REPORT
of the Supervisory Board on results of the assessment
of the consolidated financial statements of BGŻ S.A. Capital Group
for the year ended 31 December 2013 and report on the activity
of BGŻ S.A. Capital Group in 2013

Pursuant to Article 382 § 3 of the Code of Commercial Companies, the Supervisory Board of Bank Gospodarki Żywnościowej S.A. conducted an assessment of the consolidated financial statements of BGŻ S.A. Capital Group for the year ended 31 December 2013 and the report on the activity of the Capital Group in 2013.

The above assessment was conducted on the basis of:

1. Consolidated financial statements covering:
    - consolidated profit and loss account for the period from 1 January 2013 to 31 December 2013, showing net profit of PLN 160 144 thousand,
    - consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, showing total income of PLN 36 256 thousand,
    - consolidated statement of financial situation drawn up as of 31 December 2013, which shows the amount of PLN 35 777 141 thousand on the asset side,
    - consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013, showing an increase in equity of PLN 36 573 thousand,
    - consolidated cash flow statement for the period from 1 January 2012 to 31 December 2012, disclosing a negative net cash in the amount of PLN 322 647 thousand, and
    - accounting principles (policies) and notes to financial statements
2. Report of the Management Board on the activity of BGŻ S.A. Capital Group in 2012
3. Opinion and report of the independent statutory auditor – KPMG Spółka z ograniczoną odpowiedzialnością Sp.k. – selected for the audit of the financial statements based on the resolution of the Supervisory Board No. 1/2013 of 28 January April 2013.

The Supervisory Board states as follows:

Ad: 1) Consolidated financial statements

As a result of the assessment of consolidated financial statements of BGŻ S.A. Capital Group for the year ended on 31 December 2013, the Supervisory Board states that the statements have been prepared:

- in accordance with the International Financial Reporting Standards which have been approved by the European Union,
- in compliance with legal provisions regulating the preparation of financial statements, which affect the form and contents of the financial statements,

and reliably and clearly present all information relevant for the assessment of the financial result on the business activity for the period from 1 January 2013 to 31 December 2013, as well as the economic and financial position of BGŻ S.A. Capital Group as at 31 December 2013.

Selected financial data and ratios

in thousands PLN	31/12/2013	31/12/2012	Change	
Gross profit (loss)	202 221	173 964	28 257	16.2%
Net profit (loss)	160 144	130 049	30 095	23.1%
Total shareholder's equity	3 509 190	3 472 617	36 573	1.1%
Balance sheet total	35 777 141	37 246 734	(1 469 593)	(3.9%)

	31/12/2013	31/12/2012	Change	
Return on Equity (ROE)(1)	4.6%	4.3%	0.3	percentage points
Return on assets (ROA)(2)	0.4%	0.4%	-	percentage points
Net Interest Margin (NIM)(3)	2.7%	2.9%	(0.2)	percentage points
Cost / Income (C/I)(4)	68.0%	69.7%	(1.7)	percentage points
Loans / Deposits(5)	103.9%	101.7%	2.2	percentage points
Solvency ratio (CAR)	13.3%	11.8%	1.5	percentage points

(1) Net profit to average equity calculated based on balances as at the end of the years.
(2) Net profit to average assets calculated based on balances as at the end of the years.
(3) Result on interest to average assets calculated based on balances as at the end of the years.
(4) Total administrative costs and depreciation/amortisation to total result on banking activities and other operating income and costs excluding depreciation/amortisation.
(5) Carrying amount of loans and advances granted to clients to liabilities to clients. Balances as at the end of the year.

Assets

As at the end of 2013 total assets value of the Group was PLN 35.78 billion and was by 3.9% lower than in 2012.

The main factor of the decrease in assets in 2013 was reduction of excess liquidity stored in debt securities recognized as financial assets available for sale. These assets have been reduced by PLN 2 041 484 thousand, by what part of the released funds was moved into debt securities recorded as held for trading (an increase of PLN 799 650 thousand y/y).

Optimization of the liquidity structure of assets in 2013 was linked to the reduction of funding in the form of commitments to customers, banks and due to issued debt securities and have a positive impact on net interest income of the Group.

Overall in 2013, loans and advances to customers decreased by PLN 25 784 thousand, i.e. 0.1%. This was due to low demand for loans for enterprises, caused by more conservative planning for investment spending in the situation of economic downturn and also by prudent Bank's policy for crediting sectors with higher risk.

The second significant factor of assets' decline was balance of cash on hand and with Central Bank (a decrease of PLN 488 944 thousand y / y). In the reporting period, the cash balance decreased by PLN 152 228 thousand, i.e. 17.6%, as a result of activities to optimize the maintenance of the Bank's cash in this form. The balance account in the Central Bank decreased by PLN 336 716 thousand. PLN, i.e. 27.1%, whereas they are naturally under huge volatility because they are created by the current needs of the Bank to settle the obligatory reserve requirements.

Liabilities and equity

By the end of 2013, the total value of the Group's liabilities amounted to PLN 32 267 951 thousand and was lower by PLN 1 506 166 thousand, i.e. 4.5% than at the end of 2012. The main factor of the decrease was liabilities to other banks, customers and due to the issuance of debt securities.

The decrease in liabilities due to banks by PLN 823 022 thousand, i.e. 20.1%, was mainly due to the early repayment of part of the loan in CHF from Rabobank (repaid CHF 90 million), while lending this amount to the Bank by Rabobank in the form of a subordinated loan. Its value at 31.12.2013 amounted to PLN 304 817 thousand. The amounts due to customers decreased by PLN 449 255 thousand, i.e. 1.7% mainly as result of lower funding obtained from non-banking financial institutions in form of high balance deposits.

Liabilities from debt securities issuance has been reduced by PLN 661 773 thousand, i.e. 35.7%, as a result of non-renewal of expiring portion of securities in a situation of reduced Bank's demand for funding.

By the end of 2013, the Bank's equity amounted to PLN 3 509 190 thousand and was by PLN 36 573 thousand higher than at the end of 2012. The change in equity during this period was the result of:

- decrease in other reserves of PLN 123 888 thousand, i.e. 37.5%, due to lower valuation of financial assets (mainly debt securities classified as available for sale);
- retention of the Bank's financial results from 2012 in the amount of PLN 134 284 thousand (charged to other supplementary capital);
- decrease of retained earnings by PLN 3 977 thousand y/y as a result of transfer to reserve capital of share in the financial loss BGZ Leasing Sp z o.o. for 2012
- higher result for the current period (by PLN 30 095 thousand y/y).

Consolidated profit and loss account

In 2013, the Group has generated net profit of PLN 160 144 thousand i.e. more by 30 095 thousand than in 2012 (23.1%). The main causes for the increase were: limitation of general administrative costs, decrease of net impairment losses on financial assets, higher other operating income and lower other operating expenses.

In 2013, net interest income decreased by PLN 4 377 thousand, i.e. 0.4%. The relative stability of the annual net interest income was achieved by reducing interest expense by PLN

239 687 thousand, i.e. 21.1% y/y, almost fully compensating decrease in interest income, which amounted to PLN 244 064 thousand, i.e. 11.3% y/y. The dynamics of income and expenses in 2013 was influenced by external factors, and the rate of growth of loans and deposits.

Among the external factors, the most important were the NBP interest rate cuts. In the period from November 2012 to July 2013 there were eight reductions, a total of 2.25 percentage point.

Another important external factor was the entry into force on 24 October 2012, the regulation on payment services in the part concerning information obligations imposed on the service provider in relation to the customer.

The above-mentioned factors - especially in the first half of 2013 - had put pressure on interest margins realized on deposit products. Positive for net interest income impact of deposit's price adjustments to the low level of interest rates has highlighted fully in the second half of 2013.

The size of the loan portfolio remained stable during 2013, what was the result of the prevailing economic conditions and the credit policy of the Group.

Net fee and commission income in 2013 was lower by PLN 21 247 thousand, i.e. 7.1% y/y, compared with 2012, due to decrease in income from fees and commissions by PLN 12 401 thousand, i.e. 3.6% y/y and an increase in commission expenses by PLN 8 846 thousand, i.e. 18.3%.

Decrease in net fee and commission income was a result of lower income from:

- loans and advances – as a result of slowdown of loans on current account and loan commitment growths. In case of loan commitments, an additional factor, which limited income in the statement of profit or loss, was commencement of settling them over time.
- clearing operations - as a result of a slower rate of turnover of transaction in the economy,
- sale of insurance products - as a result of the introduction of settlement in time of net commissions for the sale of insurance products related to the creation of financial assets or liabilities (mainly regarding cash loans insurance). Starting from the 1 January 2013, these fees have become an integral part of the effective interest rate method and are recognized in the statement of profit or loss as interest income.

Despite reduced interchange rates, fee and commission income on payment cards increased by PLN 8 135 thousand, i.e. 11.0%, mainly due to higher income from cards organizations for increased number of underlying transactions.

Better stock exchange and the investment fund market situation, as well as the renegotiation of distribution agreements with selected TFI enabled the Group to increase income from commissions from brokerage operations PLN 3 734 thousand, i.e. 33.7%.

The increase in costs from fees and commissions was mainly caused by the higher cost of payment cards (by PLN 8 997 thousand, i.e. 37.0% y/y), paid for operators of card due to a larger number of transactions executed by the Bank's customers.

Dividend income in 2013 decreased by PLN 568 thousand, i.e. 16.6%.

Net trading income in 2013 was by PLN 18 143 thousand, i.e. 18.4% y/y, lower than in 2012. The level and volatility of this result is shaped mainly by the valuation of the Bank's position in the instruments of interest rate swaps (IRS) as a hedge against interest rate risk, and trading activity on debt securities whose profitability is dependent on the accuracy of predicted changes in the market.

Result on investment activity fell by PLN 4 106 thousand, i.e. 9.5%, compared with 2012. The main component of the result of investment activity remained realized gains on portfolio of securities available for sale.Other operating income in 2013 increased by PLN 14 937 thousand, i.e. 42.7% compared with the previous year, mainly due to the increase in other operating income from recovery of overdue, amortized and uncollectable debts, and repayment of debts excluded from statement of financial position, which recognized significant income from the repayment of debts written off from the balance sheet of a corporate client from agro food sector.

In addition, in the fourth quarter of 2013, the Bank made a partial (PLN 7 788 thousand) release of provisions for fine imposed in 2006 on the Bank by the President of the Office of Competition and Consumer Protection on charges of payment cards – because of the court's decision of reducing the penalty.

General administrative expenses and depreciation/amortization in 2013 decreased by PLN 47 318 thousand, i.e. 5.1%, compared to 2012, which was primarily due to decrease in employee, marketing, external services, other non-personnel and IT costs.

Credit portfolio quality

As at 31.12.2013 the share of receivables that lost their value, in the portfolio of loans and advances granted to customers was 8.0% in comparison to 7.1% to the end of 2012.

Growth rate for the total portfolio was a consequence of the increase of receivable share that have lost value in the mortgage loan portfolio, respectively to 5.2% from 4.9%, and in the portfolio of loans to corporate customers excluding farmers, respectively, to 11.9% from 9.1%. In the latter case, this partially resulted from the increase in value of impaired loans due to the economic downturn, and in part from a decrease in the total value of these loans.

However, the quality of cash loans to retail customers has improved (decrease of respectively from 17.8% to 13.0%), what was caused by the dynamic growth of this portfolio and a number of sale transactions of overdue receivables.

The participation rate of impaired loans in the agriculture portfolio was low and during 2013 it further improved (from 3.6% to 3.5%). The agricultural sector showed good resistance to the economic downturn.

Equity and solvency ratio (CAR)

The capital adequacy ratio increased from 11.79% at the end of 2012 to 13.27% at the end of 2013.

Own funds increased by PLN 368 206 thousand, which was the result of the following factors:

- inclusion to supplementary funds of subordinated liability in the amount of CHF 90 000 thousand. CHF (304 344 thousand. PLN as at 31 December 2013) to a strategic shareholder, with the consent of the Polish Financial Supervision Authority issued in August 2013;

- retention of net profit for 2012 in the amount of PLN 134 343 thousand, which increased the capital reserve;
- higher by PLN 43 706 thousand profit in the course of approval, which is the net profit for the first half of the year after a review of interim financial statements by an auditor;
- increase in unrealized losses/decrease in unrealized profits on debt securities classified as available for sale and recognized respectively in basic /supplementary funds of the Bank – in total by PLN 115 651 thousand.

The decrease of the capital requirement for credit risk by PLN 44 487 thousand y/y corresponded to the inhibition of lending. The increase in the capital requirement for operational risk corresponded to the increase in the result being a basis for the calculation of this requirement in accordance with BIA method used by the Bank (the requirement is calculated as 15% of the average result for the previous three years).

Assessment made by the Supervisory Board

After becoming acquainted with the consolidated financial statements of BGŻ S.A. Capital Group for the year ended on 31 December 2013 prepared by the Management Board, and the opinion and report of the independent statutory auditor, the Supervisory Board decides to give a positive opinion to the financial statements of the Group for the year ended on 31 December 2013, and recommend the approval of the financial statements to the Ordinary General Meeting.

Ad: 2) Report of the Management Board on activity of BGŻ S.A. Capital Group in 2013

The Supervisory Board declares that the report on activity of BGŻ S.A. Capital Group in 2013 is consistent with information contained in the consolidated financial statements for the year ended on 31 December 2013. The Supervisory Board recommends the approval of the report on activity of the BGŻ S.A. Capital Group in 2013 to the Ordinary General Meeting of BGŻ S.A.