate cash over multi-year (we assume eight-year) periods. This means that if the company reduced investment in portfolio acquisition by a certain percentage in a given year, the negative percentage impact on revenues and profits would be lower. For example, if the actual 2011 portfolio investment proved 50% lower than we assume for the purposes of our forecasts (a baseline scenario of a 1% Y/Y drop in investment to PLN 191m), the actual revenues in the next three years will be lower than our baseline projections by 15% in 2011, 18% in 2012, and 11% in 2013. The negative impact on net earnings will be even less than that, weighing the annual bottom line down by 9% in 2011, 10% in 2012, and 9% in 2013.

Kruk's cash collections from purchased portfolios



Structure of cash collections (%)

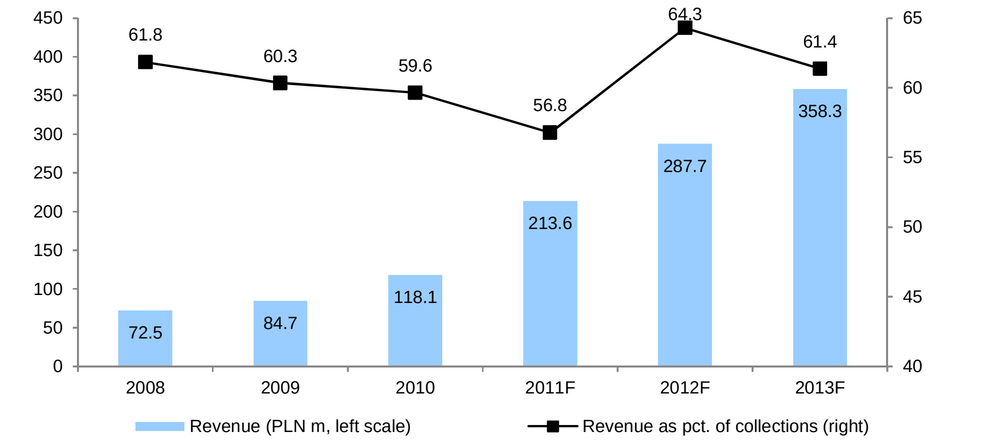


*Source: Kruk, BRE Bank Securities; * guaranteed by repayments on portfolios acquired in the prior calendar year*

Revenues represent only 61% of cash collections

Based on the assumptions made for discount rates (54% for portfolios purchased through 2010, 47% for portfolios purchased in 2011, and 41% for portfolios purchased in or after 2012), we predict that Kruk's revenues will increase 81% to PLN 214m in 2011, 35% to PLN 288m in 2012, and 25% to PLN 358m in 2013. Note that revenues account only for a portion (61% on average) of the company's cash collections, suggesting that they do not include amortization of the invested principal.

Revenues from purchased portfolios



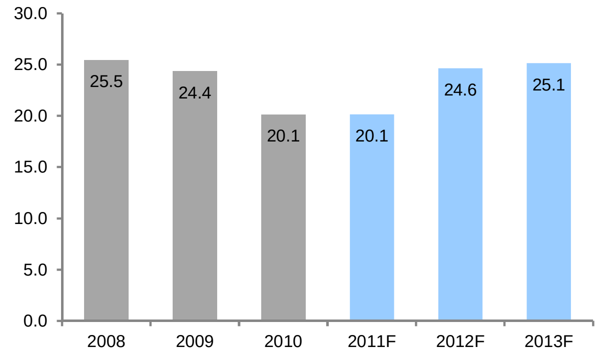
Source: Kruk, BRE Bank Securities

Costs will remain relatively low

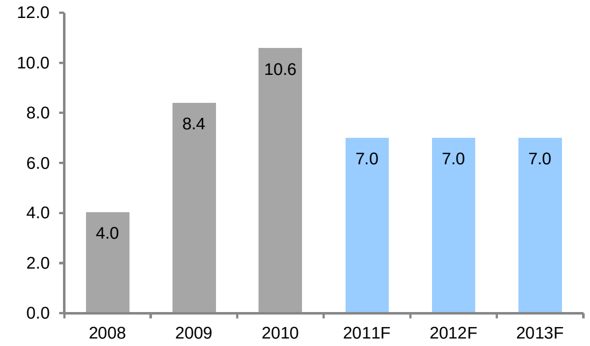
Unlike in debt collection services, the direct and indirect service costs that Kruk incurs on its purchased debt are not determined by revenues but rather by the amount of recovered debts (collections). Moreover, the company distinguishes between so-called primary costs (i.e. costs

of debt recovery on current portfolios) and extra costs (one-offs) related to marketing, conciliation undertaken for older portfolios (older than two years), ERIF cases generating “over-budget costs” (such as costs of registered mail), or higher-than-budgeted court fees.
Kruk’s ratio of primary costs to total collections is not only low, but it also decreased from 25.5% to 20.1% between 2008 and 2010, thanks probably to higher-than-projected repayments on old portfolios achieved with the pro-settlement approach at relatively low cost.
At the same time, the ratio of extra costs to collections increased from 4.0% in 2008 to 10.6% in 2010, driven mainly by expenses related to a large number of court cases.
Going forward, we predict that the primary-cost ratio will remain at the low 2010 level of 20.1% in 2011 thanks to successful recovery of Romanian portfolios, to rise to 24.6% in 2012 and further to 25.1% in 2013, while the extra-cost ratio will decrease to 7% in 2011 and remain there through 2013.

Primary costs* as % of cash collections



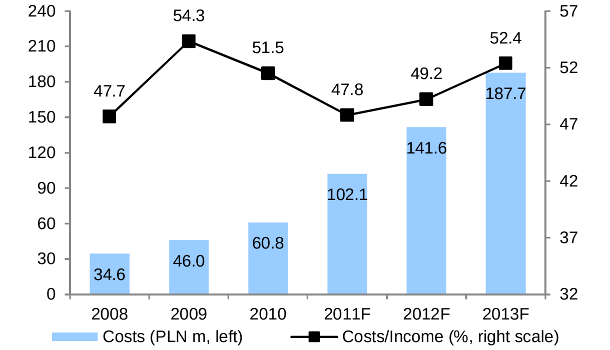
Extra costs* as % of cash collections



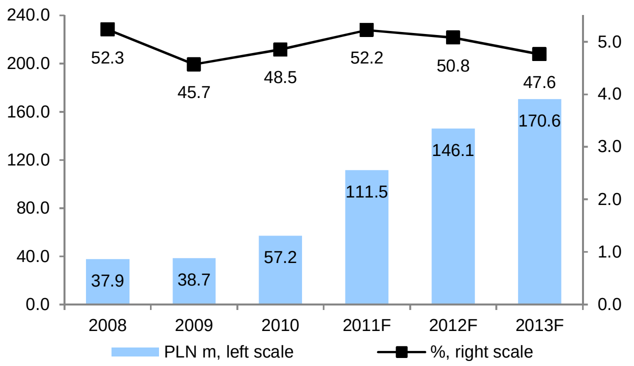
*Source: Kruk, BRE Bank Securities; * direct and indirect costs*

Our predictions with respect to Kruk’s future profitability assume 44% annual growth in the zloty indirect margins from PLN 57m in 2010 to PLN 171m in 2013, and maintenance of the percentage margins within a sustained high range of 48-52%.

Costs * in Debt Purchase



Indirect margins in Debt Purchase



*Source: Kruk, BRE Bank Securities; * direct and indirect costs*

New Products

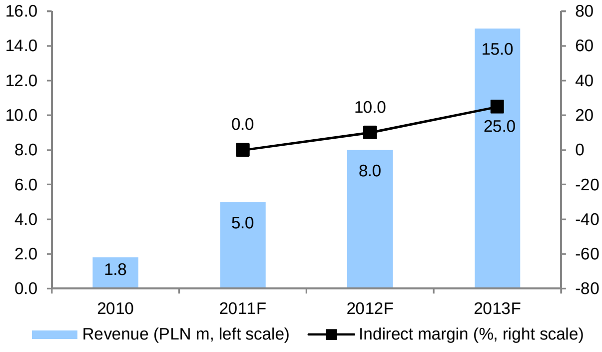
ERIF will start contributing to EBIT in 2012…

In 2010, Kruk’s debtor database ERIF generated about PLN 1.8m in revenue. We predict that the entry into force of the new credit information law which allows third-party collectors like Kruk to report debtors to credit bureaus, and the passing of ‘Recommendation T’ which requires banks to check credit information with external sources (including credit bureaus), will give stronger momentum to Kruk’s future revenues, expected to triple from PLN 5m in 2011 to PLN 15m in 2013. Further, we predict that ERIF will achieve break even in 2011, to generate an indirect margin of 25% in 2013.

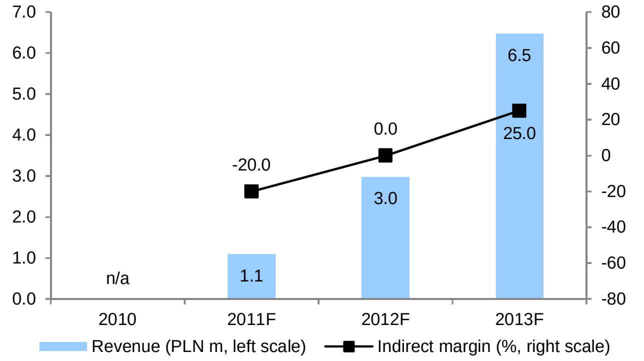
… and Novum in 2013

According to our estimates, revenues from the Novum loan (assuming customer interest charges of 50% less cost of risk of an estimated 15%) will amount to PLN 1.1m in 2011, to rise further to PLN 3.0m in 2012 and PLN 6.5m in 2013. The loan program will achieve break even in 2012, to generate an indirect margin of 25% in 2013.

ERIF revenues and margins



Novum revenues and margins



Source: Kruk, BRE Bank Securities

SG&A and D&A

Economies of scale

We believe that, through economies of scale, Kruk can reduce the ratio of expenses that cannot be attributed to any of its business lines to revenues from 19.5% in 2010 to 15% in 2013. During the same period, unattributed expenses are expected to increase from PLN 32.0m to PLN 64.0m.

Unattributed expenses

(PLN m)	2008	2009	2010	2011F	2012F	2013F
SG&A expenses	19.1	21.4	28.1	39.0	48.3	57.6
Y/Y pct. change		11.9	31.0	38.9	23.9	19.4
as pct. of revenue	18.4	16.7	17.1	14.7	14.0	13.5
D&A expenses	2.6	3.1	3.9	5.0	5.6	6.4
Y/Y pct. change		18.2	27.4	26.5	13.2	12.8
D&A as percentage of fixed assets	30.3	28.2	30.2	33.2	35.2	37.2
Unattributed expenses	**21.7**	**24.5**	**32.0**	**43.9**	**53.9**	**64.0**
Y/Y pct. change		12.7	30.6	37.4	22.7	18.7
as pct. of revenue	20.9	19.1	19.5	16.6	15.7	15.0

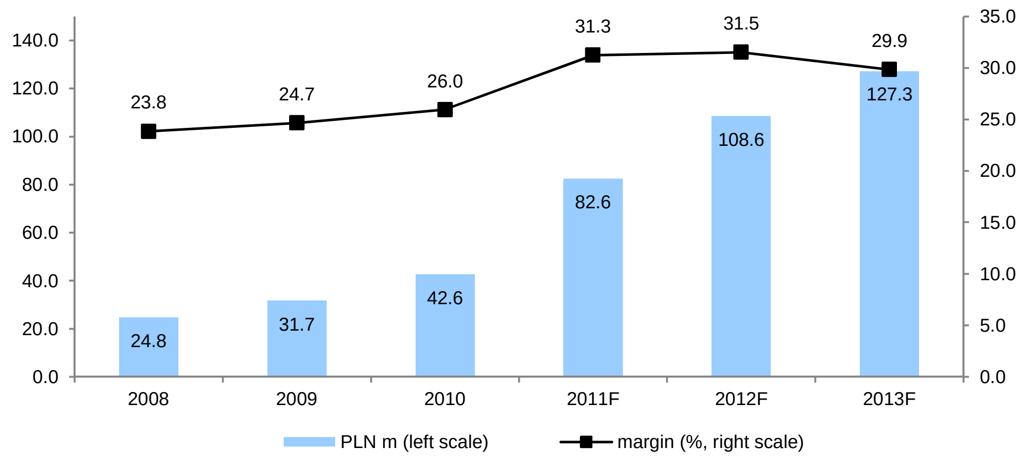
Source: Kruk, BRE Bank Securities

Operating profit

Predicting 44% annual growth to PLN 127m in 2013

We predict that Kruk will grow its operating profits at an average annual rate of 44% between 2010 and 2013, achieving an increase of 94% to PLN 82.6m in 2011, 31% to PLN 108.6m in 2012, and 17% to PLN 127.3m in 2013. Moreover, our projections indicate an expansion in the operating margins from 26.0% in 2010 to 29.9% in 2013 due to increasing contributions of the more profitable purchased debt operations paired with decreasing contributions of the collections segment.

Operating profit



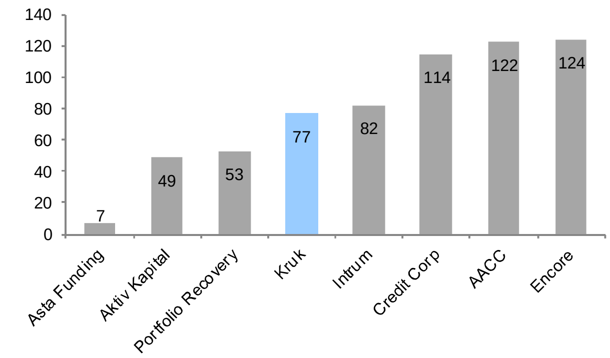
Source: Kruk, BRE Bank Securities

Financing

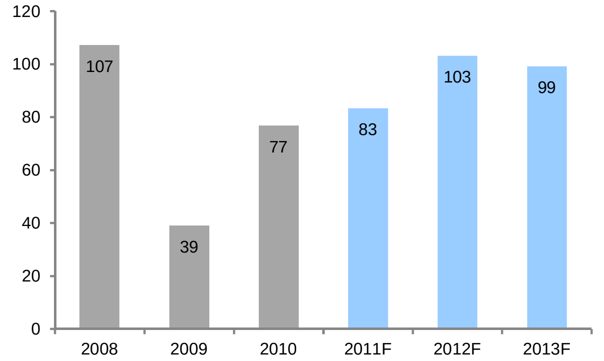
Net Debt / EV ratio was only 77% in 2010

Kruk relies on the ratio of net debt to equity to manage its financing needs. At year-end 2010, the Net debt / EV ratio stood at 77%, in line with industry averages, indicating potential to further increase financial leverage in the future.

Industry net debt / equity ratios in 2010 (%)



Kruk's net debt / equity projections (%)



Source: Companies, Kruk, BRE Bank Securities

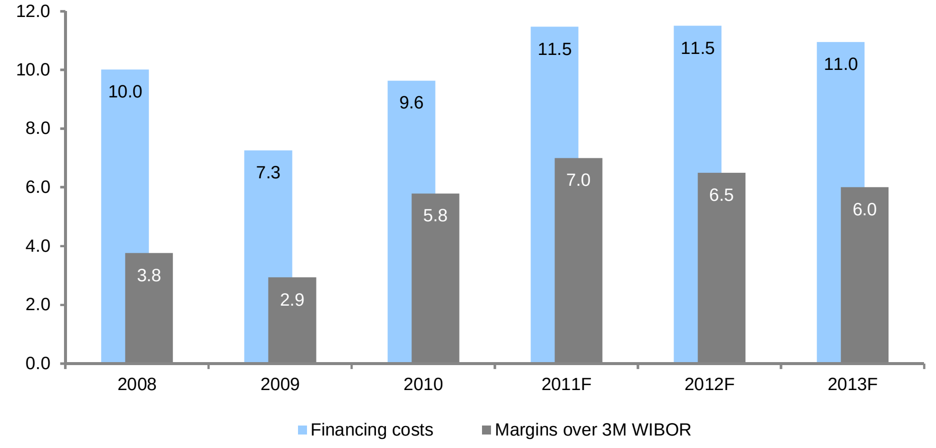
2011-2012 earnings will be reinvested

Kruk made no earnings distributions in the years 2008-2010. The 2010-2011 profit-sharing policy provides that the whole of the annual earnings will be reinvested into the purchased debt business. We expect the first dividend payout from Kruk in 2014.

Predicting decreasing financing charges

Kruk's costs of debt increased significantly in 2010 in the wake of the global economic slowdown and financial crisis. The margin over 3M WIBOR widened 325 bps from 2.9% to 6.2%. As Poland's economy continues to improve, the effective credit margins for businesses should gradually contract. At the same time, with debt financing expected to increase considerably in 2011 and 2012, the arithmetic mean debt burden calculated based on yearly data is understated compared to averages computed based on quarterly data. As a result, the average annual credit margins calculated based on yearly data will be lower than the effective margins paid by Kruk. This effect is clearly noticeable in our estimates for FY2011 which assume margin growth by 1.2ppts to 7.0%. For the following years, we predict a gradual narrowing to 6.5% in 2012 and 6.0% in 2013.

Financing costs (%)



Source: Kruk, BRE Bank Securities

Taxes

Unfavorable tax laws

Under Polish tax laws, a debt collection agency cannot calculate taxes on the whole of its purchased debt portfolio. Income and costs (computed proportionately to the portfolio value) are calculated individually for each case in the portfolio. Since only a portion of the purchased debts can be effectively recovered, contributing to revenues, and the costs of the uncollected accounts are not tax deductible, Kruk estimates that its effective tax rate under the Polish tax system is about 50-60%. In order to optimize its tax burden, the company decided to take advantage of the opportunities offered by the tax system of Luxembourg.

Easing the tax burden

Kruk's investments in debt portfolios are mostly channeled via its securitization funds and Secapital Luxembourg.

Secapital engages in securitization transactions by accepting risks related to various types of assets, mainly accounts receivable and asset-backed securities. Secapital can create subfunds which prepare their own balance sheets and shoulder their own investment risks. Secapital is subject to full income taxation under Luxembourg laws, but it benefits from a special tax regime which provides that all payments to investors (including dividend or interest payments to shareholders) are tax deductible, substantially reducing the effective tax rate. Moreover, under the Luxembourg-Poland double-tax treaty, any dividends that Kruk receives from Secapital are not subject to income taxes.

Kruk's Polish securitization funds, 'Prokura NS FIZ' and 'Prokulus NS FIZ,' operate in accordance with Polish laws. The funds, which do not pay income taxes, purchase portfolios in debt auctions held by banks and other institutions. As holder of securitization fund shares, Secapital pays taxes on income generated from such shares upon redemption.

Effective FY2012-2013 tax rate at 6.3%

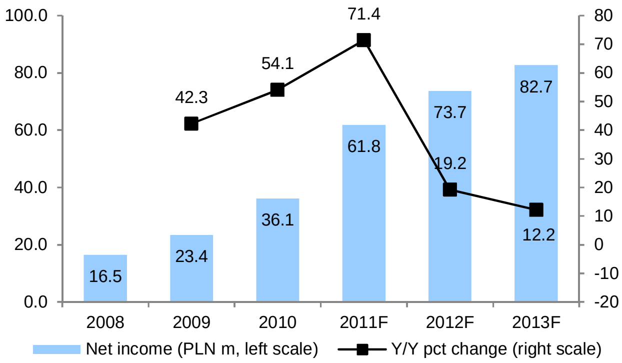
Taking into account the unfavorable local tax regime and Romania's corporate income tax rate of 16%, we predict that Kruk will pay taxes going forward at a lower effective rate than the 19% rate applicable in Poland. The tax rate averaged 6.3% in fiscal 2009 and 2010, and we expect it to decrease to 4% in 2011 thanks to the low Q1 effective rate, to return to the 6.3% in 2012 and 2013.

Net profit

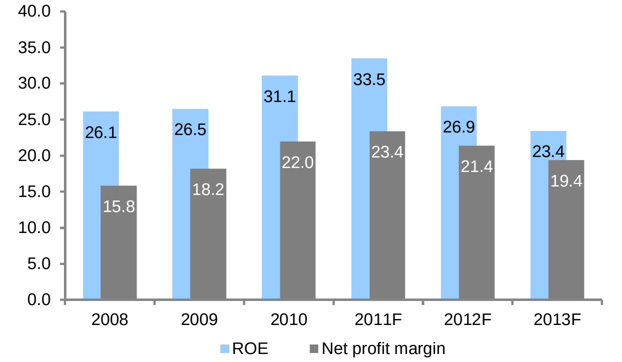
Predicting 32% annual earnings growth between 2010 and 2013

The estimates and calculations set out above led us to the conclusion that Kruk's net earnings in the next three years will be growing at an average annual rate of 32%, rising from PLN 36.1m in 2010 to PLN 82.7m in 2013.

Net profit



Profitability ratios (%)



Source: Kruk, BRE Bank Securities

Key Risks

Reduced propensity of banks to sell accounts receivable

Propensity to sell outstanding debts is a major factor shaping the market. There is a risk that banks will become less willing to sell their bad debts. For example, if they are offered low prices by debt collectors, banks will be forced to recognize additional allowances for these portfolios which will affect their profits.

Competitive pressure

Kruk competes against a number of companies in all of its markets. There is a risk that the prospect of lucrative profits and strong market momentum will attract even more players to the marketplace, and lead to margin contraction both in debt collection and debt purchases. The probability of increasing competition from foreign-owned companies is particularly high in case of the Polish market for corporate debt.

The entry barriers into the market for retail receivables are high. Aside from access to financing, a newcomer needs to have a history of successful collections against which to benchmark valuations, and has to operate on a scale which will allow it to successfully recover mass debts. Romania's less competitive market can be attributed to the limited financial capabilities of local firms.

Further, competition is more intense in auctions for small and medium-sized portfolios than in larger deals as a result of the varying sizes of debt collection companies and their diversification needs and access to financing.

Fair value miscalculation

There is a risk that Kruk will miscalculate the fair value of its purchased debt portfolios and fail to achieve its cash flow (and hence revenue) targets in a given period, forcing downward value revisions on such a portfolio.

This risk is mitigated by the fact that Kruk has a seven-year history of portfolio valuations in Poland, and has been making value computations on Romanian portfolios since 2007. Further reassurance is provided by a lack of any downward adjustment disclosures in the company's financial statements for the years 2008-2010, when both countries experienced an economic slowdown.

Decelerated portfolio acquisition

The debt portfolios purchased by Kruk generate revenues over extended (we assume eight-year) periods. If during a particular year the company scales down its acquisition efforts, or acquires smaller portfolios, this will have a negative impact on the growth and predictability of its revenues over the following several years.

Currency risk

Kruk secures most of the financing needed to fund receivables purchases form Polish banks, leading to an asset-liability currency mismatch on the balance sheet. At the end of 2010, the company had 32% of its assets and only 10% of liabilities denominated in Romanian lei. An appreciation in the zloty versus the leu is a potential source of losses. According to Kruk's estimates, a 10% appreciation in 2010 would have led to a PLN 7m charge against the year's pre-tax profit, reducing it by 19%.

Kruk does not hedge its currency exposure because of a lack of, or excessive costs of, appropriate hedging instruments for the PLN / RON currency pair. Instead, the company assesses currency risks when evaluating the debt portfolios purchased in Romania, and accordingly adjusts the expected collections curve and revenues.

Interest rate risk

Kruk's borrowings are priced at variable 1M, 3M, or 6M WIBOR interest rates. At the same time, its assets, in particular short-term investment portfolios, bear interest at rates which cannot be determined to be either fixed or floating. As a result, the company faces the risk that, in the event of a strong increase in Polish interest rates, the resulting increase in interest expenses will not be offset by higher income from assets.

The indeterminate nature of the interest earned on purchased debt portfolios makes it impossible to effectively hedge interest rate risks. According to our estimates, if costs of financing in the period from 2011 to 2013 prove 100 bps higher than we assume, Kruk's annual earnings will be 3% lower than predicted in 2011 and 5% lower in 2012 and 2013.

PR risk

Debt collection agencies like Kruk can get bad press which may negatively affect their public image and undermine their reputation as a reliable business partner for existing and prospective customers and suppliers.

Risk of losing key employees

Human resources and their skills are a valuable asset and a key driver of success in the credit management industry. The loss of key employees, including members of the Management Board, can have a negative impact on business.

In case of Kruk, this risk is minimized by the fact that the company has had the same Board for many years – the President is one of the main owners, and the other Board members have served the company for at least seven years.

Risk of equity supply by main shareholder

Kruk's main shareholder, Enterprise Investors, made a commitment not to sell the company's shares during a period of 270 days from the IPO allocation unless the value of the shares increases more than 5% relative to the IPO price, in which case the lockup restrictions can be lifted.

Schedule 1: Kruk's balance sheet and income statement

Consolidated Balance Sheet

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Fixed assets	**21.1**	**15.3**	**18.8**	**19.8**	**20.9**	**22.0**
Property, plant and equipment	8.1	8.2	9.6	10.1	10.6	11.1
Other	2.2	3.3	4.9	5.4	6.0	6.6
Goodwill	1.0	1.0	1.0	1.0	1.0	1.0
Trade and other debtors	0.0	0.0	0.0	0.0	0.0	0.0
Long-term investment	4.3	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	5.5	2.7	3.3	3.3	3.3	3.3
Current assets	**190.6**	**192.6**	**298.7**	**546.7**	**779.1**	**965.8**
Inventories	0.8	0.7	0.5	0.7	1.0	1.2
Short-term investment – debt portfolios	152.2	150.4	263.2	493.6	711.3	880.4
Short-term investment – loans	0.0	0.0	1.3	5.0	12.0	25.0
Short-term investment – other	0.0	5.0	0.0	0.0	0.0	0.0
Trade debtors	7.8	9.5	10.6	17.0	22.2	27.4
Taxes receivable	2.9	0.5	0.0	0.0	0.0	0.0
Other accounts receivable	1.6	1.9	0.7	1.1	1.5	1.8
Prepayments	0.3	0.7	1.7	2.8	3.6	4.5
Cash and cash equivalents	25.1	23.8	20.8	26.4	27.5	25.6
TOTAL ASSETS	**211.7**	**207.9**	**317.6**	**566.5**	**799.9**	**987.8**
Long-term liabilities	**56.3**	**21.6**	**78.0**	**143.3**	**222.7**	**265.8**
Loans and other accounts payable	56.3	13.6	78.0	143.3	222.7	265.8
Trade and other creditors	0.0	8.0	0.0	0.0	0.0	0.0
Short-term liabilities	**78.8**	**86.3**	**107.5**	**185.7**	**265.8**	**327.7**
Loans and other accounts payable	50.8	49.2	44.1	81.1	126.1	150.4
Trade and other creditors	19.3	26.6	49.2	81.8	110.0	140.4
Taxes payable	0.0	0.0	0.0	0.0	0.0	0.0
Employee benefits	8.6	10.5	14.0	22.6	29.4	36.5
Short-term allowances	0.1	0.0	0.2	0.2	0.3	0.4
Total liabilities	**135.1**	**107.9**	**185.5**	**329.0**	**488.5**	**593.5**
Equity	**76.5**	**100.0**	**132.0**	**237.5**	**311.4**	**394.4**
TOTAL EQUITY AND LIABILITIES	**211.7**	**207.9**	**317.6**	**566.5**	**799.9**	**987.8**
Debt	107.1	62.8	122.1	224.4	348.8	416.2
Net debt	82.0	39.0	101.4	198.0	321.2	390.6
Net debt / Equity (%)	107.1	39.0	76.8	83.4	103.1	99.1

Source: Kruk, BRE Bank Securities

Changes in Balance-Sheet items

(%)	2009	2010	2011F	2012F	2013F
Total investment	-0.6	70.2	88.5	45.1	25.2
Total assets	-1.8	52.7	78.4	41.2	23.5
Total liabilities	-20.2	72.0	77.3	48.5	21.5
Long-term debt	-75.9	474.9	83.8	55.4	19.3
Short-term debt	-3.0	-10.3	83.8	55.4	19.3
Total debt	-41.4	94.6	83.8	55.4	19.3
Equity	30.7	32.0	79.9	31.1	26.6

Source: Kruk, BRE Bank Securities

Consolidated Income Statement

(PLN m)	2008	2009	2010	2011F	2012F	2013F
Revenue	**103.9**	**128.6**	**164.3**	**264.3**	**344.3**	**426.3**
Debt Collection	28.7	41.8	44.1	44.6	45.7	46.6
Debt purchases	72.5	84.7	118.1	213.6	287.7	358.3
ERIF	0.0	0.0	1.8	5.0	8.0	15.0
Novum Loan	0.0	0.0	0.0	1.1	3.0	6.5
Other	2.7	2.1	0.4	0.0	0.0	0.0
Indirect and direct costs	**-56.3**	**-71.6**	**-89.5**	**-136.8**	**-181.3**	**-234.4**
Debt Collection	-19.4	-24.0	-25.8	-28.4	-29.5	-30.6
Debt purchases	-34.6	-46.0	-60.8	-102.1	-141.6	-187.7
ERIF	0.0	0.0	-2.9	-5.0	-7.2	-11.3
Novum Loan	0.0	0.0	0.0	-1.3	-3.0	-4.9
Other	-2.3	-1.5	0.0	0.0	0.0	0.0
Indirect margin	**47.6**	**57.0**	**74.7**	**127.5**	**163.0**	**192.0**
Debt Collection	9.2	17.7	18.2	16.2	16.1	16.0
Debt purchases	37.9	38.7	57.2	111.5	146.1	170.6
ERIF	0.0	0.0	-1.1	0.0	0.8	3.8
Novum Loan	0.0	0.0	0.0	-0.2	0.0	1.6
Other	0.4	0.6	0.4	0.0	0.0	0.0
Other operating income/expenses	-1.1	-0.8	-0.1	-0.9	-0.6	-0.7
SG&A expenses	-19.1	-21.4	-28.1	-39.0	-48.3	-57.6
Operating profit after D&A expenses	**27.4**	**34.8**	**46.6**	**87.6**	**114.2**	**133.6**
D&A expenses	-2.6	-3.1	-3.9	-5.0	-5.6	-6.4
Operating profit	**24.8**	**31.7**	**42.6**	**82.6**	**108.6**	**127.3**
Financial income/expenses	-8.5	-4.4	-7.0	-18.2	-29.9	-39.0
Pre-tax income	**16.3**	**27.3**	**35.6**	**64.4**	**78.7**	**88.3**
Tax	0.4	-3.8	0.5	-2.6	-5.0	-5.6
Minority interests	-0.2	-0.1	0.0	0.0	0.0	0.0
Net profit	**16.5**	**23.4**	**36.1**	**61.8**	**73.7**	**82.7**
Retained earnings	16.5	23.4	36.1	61.8	73.7	45.5

Source: Kruk, BRE Bank Securities

Changes in P&L items

(%)	2009	2010	2011F	2012F	2013F
Revenue	23.8	27.8	60.9	30.3	23.8
Direct and indirect costs	27.2	25.1	52.8	32.5	29.3
Indirect margin	19.7	31.2	70.5	27.9	17.7
SG&A expenses	11.9	31.0	38.9	23.9	19.4
Operating profit after D&A expenses	27.1	33.8	88.0	30.4	17.0
Operating profit	28.1	34.4	93.7	31.4	17.2
Financial income/expenses	-48.4	60.3	158.4	64.3	30.5
Pre-tax income	68.0	30.2	80.9	22.2	12.2
Net profit	42.3	54.1	71.4	19.2	12.2

Source: Kruk, BRE Bank Securities

Income multiples

(%)	2008	2009	2010	2011F	2012F	2013F
Indirect margin	45.8	44.3	45.5	48.2	47.3	45.0
EBITDA margin	26.4	27.1	28.3	33.1	33.2	31.3
EBIT margin	23.8	24.7	26.0	31.3	31.5	29.9
Net profit margin	15.8	18.2	22.0	23.4	21.4	19.4
Costs/Income	75.9	75.2	74.0	68.6	68.4	70.1
Financing costs (spread over 3M WIBOR, %)	3.8	2.9	5.8	7.0	6.5	6.0
Effective tax rate	-2.5	14.1	-1.4	4.0	6.3	6.3
ROE	26.1	26.5	31.1	33.5	26.9	23.4
ROA	9.5	11.2	13.7	14.0	10.8	9.3

Source: Kruk, BRE Bank Securities

Schedule 2: Comparable Companies

Overview of comparable companies

Company	Stock Symbol	Geographic Presence	2010 Revenue Breakdown (%) Debt Collection	Debt Purchases	Other	Portfolio Structure
Portfolio Recovery	PRAA US	United States	17	83	0	Credit cards (82%)
Intrum Justitia	IJ SS	23 European countries incl. 9 in Northern Europe (incl. Poland), 6 in Central Europe (incl. Czech Rep. and Hungary), and 8 in Western Europe	79	21	0	Loans (39%), telecom receivables (23%)
Encore Capital	ECPG US	United States	0	96	4	Credit cards (ca. 90%)
Asset Acceptance (AACC)	AACC US	United States	0	99	1	Credit cards (66%)
Credit Corp	CCP AU	Australia	0	98	2	Credit cards and other unsecured retail loans
Asta Funding	ASFI US	United States	0	100	0	Mainly credit cards

Source: Kruk, companies

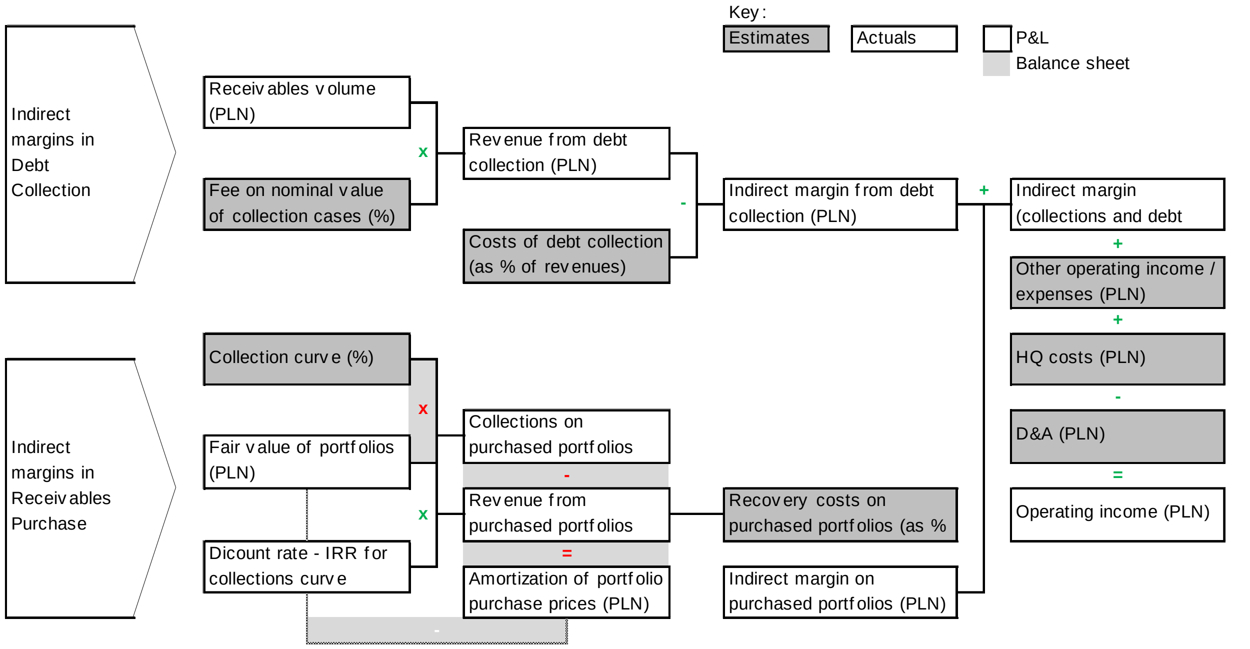
Comparable company financials

	2010 Financials (millions)			2010 Financial Ratios (%)			
Company	**Revenue**	**Operating profit**	**Net profit**	**EBIT margin**	**Net profit margin**	**ROE**	**Net debt/ Equity**
Portfolio Recovery	USD 373	USD 130	USD 74	34.8	19.8	17.9	53
Intrum Justitia	SEK 3,766	SEK 731	SEK 452	19.4	12.0	17.6	82
Encore Capital	USD 381	USD 97	USD 49	25.4	12.9	18.0	124
Asset Acceptance (AACC)	USD 198	USD 1	USD -2	0.5	-0.8	-1.3	122
Credit Corp	AUD 93	AUD 28	AUD 14	29.7	14.5	16.6	114
Asta Funding	USD 46	USD 5	USD 3	11.4	6.8	2.0	7
Collection House	AUD 103	AUD 17	AUD 9	16.1	8.6	9.8	73

*Source: Kruk, companies; * excl. discontinued debt collection operations in Norway*

Schedule 3: Kruk's Financial Model

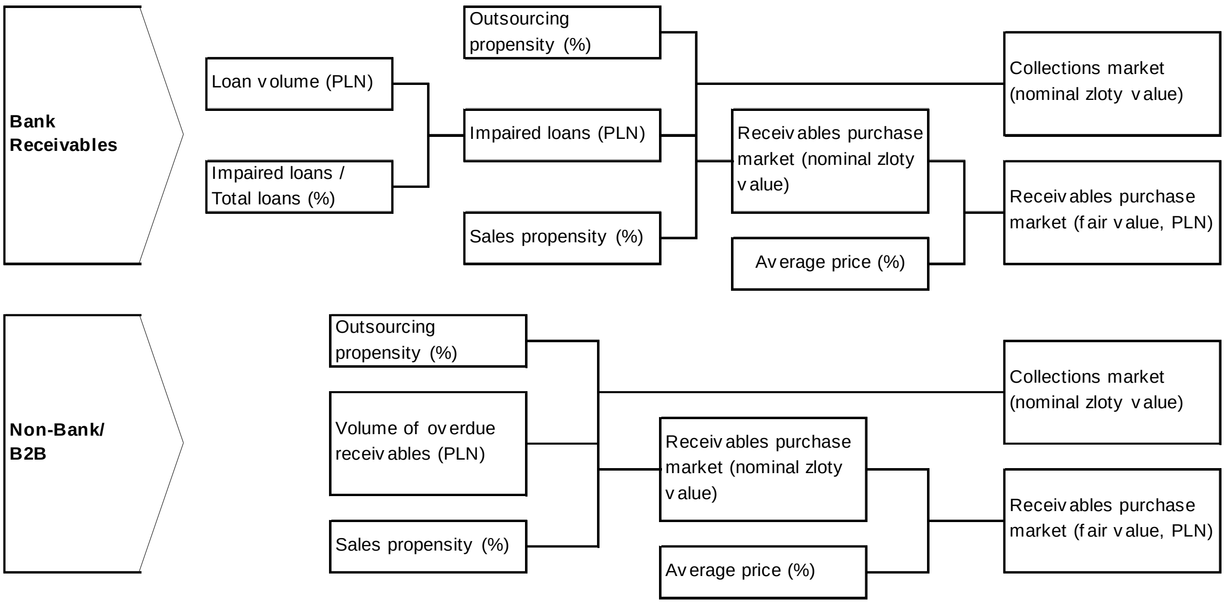
Overview of Kruk's financial model



Source: Kruk, BRE Bank Securities

Schedule 4: Summary Approach to Estimating the Value of the Debt Collection Market

Debt collection market value estimations



Source: Kruk, BRE Bank Securities

Definitions:

Outsourcing propensity

An indicator used in estimating the value of the debt collection market, measured as a ratio of the market's value in a given year to the value of non-performing loans outstanding at the end of that year.

Propensity to sell

An indicator used in estimating the value of the purchased debt market, measured as a ratio of the market's value in a given year to the value of non-performing loans outstanding two years earlier.

Average prices

An indicator used in estimating the value of the purchased debt market, measured as a ratio of the market's fair value to its nominal value.

Schedule 5: Economic data and forecasts for selected CEE countries

Poland

Economic forecast for Poland

	2007	2008	2009	2010	2011F	2012F	2013F
Real GDP growth (%)	6.8	5.0	1.7	3.8	4.4	4.3	4.3
Nominal GDP (PLN bn)	1 177	1 275	1 344	1 416	1 536	1 648	1 768
Inflation rate (period average, %)	2.5	4.2	3.5	2.8	4.1	3.3	3.0
Unemployment rate at year end (%)	11.2	9.5	11.9	12.3	11.9	10.8	10.2
Population (millions)	38.1	38.1	38.1	38.1	38.1	38.1	38.1
Public debt / GDP (%)	45	47	51	55	55	54	54

Source: Central Statistical Office (GUS), BRE Bank Securities

Romania

Economic forecast for Romania

	2007	2008	2009	2010	2011F	2012F	2013F
Real GDP growth (%)	6.3	7.4	-7.1	-1.3	1.5	4.4	4.3
Nominal GDP (PLN bn)	416.0	514.7	498.0	513.6	542.0	590.2	643.8
Inflation rate (period average, %)	4.8	7.8	5.6	6.1	6.1	3.4	3.0
Unemployment rate at year end (%)	4.3	4.0	6.3	7.6	6.6	5.8	5.2
Population (millions)	21.5	21.5	21.5	21.4	21.4	21.3	21.3
Public debt / GDP (%)	19.8	21.3	29.6	35.2	37.8	37.7	37.5

Source: IMF's World Economic Outlook report of April 2011, Romanian Institute of Statistics

Hungary

Economic forecast for Hungary

	2007	2008	2009	2010	2011F	2012F	2013F
Real GDP growth (%)	0.8	0.8	-6.7	1.2*	2.8	2.8	2.8
Nominal GDP (PLN bn)	25 321	26 754	26 054	26 918*	28 529	30 114	31 917
Inflation rate (period average, %)	7.9	6.1	4.2	4.9	4.1	3.5	3
Unemployment rate at year end (%)	7.7	8.0	10.1	11.2	11.5	10.9	10.7
Population (millions)	10.1	10.0	10.0	10.0	10.0	10.0	10.0
Public debt / GDP (%)	66.1	72.3	78.4	80.4*	76.6	76.9	77.1

*Source: IMF's World Economic Outlook report of April 2011, Hungarian Statistical Office; * preliminary data*

Czech Republic

Economic forecast for Czech Republic

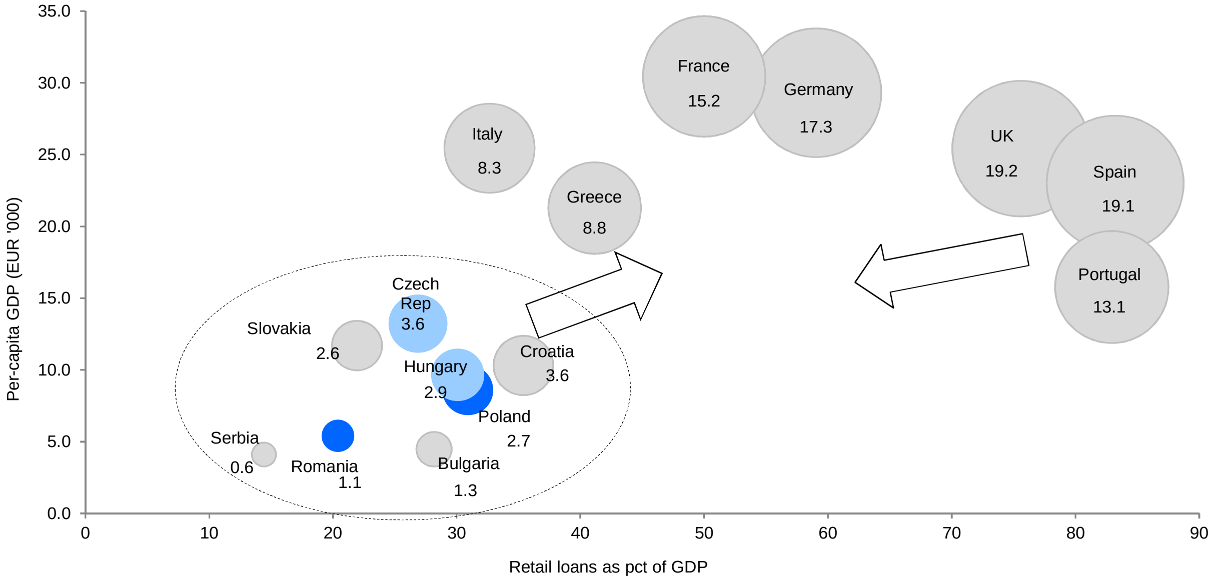
	2007	2008	2009	2010	2011F	2012F	2013F
Real GDP growth (%)	6.1	2.5	-4.1	2.3	1.7	2.9	2.9
Nominal GDP (PLN bn)	3 535	3 689	3 626	3 670	3 832	4 022	4 229
Inflation rate (period average, %)	2.9	6.3	1.0	1.5	2.1	2.0	2.0
Unemployment rate at year end (%)	5.3	4.4	6.7	7.3	7.1	6.9	6.5
Population (millions)	10.3	10.4	10.5	10.5	10.5	10.6	10.6
Public debt / GDP (%)	29.0	30.0	35.4	39.6*	41.7	43.4	44.5

*Source: IMF's World Economic Outlook report of April 2011, Czech Statistical Office; * preliminary data*

Schedule 6: Selected Credit Markets of the CEE region

CEE vs. Western Europe

Comparison of retail borrowing in selected European countries * (2009)



Source: IMF, ECB, local central banks; * The size of the bubble represents the per-capita value of retail loans (EUR '000)

Poland

Bank lending forecast

(PLN bn)	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Total loans	255	285	352	454	620	665	723	788	871	960
Y/Y pct. change	*3*	*12*	*23*	*29*	*37*	*7*	*9*	*9*	*11*	*10*
Corporate loans	116	119	136	168	216	207	204	227	251	274
Y/Y pct. change	*-4*	*3*	*14*	*23*	*29*	*-4*	*-2*	*11*	*11*	*9*
Retail loans	110	136	183	253	367	411	468	507	563	626
Y/Y pct. change	*12*	*24*	*34*	*38*	*45*	*12*	*14*	*8*	*11*	*11*
Housing loans	36	50	78	117	193	215	264	293	330	371
Y/Y pct. change	*21*	*41*	*54*	*50*	*65*	*12*	*23*	*11*	*13*	*13*
Non-housing loans	74	86	105	136	174	196	204	214	234	255
Y/Y pct. change	*8*	*16*	*23*	*30*	*28*	*12*	*4*	*5*	*9*	*9*
Other loans	30	30	33	32	37	47	51	54	57	60
Y/Y pct. change	*-1*	*2*	*9*	*-1*	*15*	*26*	*10*	*5*	*5*	*5*

Source: NBP, BRE Bank Securities

Non-performing loan forecast for the bank industry

(PLN bn)	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Total loans	36.2	29.8	24.7	23.0	27.6	50.7	61.6	65.4	65.5	65.8
Y/Y pct. change	*-28*	*-18*	*-17*	*-7*	*20*	*84*	*21*	*6*	*0*	*1*
Corporate loans	23.8	18.1	13.6	12.0	14.1	25.6	27.2	27.9	25.9	25.5
Y/Y pct. change	*-31*	*-24*	*-24*	*-12*	*17*	*81*	*6*	*3*	*-7*	*-2*
Retail loans	10.9	10.8	10.4	10.5	13.0	24.9	34.0	37.1	39.1	39.8
Y/Y pct. change	*-18*	*-1*	*-4*	*1*	*24*	*91*	*37*	*9*	*6*	*2*
Housing loans	-	-	-	-	-	3.2	4.9	6.5	8.1	9.9
Y/Y pct. change							*53*	*32*	*25*	*22*
Non-housing loans	-	-	-	-	-	21.7	29.1	30.6	31.0	29.9
Y/Y pct. change							*34*	*5*	*1*	*-3*
Other loans	1.5	1.0	0.6	0.5	0.4	0.3	0.4	0.4	0.4	0.5
Y/Y pct. change	*-41*	*-36*	*-36*	*-24*	*-9*	*-29*	*28*	*5*	*5*	*5*

Source: NBP, BRE Bank Securities

Forecast of non-performing loans as percentage of total loans

(%)	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Total loans	14.2	10.4	7.0	5.1	4.4	7.6	8.5	8.3	7.5	6.9
Corporate loans	20.5	15.1	10.0	7.2	6.5	12.3	13.3	12.3	10.3	9.3
Retail loans	9.9	7.9	5.7	4.1	3.6	6.1	7.3	7.3	6.9	6.4
Housing loans	-	-	-	-	-	1.5	1.9	2.2	2.5	2.7
Non-housing loans	-	-	-	-	-	11.1	14.3	14.3	13.3	11.8
Other loans	5.2	3.3	1.9	1.5	1.2	0.7	0.8	0.8	0.8	0.8

Source: NBP, BRE Bank Securities

Romania

Bank lending forecast

(RON bn)	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Total loans	38	56	89	144	194	196	207	218	240	270
Y/Y pct. change		*47*	*58*	*62*	*34*	*1*	*5*	*5*	*10*	*12*
Corporate loans	26	35	50	73	95	96	105	115	132	153
Y/Y pct. change		*33*	*43*	*47*	*30*	*2*	*9*	*10*	*15*	*16*
Retail loans	12	21	39	72	99	100	102	103	108	117
Y/Y pct. change		*80*	*84*	*82*	*39*	*1*	*2*	*1*	*5*	*8*
Housing loans	-	-	-	14	21	24	29	34	39	45
Y/Y pct. change				*0*	*47*	*16*	*19*	*18*	*15*	*15*
Non-housing loans	-	-	-	57	78	76	73	69	69	72
Y/Y pct. change				*0*	*37*	*-3*	*-4*	*-6*	*0*	*4*

Source: NBR, BRE Bank Securities

Non-performing loan* forecast for the bank industry

(RON bn)	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Total loans	n/a	n/a	2.5	5.4	15.5	24.5	31.6	31.2	29.7
Y/Y pct. change				*121*	*186*	*58*	*29*	*-1*	*-5*

*Source: NBR, BRE Bank Securities; * defined by NBR as loss loans*

Forecast of non-performing loans* as percentage of total loans

(%)	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Total loans	n/a	n/a	1.7	2.8	7.9	11.9	14.5	13.0	11.0

*Source: NBR, BRE Bank Securities; * defined by NBR as loss loans*

Hungary

Bank lending forecast

(HUF bn)	2004	2005	2006	2007	2008	2009	2010
Total loans	9 971	11 599	13 750	15 511	18 374	17 733	18 454
Y/Y pct. change	*14*	*16*	*19*	*13*	*18*	*-3*	*4*
Corporate loans	5 006	5 714	6 496	7 285	8 011	7 650	7 595
Y/Y pct. change	*13*	*14*	*14*	*12*	*10*	*-5*	*-1*
Retail loans	2 996	3 788	4 754	5 914	7 721	7 845	8 584
Y/Y pct. change	*28*	*26*	*26*	*24*	*31*	*2*	*9*
Housing loans	1 910	2 283	2 699	3 145	3 919	3 976	4 353
Y/Y pct. change	*27*	*20*	*18*	*17*	*25*	*1*	*9*
Non-housing loans	1 086	1 505	2 055	2 769	3 803	3 868	4 230
Y/Y pct. change	*29*	*39*	*37*	*35*	*37*	*2*	*9*
Other loans	1 969	2 096	2 500	2 312	2 642	2 238	2 276
Y/Y pct. change	*0*	*6*	*19*	*-7*	*14*	*-15*	*2*

Source: MNB

Non-performing loan* forecast for the bank industry

(HUF bn)	2006	2007	2008	2009	9M 2010
Total loans	327	402	606	1 205	1 622
Y/Y pct. change		*23*	*51*	*99*	*51*
Corporate loans	213	243	381	652	880
Y/Y pct. change		*14*	*57*	*71*	*54*
Retail loans	113	159	225	553	742
Y/Y pct. change		*40*	*42*	*146*	*48*

*Source: MNB; * Sum of substandard, doubtful, and loss loans*

Forecast of non-performing loans* as percentage of total loans

(%)	2006	2007	2008	2009	9M 2010
Total loans	2.4	2.6	3.3	6.8	8.9
Corporate loans	3.3	3.3	4.8	8.5	11.6
Retail loans	2.4	2.7	2.9	7.1	8.9

*Source: MNB; * Sum of substandard, doubtful, and loss loans*

Czech Republic

Bank lending forecast

(CZK bn)	2004	2005	2006	2007	2008	2009	2010
Total loans	1 010	1 179	1 413	1 784	2 076	2 102	2 174
Y/Y pct. change	*6*	*17*	*20*	*26*	*16*	*1*	*3*
Corporate loans	460	525	635	743	848	782	780
Y/Y pct. change	*7*	*14*	*21*	*17*	*14*	*-8*	*0*
Retail loans	314	415	536	721	873	975	1 044
Y/Y pct. change	*32*	*32*	*29*	*34*	*21*	*12*	*7*
Housing loans	209	280	371	511	614	684	728
Y/Y pct. change	*35*	*34*	*33*	*38*	*20*	*12*	*6*
Non-housing loans	105	135	165	210	260	290	316
Y/Y pct. change	*28*	*29*	*22*	*27*	*24*	*12*	*9*
Other loans	237	238	242	320	354	345	351
Y/Y pct. change	*-17*	*1*	*1*	*32*	*11*	*-3*	*2*

Source: CNB

Non-performing loan* forecast for the bank industry

(CZK bn)	2004	2005	2006	2007	2008	2009	2010
Total loans	49.7	48.3	50.3	47.3	65.8	110.2	134.8
Y/Y pct. change	*-19*	*-3*	*4*	*-6*	*39*	*68*	*22*
Corporate loans	30.5	26.7	28.2	22.8	35.3	61.9	69.1
Y/Y pct. change	*-26*	*-12*	*6*	*-19*	*55*	*75*	*12*
Retail loans	13.3	15.9	17.6	21.1	25.6	38.7	53.3
Y/Y pct. change	*-3*	*20*	*11*	*20*	*21*	*51*	*38*
Housing loans	3.6	4.7	6.0	7.9	10.0	17.4	23.4
Y/Y pct. change	*22*	*30*	*27*	*31*	*28*	*73*	*34*
Non-housing loans	9.6	11.2	11.6	13.3	15.6	21.3	30.0
Y/Y pct. change	*-10*	*16*	*4*	*15*	*17*	*37*	*41*
Other loans	5.9	5.7	4.5	3.3	4.8	9.6	12.4
Y/Y pct. change	*-7*	*-4*	*-21*	*-27*	*46*	*98*	*29*

*Source: CNB; * Sum of substandard, doubtful, and loss loans*

Forecast of non-performing loans* as percentage of total loans

(%)	2004	2005	2006	2007	2008	2009	2010
Total loans	4.9	4.1	3.6	2.7	3.2	5.2	6.2
Corporate loans	6.6	5.1	4.4	3.1	4.2	7.9	8.9
Retail loans	4.2	3.8	3.3	2.9	2.9	4.0	5.1
Housing loans	1.7	1.7	1.6	1.5	1.6	2.5	3.2
Non-housing loans	9.2	8.3	7.0	6.3	6.0	7.3	9.5
Other loans	2.5	2.4	1.9	1.0	1.4	2.8	3.5

*Source: CNB; * Sum of substandard, doubtful, and loss loans*

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List of abbreviations and ratios contained in the report:
EV *– net debt + market value*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
P/CE *– price to earnings with amortisation*
MC/S *– market capitalisation to sales*
EBIT/EV *– operating profit to economic value*
P/E *– (Price/Earnings) – price divided by annual net profit per share*
ROE *– (Return on Equity) – annual net profit divided by average equity*
P/BV *– (Price/Book Value) – price divided by book value per share*
Net debt *– credits + debt papers + interest bearing loans – cash and cash equivalents*
EBITDA margin *– EBITDA/Sales*

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