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**Semi-annual Consolidated Report of  
Bank Gospodarki  
Żywnościowej S.A. Group  
for the 6-month period  
ended 30 June 2014**

Warsaw, 8 August 2014

# Bank Gospodarki Żywnościowej S.A. Group

Semi-annual Consolidated Report for the 6-month period ended 30 June 2014

- data in PLN thousand



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# Bank Gospodarki Żywnościowej S.A. Group

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# Bank Gospodarki Żywnościowej S.A. Group

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Interim Condensed Consolidated Financial Statements

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## I INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Interim condensed consolidated statement of profit or loss

|  | Note | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|------|---|--|---|--|
| Interest income  | 10   | 438 336   | 864 176  | 480 510   | 1 017 634  |
| Interest expense   | 10   | (162 091)   | (317 351)  | (243 167)   | (538 923)  |
| <b>Net interest income</b>   |      | <b>276 245</b>  | <b>546 825</b>   | <b>237 343</b>  | <b>478 711</b>   |
| Fee and commission income  | 11   | 92 295  | 176 588  | 76 838  | 154 063  |
| Fee and commission expense   | 11   | (11 058)  | (22 799)   | (10 873)  | (21 102)   |
| <b>Net fee and commission income</b>                                 |      | <b>81 237</b>   | <b>153 789</b>   | <b>65 965</b>   | <b>132 961</b>   |
| Dividend income  |      | 3 302   | 3 302  | 2 837   | 2 837  |
| Net trading income   | 12   | 11 153  | 24 874   | 31 638  | 48 751   |
| Result on investing activities                                       |      | 2 307   | 5 476  | 20 613  | 20 613   |
| Result on hedge accounting   |      | (21)  | (156)  | 99  | (1 099)  |
| Other operating income   | 14   | 10 758  | 16 390   | 9 254   | 14 920   |
| Net impairment losses on financial assets and contingent liabilities | 17   | (53 377)  | (111 153)  | (58 567)  | (91 323)   |
| General administrative expenses                                      | 13   | (220 858)   | (444 867)  | (213 449)   | (443 892)  |
| Depreciation and amortization  | 15   | (25 227)  | (49 835)   | (24 782)  | (49 257)   |
| Other operating expenses   | 16   | (5 506)   | (10 822)   | (3 733)   | (7 742)  |
| <b>Operating result</b>  |      | <b>80 013</b>   | <b>133 823</b>   | <b>67 218</b>   | <b>105 480</b>   |
| Share in profit (loss) of associates                                 |      | 842   | 2 096  | (1 165)   | (1 314)  |
| <b>Profit before income tax</b>                                      |      | <b>80 855</b>   | <b>135 919</b>   | <b>66 053</b>   | <b>104 166</b>   |
| Income tax expense   | 18   | (16 995)  | (27 421)   | (13 065)  | (21 634)   |
| <b>Net profit for the period</b>                                     |      | <b>63 860</b>   | <b>108 498</b>   | <b>52 988</b>   | <b>82 532</b>  |
| – attributable to equity holders of the Bank                         |      | 63 860  | 108 498  | 52 988  | 82 532   |
| <b>Earnings per share (in PLN per share)</b>                         |      |   |  |   |  |
| Basic  |      | 1.23  | 2.11   | 1.04  | 1.61   |
| Diluted  |      | 1.23  | 2.11   | 1.04  | 1.61   |

# Bank Gospodarki Żywnościowej S.A. Group

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Interim Condensed Consolidated Financial Statements

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## Interim condensed consolidated statement of other comprehensive income

|   | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|---|---|--|---|--|
| <b>Net profit for the period</b>  | <b>63 860</b>   | <b>108 498</b>   | <b>52 988</b>   | <b>82 532</b>  |
| <b>Other comprehensive income</b>   |   |  |   |  |
| <i>Items that are or may be reclassified subsequently to profit or loss</i> | <i>88 991</i>   | <i>88 268</i>  | <i>(67 201)</i>   | <i>(94 657)</i>  |
| Net change in valuation of available for sale financial assets              | 110 993   | 117 373  | (82 207)  | (118 668)  |
| Net change in valuation of cash flow hedges                                 | (1 128)   | (8 400)  | (757)   | 1 808  |
| Deferred tax  | (20 874)  | (20 705)   | 15 763  | 22 203   |
| <i>Items that will not be reclassified to profit or loss</i>                | <i>(1 933)</i>  | <i>(2 121)</i>   | -   | -  |
| Actuarial valuation of employee benefits                                    | (2 387)   | (2 619)  | -   | -  |
| Deferred tax  | 454   | 498  | -   | -  |
| <b>Other comprehensive income (net of tax)</b>                              | <b>87 058</b>   | <b>86 147</b>  | <b>(67 201)</b>   | <b>(94 657)</b>  |
| <b>Total comprehensive income for the period</b>                            | <b>150 918</b>  | <b>194 645</b>   | <b>(14 213)</b>   | <b>(12 125)</b>  |
| - attributable to equity holders of the Group                               | 150 918   | 194 645  | (14 213)  | (12 125)   |

**Bank Gospodarki Żywnościowej S.A. Group**  
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**Interim condensed consolidated statement of financial position**

|   | Note | 30.06.2014        | 31.12.2013        |
|---|------|-------------------|-------------------|
| <b>ASSETS</b>                           |      |                   |                   |
| Cash and balances with the Central Bank |      | 1 416 197         | 1 617 713         |
| Loans and advances to banks             | 19   | 291 876           | 269 757           |
| Reverse repo transactions               | 20   | 61 351            | 309 255           |
| Debt securities held for trading        | 21   | 300 818           | 1 018 701         |
| Derivative financial instruments        | 22   | 247 465           | 363 260           |
| Hedging instruments                     | 23   | -                 | 57 387            |
| Loans and advances to customers         | 24   | 28 918 697        | 26 297 916        |
| Available for sale financial assets     | 25   | 6 537 759         | 4 826 073         |
| Investment property                     |      | 62 524            | 62 524            |
| Investments in associates               |      | 37 101            | 35 052            |
| Intangible assets                       | 26   | 153 405           | 158 589           |
| Property, plant and equipment           | 27   | 427 054           | 449 139           |
| Deferred tax assets                     |      | 159 639           | 142 792           |
| Current tax assets                      |      | -                 | 12 519            |
| Other assets                            | 28   | 160 651           | 156 464           |
| <b>TOTAL ASSETS</b>                     |      | <b>38 774 537</b> | <b>35 777 141</b> |

# Bank Gospodarki Żywnościowej S.A. Group

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## Interim condensed consolidated statement of financial position (continued)

|  | Nota | 30.06.2014        | 31.12.2013        |
|--|------|-------------------|-------------------|
| <b>LIABILITIES</b>                     |      |                   |                   |
| Amounts due to banks                   | 29   | 4 282 635         | 3 271 414         |
| Repo transactions                      | 30   | 159 148           | -                 |
| Financial liabilities held for trading | 21   | 53 083            | 271 288           |
| Derivative financial instruments       | 22   | 293 503           | 336 950           |
| Amounts due to customers               | 31   | 28 252 639        | 26 492 716        |
| Debt securities issued                 | 32   | 807 583           | 1 191 158         |
| Subordinated liabilities               | 33   | 308 674           | 304 817           |
| Other liabilities                      | 34   | 494 559           | 326 041           |
| Provision for deferred tax             |      | 9 552             | 9 552             |
| Deferred tax liabilities               |      | 1 265             | -                 |
| Provisions                             | 35   | 62 889            | 64 015            |
| <b>TOTAL LIABILITIES</b>               |      | <b>34 725 530</b> | <b>32 267 951</b> |
| <b>EQUITY</b>                          |      |                   |                   |
| Share capital                          | 42   | 56 139            | 51 137            |
| Other supplementary capital            |      | 3 430 785         | 3 085 059         |
| Other reserve capital                  |      | 449 468           | 206 463           |
| Retained earnings                      |      | 112 615           | 166 531           |
| - retained profit                      |      | 4 117             | 6 387             |
| - net profit for the period            |      | 108 498           | 160 144           |
| <b>TOTAL EQUITY</b>                    |      | <b>4 049 007</b>  | <b>3 509 190</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>    |      | <b>38 774 537</b> | <b>35 777 141</b> |

# Bank Gospodarki Żywnościowej S.A. Group

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## Interim condensed consolidated statement of changes in equity

|   | Retained earnings |                             |                       |                 |                           |                  |
|---|-------------------|-----------------------------|-----------------------|-----------------|---------------------------|------------------|
|   | Share capital     | Other supplementary capital | Other reserve capital | Retained profit | Net profit for the period | Total            |
| <b>Balance as at 1 January 2014</b>                               | <b>51 137</b>     | <b>3 085 059</b>            | <b>206 463</b>        | <b>6 387</b>    | <b>160 144</b>            | <b>3 509 190</b> |
| <b>Total comprehensive income for the period</b>                  | -                 | -                           | <b>86 147</b>         | -               | <b>108 498</b>            | <b>194 645</b>   |
| Net profit for the period   | -                 | -                           | -                     | -               | 108 498                   | 108 498          |
| Other comprehensive income for the period                         | -                 | -                           | 86 147                | -               | -                         | 86 147           |
| <b>Appropriation of retained earnings</b>                         | -                 | <b>162 403</b>              | -                     | <b>(2 259)</b>  | <b>(160 144)</b>          | -                |
| Appropriation of retained earnings to other supplementary capital | -                 | 162 403                     | -                     | (2 259)         | (160 144)                 | -                |
| <b>Merge</b>  | <b>5 002</b>      | <b>183 323</b>              | <b>156 858</b>        | -               | -                         | <b>345 183</b>   |
| Issued shares of H series   | 5 002             | -                           | -                     | -               | -                         | 5 002            |
| Equity resulting from the merger                                  | -                 | 183 323                     | 156 858               | -               | -                         | 340 181          |
| <b>Other</b>  | -                 | -                           | -                     | <b>(11)</b>     | -                         | <b>(11)</b>      |
| <b>Balance as at 30 June 2014</b>                                 | <b>56 139</b>     | <b>3 430 785</b>            | <b>449 468</b>        | <b>4 117</b>    | <b>108 498</b>            | <b>4 049 007</b> |



# Bank Gospodarki Żywnościowej S.A. Group

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## Interim condensed consolidated statement of changes in equity (continued)

|   | Share capital | Other supplementary capital | Other reserve capital | Retained earnings |                           | Total            |
|---|---------------|-----------------------------|-----------------------|-------------------|---------------------------|------------------|
|   |               |                             |                       | Retained profit   | Net profit for the period |                  |
| <b>Balance as at 1 January 2013</b>                               | <b>51 137</b> | <b>2 950 716</b>            | <b>330 351</b>        | <b>10 364</b>     | <b>130 049</b>            | <b>3 472 617</b> |
| Share issue   | -             | -                           | (123 888)             | -                 | 160 144                   | 36 256           |
| <b>Total comprehensive income for the period</b>                  | -             | -                           | -                     | -                 | 160 144                   | 160 144          |
| Net profit for the period   | -             | -                           | (123 888)             | -                 | -                         | (123 888)        |
| Other comprehensive income for the period                         | -             | 134 343                     | -                     | (4 294)           | (130 049)                 | -                |
| <b>Appropriation of retained earnings</b>                         | -             | 134 343                     | -                     | (4 294)           | (130 049)                 | -                |
| Appropriation of retained earnings to other supplementary capital | -             | -                           | -                     | 317               | -                         | 317              |
| <b>Balance as at 31 December 2013</b>                             | <b>51 137</b> | <b>3 085 059</b>            | <b>206 463</b>        | <b>6 387</b>      | <b>160 144</b>            | <b>3 509 190</b> |

# Bank Gospodarki Żywnościowej S.A. Group

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Interim Condensed Consolidated Financial Statements

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## Interim condensed consolidated statement of changes in equity (continued)

|   | Share capital | Other supplementary capital | Other reserve capital | Retained earnings |                           | Total            |
|---|---------------|-----------------------------|-----------------------|-------------------|---------------------------|------------------|
|   |               |                             |                       | Retained profit   | Net profit for the period |                  |
| <b>Balance as at 1 January 2013</b>                               | <b>51 137</b> | <b>2 950 716</b>            | <b>330 351</b>        | <b>10 364</b>     | <b>130 049</b>            | <b>3 472 617</b> |
| Share issue   | -             | -                           | (94 657)              | -                 | 82 532                    | (12 125)         |
| <b>Total comprehensive income for the period</b>                  | -             | -                           | -                     | -                 | 82 532                    | 82 532           |
| Net profit for the period   | -             | -                           | (94 657)              | -                 | -                         | (94 657)         |
| Other comprehensive income for the period                         | -             | <b>134 343</b>              | -                     | <b>(4 294)</b>    | <b>(130 049)</b>          | -                |
| <b>Appropriation of retained earnings</b>                         | -             | 134 343                     | -                     | (4 294)           | (130 049)                 | -                |
| Appropriation of retained earnings to other supplementary capital | -             | -                           | -                     | <b>317</b>        | -                         | <b>317</b>       |
| <b>Balance as at 30 June 2013</b>                                 | <b>51 137</b> | <b>3 085 059</b>            | <b>235 694</b>        | <b>6 387</b>      | <b>82 532</b>             | <b>3 460 809</b> |

# Grupa Kapitałowa Banku Gospodarki Żywnościowej S.A.

Semi-annual Consolidated Report for the 6-month period ended 30 June 2014

Interim Condensed Consolidated Financial Statements

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## Interim condensed consolidated statement of cash flows

|  | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES:                     |   |   |
| <b>Net profit for the period</b>                         | <b>108 498</b>  | <b>82 532</b>   |
| <b>Adjustments for:</b>                                  | <b>1 824 053</b>  | <b>(831 888)</b>  |
| Income tax expense                                       | 27 421  | 21 634  |
| Depreciation and amortization                            | 49 835  | 49 257  |
| Dividend income  | (3 302)   | (2 837)   |
| Interest income  | (864 176)   | (1 024 100)   |
| Interest expense   | 317 351   | 542 528   |
| Change in provisions                                     | (3 745)   | (11 208)  |
| Change in loans and advances to banks                    | (76)  | (2)   |
| Change in reverse repo transactions                      | 247 886   | (140 953)   |
| Change in debt securities held for trading               | 706 620   | (783 832)   |
| Change in derivative financial instruments (assets)      | 115 795   | 57 944  |
| Change in loans and advances to customers                | (2 605 269)   | 395 158   |
| Change in amounts due to banks                           | 1 201 849   | (235 957)   |
| Change in repo transactions                              | 159 105   | 191 766   |
| Change in financial liabilities held for trading         | (218 205)   | 21 369  |
| Change in derivative financial instruments (liabilities) | (43 447)  | (47 519)  |
| Change in amounts due to customers                       | 1 741 329   | (197 252)   |
| Change in other assets and current tax assets            | (4 187)   | 64 407  |
| Change in other liabilities and deferred tax liabilities | 168 518   | (9 232)   |
| Other adjustments  | 37 348 132  | 1 806   |
| Interest received  | 829 760   | 856 205   |
| Interest paid  | (295 764)   | (591 388)   |
| Income tax paid  | (51 377)  | -   |
| Taxes returned   | -   | 10 318  |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                | <b>1 932 551</b>  | <b>(749 356)</b>  |

# Grupa Kapitałowa Banku Gospodarki Żywnościowej S.A.

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## Interim condensed consolidated statement of cash flows (continued)

| Note   | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|---|---|
| CASH FLOW FROM INVESTING ACTIVITIES:                                     |   |   |
| <b>Investing activities inflows</b>                                      | <b>64 526 293</b>   | <b>119 704 766</b>  |
| Sale of available for sale financial assets                              | 64 523 111  | 119 702 826   |
| Sale of intangible assets, and property, plant and equipment             | (120)   | -   |
| Dividends income and other investing activities inflows                  | 3 302   | 1 940   |
| <b>Investing activities outflows</b>                                     | <b>(66 064 233)</b>   | <b>(119 382 126)</b>  |
| Purchase of available for sale financial assets                          | (66 041 333)  | (119 348 984)   |
| Purchase of intangible assets, and property, plant and equipment         | (22 900)  | (33 142)  |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>                                | <b>(1 537 940)</b>  | <b>322 640</b>  |
| CASH FLOW FROM FINANCING ACTIVITIES:                                     |   |   |
| <b>Financing activities inflows</b>                                      | -   | <b>613 000</b>  |
| Issue of debt securities   | -   | 613 000   |
| <b>Financing activities outflows</b>                                     | <b>(577 166)</b>  | <b>(809 061)</b>  |
| Repayment of long-term loans and advances to banks                       | (191 078)   | (203 061)   |
| Redemption of debt securities issued                                     | (386 088)   | (606 000)   |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                                | <b>(577 166)</b>  | <b>(196 061)</b>  |
| <b>TOTAL NET CASH</b>  | <b>(182 555)</b>  | <b>(622 777)</b>  |
| <b>Cash and cash equivalents at the beginning of the period</b>          | <b>1 881 640</b>  | <b>2 204 297</b>  |
| <b>Cash and cash equivalents at the end of the period, of which:</b>     | <b>36 1 699 085</b>   | <b>1 581 520</b>  |
| - effect of exchange rate fluctuations on cash and cash equivalents held | 1 811   | 10 086  |
| - of restricted use  | 1 669   | 2 211   |

## **EXPLANATORY INFORMATION TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **1 General information**

Bank Gospodarki Żywnościowej Spółka Akcyjna is the parent company of Bank Gospodarki Żywnościowej S.A. Group ('the Group').

Bank Gospodarki Żywnościowej Spółka Akcyjna ('the Bank' or 'BGŻ S.A. '), with its registered office in Warsaw, at 10/16 Kasprzaka Street, is entered in the National Court Register maintained by the District Court for the Capital City Warsaw in Warsaw, XII Commercial Department, under the reference number KRS 0000011571. The Bank and its subsidiaries have been established for an indefinite period of time.

### **2 General information on the Group**

Bank Gospodarki Żywnościowej Spółka Akcyjna is part of the Rabobank Group, whose parent company is Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

As at 30 June 2014, Bank Gospodarki Żywnościowej S.A. Group consists of Bank Gospodarki Żywnościowej S.A. as the parent company and the subsidiary **Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ('Actus')** with its registered office in Warsaw, at 10/16 Kasprzaka Street. The main activities of Actus include:

- acquisition and disposal of real estate and limited property rights relating to real estate,
- management of own and third-party construction projects,
- real estate trading intermediary services and lease of premises,
- lease of real estate and rental of premises,
- services relating to real estate valuation, management and advisory (real estate management agency activities).

The company is registered in the National Court Register maintained by the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register, Entry no. 0000023062.

The Bank holds 100% of shares in the share capital of Actus and 100% of the votes at the Shareholders' Meeting.

Bank Gospodarki Żywnościowej S.A. has 49% share in the associate **BGŻ Leasing Sp. z o.o.** and 49% of the votes at the Shareholders' Meeting. The remaining 51% of the shares in the share capital is held by De Lage Landen, which is the part of Rabobank Group.

The interim condensed consolidated financial statement consolidates all subsidiaries as at 30 June 2014 in the line with IFRS guidelines.

### **3 Basis for the preparation of the interim condensed consolidated financial statements**

The interim condensed consolidated financial statements for the first half ended 30 June 2014 have been prepared in accordance with the International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34') as adopted by the European Union and other applicable regulations. The accounting policies applied in these interim condensed consolidated financial

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statements are the same as those applied to the consolidated financial statements for the year ended 31 December 2013. These policies were described in detail in the consolidated financial statements of the Group for the year ended 31 December 2013, except for the changes described in Note 6 of the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements do not include all information and disclosures required for annual financial statements, and shall be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2013.

These financial statements comply with all the International Accounting Standards ('IAS') and the International Financial Reporting Standards endorsed by the European Union ('IFRS EU'), and the interpretations related to them, except for those standards and interpretations listed below which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

### **Standards and interpretations not yet approved by the European Union:**

- IFRS 9 *Financial Instruments (2009)* – binding for annual periods beginning on or after 1 January 2018,
- Amendments to IAS 19 *Employee Benefits entitled Defined Benefit Plans: Employee Contributions* - binding for annual periods beginning on or after 1 July 2014,
- Improvements to IFRS (2010-2012) - binding for annual periods beginning on or after 1 July 2014,
- Improvements to IFRS (2011-2013) - binding for annual periods beginning on or after 1 July 2014,
- IFRS 14 *Regulatory Deferral Accounts* - binding for annual periods beginning on or after 1 January 2016,
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*) - binding for annual periods beginning on or after 1 January 2016,
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*) - binding for annual periods beginning on or after 1 January 2016,
- IFRS 15 *Revenue from Contracts with Customers* - binding for annual periods beginning on or after 1 January 2017,
- Agriculture: Bearer Plants (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*) - binding for annual periods beginning on or after 1 July 2016.

### **Standards and interpretations that have been approved by the European Union but are not effective on annual periods ending on 31 December 2014**

- IFRIC *Interpretation 21 Levies* - binding for annual periods beginning on or after 17 June 2014. The impact of the initial application of the Interpretation will depend on the specific levies imposed by government, applicable at the date of initial application. The Group does not expect IFRIC 21 to have a material impact on the annual consolidated financial statements. However, it may affect the interim financial statement. The entity/Group is currently evaluating the impact of the new Standard on the interim financial statements.

The Management Board does not expect the application of the above standards and interpretations have material impact on the accounting policies applied by the Group, except for IFRS 9.

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### Recognizing business combinations of entities under common control

The accounting treatment for business combinations of entities under common control is excluded from the scope of IFRS. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, in the absence of any specific guidance within IFRS, BGŻ applied an accounting policy which is consistently used to recognize such business combinations of entities under common control within Rabobank Group, of which the Bank is a member, being the book value accounting method.

The applied accounting method is that the acquirer recognizes the assets and liabilities of the acquiree at their book value adjusted only to align the accounting policy of the merged entities. No goodwill or negative goodwill is recognized.

The difference between the carrying amount of the acquired assets and the fair value of the consideration paid is recognized in the equity of the acquirer. With the book value accounting method applied, the figures for the comparable period are not restated.

If the transaction results in the acquisition of minority interests, the acquisition of any minority interest is accounted for separately.

## 4 Going concern

These interim condensed consolidated financial statements have been prepared on the assumption that the Group will continue its business operations substantially unchanged in scope in the foreseeable future, i.e. for the period of at least 12 months following the reporting date.

## 5 Approval of the financial statements

This semi-annual consolidated report of Bank Gospodarki Żywnościowej S.A. Group for the 6-month period ended 30 June 2014 was approved for publication by the Management Board on 8 August 2014.

## 6 Changes in accounting policies and changes in presentation of financial data

In this interim condensed consolidated financial statement, the same accounting policies were applied as in the annual consolidated financial statements for 2013 (Bank Gospodarki Żywnościowej S.A. Group Consolidated Financial Statements for the year ended 31 December 2013) and following applicable standards along with interpretations approved by the European Union and effective from 1 January 2014:

- IAS 27 *Separate Financial Statements* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the interim condensed consolidated financial statements.
- IAS 28 *Investments in Associates and Joint Ventures* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the interim condensed consolidated financial statements.
- IAS 36 *Impairment of Assets*. Amendments for recoverable amount disclosures for non-financial assets - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the interim condensed consolidated financial statements.
- IAS 39 *Financial Instruments: Recognition and Measurement*. Amendments of Novation of Derivatives and Continuation of Hedge Accounting - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the interim condensed consolidated financial statements.

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- IFRS 10 *Consolidated Financial Statements* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the interim condensed consolidated financial statements.
- IFRS 11 *Joint Arrangements* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the interim condensed consolidated financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the interim condensed consolidated financial statements.

The Group made the described below changes in presentation of the financial data. In order to ensure the comparability of the financial data, the Group made appropriate changes in presentation of semi-annual 2013 financial data in comparison to the data published in the 'Interim condensed consolidated financial statements of Bank Gospodarki Żywnościowej S.A. Group for the 6-month period ended 30 June 2013'. These changes referred to the methods of grouping and presentation of financial data in the interim condensed consolidated statement of profit or loss and the statement of financial position and do not affect the net profit of the Group.

#### Interim condensed consolidated statement of profit or loss

|                            |   | 2 <sup>nd</sup> quarter of 2013 prior to changes | Changes in presentation | 2 <sup>nd</sup> quarter of 2013 after changes | 1 <sup>st</sup> half of 2013 prior to changes | Changes in presentation | 1 <sup>st</sup> half of 2013 after changes |
|----------------------------|---|--|-------------------------|---|---|-------------------------|--|
| Interest income            | 1 | 487 171  | (6 661)                 | 480 510                                       | 1 024 100                                     | (6 466)                 | 1 017 634                                  |
| Interest expense           | 1 | (244 634)  | 1 467                   | (243 167)                                     | (542 528)                                     | 3 605                   | (538 923)                                  |
| Fee and commission income  | 1 | 76 231   | 607                     | 76 838  | 157 609                                       | (3 546)                 | 154 063                                    |
| Fee and commission expense | 1 | (15 460)   | 4 587                   | (10 873)                                      | (27 509)                                      | 6 407                   | (21 102)                                   |
| Other operating income     | 2 | 10 125   | (871)                   | 9 254   | 16 026  | (1 106)                 | 14 920                                     |
| Other operating expenses   | 2 | (4 604)  | 871                     | (3 733)                                       | (8 848)                                       | 1 106                   | (7 742)                                    |

1. The Group has changed the presentation of income and expenses from the sale of insurance products. After the change, income from sale of insurance products is presented in net value, meaning the net value is further decreased by return of insurance premium which results from earlier termination of insurance and is recognized in interest income from related financial products or presented in commission income for products not related with financial instruments.
2. The Group changed the presentation of result on sale or liquidation of items of property, plant and equipment or intangible assets. Currently, the result is presented as other operating income or expenses.

## 7 Seasonality or cyclicity of operations

The business operations of the Group do not involve significant events that would be subject to seasonal or cyclical variations.



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Accounting policies and additional explanatory notes

## 8 Major estimates and judgments

The Group makes estimates and adopts assumptions that affect the value of the assets and liabilities recognized in the following period. The estimates and assumptions are reviewed on an ongoing basis and rely on historic data and other factors, including expectations of the future events, which seem to be justified in given circumstances.

### a) Impairment of loans and advances

According to IFRS, the Group assesses the following financial assets for the existence of impairment: financial assets carried at amortized cost, financial assets carried at cost and available for sale financial assets, which are not measured at fair value. The Group considers the impairment triggers of impairment of financial assets on both an individual and collective level. All individually significant assets are assessed for the impairment on an individual basis.

#### Assessment of the impairment of individually significant assets

Financial assets are assessed for whether or not there is an objective impairment trigger. An individual assessment is carried out by the Group's employees on individually significant financial assets, and involves an individual impairment review of the financial assets. The individual assessment of impairment involves an estimate of the anticipated future cash flows, and the amount of the impairment loss is measured as the difference between the present (carrying) amount of an individually significant financial asset, and the value of any future cash flows to be derived from that financial asset, discounted using the effective interest rate from the moment of impairment recognition. Cash flows from collateral are included in the evaluation of future cash flows.

#### Collective (group) assessment

Following assets are covered by collective assessment:

- classified as assets individually insignificant, for which objective impairment trigger was identified, and
- assets individually significant and individually insignificant, for which no objective impairment trigger was identified.

The first group contains exposures for which, an impairment trigger of hard nature has been identified, i.e. delay in payment of a significant amount of an installment exceeding 90 days or an impairment trigger of soft nature, such as financial difficulties of the customer causing the lack of timely debt servicing in accordance with its schedule of debt repayments. For this kind of exposures, impairment allowance is created by collective method (so-called collective impairment). The amount of the impairment allowance depends on the type of loan exposure, historically observed levels of recoveries by the Group after the recognition of impairment and delay in payment.

The second group of collectively assessed exposures includes all individually significant, and individually insignificant exposures, with no objective impairment trigger identified. For this group, IBNR impairment allowance (incurred but not reported loss) is created. The amount of IBNR is dependent on the amount of probability parameters of default (PD - probability of default), the coefficients of recoveries from defaulted liability (RR - recovery rate), the conversion factors for off-balance liabilities for balance receivables (CCF - credit conversion factor) and the period of identification of the impairment of the financial asset (LIP - loss identification period).

The amount of impairment allowances estimated by the collective method, both for individually insignificant exposures with an objective impairment trigger recognized and individually significant and insignificant exposures without an objective impairment trigger recognized is estimated by the statistical methods for defined, homogenous from the credit risk perspective, loan portfolio. Homogenous portfolios are created taking into account customers segments, credit products types and, for the needs of IBNR charges estimation, classes of delay in repayment, which do not exceed 90 days, and - for institutional clients with internal rating of the Bank - credit rating assigned to the client. The criteria for homogenous credit portfolios separation applied by the Bank are supposed to group exposures in possibly the most detailed way reflecting credit risk

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profile and, as a result, the most objective and adequate estimation of impairment level for the impairment of financial assets.

The parameters of probability of default (PD - probability of default) and the coefficients of recoveries from defaulted liability (RR - recovery rate) are updated on a monthly basis, in accordance with assessment of impairment methodology of the Group. For the assessment of these parameters, statistical analysis of historical data and observable migration of monthly credit exposures are used. The value of CCF and LIP is verified and updated annually, under the regular assessment of those parameters in accordance with the rules applied by the Group. In case of CCF parameters, the Group analyzes the percent of granted liabilities, which are converted into balance exposure during LIP period. LIP parameters are settled based on time analysis, which elapses from the moment of impairment trigger to the moment of actual impairment reporting, which in turn is strongly dependent on the frequency of credit exposure monitoring done by the Group. The Group uses different LIP parameters for given loan portfolios depending on the results from analysis conducted.

When dividing exposures into exposures with an objective impairment trigger identified and exposures without an objective impairment trigger, the Group takes into account the phenomenon of quarantine, according to which the loan with objective impairment trigger may be re-classified to the group without an objective impairment trigger identified only when the client timely serves his debt (no amounts past due) by the specified number of months. Required quarantine period varies depending on the type of impairment trigger, which was reported for a given credit exposure. The length of the quarantine period is determined by the Group based on historical data, allowing an assessment time that a client needs to return to the path of timely debt service, but in order to reduce the risk of so-called re-default, i.e. a situation of an objective impairment trigger identification, the Group shall apply the long, conservatively established quarantine periods.

The results of estimates of impairment allowances for financial assets using statistical models in the collective method of impairment evaluation are subject to periodic historical verification (back-testing). Parameters used to estimate impairment losses and statistical models are also covered by management model process, for which inter alia, the rules of creation, approval, monitoring and validation, and verification of historical models are described. Validation of the models and parameters as well as a historical verification of impairment allowances/provisions set under the collective method is carried out not less than once a year. Additionally, the process of estimating impairment losses is covered by a periodical functional control and is subject to independent verification by the internal audit of the Group.

In November 2013, based on review of the values of parameters used to determine the level of impairment allowances, the Group has modified chosen parameters of the model. The implemented changes resulted in:

- shortening the period of historical observations to estimate PD parameters for corporate customers subject to the accounting act, to reflect more accurately the current economic situation and the level of credit risk taken by the Group,
- changing CCF parameters for off-balance exposures, in order to better reflect the expected conversion of off-balance sheet liabilities into balance receivables for selected groups of exposures/credit products, and
- extending LIP for selected loan portfolios, based on the observations of time shaping that elapses from the moment of recognition of impairment trigger until the actual reporting of the impairment trigger and the changes in the approach and principles for credit exposures monitoring.

### b) Fair value of derivative financial instruments

The fair value of financial instruments not listed on active markets is determined using valuation techniques (e.g. pricing models). These methods are assessed and reviewed on a regular basis by qualified independent employees, i.e. employees not involved in developing these methods. All models are approved before implementation, and adjusted to ensure that the results obtained

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reflect the factual data and comparable market prices. The models that the Group currently applies are based exclusively on observable data obtained from the Reuters and/or Bloomberg information systems. Derivatives are valued based on generally acceptable models. Linear instruments are valued based on discounted cash flow method, simple (vanilla) options are valued based on the Black-Scholes model. Other options included in the structured deposits are measured either by decomposition on vanilla options or through Monte Carlo simulations.

Adjustment of CVA/DVA is estimated for all living derivatives for a given day. The adjustment is estimated based on the forecasted future exposure to a given instrument, the rating of the counterparty and complex/adopted hedges.

### c) Securities

Securities for which there is no liquid market are valued at the discounted cash flow model. In case of equity securities classified by Level 3 valuation, credit spread is unobservable parameter.

### d) Impairment of property, plant and equipment

At the end of each reporting period, the Group assesses the existence of evidence indicating impairment of items of property, plant and equipment. If such evidence is identified, the Group shall estimate a recoverable amount. While estimating value in use of property, plant and equipment some assumptions referring to estimations of amounts and dates of future cash flows that the Group can achieved from particular asset and other circumstances need to be made. While estimating fair value less costs to sell the Group takes into account available market data or valuations made by independent experts, which in principle are also based on estimations.

### e) Provision for retirement benefit

Provisions for retirement benefit were estimated using actuarial methods by independent actuary. All assumptions adopted for calculating provision are updated at the end of each financial year.

## 9 Business unit combination

### Transaction details

On 30 May 2014, the General Shareholders' Meeting of the Bank adopted a resolution on a merger with Rabobank Polska S.A. (hereinafter 'Rabobank Polska').

On 18 June 2014 the District Court in Warsaw, XII Commercial Division of the National Court Register entered the merger between Rabobank Polska S.A. (an acquiree) and BGŻ S.A. (an acquirer). The merger was executed based on art. 492 § 1 of the Commercial Companies Code, by transferring all assets and liabilities from Rabobank Polska, as an acquired company, to BGŻ through the issue of 5 002 000 shares of BGŻ H series, which have been issued to the current shareholder of Rabobank Polska. All rights and obligations of Rabobank Polska S.A. were transferred to BGŻ.

Bank BGŻ was the acquirer and following the transfer date i.e. 18 June 2014 both institutions operate as one Bank under the name and logo of Bank BGŻ. Rabobank Polska functions in the structures of Bank BGŻ within isolated division of Global Corporate Clients and Products.

The merger is a fulfillment of the Polish Financial Supervision Authority requirement as to the consolidation of banking operations conducted in Poland by the Rabobank Group.

### Accounting policies adopted for the transaction

Bank BGŻ and Rabobank Polska are subsidiaries in Rabobank Group, whereas parent company is the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. - entities under common control.

The merger of BGŻ with Rabobank Polska was settled using book value accounting method. In applying the book value accounting method, BGŻ recognized the assets and liabilities of Rabobank Polska at their carrying value as at the transfer date i.e. 18 June 2014, adjusted only to

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unify the accounting policy applied by BGŻ. The carrying value of Rabobank Polska as at 18 June 2014 amounted to PLN 3 328 619 thousand.

The application of the book value accounting method to the merger transaction did not generate goodwill and any excess of the fair value of the net assets over the cost of the business combination.

The difference between the carrying amount of Rabobank Polska's net assets transferred, being PLN 341 720 thousand, and the nominal value of the shares issued by BGŻ, being PLN 5 002 thousand, was recognized in the equity of the Bank.

The results of operations of Rabobank Polska have been consolidated in the interim condensed consolidated financial statements prospectively starting from 18 June 2014.

Comparative data of the Bank from the previous periods was not restated.

### Shareholders' equity instruments issued for the transaction

On the merger date Bank BGŻ issued ordinary shares of BGŻ to the shareholders of Rabobank Polska. As a result of this transaction, the share capital of BGŻ S.A. was increased by PLN 5 002 thousand through issuing of 5 002 000 shares of BGŻ registered shares and ordinary bearer shares of H series of nominal value of PLN 1.0 each.

The amount of PLN 341 720 thousand, representing the difference between the carrying amount of Rabobank Polska's net assets transferred and the nominal value of the H series shares was recognized in the Bank's equity.

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### Assets and liabilities recognized on the merger date

Following assets and liabilities were transferred from Rabobank Polska S.A. to BGŻ Bank on 18 June 2014.

|   | <b>18.06.2014</b> |
|---|-------------------|
| <b>ASSETS</b>                           |                   |
| Cash and balances with the Central Bank | 51 973            |
| Loans and advances to banks             | 50 015            |
| Derivative financial instruments        | 14 587            |
| Loans and advances to customers         | 2 097 157         |
| Available for sale financial assets     | 1 095 175         |
| Intangible assets                       | 1 348             |
| Property, plant and equipment           | 2 910             |
| Deferred tax assets                     | 8 250             |
| Current tax assets                      | 3 295             |
| Other assets                            | 3 909             |
| <b>TOTAL ASSETS</b>                     | <b>3 328 619</b>  |
| <b>LIABILITIES</b>                      |                   |
| Amounts due to banks                    | 2 592 364         |
| Derivative financial instruments        | 17 702            |
| Amounts due to customers                | 339 034           |
| Other liabilities                       | 22 735            |
| Provision                               | 10 062            |
| <b>TOTAL LIABILITIES</b>                | <b>2 981 897</b>  |
| <b>TOTAL EQUITY</b>                     | <b>346 722</b>    |
| <b>TOTAL LIABILITY AND EQUITY</b>       | <b>3 328 619</b>  |

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### Total statement of profit or loss for the six months ended 30 June 2014

The following table presents information about the result of the merged Bank BGŻ. The combined financial information was prepared by adding financial result generated by Bank BGŻ for the first six months ended 30 June 2014 and result generated by Rabobank Polska for the period from 1 January to 18 June 2014, adjusted only by elimination of mutual transactions carried out in this period.

### Interim condensed statement of profit or loss

|  | Period<br>from 01.01.2014<br>to 30.06.2014 |
|--|--|
| Interest income  | 920 820                                    |
| Interest expense   | (343 026)                                  |
| <b>Net interest income</b>   | <b>577 794</b>                             |
| Fee and commission income  | 179 302                                    |
| Fee and commission expense   | (25 475)                                   |
| <b>Net fee and commission income</b>                                 | <b>153 827</b>                             |
| Dividend income  | 3 302                                      |
| Net trading income   | 14 745                                     |
| Result on investing activities                                       | 6 205                                      |
| Result on hedge accounting   | (156)                                      |
| Other operating income   | 26 983                                     |
| Net impairment losses on financial assets and contingent liabilities | (115 863)                                  |
| General administrative expenses                                      | (472 846)                                  |
| Depreciation and amortization  | (50 716)                                   |
| Other operating expenses   | (10 878)                                   |
| <b>Operating result</b>  | <b>132 397</b>                             |
| Share of profit (loss) of associates                                 | 2 096                                      |
| <b>Profit before income tax for the period</b>                       | <b>134 493</b>                             |
| Income tax expenses  | (26 024)                                   |
| <b>Net profit for the period</b>                                     | <b>108 469</b>                             |

Combined financial information for the 6-month period ended 30 June 2014 has been prepared for the illustrative purposes only, as they contain the result of Rabobank Polska achieved when it was an independently operating entity. As a result, the financial information presented above cannot be regarded as reflecting the result of operation or financial result of Rabobank Polska in a situation, if the activity was integrated with BGŻ from 1 January 2014, since presented financial information does not reflect the strategy or organizational structure within which the Bank operates from the day of the merge.

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## 10 Net interest income

|   | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|---|---|--|---|--|
| <b>Interest income</b>                              |   |  |   |  |
| Loans and advances to banks                         | 7 427   | 14 132   | 8 551   | 19 054   |
| Loans and advances to customers in current accounts | 69 704  | 134 124  | 67 738  | 142 429  |
| Loans and advances to customers, in this:           | 291 530   | 572 064  | 307 135   | 654 399  |
| – corporate   | 77 572  | 155 107  | 101 710   | 219 837  |
| – households  | 210 731   | 410 414  | 201 418   | 425 846  |
| – budget entities                                   | 2 167   | 4 371  | 3 096   | 6 862  |
| – other entities                                    | 1 060   | 2 172  | 911   | 1 854  |
| Hedging instruments                                 | 1 214   | 9 024  | 5 766   | 8 622  |
| Reverse repo transactions                           | 11 707  | 23 533   | 10 007  | 21 619   |
| Debt securities, in this:                           | 56 754  | 111 299  | 81 313  | 171 511  |
| – held for trading                                  | 1 428   | 7 826  | 9 655   | 20 748   |
| – available for sale                                | 55 326  | 103 473  | 71 658  | 150 763  |
|   | <b>438 336</b>  | <b>864 176</b>   | <b>480 510</b>  | <b>1 017 634</b>   |
| <b>Interest expense</b>                             |   |  |   |  |
| Amounts due to banks                                | (14 722)  | (29 679)   | (22 442)  | (41 178)   |
| Debt securities issued                              | (7 940)   | (17 639)   | (23 212)  | (48 578)   |
| Amounts due to customers:                           | (126 651)   | (244 699)  | (181 643)   | (415 446)  |
| – corporate   | (25 697)  | (51 017)   | (37 436)  | (82 083)   |
| – households  | (82 983)  | (162 177)  | (123 636)   | (277 291)  |
| – budget entities                                   | (3 941)   | (7 153)  | (5 523)   | (11 814)   |
| – other entities                                    | (14 030)  | (24 352)   | (15 048)  | (44 258)   |
| Repo transactions                                   | (12 778)  | (25 334)   | (15 870)  | (33 721)   |
|   | <b>(162 091)</b>  | <b>(317 351)</b>   | <b>(243 167)</b>  | <b>(538 923)</b>   |
| <b>Net interest income</b>                          | <b>276 245</b>  | <b>546 825</b>   | <b>237 343</b>  | <b>478 711</b>   |



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## 11 Net fee and commission income

|                                      | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|--------------------------------------|---|--|---|--|
| <b>Fee and commission income</b>     |   |  |   |  |
| – loans and advances                 | 25 254  | 49 737   | 22 224  | 45 015   |
| – settlements                        | 4 279   | 8 274  | 4 464   | 8 557  |
| – account maintenance                | 27 931  | 51 999   | 21 069  | 41 626   |
| – guarantee commitments              | 1 938   | 3 952  | 2 891   | 5 668  |
| – brokerage operations               | 4 508   | 9 508  | 3 119   | 5 656  |
| – payment cards                      | 22 943  | 43 619   | 19 124  | 38 778   |
| – insurance activity                 | 4 066   | 7 018  | 2 522   | 6 030  |
| – other                              | 1 376   | 2 481  | 1 425   | 2 733  |
|                                      | <b>92 295</b>   | <b>176 588</b>   | <b>76 838</b>   | <b>154 063</b>   |
| <b>Fee and commission expense</b>    |   |  |   |  |
| – loans and advances                 | (419)   | (758)  | (180)   | (346)  |
| – payment cards                      | (8 409)   | (17 344)   | (7 907)   | (14 951)   |
| – insurance activity                 | (58)  | (128)  | (425)   | (913)  |
| – other                              | (2 172)   | (4 569)  | (2 361)   | (4 892)  |
|                                      | <b>(11 058)</b>   | <b>(22 799)</b>  | <b>(10 873)</b>   | <b>(21 102)</b>  |
| <b>Net fee and commission income</b> | <b>81 237</b>   | <b>153 789</b>   | <b>65 965</b>   | <b>132 961</b>   |

## 12 Net trading income

|                                  | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|----------------------------------|---|--|---|--|
| Debt instruments                 | (11)  | (3 028)  | 5   | (8 162)  |
| Derivative financial instruments | (38 220)  | (74 546)   | 5 909   | 8 176  |
| Foreign currency exchange result | 49 384  | 102 448  | 25 724  | 48 737   |
| <b>Net trading income</b>        | <b>11 153</b>   | <b>24 874</b>  | <b>31 638</b>   | <b>48 751</b>  |



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## 13 General administrative expenses

|  | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|---|--|---|--|
| Personnel expenses                           | (122 803)   | (252 735)  | (115 361)   | (245 855)  |
| Marketing                                    | (12 467)  | (21 523)   | (14 553)  | (28 517)   |
| IT and telecom costs                         | (19 322)  | (38 792)   | (21 112)  | (42 872)   |
| Rental expenses                              | (22 814)  | (45 908)   | (22 671)  | (46 076)   |
| Other non-personnel expenses                 | (12 071)  | (22 625)   | (9 644)   | (20 186)   |
| External services                            | (20 200)  | (41 034)   | (21 211)  | (42 784)   |
| Bank Guarantee Fund fee                      | (9 244)   | (18 424)   | (6 749)   | (13 498)   |
| Polish Financial Supervision Authority fee   | (1 937)   | (3 826)  | (2 148)   | (4 104)  |
| <b>Total general administrative expenses</b> | <b>(220 858)</b>  | <b>(444 867)</b>   | <b>(213 449)</b>  | <b>(443 892)</b>   |

## 14 Other operating income

|   | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|---|---|--|---|--|
| Sales of goods and services   | 2 264   | 3 975  | 2 457   | 4 208  |
| Release of provisions for litigation and claims and other liabilities   | 664   | 749  | 1   | 918  |
| Recovery of debt collection costs   | 709   | 1 383  | 475   | 999  |
| Recovery of overdue debts, redeemed receivables, noncollectible debts and payment of receivables that were excluded from the consolidated statement of financial position | 2 043   | 3 114  | 2 107   | 2 904  |
| Other   | 5 078   | 7 169  | 4 214   | 5 891  |
| <b>Total other operating income</b>   | <b>10 758</b>   | <b>16 390</b>  | <b>9 254</b>  | <b>14 920</b>  |

## 15 Depreciation and amortization

|  | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|---|--|---|--|
| Property, plant and equipment              | (13 015)  | (25 793)   | (13 125)  | (26 103)   |
| Intangible assets                          | (12 212)  | (24 042)   | (11 657)  | (23 154)   |
| <b>Total depreciation and amortization</b> | <b>(25 227)</b>   | <b>(49 835)</b>  | <b>(24 782)</b>   | <b>(49 257)</b>  |

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## 16 Other operating expenses

|  | 2 <sup>nd</sup> quarter<br>2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|---|--|---|--|
| Loss on sale or liquidation of property,<br>plant and equipment, intangible assets | (610)   | (739)  | (91)  | (184)  |
| Impairment charges on other<br>receivables   | (542)   | (1 112)  | (420)   | (600)  |
| Provisions for litigation and claims, and<br>other liabilities                     | (212)   | (474)  | (263)   | (699)  |
| Debt collection  | (2 511)   | (5 683)  | (1 939)   | (3 630)  |
| Donations made   | (657)   | (1 287)  | (748)   | (1 375)  |
| Other  | (974)   | (1 527)  | (272)   | (1 254)  |
| <b>Total other operating expenses</b>  | <b>(5 506)</b>  | <b>(10 822)</b>  | <b>(3 733)</b>  | <b>(7 742)</b>   |

## 17 Net impairment losses on financial assets and contingent liabilities

|   | 2 <sup>nd</sup> quarter<br>of 2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>of 2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|---|--|---|--|---|
| Loans and advances to banks   | 7  | 78  | 10   | 7   |
| Loans and advances to customers   | (54 838)   | (114 037)   | (58 535)   | (92 283)  |
| Contingent commitments granted  | 1 454  | 2 806   | (42)   | 953   |
| <b>Total impairment losses on financial<br/>assets and contingent liabilities</b> | <b>(53 377)</b>  | <b>(111 153)</b>  | <b>(58 567)</b>  | <b>(91 323)</b>   |

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## 18 Income tax expenses

|  | 2 <sup>nd</sup> quarter<br>of 2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>of 2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|--|---|--|---|
| Current income tax                             | (33 266)   | (56 239)  | (273)  | (273)   |
| Deferred income tax                            | 16 271   | 28 818  | (12 792)   | (21 361)  |
| <b>Total income tax</b>                        | <b>(16 995)</b>  | <b>(27 421)</b>   | <b>(13 065)</b>  | <b>(21 634)</b>   |
| Profit before income tax                       | 80 855   | 135 919   | 66 053   | 104 166   |
| Statutory tax rate                             | 19%  | 19%   | 19%  | 19%   |
| <b>Income tax on gross profit</b>              | <b>(15 363)</b>  | <b>(25 825)</b>   | <b>(12 551)</b>  | <b>(19 792)</b>   |
| Receivables write-off                          | (1 733)  | (1 975)   | (39)   | (195)   |
| Non-tax-deductible overheads/income            | 1 274  | 1 169   | (341)  | (605)   |
| PFRON  | (196)  | (378)   | (199)  | (396)   |
| Prudential fee for Bank Guarantee Fund         | (474)  | (945)   | -  | -   |
| Purchased receivables write-offs               | (159)  | (214)   | (201)  | (1 335)   |
| Impairment allowance for receivables           | (870)  | 506   | 124  | 464   |
| Other differences                              | 526  | 241   | 142  | 225   |
| <b>Total income tax charge on gross profit</b> | <b>(16 995)</b>  | <b>(27 421)</b>   | <b>(13 065)</b>  | <b>(21 634)</b>   |

## 19 Loans and advances from banks

|  | 30.06.2014     | 31.12.2013     |
|--|----------------|----------------|
| Current accounts   | 278 990        | 130 453        |
| Interbank placements   | 2 229          | 128 563        |
| Loans and advances   | 11 163         | 11 325         |
| <b>Total loans and advances to banks (gross)</b>   | <b>292 382</b> | <b>270 341</b> |
| Impairment allowances on loans and advances to banks                                       | (506)          | (584)          |
| <b>Total loans and advances to banks (net)</b>   | <b>291 876</b> | <b>269 757</b> |
|  | 30.06.2014     | 31.12.2013     |
| <b>Impairment allowances on loans and advances to banks at the beginning of the period</b> | <b>584</b>     | <b>1 012</b>   |
| Impairment charges   | 29             | 135            |
| Release of impairment charges  | (107)          | (172)          |
| Write-off  | -              | (408)          |
| Other changes  | -              | 17             |
| <b>Impairment allowances on loans and advances to banks at the end of the period</b>       | <b>506</b>     | <b>584</b>     |

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*Loans and advances to banks grouped by individual and collective assessment*

|  | Assessed individually with impairment recognized | Assessed collectively | TOTAL          |
|--|--|-----------------------|----------------|
| <b>30.06.2014</b>                                |  |                       |                |
| Current accounts                                 | -  | 278 990               | 278 990        |
| Interbank placements                             | -  | 2 229                 | 2 229          |
| Loans and advances                               | 457  | 10 706                | 11 163         |
| <b>Total loans and advances to banks (gross)</b> | <b>457</b>                                       | <b>291 925</b>        | <b>292 382</b> |
| <b>31.12.2013</b>                                |  |                       |                |
| Current accounts                                 | -  | 130 453               | 130 453        |
| Interbank placements                             | -  | 128 563               | 128 563        |
| Loans and advances                               | 457  | 10 868                | 11 325         |
| <b>Total loans and advances to banks (gross)</b> | <b>457</b>                                       | <b>269 884</b>        | <b>270 341</b> |

*Impairment allowances on loans and advances to banks grouped by individual and collective assessment*

|   | 30.06.2014 | 31.12.2013 |
|---|------------|------------|
| Assessed individually   | 353        | 405        |
| Assessed collectively   | 153        | 179        |
| <b>Total impairment allowances on loans and advances to banks</b> | <b>506</b> | <b>584</b> |

## 20 Reverse repo transactions

|  | 30.06.2014    | 31.12.2013     |
|--|---------------|----------------|
| Receivables from banks                 | -             | 232 882        |
| Receivables from customers             | 61 351        | 76 373         |
| <b>Total reverse repo transactions</b> | <b>61 351</b> | <b>309 255</b> |

## 21 Debt securities held for trading

|   | 30.06.2014     |               | 31.12.2013       |                |
|---|----------------|---------------|------------------|----------------|
|   | Assets         | Liabilities   | Assets           | Liabilities    |
| Securities issued by government:                          |                |               |                  |                |
| - T-bonds   | 300 818        | 53 083        | 1 018 701        | 271 288        |
| <b>Total debt securities held for trading</b>             | <b>300 818</b> | <b>53 083</b> | <b>1 018 701</b> | <b>271 288</b> |
| <i>of which: valued using the market quotation method</i> | <i>300 818</i> | <i>53 083</i> | <i>1 018 701</i> | <i>271 288</i> |

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## 22 Derivative financial instruments

| 30.06.2014  | Nominal value     | Fair value Assets | Liabilities      |
|---|-------------------|-------------------|------------------|
| <b>Trading derivatives</b>                                  |                   |                   |                  |
| Currency derivatives:                                       |                   |                   |                  |
| - Foreign Exchange Spot (FX Spot)                           | 161 644           | 33                | (76)             |
| - Non-deliverable Forward (NDF)                             | 519 493           | 4 534             | (1 958)          |
| - Foreign Exchange Forward (FX Forward)                     | 1 472 734         | 6 601             | (5 149)          |
| - Currency Swaps (FX Swap)                                  | 17 033 904        | 30 666            | (82 968)         |
| - OTC currency options                                      | 182 706           | 3 177             | (1 524)          |
| <b>Total OTC currency derivatives</b>                       | <b>19 370 481</b> | <b>45 011</b>     | <b>(91 675)</b>  |
| Interest rate derivatives:                                  |                   |                   |                  |
| - Interest Rate Swaps (IRS)                                 | 16 345 440        | 183 209           | (187 997)        |
| - Currency Interest Rate Swaps (CIRS)                       | 161 778           | 1 640             | -                |
| - Forward Rate Agreements (FRA)                             | 8 575 163         | 4 948             | (5 944)          |
| - OTC interest rate options                                 | 348 779           | 4 389             | (3 716)          |
| - Other   | 95 370            | 19                | (67)             |
| <b>Total OTC interest rate derivatives</b>                  | <b>25 526 530</b> | <b>194 205</b>    | <b>(197 724)</b> |
| OTC options   | 409 794           | 8 178             | (4 064)          |
| <b>Total OTC derivatives based on equity securities</b>     | <b>409 794</b>    | <b>8 178</b>      | <b>(4 064)</b>   |
| OTC commodity swaps   | 7 427             | 71                | (40)             |
| <b>OTC commodity derivatives</b>                            | <b>7 427</b>      | <b>71</b>         | <b>(40)</b>      |
| <b>TOTAL</b>  | <b>45 314 232</b> | <b>247 465</b>    | <b>(293 503)</b> |
| <i>of which: - valued using the market quotation method</i> | -                 | -                 | -                |
| <i>- valued using model-based method</i>                    | 45 314 232        | 247 465           | (293 503)        |

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| 31.12.2013  | Nominal<br>value  | Assets         | Liabilities      |
|---|-------------------|----------------|------------------|
| <b>Trading derivatives</b>                                  |                   |                |                  |
| Currency derivatives:                                       |                   |                |                  |
| - Foreign Exchange Spot (FX Spot)                           | 194 774           | 47             | (47)             |
| - Non-deliverable Forward (NDF)                             | 353 693           | 4 350          | (3 245)          |
| - Foreign Exchange Forward (FX Forward)                     | 297 350           | 296            | (2 462)          |
| - Currency Swaps (FX Swap)                                  | 13 103 284        | 111 478        | (95 744)         |
| - OTC currency options                                      | 136 016           | 4 743          | (2 845)          |
| <b>Total OTC currency derivatives:</b>                      | <b>14 085 117</b> | <b>120 914</b> | <b>(104 343)</b> |
| Interest rate derivatives:                                  |                   |                |                  |
| - Interest Rate Swaps (IRS)                                 | 18 831 771        | 209 080        | (210 606)        |
| - Currency Interest Rate Swaps (CIRS)                       | 985 456           | 6 454          | -                |
| - Forward Rate Agreements (FRA)                             | 656 263           | 176            | (61)             |
| - OTC interest rates options                                | 334 517           | 10 059         | (8 372)          |
| - Other   | 437 265           | 863            | (543)            |
| <b>Total OTC interest rate derivatives</b>                  | <b>21 245 272</b> | <b>226 632</b> | <b>(219 582)</b> |
| OTC options   | 239 257           | 14 668         | (11 997)         |
| <b>Total OTC derivatives based on equity securities</b>     | <b>239 257</b>    | <b>14 668</b>  | <b>(11 997)</b>  |
| OTC options   | 14 615            | 1 021          | (1 021)          |
| OTC commodity swaps   | 1 379             | 25             | (7)              |
| <b>OTC commodity derivatives</b>                            | <b>15 994</b>     | <b>1 046</b>   | <b>(1 028)</b>   |
| <b>TOTAL:</b>   | <b>35 585 640</b> | <b>363 260</b> | <b>(336 950)</b> |
| <i>of which: – valued using the market quotation method</i> | -                 | -              | -                |
| <i>– valued using model-based method</i>                    | 35 585 640        | 363 260        | (336 950)        |

## 23 Hedge accounting

Starting from 2012 up to April 2014, the Group had been applying cash flow hedge accounting against volatility of interest cash flows on granted preferential loans.

|   |   |                          |   |
|---|---|--------------------------|---|
| Description of hedging relationship                               | The Bank hedges a portion of the interest rate risk arising from interest on preferential loans with subsidies from The Agency for Restructuring and Modernization of Agriculture (ARiMR) above rediscount rate of NBP, resulting from the multiplier effect of the interest rate.                                      |                          |   |
| Hedged items  | Highly probable future cash flows arising from a portion of interest cash flow of preferential loans portfolio  |                          |   |
| Hedging instruments   | PLN IRS   | <b>Nominal<br/>value</b> | <b>Fair value<br/>Assets      Liabilities</b> |
|   | <b>30.06.2014</b>   | -                        | -      -                                      |
|   | <b>31.12.2013</b>   | 1 500 000                | 57 387      -                                 |
| Presentation of the result on the hedged and hedging transactions | Effective part of change in the valuation to fair value of hedging instruments is recognized in Revaluation reserves (Other reserve capital), while ineffective part of the change is recognized in the Result on hedge accounting. Interest on both the hedged and the hedging items is recognized in Interest income. |                          |   |

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*Amounts recognized in the statement of profit or loss and Revaluation reserves related to cash flow hedge accounting*

|   | 30.06.2014 | 31.12.2013 |
|---|------------|------------|
| Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value) | -          | 8 400      |
| Interest income on hedging derivatives  | 9 024      | 24 424     |
| Ineffective part of change in fair value of hedging transactions recognized in the Result on hedge accounting                                   | (156)      | (1 077)    |

## 24 Loans and advances to customers

|  | 30.06.2014        | 31.12.2013        |
|--|-------------------|-------------------|
| <b>Current accounts:</b>                             | <b>5 105 260</b>  | <b>4 272 536</b>  |
| – corporate  | 2 255 378         | 1 907 354         |
| – households:  | 2 743 151         | 2 343 342         |
| – individual customers                               | 105 591           | 103 674           |
| – individual entrepreneurs                           | 365 712           | 313 552           |
| – farmers  | 2 271 848         | 1 926 116         |
| – budget entities                                    | 9 795             | 1 407             |
| – other entities                                     | 96 936            | 20 433            |
| <b>Non-current loans and advances:</b>               | <b>25 175 685</b> | <b>23 241 349</b> |
| – corporate:   | 8 156 047         | 6 892 196         |
| – investment loans                                   | 5 059 803         | 4 238 097         |
| – revolving loans                                    | 1 994 047         | 1 752 067         |
| – other  | 1 102 197         | 902 032           |
| – households:  | 16 666 421        | 15 942 148        |
| – individual customers, in this:                     | 9 763 850         | 9 465 521         |
| – mortgage loans                                     | 8 166 188         | 8 038 380         |
| – individual entrepreneurs                           | 1 312 720         | 1 259 146         |
| – farmers  | 5 589 851         | 5 217 481         |
| – budget entities                                    | 238 432           | 251 572           |
| – other entities                                     | 114 785           | 155 433           |
| <b>Total loans and advances to customers (gross)</b> | <b>30 280 945</b> | <b>27 513 885</b> |
| Impairment allowances                                | (1 362 248)       | (1 215 969)       |
| <b>Total loans and advances to customers (net)</b>   | <b>28 918 697</b> | <b>26 297 916</b> |

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## Accounting policies and additional explanatory notes

*Loans and advances to customers impaired and not impaired*

|  | 30.06.2014        | 31.12.2013        |
|--|-------------------|-------------------|
| <b>Not impaired exposures (IBNR)</b>   |                   |                   |
| Gross exposure   | 28 161 262        | 25 313 766        |
| Impairment allowances on receivables assessed collectively with no impairment recognized | (117 573)         | (100 217)         |
| <b>Net exposure</b>  | <b>28 043 689</b> | <b>25 213 549</b> |
| <b>Impaired exposures</b>  |                   |                   |
| Gross exposure   | 2 119 683         | 2 200 119         |
| Impairment allowances on receivables assessed collectively and individually              | (1 244 675)       | (1 115 752)       |
| <b>Net exposure</b>  | <b>875 008</b>    | <b>1 084 367</b>  |
| <b>Total loans and advances to customers (net)</b>                                       | <b>28 918 697</b> | <b>26 297 916</b> |

*Impairment allowances on loans and advance*

|  | 30.06.2014       | 31.12.2013       |
|--|------------------|------------------|
| <b>Current accounts:</b>               | <b>222 471</b>   | <b>176 542</b>   |
| – corporate                            | 143 905          | 102 927          |
| – households:                          | 78 265           | 73 473           |
| – individual customers                 | 9 750            | 9 684            |
| – individual entrepreneurs             | 48 897           | 45 109           |
| – farmers                              | 19 618           | 18 680           |
| – budget entities                      | 4                | 1                |
| – other entities                       | 297              | 141              |
| <b>Non-current loans and advances:</b> | <b>1 139 777</b> | <b>1 039 427</b> |
| – corporate:                           | 503 056          | 449 676          |
| – investment loans                     | 114 740          | 79 684           |
| – revolving loans                      | 281 748          | 268 907          |
| – other                                | 106 568          | 101 085          |
| – households:                          | 635 516          | 582 435          |
| – individual customers, in this:       | 400 102          | 362 829          |
| – mortgage loans                       | 225 668          | 205 702          |
| – individual entrepreneurs             | 106 048          | 90 839           |
| – farmers                              | 129 366          | 128 767          |
| – budget entities                      | 241              | 260              |
| – other entities                       | 964              | 7 056            |
| <b>Total impairment allowances</b>     | <b>1 362 248</b> | <b>1 215 969</b> |



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## Accounting policies and additional explanatory notes

*Loans and advances to customers (gross) assessed individually and collectively*

| 30.06.2014   | Assessed<br>individually with<br>impairment | Assessed<br>collectively | Total             |
|--|---|--------------------------|-------------------|
| <b>Current accounts:</b>                                 | <b>116 011</b>                              | <b>4 989 249</b>         | <b>5 105 260</b>  |
| – corporate  | 110 618                                     | 2 144 760                | 2 255 378         |
| – households:  | 5 393                                       | 2 737 758                | 2 743 151         |
| – individual customers                                   | -   | 105 591                  | 105 591           |
| – individual entrepreneurs                               | 1 983                                       | 363 729                  | 365 712           |
| – farmers  | 3 410                                       | 2 268 438                | 2 271 848         |
| – budget entities  | -   | 9 795                    | 9 795             |
| – other entities   | -   | 96 936                   | 96 936            |
| <b>Non-current loans and advances:</b>                   | <b>1 001 372</b>                            | <b>24 174 313</b>        | <b>25 175 685</b> |
| – corporate  | 722 602                                     | 7 433 445                | 8 156 047         |
| – households:  | 278 010                                     | 16 388 411               | 16 666 421        |
| – individual customers                                   | 96 824                                      | 9 667 026                | 9 763 850         |
| – individual entrepreneurs                               | 80 903                                      | 1 231 817                | 1 312 720         |
| – farmers  | 100 283                                     | 5 489 568                | 5 589 851         |
| – budget entities  | 85  | 238 347                  | 238 432           |
| – other entities   | 675   | 114 110                  | 114 785           |
| <b>Total loans and advances to customers<br/>(gross)</b> | <b>1 117 383</b>                            | <b>29 163 562</b>        | <b>30 280 945</b> |
| <b>31.12.2013</b>  |   |                          |                   |
| <b>Current accounts:</b>                                 | <b>96 577</b>                               | <b>4 175 959</b>         | <b>4 272 536</b>  |
| – corporate  | 89 929                                      | 1 817 425                | 1 907 354         |
| – households:  | 6 648                                       | 2 336 694                | 2 343 342         |
| – individual customers                                   | -   | 103 674                  | 103 674           |
| – individual entrepreneurs                               | 5 637                                       | 307 915                  | 313 552           |
| – farmers  | 1 011                                       | 1 925 105                | 1 926 116         |
| – budget entities  | -   | 1 407                    | 1 407             |
| – other entities   | -   | 20 433                   | 20 433            |
| <b>Non-current loans and advances:</b>                   | <b>1 130 355</b>                            | <b>22 110 994</b>        | <b>23 241 349</b> |
| – corporate  | 820 809                                     | 6 071 387                | 6 892 196         |
| – households:  | 282 403                                     | 15 659 745               | 15 942 148        |
| – individual customers                                   | 90 376                                      | 9 375 145                | 9 465 521         |
| – individual entrepreneurs                               | 83 176                                      | 1 175 970                | 1 259 146         |
| – farmers  | 108 851                                     | 5 108 630                | 5 217 481         |
| – budget entities  | 168   | 251 404                  | 251 572           |
| – other entities   | 26 975                                      | 128 458                  | 155 433           |
| <b>Total loans and advances to customers<br/>(gross)</b> | <b>1 226 932</b>                            | <b>26 286 953</b>        | <b>27 513 885</b> |

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## Accounting policies and additional explanatory notes

*Impairment losses on loans and advances assessed individually and collectively*

| 30.06.2014   | Assessed<br>individually with<br>impairment | Assessed<br>collectively | Total            |
|--|---|--------------------------|------------------|
| <b>Current accounts:</b>                                 | <b>74 189</b>                               | <b>148 282</b>           | <b>222 471</b>   |
| – corporate  | 72 348                                      | 71 557                   | 143 905          |
| – households:  | 1 841                                       | 76 424                   | 78 265           |
| – individual customers                                   | -   | 9 750                    | 9 750            |
| – individual entrepreneurs                               | 1 174                                       | 47 723                   | 48 897           |
| – farmers  | 667   | 18 951                   | 19 618           |
| – budget entities  | -   | 4                        | 4                |
| – other entities   | -   | 297                      | 297              |
| <b>Non-current loans and advances:</b>                   | <b>498 195</b>                              | <b>641 582</b>           | <b>1 139 777</b> |
| – corporate  | 381 175                                     | 121 881                  | 503 056          |
| – households:  | 116 382                                     | 519 134                  | 635 516          |
| – individual customers                                   | 37 477                                      | 362 625                  | 400 102          |
| – individual entrepreneurs                               | 33 164                                      | 72 884                   | 106 048          |
| – farmers  | 45 741                                      | 83 625                   | 129 366          |
| – budget entities  | 79  | 162                      | 241              |
| – other entities   | 559   | 405                      | 964              |
| <b>Total loans and advances to customers<br/>(gross)</b> | <b>572 384</b>                              | <b>789 864</b>           | <b>1 362 248</b> |
| <b>31.12.2013</b>  |   |                          |                  |
| <b>Current accounts:</b>                                 | <b>37 903</b>                               | <b>138 639</b>           | <b>176 542</b>   |
| – corporate  | 36 910                                      | 66 017                   | 102 927          |
| – households:  | 993   | 72 480                   | 73 473           |
| – individual customers                                   | -   | 9 684                    | 9 684            |
| – individual entrepreneurs                               | 993   | 44 116                   | 45 109           |
| – farmers  | -   | 18 680                   | 18 680           |
| – budget entities  | -   | 1                        | 1                |
| – other entities   | -   | 141                      | 141              |
| <b>Non-current loans and advances:</b>                   | <b>462 656</b>                              | <b>576 771</b>           | <b>1 039 427</b> |
| – corporate  | 344 593                                     | 105 083                  | 449 676          |
| – households:  | 111 158                                     | 471 277                  | 582 435          |
| – individual customers                                   | 32 133                                      | 330 696                  | 362 829          |
| – individual entrepreneurs                               | 28 413                                      | 62 426                   | 90 839           |
| – farmers  | 50 612                                      | 78 155                   | 128 767          |
| – budget entities  | 99  | 161                      | 260              |
| – other entities   | 6 806                                       | 250                      | 7 056            |
| <b>Total loans and advances to customers<br/>(gross)</b> | <b>500 559</b>                              | <b>715 410</b>           | <b>1 215 969</b> |

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## Accounting policies and additional explanatory notes

### *Changes in impairment allowances*

|  | 6 months<br>ended<br>30.06.2014 | 12 months<br>ended<br>31.12.2013 |
|--|---------------------------------|----------------------------------|
| <b>Impairment allowances - Opening balance</b> | <b>1 215 969</b>                | <b>1 069 936</b>                 |
| Impairment charges*                            | 640 679                         | 1 432 663                        |
| Release of impairment charges*                 | (526 642)                       | (1 195 275)                      |
| Write-off                                      | (16 411)                        | (96 443)                         |
| Impairment acquired as a result of the merge   | 46 211                          | -                                |
| Other changes (including FX differences)       | 2 442                           | 5 088                            |
| <b>Impairment allowances - Closing balance</b> | <b>1 362 248</b>                | <b>1 215 969</b>                 |

\* Creation and release of impairment charges on loans and advances are presented by turnover due to functional system limitations.

This presentation does not impact the financial results of the Group.

### *Loans and advances to customers not impaired*

|  | 30.06.2014        | 31.12.2013        |
|--|-------------------|-------------------|
| Loans and advances to customers with no impairment triggers  | 27 985 226        | 25 313 766        |
| Loans and advances to customers with impairment triggers, but no impairment identified and no impairment provision, in this: | 176 036           | 242 132           |
| - exposures with collateral value included in expected discounted cash flows   | 176 036           | 242 132           |
| - past due exposures   | 115 331           | 174 327           |
| <b>Total loans and advances to customers not impaired (gross)</b>  | <b>28 161 262</b> | <b>25 555 898</b> |
| IBNR provision   | (117 573)         | (100 217)         |
| <b>Total loans and advances to customers not impaired (net)</b>  | <b>28 043 689</b> | <b>25 455 681</b> |

In the first half of 2014 the Group signed an agreement concerning selling loan portfolio. Receivables that were almost fully covered by impairment provision or written-off and then sold under the agreement amounted to PLN 35 135 thousand (principal, interests and other incidental receivables). Contractual price for the sale of the loan portfolio was set at PLN 3 004 thousand. The net impact from the sale of the loan portfolio on the Bank's result amounted to PLN 1 001 thousand and is presented in the lines 'impairment charges' and 'release of impairment charges'.

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Accounting policies and additional explanatory notes

## 25 Available for sale financial assets

|  | 30.06.2014       | 31.12.2013       |
|--|------------------|------------------|
| Debt securities available for sale:              | 6 529 257        | 4 820 672        |
| - issued by central banks - NBP bills            | 2 699 239        | 1 349 738        |
| - issued by governments - T-bonds                | 3 805 801        | 3 441 851        |
| - issued by financial institutions – bonds       | -                | 5 074            |
| - issued by budget entities – municipal bonds    | 24 217           | 24 009           |
| Available for sale equity instruments            | 8 502            | 5 401            |
| <b>Total available for sale financial assets</b> | <b>6 537 759</b> | <b>4 826 073</b> |
| <i>of which:</i>                                 |                  |                  |
| - valued using the market quotation method       | 3 813 425        | 3 446 373        |
| - valued using model-based method                | 2 724 334        | 1 379 700        |

## 26 Intangible assets

|                                   | 30.06.2014     | 31.12.2013     |
|-----------------------------------|----------------|----------------|
| Licenses                          | 123 186        | 131 651        |
| Other intangible assets           | 535            | 583            |
| Expenditures on intangible assets | 29 684         | 26 355         |
| <b>Total intangible assets</b>    | <b>153 405</b> | <b>158 589</b> |

In the first half of 2014, the gross book value of Group's acquired 'Intangible assets' items amounted to PLN 17 695 thousand (PLN 18 787 thousand in 2013), while the net amount of assets sold and liquidated amounted to 0 (PLN 1 603 thousand in 2013).

## 27 Property, plant and equipment

|  | 30.06.2014     | 31.12.2013     |
|--|----------------|----------------|
| Non-current assets, in this:               | 420 850        | 442 137        |
| - land and buildings                       | 259 647        | 263 220        |
| - IT equipment                             | 36 291         | 40 352         |
| - office equipment                         | 53 332         | 62 283         |
| - other                                    | 71 580         | 76 282         |
| Assets under construction                  | 6 204          | 7 002          |
| <b>Total property, plant and equipment</b> | <b>427 054</b> | <b>449 139</b> |

In the first half of 2014, the gross book value of Group's acquired 'Property, plant and equipment' items amounted to PLN 5 205 thousand (PLN 14 355 thousand in 2013), while the net amount of 'Property, plant and equipment' items sold and liquidated amounted to PLN 4 410 thousand (PLN 2 210 thousand in 2013).

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Accounting policies and additional explanatory notes

## 28 Other assets

|  | 30.06.2014     | 31.12.2013     |
|--|----------------|----------------|
| <b>Other assets</b>                        |                |                |
| – other debtors                            | 54 067         | 81 059         |
| – interbank and intersystem settlements    | 5 963          | 7 860          |
| – prepaid expenses                         | 35 953         | 10 679         |
| – accrued income                           | 5 897          | 7 184          |
| – cards settlements                        | 85 155         | 77 854         |
| – other                                    | 3 591          | 1 625          |
| <b>Total other assets (gross)</b>          | <b>190 626</b> | <b>186 261</b> |
| Impairment allowances on other receivables | (29 975)       | (29 797)       |
| <b>Total other assets (net)</b>            | <b>160 651</b> | <b>156 464</b> |

## 29 Amounts due to banks

|                                   | 30.06.2014       | 31.12.2013       |
|-----------------------------------|------------------|------------------|
| Current accounts                  | 44 631           | 61 544           |
| Interbank deposits                | 257 519          | 274 266          |
| Loans and advances received       | 3 949 839        | 2 860 839        |
| Other liabilities                 | 30 646           | 74 765           |
| <b>Total amounts due to banks</b> | <b>4 282 635</b> | <b>3 271 414</b> |

On 22 April 2011, the Bank and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) entered into an agreement, as a result of which the Bank received CHF 1 008 000 thousand loan for 12 years tenor, in order to finance existing mortgage portfolio denominated in CHF. The facility was disbursed in tranches from 29 April 2011 to 30 September 2011. As at 30 June 2014 the loan capital amounted to PLN 2 340 714 thousand.

The Bank received two loans from the European Bank of Reconstruction and Development (EBOiR) in the amount of EUR 50 000 thousand each. The first loan was disbursed in the first half of 2010, whereas the second one - in August 2011. As at 30 June 2014 the loan capital amounted to PLN 148 604 thousand.

In November 2012, the Bank received a loan from the European Investment Bank (EBI) in the amount of PLN 205 440 thousand (equivalent of EUR 50 million at the exchange rate set by the EBI for 2 days before disbursement of the loan) for a tenor of 10 years. The loan was secured by a guarantee issued by Rabobank. The guarantee agreement is three-sided, i.e. two agreements were signed: between Rabobank and EBI, in which Rabobank guarantees (up to 120% of the loan amount) the repayment of the loan and interest by the Bank in accordance with the schedule, and between Rabobank and the Bank, whereas the Bank agrees to pay the cost of guarantees in the amount of 0.95% on 120% of the outstanding loan amount. As at 30 June 2014, the loan capital amounted to PLN 205 440 thousand.

On 18 June 2014 the Bank has entered into a credit line agreement ('Agreement') with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. up to the total sum of EUR 700 000 000, which is an equivalent to PLN 2 897 860 000 according to the National Bank of Poland EUR/PLN fixing rate as of 17 June 2014. The credit line's purpose is to provide match-funding for current and future credit activity of Rabobank Polska, who was merged with the Bank on the signing date of the Agreement.

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As of the date of signing the Agreement, the line was disbursed in several sub-loans and in various currencies: PLN, USD, EUR, CHF, CZK, HUF; with floating interest rates based on reference rates appropriate for given currency and margin on top of that rate. Existing loans are matched to general liquidity and interest rate risk profile of underlying client loans. Full repayment of loans disbursed under the Agreement should happen on 31st December 2023 the latest.

There have been no breaches of the loan agreements and relevant covenants relating to the financial position of the Bank and its information obligations in both 2014 and 2013.

### 30 Repo transactions

|                                | 30.06.2014     | 31.12.2013 |
|--------------------------------|----------------|------------|
| Due to banks                   | 37 419         | -          |
| Due to customers               | 121 729        | -          |
| <b>Total repo transactions</b> | <b>159 148</b> | <b>-</b>   |

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## 31 Amounts due to customers

|                                       | 30.06.2014        | 31.12.2013        |
|---------------------------------------|-------------------|-------------------|
| <b>Other financial institutions:</b>  | <b>1 345 843</b>  | <b>1 046 953</b>  |
| Current accounts                      | 6 578             | 9 894             |
| Term deposits                         | 1 339 254         | 1 037 048         |
| Other liabilities, in this:           | 11                | 11                |
| - other                               | 11                | 11                |
| <b>Individual customers:</b>          | <b>17 501 035</b> | <b>16 377 174</b> |
| Current accounts                      | 10 277 273        | 10 100 652        |
| Term deposits                         | 7 165 722         | 6 208 272         |
| Other liabilities, in this:           | 58 040            | 68 250            |
| - cash collaterals                    | 8 054             | 7 965             |
| - other                               | 49 986            | 60 285            |
| <b>Corporate:</b>                     | <b>8 716 731</b>  | <b>8 466 523</b>  |
| Current accounts                      | 4 798 291         | 4 891 038         |
| Term deposits                         | 3 850 004         | 3 510 860         |
| Other liabilities, in this:           | 68 436            | 64 625            |
| - cash collaterals                    | 66 914            | 63 488            |
| - other                               | 1 522             | 1 137             |
| <b>Of which farmers:</b>              | <b>1 240 411</b>  | <b>1 200 404</b>  |
| Current accounts                      | 968 530           | 1 040 784         |
| Term deposits                         | 266 221           | 152 923           |
| Other liabilities, in this:           | 5 660             | 6 697             |
| - cash collaterals                    | 5 550             | 6 667             |
| - other                               | 110               | 30                |
| <b>Budget entities:</b>               | <b>689 030</b>    | <b>602 066</b>    |
| Current accounts                      | 484 383           | 458 346           |
| Term deposits                         | 204 518           | 143 593           |
| Other liabilities, in this:           | 129               | 127               |
| - cash collaterals                    | 129               | 127               |
| <b>Total amounts due to customers</b> | <b>28 252 639</b> | <b>26 492 716</b> |

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Accounting policies and additional explanatory notes

## 32 Debt securities issued

*Changes in debt securities issued*

|  | 6 months ended<br>30.06.2014 | 12 months ended<br>31.12.2013 |
|--|------------------------------|-------------------------------|
| <b>Balance at the beginning of the period</b>  | <b>1 191 158</b>             | <b>1 852 931</b>              |
| Issuance of certificates of deposit  | -                            | 601 721                       |
| Redemption of certificates of deposit  | (386 088)                    | (1 306 155)                   |
| Changes in discount from certificates of deposit, interests, commission and other fees on certificates of deposit amortized using EIR, foreign currency exchange differences | 2 513                        | 42 661                        |
| <b>Balance of debt securities issued at the end of the period</b>  | <b>807 583</b>               | <b>1 191 158</b>              |

In 2008, the Bank signed with three financing banks a number of agreements for issue of bearer bank securities (Certificates of Deposit – 'CDs') in material form, denominated in PLN.

The Bank as the issuer of debt securities entered into the Dealers Agreement and Issuance Agreement for the execution of the Debt Securities Issuance Program ('Program') with Bank Handlowy w Warszawie S.A., Bank Pekao S.A., BRE Bank S.A. and ING Bank Śląski S.A., acting as market makers. The Program assumes multiple issuance of Certificates of Deposit and the Bank's bonds ('bonds') denominated in PLN for the total amount not exceeding PLN 3 500 million. The Bank will issue zero-coupon and coupon CDs for the period no longer than 5 years and zero-coupon and coupon bonds with the maximum maturity of 10 years. The agreements were signed for an indefinite period of time.

The Program is designed to finance current lending activity of the Bank.

The agreements renew and expand by inclusion of bond issuance the Debt Securities Program dated 14 March 2008.

The value of CDs issued equals to PLN 799 500 thousand (nominal value) as at 30 June 2014 and PLN 1 184 000 thousand (nominal value) as at 31 December 2013.

## 33 Subordinated liabilities

According to the annex of 28 May 2013 to the loan agreement of CHF 1 008 million received from Rabobank signed on 22 April 2011, on 3 June 2013, the Bank made an early repayment of CHF 90 million. At the same time, under the new agreement of 28 May 2013, Rabobank provided the Bank with the funds in the form of a subordinated loan for a period of 10 years, i.e. with the one – off payment settled for 3 June 2023 at a fixed interest rate of 6M Wibor plus margin.

Margin has been set at 2.01%, taking into account:

- the current cost of financing of Rabobank for a period of 10 years in PLN,
- the current cost of such financing subordination (based on iTraxx indices),
- half of the cost of breaking the terms of original loan in CHF (due to the difference in maturity).

Rabobank, in case of changes in the ownership structure of the Bank resulting in a reduction of Rabobank's shares in the Bank below 70%, has the ability to raise above mentioned margin up to 4%.

On 28 August 2013, the Polish Financial Supervision Authority agreed to include the amount of above mentioned subordinated loan to the Bank's supplementary funds.



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As at 30 June 2014, the carrying amount of subordinated liabilities amounted to PLN 308 674 thousand (PLN 304 817 thousand as at 31 December 2013).

### 34 Other liabilities

|   | 30.06.2014     | 31.12.2013     |
|---|----------------|----------------|
| Interbank and intersystem settlements             | 127 724        | 55 217         |
| Other creditors                                   | 74 424         | 58 060         |
| Card settlements                                  | 137 665        | 93 033         |
| Provisions for non-personnel expenses             | 41 745         | 28 466         |
| Provisions for other employee-related liabilities | 52 657         | 40 974         |
| Provisions for unused holidays                    | 20 709         | 15 275         |
| Deferred income                                   | 19 961         | 14 102         |
| Other public settlements                          | 19 674         | 20 914         |
| <b>Total other liabilities</b>                    | <b>494 559</b> | <b>326 041</b> |

### 35 Provisions

|   | 30.06.2014    | 31.12.2013    |
|---|---------------|---------------|
| Provisions for restructuring  | 963           | 4 310         |
| Provisions for retirement benefits and similar obligations            | 23 721        | 19 966        |
| Provisions for guarantees, surety ships and undrawn credit facilities | 17 490        | 18 338        |
| Provisions for litigation and claims                                  | 18 159        | 18 845        |
| Other provisions  | 2 556         | 2 556         |
| <b>Total provisions</b>   | <b>62 889</b> | <b>64 015</b> |

|                                    | 6 months ended<br>30.06.2014 | 12 months ended<br>31.12.2013 |
|------------------------------------|------------------------------|-------------------------------|
| <b>Provision for restructuring</b> |                              |                               |
| <b>Opening balance</b>             | <b>4 310</b>                 | <b>13 515</b>                 |
| Provision charges                  | -                            | 7 746                         |
| Provision utilization              | (1 857)                      | (16 951)                      |
| Provision release                  | (1 490)                      | -                             |
| <b>Closing balance</b>             | <b>963</b>                   | <b>4 310</b>                  |

|  | 6 months ended<br>30.06.2014 | 12 months ended<br>31.12.2013 |
|--|------------------------------|-------------------------------|
| <b>Provision for retirement benefits</b> |                              |                               |
| <b>Opening balance</b>                   | <b>19 966</b>                | <b>14 407</b>                 |
| Provision charges                        | 3 785                        | 6 718                         |
| Provision release                        | (30)                         | (1 159)                       |
| <b>Closing balance</b>                   | <b>23 721</b>                | <b>19 966</b>                 |

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| Provisions for guarantees, surety ships<br>and undrawn credit facilities | 6 months ended | 12 months ended |
|--|----------------|-----------------|
|  | 30.06.2014     | 31.12.2013      |
| <b>Opening balance</b>   | <b>18 338</b>  | <b>7 257</b>    |
| Provision charges  | 10 187         | 34 293          |
| Provision release  | (12 993)       | (22 994)        |
| Provision acquired Ina business unit<br>combination                      | 1 977          | -               |
| Other changes  | (19)           | (218)           |
| <b>Closing balance</b>   | <b>17 490</b>  | <b>18 338</b>   |

| Provision for litigation and claims | 6 months ended | 12 months ended |
|-------------------------------------|----------------|-----------------|
|                                     | 30.06.2014     | 31.12.2013      |
| <b>Opening balance</b>              | <b>18 845</b>  | <b>28 736</b>   |
| Provision charges                   | 474            | 1 122           |
| Provision utilization               | (411)          | (1 915)         |
| Provision releases                  | (749)          | (9 251)         |
| Other changes                       | -              | 153             |
| <b>Closing balance</b>              | <b>18 159</b>  | <b>18 845</b>   |

| Other provisions       | 6 months ended | 12 months ended |
|------------------------|----------------|-----------------|
|                        | 30.06.2014     | 31.12.2013      |
| <b>Opening balance</b> | <b>2 556</b>   | <b>1 586</b>    |
| Provision charges      | -              | 1 537           |
| Provision utilization  | -              | (89)            |
| Other changes          | -              | (478)           |
| <b>Closing balance</b> | <b>2 556</b>   | <b>2 556</b>    |

## 36 Cash and cash equivalents

Cash and cash equivalents presented in the statement of cash flows comprise the following balances with maturity up to 3 months.

|   | 30.06.2014       | 31.12.2013       |
|---|------------------|------------------|
| Cash and balances with the Central Bank         | 1 416 197        | 1 617 713        |
| Current accounts of banks and other receivables | 280 661          | 135 364          |
| Interbank placements                            | 2 227            | 128 563          |
| <b>Total cash and cash equivalents</b>          | <b>1 699 085</b> | <b>1 881 640</b> |

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## 37 Additional information regarding the statement of cash flows

|  | 6 months<br>ended<br>30.06.2014 | 6 months<br>ended<br>30.06.2013 |
|--|---------------------------------|---------------------------------|
| <b>Other adjustments in the statement of cash flows</b>                                  |                                 |                                 |
| Balance adjustments as a result of the merge with Rabobank Polska<br>(please see note 9) | 346 722                         | -                               |
| <i>Cash and cash equivalents</i>   | 99 698                          | -                               |
| <i>Loans and advances to banks</i>   | 2 290                           | -                               |
| <i>Derivative financial instruments</i>  | 14 587                          | -                               |
| <i>Loans and advances to customers</i>   | 2 097 157                       | -                               |
| <i>Available for sale financial assets</i>   | 1 095 175                       | -                               |
| <i>Intangible assets</i>   | 1 348                           | -                               |
| <i>Property, plant and equipment</i>   | 2 910                           | -                               |
| <i>Deferred tax assets</i>   | 8 250                           | -                               |
| <i>Current tax assets</i>  | 3 295                           | -                               |
| <i>Other assets</i>  | 3 909                           | -                               |
| <i>Amounts due to banks</i>  | (2 592 364)                     | -                               |
| <i>Derivative financial instruments</i>  | (17 702)                        | -                               |
| <i>Amounts due to customers</i>  | (339 034)                       | -                               |
| <i>Other liabilities</i>   | (22 735)                        | -                               |
| <i>Provisions</i>  | (10 062)                        | -                               |
| Valuation change of the company consolidated by the equity method                        | (2 096)                         | (1 314)                         |
| FX differences from subordinated loans   | 3 870                           | -                               |
| Other adjustments  | (364)                           | 3 120                           |
| <b>Total adjustments</b>   | <b>348 132</b>                  | <b>1 806</b>                    |

## 38 Contingent liabilities

|  | 30.06.2014       | 31.12.2013       |
|--|------------------|------------------|
| <b>Contingent commitments granted</b>  | <b>5 495 357</b> | <b>4 605 578</b> |
| - Financial commitments                | 4 974 918        | 3 852 656        |
| - Guarantees                           | 520 439          | 752 922          |
| <b>Contingent commitments received</b> | <b>3 054 036</b> | <b>16 789</b>    |
| - Financial commitments                | 1 693 543        | 10 378           |
| - Guarantees                           | 1 360 493        | 6 411            |

Additionally, as at 30 June 2014, the Group had liabilities due to issued loan commitment, that will be used with high probability in the amount of PLN 782 887 thousand (PLN 588 378 thousand as at 31 December 2013).

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### 39 Fair value of financial assets and liabilities

The Group classifies the financial assets and liabilities measured at fair value into the following categories, broken down by valuation method:

#### Level 1

Assets and liabilities valued on the basis of prices quoted in active markets for identical assets or liabilities.

#### Level 2

Assets and liabilities valued using valuation techniques based on directly or indirectly observable market quotations, or other information based on market quotations.

#### Level 3

Assets and liabilities valued using valuation techniques based on input data derived from other sources than observable market quotations.

The Group carries out a periodical evaluation (at least once a quarter) of assets and liabilities classification to the respective levels of fair value hierarchy. The allocation to the respective levels of hierarchy is performed based on the input data used in the valuation model, which are market quotations or other information. The classification of asset or liability to respective level of hierarchy is determined by the lowest quality level of input data used in the model, which have a significant impact on the determination of fair value.

In case of change of used input data to the data of other level, for example due to change in valuation methodology or change in the source of market data, the Group transfers asset or liability to an appropriate level of valuation in the reporting period, in which the change occurred.

In the first half of 2014 and 2013 the Group did not implement any changes in the re-measurement to fair value method, which would result in transfers of financial assets and liabilities between the individual levels referred to above.

Presented below are the carrying amounts of financial assets and liabilities re-measured to fair value, by the valuation levels described above:

| 30.06.2014                                   | Level 1          | Level 2          | Level 3        | Total            |
|--|------------------|------------------|----------------|------------------|
| <b>Assets re-measured to fair value</b>      | <b>4 114 243</b> | <b>2 938 526</b> | <b>95 797</b>  | <b>7 148 566</b> |
| Debt securities held for trading             | 300 818          | -                | -              | 300 818          |
| Derivative financial instruments             | -                | 239 287          | 8 178          | 247 465          |
| Hedging instruments                          | -                | -                | -              | -                |
| Available for sale financial assets          | 3 813 425        | 2 699 239        | 25 095         | 6 537 759        |
| Investment property                          | -                | -                | 62 524         | 62 524           |
| <b>Liabilities re-measured to fair value</b> | <b>(53 083)</b>  | <b>(289 439)</b> | <b>(4 064)</b> | <b>(346 586)</b> |
| Financial liabilities held for trading       | (53 083)         | -                | -              | (53 083)         |
| Derivative financial instruments             | -                | (289 439)        | (4 064)        | (293 503)        |

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| 31.12.2013                                   | Level 1          | Level 2          | Level 3        | Total            |
|--|------------------|------------------|----------------|------------------|
| <b>Assets re-measured to fair value</b>      | <b>4 465 074</b> | <b>1 765 635</b> | <b>97 236</b>  | <b>6 327 945</b> |
| Debt securities held for trading             | 1 018 701        | -                | -              | 1 018 701        |
| Derivative financial instruments             | -                | 353 437          | 9 823          | 363 260          |
| Hedging instruments                          | -                | 57 387           | -              | 57 387           |
| Available for sale financial assets          | 3 446 373        | 1 354 811        | 24 889         | 4 826 073        |
| Investment property                          | -                | -                | 62 524         | 62 524           |
| <b>Liabilities re-measured to fair value</b> | <b>(271 288)</b> | <b>(329 791)</b> | <b>(7 159)</b> | <b>(608 238)</b> |
| Financial liabilities held for trading       | (271 288)        | -                | -              | (271 288)        |
| Derivative financial instruments             | -                | (329 791)        | (7 159)        | (336 950)        |

To level 1, the Group classifies debt and equity securities for which market quotations exist, or which are quoted in the public market.

To level 2, the Group classifies financial instruments, in this swaps, FRA, foreign exchange contracts and options, as well as bills.

To level 3, the Group classifies options embedded in investment deposits with hedging them interbank options, municipal bonds, stocks and shares not available in the public market.

The fair value of financial instruments from level 2 and 3 is determined using valuation techniques (for example models) described in note 8.

Input data to the valuation of instruments classified in level 2 and 3 include foreign exchange interest rate curves, reference rates, the volatility of exchange rates and reference rates, the swap points, basis spreads, stock exchange indices and futures prices.

In case of derivative financial instruments classified to level 3, non-observable parameters are:

- Correlation between stock indices (as at 30 June 2014 correlation ranged between 23% and 77%),
- Correlation between foreign exchange rates and stock indices (as at 30 June 2014 correlation ranged between -31% and 37%),
- Correlation between stock prices (as at 30 June 2014 correlation ranged between 40% and 61%),
- Implied volatility of WIG30 index (as at 30 June 2014 depending on the maturity date, volatility ranged between 15% and 20%),
- implied volatility of stock prices (as at 30 June 2014 volatility ranged between 20% and 25%).

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The table below shows total change in valuation of derivative financial instruments in the event of extreme change of non-observable parameters.

|  | Increase of the parameter | Decrease of the parameter |
|--|---------------------------|---------------------------|
| Correlation between stock exchange indices                   | (274)                     | (205)                     |
| Correlation between foreign exchange rates and stock indices | (404)                     | 268                       |
| Correlation between stock prices                             | (87)                      | (73)                      |
| Implicated volatility of WIG30                               | (518)                     | 957                       |
| Implicated volatility of stock prices                        | 4                         | (31)                      |
| <b>Total</b>   | <b>(1 279)</b>            | <b>916</b>                |

For the municipal bonds classified to level 3, the unobservable parameter is credit risk margin equaling the value of market margin for instruments of similar characteristics. The effect of changes in credit margin on changes in fair value is considered as immaterial.

In case of investment property, data used for valuation are offers on comparable premises, real prices of transactions and other data regarding real estate market condition in the area. Considering other estimates than those used for 30 June 2014 could lead to a significant change of the investment property valuation, although the Group has no realizable proofs on its impact on the fair value of the property.

The valuation was executed by an external certified property appraiser by hybrid approach, residual method.

The table below presents changes in valuation of assets and liabilities classified to level 3 and amounts that have been transferred to the statement of profit or loss and the statement of other comprehensive income.

|  | Derivative financial instruments - assets | Available for sale financial assets | Investment properties | Derivative financial instruments - liabilities |
|--|---|-------------------------------------|-----------------------|--|
| <b>Balance as at 01.01.2014</b>  | <b>9 823</b>                              | <b>24 889</b>                       | <b>62 524</b>         | <b>(7 159)</b>                                 |
| Total gains or losses recognized in:   | (7 619)                                   | 206                                 | -                     | 4 268  |
| - <i>Net interest income</i>   | -   | 488                                 | -                     | -  |
| - <i>Net trading income</i>  | (7 619)                                   | -                                   | -                     | 4 268  |
| - <i>Other operating income/expenses</i>   | -   | -                                   | -                     | -  |
| - <i>Statement of other comprehensive income</i>   | -   | (282)                               | -                     | -  |
| Purchase   | 5 974                                     | -                                   | -                     | (1 173)  |
| Settlement   | -   | -                                   | -                     | -  |
| <b>Balance as at 30.06.2014</b>  | <b>8 178</b>                              | <b>25 095</b>                       | <b>62 524</b>         | <b>(4 064)</b>                                 |
| <b>Unrealized gains or losses recognized in the statement of profit or loss relating to assets and liabilities held at the end of the reporting period, in this:</b> | <b>(7 619)</b>                            | <b>488</b>                          | <b>-</b>              | <b>4 268</b>                                   |
| Net interest income  | -   | 488                                 | -                     | -  |
| Net trading income   | (7 619)                                   | -                                   | -                     | 4 268  |
| Other operating income   | -   | -                                   | -                     | -  |

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|  |              |               |               |                |
|--|--------------|---------------|---------------|----------------|
| <b>Balance as at 01.01.2013</b>  | -            | <b>26 548</b> | <b>62 301</b> | -              |
| Total gains or losses recognized in:   | (570)        | 1 154         | 223           | (2 137)        |
| - <i>Net interest income</i>   | -            | 1 196         | -             | -              |
| - <i>Net trading income</i>  | (570)        | -             | -             | (2 137)        |
| - <i>Other operating income/expenses</i>   | -            | -             | 223           | -              |
| - <i>Statement of other comprehensive income</i>   | -            | (42)          | -             | -              |
| Purchase   | 10 393       | -             | -             | (5 022)        |
| Settlement   | -            | (2 813)       | -             | -              |
| <b>Balance as at 31.12.2013</b>  | <b>9 823</b> | <b>24 889</b> | <b>62 524</b> | <b>(7 159)</b> |
| <b>Unrealized gains or losses recognized in the statement of profit or loss relating to assets and liabilities held at the end of the reporting period, in this:</b> | <b>(570)</b> | <b>11</b>     | <b>223</b>    | <b>(2 137)</b> |
| Net interest income  | -            | 11            | -             | -              |
| Net trading income   | (570)        | -             | -             | (2 137)        |
| Other operating income   | -            | -             | 223           | -              |

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The table below presents carrying amount and fair value of those assets and financial liabilities, which were not recognized in statement of financial position of the Group according to their fair value and the classification levels. In case of all categories, credit risk margin estimated by the internal models and liquidity margin estimated according to the market data are unobservable parameters.

| 30.06.2014                      | Book value | Fair Value | Level |
|---------------------------------|------------|------------|-------|
| <b>Financial assets</b>         |            |            |       |
| Loans and advances to banks     | 291 876    | 289 487    | 3     |
| Reverse repo transactions       | 61 351     | 61 351     | 3     |
| Investments in associates       | 37 101     | 37 101     | 3     |
| Loans and advances to customers | 28 918 697 | 29 192 010 | 3     |
| <b>Financial liabilities</b>    |            |            |       |
| Amounts due to banks            | 4 282 635  | 4 259 940  | 3     |
| Repo transactions               | 159 148    | 159 148    | 3     |
| Amounts due to customers        | 28 252 639 | 28 192 427 | 3     |
| Debt securities issued          | 807 583    | 820 984    | 3     |
| Subordinated liabilities        | 308 674    | 313 127    | 3     |
| 31.12.2013                      | Book value | Fair Value | Level |
| <b>Financial assets</b>         |            |            |       |
| Loans and advances to banks     | 269 757    | 267 126    | 3     |
| Reverse repo transactions       | 309 255    | 309 255    | 3     |
| Investments in associates       | 35 052     | 35 052     | 3     |
| Loans and advances to customers | 26 297 916 | 26 369 191 | 3     |
| <b>Financial liabilities</b>    |            |            |       |
| Amounts due to banks            | 3 271 414  | 3 278 049  | 3     |
| Repo transactions               | -          | -          | 3     |
| Amounts due to customers        | 26 492 716 | 26 420 359 | 3     |
| Debt securities issued          | 1 191 158  | 1 203 434  | 3     |
| Subordinated liabilities        | 304 817    | 309 382    | 3     |

### a) Loans and advances to banks

Loans and advances to banks consist of interbank placements. The fair value of fixed and variable interest rate placements is based on future cash flows discounted using the money market interest rates for items with similar credit risk and similar period remaining to maturity.

### b) Loans and advances to customers

The estimated fair value of loans and advances to customers is calculated as the discounted value of future cash flows to be received. In order to determine the fair value of loans and advances granted to customers, the amounts to be received are discounted using current interest rates for group of assets with similar credit risk. Market rates used for discounting are adjusted to the actual cost of raising funds for lending and credit risk cost for each product group.

### c) Liabilities and receivables due to BSB/SBB

The fair value of repo/reverse repo transactions was recognized in carrying amount due to short term of those transactions.



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### d) Investments in associates

The Group has adopted the book value as the best estimate of the fair value of investments in associates.

### e) Subordinated liabilities

Liabilities include subordinated loan of CHF 90 million. The fair value of the loan at variable interest rate is based on discounted cash flows set on interest rates observed on the money market for positions with similar credit risk and remaining period to maturity.

### f) Due to customers

The fair value of loans and advances at fixed and variable interest rates is based on discounted future cash-flows set on the money market interest rates adjusted by liquidity margin. In case of a'vista deposits it is assumed that fair value is equal to their carrying value.

### g) Debt securities issued

The fair value of debt securities issued is estimated using the model discounting future cash flows from an investment, based on the market interest rate curves adjusted by the credit risk of the issuer.

## 40 Related party transactions

Bank Gospodarki Żywnościowej S.A. is a subsidiary of Rabobank Group, the parent company of which is Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Bank Gospodarki Żywnościowej S.A. is the parent company of Bank Gospodarki Żywnościowej S.A. Group. The Group consists of a subsidiary – **Bankowy Fundusz Nieruchomości Actus Sp. z o.o.** - BGŻ S.A. holds 100% of the share capital of the company and 100% of votes at the General Meeting of Shareholders.

BGŻ S. A. holds 49% shares in the share capital of the Company and 49% of votes at the General Meeting of Shareholders in an associate - BGŻ Leasing Sp. z o.o.

All transactions between the Bank and related parties were due to current operation activities and consisted primarily of loans, deposits, derivative transactions and income and expenses on advisory services and financial intermediation.

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### Transactions with BGŻ S.A shareholders and related parties

| 30.06.2014   | COÖPERATIEVE CENTRALE<br>RAIFFEISEN-<br>BOERENLEENBANK B.A. | RABOBANK GROUP<br>ENTITIES | KEY PERSONNEL | TOTAL            |
|--|---|----------------------------|---------------|------------------|
| <b>Assets</b>  | <b>84 162</b>   | <b>62 995</b>              | <b>21</b>     | <b>147 178</b>   |
| Current accounts, interbank placements and loans and advances    | 70 557  | 62 921                     | 21            | 133 499          |
| Derivative financial instruments                                 | 13 363  | -                          | -             | 13 363           |
| Other assets   | 242   | 74                         | -             | 316              |
| <b>Liabilities</b>   | <b>3 953 756</b>  | <b>7 263</b>               | <b>3 155</b>  | <b>3 964 174</b> |
| Loans and advances received                                      | 3 594 237   | -                          | -             | 3 594 237        |
| Interbank deposits and current accounts                          | 215   | 7 237                      | 3 155         | 10 607           |
| Subordinated liabilities   | 308 676   | -                          | -             | 308 676          |
| Derivative financial instruments                                 | 25 249  | -                          | -             | 25 249           |
| Other liabilities  | 25 379  | 26                         | -             | 25 405           |
| <b>Contingent liabilities</b>                                    |   |                            |               |                  |
| Financial commitments granted                                    | -   | 53 688                     | 29            | 53 717           |
| Guarantees granted   | 1 152   | -                          | -             | 1 152            |
| Commitments received   | 2 192 527   | -                          | -             | 2 192 527        |
| Derivative financial instruments (face value)                    | 6 638 462   | -                          | -             | 6 638 462        |
| <b>1<sup>st</sup> half of 2014 from 01.01.2014 to 30.06.2014</b> |   |                            |               |                  |
| <b>Statement of profit or loss</b>                               | <b>(20 179)</b>   | <b>18</b>                  | <b>(35)</b>   | <b>(20 196)</b>  |
| Interest income  | 776   | 15                         | -             | 791              |
| Interest expense   | (21 247)  | (5)                        | (35)          | (21 287)         |
| Fee and commission income  | -   | 8                          | -             | 8                |
| Fee and commission expense                                       | (1 161)   | -                          | -             | (1 161)          |
| Net trading income   | 11 206  | -                          | -             | 11 206           |
| Other operating income   | 220   | -                          | -             | 220              |
| General administrative expenses                                  | (9 973)   | -                          | -             | (9 973)          |

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| 31.12.2013   | COÖPERATIEVE CENTRALE<br>RAIFFEISEN-<br>BOERENLEENBANK B.A. | RABOBANK GROUP<br>ENTITIES | KEY PERSONNEL | TOTAL            |
|--|---|----------------------------|---------------|------------------|
| <b>Assets</b>  | <b>71 681</b>   | <b>134 303</b>             | <b>21</b>     | <b>206 005</b>   |
| Current accounts, interbank placements and loans and advances    | 166   | 128 563                    | 21            | 128 750          |
| Derivative financial instruments                                 | 71 084  | 5 740                      | -             | 76 824           |
| Other assets   | 431   | -                          | -             | 431              |
| <b>Liabilities</b>   | <b>2 788 799</b>  | <b>5 773</b>               | <b>3 136</b>  | <b>2 797 708</b> |
| Loans and advances received                                      | 2 447 145   | -                          | -             | 2 447 145        |
| Interbank deposits and current accounts                          | 2 096   | 32                         | 3 136         | 5 264            |
| Subordinated liabilities   | 304 819   | -                          | -             | 304 819          |
| Derivative financial instruments                                 | 23 539  | 5 741                      | -             | 29 280           |
| Other liabilities  | 11 200  | -                          | -             | 11 200           |
| <b>Contingent liabilities</b>                                    |   |                            |               |                  |
| Financial commitments granted                                    | -   | -                          | 59            | 59               |
| Guarantees granted   | 1 151   | -                          | -             | 1 151            |
| Commitments received   | 1 151   | -                          | -             | 1 151            |
| Derivative financial instruments (face value)                    | 8 443 696   | 309 968                    | -             | 8 753 664        |
| <b>1<sup>st</sup> half of 2013 from 01.01.2013 to 30.06.2013</b> |   |                            |               |                  |
| <b>Statement of profit or loss</b>                               | <b>(66 077)</b>   | <b>(255)</b>               | <b>(33)</b>   | <b>(66 365)</b>  |
| Interest income  | 301   | 415                        | -             | 716              |
| Interest expense   | (21 805)  | (1)                        | (33)          | (21 839)         |
| Fee and commission expense                                       | (4)   | -                          | -             | (4)              |
| Net trading income   | (36 777)  | (669)                      | -             | (37 446)         |
| Other operating income   | 1 530   | -                          | -             | 1 530            |
| General administrative expenses                                  | (9 322)   | -                          | -             | (9 322)          |

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## Accounting policies and additional explanatory notes

### Remuneration of the Management Board and the Supervisory Board of the Bank

| <b>Management Board</b>                   | <b>30.06.2014</b> | <b>31.12.2013</b> |
|---|-------------------|-------------------|
| Short-term employee benefits              | 7 242             | 11 450            |
| Long-term benefits                        | 667               | 465               |
| Benefits due to termination of employment | -                 | 3 300             |
| Share-based payments                      | 1 313             | 1 339             |
| <b>TOTAL</b>                              | <b>9 222</b>      | <b>16 554</b>     |

| <b>Supervisory Board</b>                  | <b>30.06.2014</b> | <b>31.12.2013</b> |
|---|-------------------|-------------------|
| Short-term employee benefits              | 333               | 596               |
| Long-term benefits                        | -                 | -                 |
| Benefits due to termination of employment | -                 | -                 |
| Share-based payments                      | -                 | -                 |
| <b>TOTAL</b>                              | <b>333</b>        | <b>596</b>        |

## 41 Operating segments

### Segment reporting

The Group has divided its activity and applied identification of income and expenses as well as assets and liabilities into the following reporting segments: Retail and Business Banking (including direct banking channel – BGŻ Optima, private banking and offer for micro companies), Corporate Banking (including starting from 18 June 2014 the results of Global Corporate Clients segment, i.e. customers of ex-Rabobank Polska), Financial Markets and Assets and Liabilities Management, and Other. For first two segments, Agro business was separated in regards to their importance for the development strategy of the Group, the significant impact they have on financial performance on the Group and also because they are differently monitored when management reporting. The classification reflects the principles of classification of customers into segments in accordance with the Group's business model which is based on type of business and financial criteria as well as the type of activity.

Monitoring of managerial results in the Group takes into account all components of the statement of profit or loss of particular segment to the level of gross profit, i.e. for each segment revenues, expenses and net impairment losses are reported. Managerial revenues include cash flows between the customer segments and the unit responsible for assets and liabilities management, valued using internal transfer pricing of funds based on market prices and liquidity margins determined for a given maturity and currency. Managerial costs include the direct costs of their activities and costs allocated in accordance with the allocation model adopted by the Group. In addition, the managerial results of segments include settlements of business lines for services provided between them (the data is assigned to particular clients of the Bank). The settlements include incomes and expenses. Under income the Group recognizes banknotes transactions' commission, i.e. the commissions for the purchase of cash for the clients on the market and the net interest income referring to a transfer fund price assigned to cash balance available for clients. Under expenses the Group recognizes settlements for basic banking facilities (their price is annually agreed upon by business line representatives) and settlements for counting and transportation of cash to clients.

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## Accounting policies and additional explanatory notes

Operating activity of the Group is limited to Poland. No material differences are identified in risks that could be influenced by the geographical location of Group's branches, and therefore the Group has not disclosed geographical information.

The Group applied unified and detailed rules for all distinguished segments. In case of revenues, apart from standard positions, the components of segments' results on interests were separated – i.e. internal and external revenues and expenses. For general expenses, the Group allocates indirect costs to segments through separation of tens cost aggregates, homogeneous in the aspect of the area and the scope of activity of the Group's units. For each aggregate separate, tailored specifically to the aggregate allocation principles were used, that transfer their costs on revenue segments.

As part of the Corporate and Retail and Business Banking segments, Agro clients are separated, i.e. individual farmers and companies operating in food sectors. According to the principle of customer segmentation into groups, farmers include individuals, legal entities, organizational units that do not have the status of legal entities but are involved in agricultural activities within the meaning of the Act on farm tax. Segmentation of companies is made based on classification activity codes (PDK 2007). The main activities of Agro Clients contain production of food, beverages and tobacco, retail and wholesale of food, forestry and logging services, production of machinery and other means of production for agriculture and forestry, wholesale of agricultural machinery and equipment, production of wood products, paper and paper products, production of packages, production of machinery utilized in manufacture of food, tobacco and beverage production.

Due to the nature of the Group's activity, there is no seasonality or cyclical phenomenon. The Group provides financial services for which demand is stable, and the impact of seasonality is negligible.

### Business segments characteristics

**The Retail and Business Banking Segment** includes sales of products and services performed for individuals and micro companies, including maintaining current accounts and deposit accounts, gathering term deposits, granting housing loans, cash loans, mortgage loans, revolving loans, overdrafts, loans dedicated to micro companies, issuance of debit and credit cards, service of foreign cash transfers, entering into foreign exchange transactions, sale of insurance products and other services with a minor impact on the Group's revenue. The Retail and Business Banking Segment includes also: balances and results of direct banking channel BGŻOptima, income from brokerage services and distribution of investment funds' share units.

The services for the clients belonging to the Retail and Business Banking Segment are rendered by branches of the Group and through alternative channels, i.e. internet banking (eBGŻ, TeleBGŻ), telephone banking (TeleBGŻ), direct banking channel BGŻOptima as well as Private Banking channel. Additionally, sale of particular products is realized through financial intermediaries, both on local and national level.

**Agro Clients** separated from Retail and Business Banking segment contain individual farmers and companies that are classified by the Group systems, respectively as micro-farmers and micro-agro.

**The Corporate Banking Segment** includes sales of products and services rendered to enterprises, companies, cooperatives, individual entrepreneurs, individual farmers, non-profit institutions and public sector entities. The Corporate Banking Segment is divided into: Large, Small and Medium enterprises. The services are rendered by Consultants working at Corporate Centers. Operational support for all segments is carried by the Group's Branches, and additionally they also have access to telephone banking (TeleBGŻ) and internet banking (eBGŻ Firma). Moreover, a sale of particular products is realized through financial intermediaries, both on local and national level.

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## Accounting policies and additional explanatory notes

Products and services for Corporate Clients include maintaining current and saving accounts, gathering term deposits (including negotiable deposits), issuing business-type cards, granting overdrafts, investing commercial loans and revolving loans, agro-business financing loans (including preferential loans, revolving loans for farmers, agricultural procurement loans, loans with refinancing from the European Bank for Reconstruction and Development, overdrafts secured with mortgages on agricultural land, loans for realization of projects co-financed with the subsidies from the European Union), insurance for farmers, issuing of debt securities, financing trading activities (including guarantees, surety ships, letters of credit, discounting of bills and factoring), leasing (in cooperation with BGŻ Leasing) and entering into foreign exchange and derivative transactions.

**Agro Clients** separated from Corporate Banking include individual farmers and companies that are classified as Large Agro-enterprises, Large Farmers, MSE-Agro, MSE-Farmers and Global Corporate Clients Agro.

**The Financial Markets and ALCO Segments** cover activities in the area of financial markets performed on Group's own interest and in the liquidity management area as well as assets and liabilities management activity (including debt securities investment portfolio, issued certificates of deposits, loans from other banks, balance of liquidity margin, spread ask/bid between transfer prices of funds allocated to assets and liabilities).

The **Other** segment includes results that are not attributable to any of above listed segments (i.e. the loan portfolio under vindication and restructuring procedures, capital investments, results attributable to the Group's own accounts and to clients' accounts not attributed to the specified segment). Before 1 January 2011, the loan portfolio under vindication and restructuring procedures were transferred to a separate, specialized entity.

Non-performing loans, created after 1 January 2011, are presented in the respective segments – the Retail and Business Banking or the Corporate Banking.

### Reconciliation of results with financial reporting data

**Result on financial operations and foreign exchange result** from the statement by operating segments reconciles with the sum of the following items from the statement of profit or loss:

- Dividend income
- Net trading income
- Result on investing activities
- Result on hedge accounting
- Share in profit (loss) of associates

**Result on other operations** from the statement by operating segments reconciles with the sum of the following items from the statement of profit or loss:

- Other operating income
- Other operating expenses

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## Accounting policies and additional explanatory notes

|  | 1 <sup>st</sup> half of 2014<br>from 01.01.2014<br>to 30.06.2014 | 1 <sup>st</sup> half of 2013<br>From 01.01.2013<br>to 30.06.2013 |
|--|--|--|
| <b>Statement by operating segments</b> |  |  |
| Result on financial operations         | 996  | 36 981   |
| Foreign exchange result                | 34 596   | 32 807   |
|  | <b>35 592</b>  | <b>69 788</b>  |
| <b>Statement of profit or loss:</b>    |  |  |
| Dividend income                        | 3 302  | 2 837  |
| Net trading income                     | 24 874   | 48 751   |
| Result on investing activities         | 5 476  | 20 613   |
| Result on hedging accounting           | (156)  | (1 099)  |
| Share in profit (loss) of associates   | 2 096  | (1 314)  |
|  | <b>35 592</b>  | <b>69 788</b>  |
| <b>Statement by operating segments</b> |  |  |
| Result on other operations             | 5 568  | 7 178  |
|  | <b>5 568</b>   | <b>7 178</b>   |
| <b>Statement of profit or loss:</b>    |  |  |
| Other operating income                 | 16 390   | 14 920   |
| Other operating expenses               | (10 822)   | (7 742)  |
|  | <b>5 568</b>   | <b>7 178</b>   |

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## Accounting policies and additional explanatory notes

| 1 <sup>st</sup> half of 2014   | Retail and Business Banking | Including: Agro Clients | Corporate Banking | including: Agro Clients | Financial Markets and ALCO | Other          | Total             |
|--|-----------------------------|-------------------------|-------------------|-------------------------|----------------------------|----------------|-------------------|
| <b>Statement of profit or loss</b>                                   |                             |                         |                   |                         |                            |                |                   |
| Net interest income  | 318 925                     | 60 346                  | 108 207           | 74 060                  | 125 796                    | (6 103)        | <b>546 825</b>    |
| external interest income   | 441 571                     | 122 902                 | 285 628           | 206 717                 | 117 558                    | 19 419         | <b>864 176</b>    |
| external interest expense  | (173 706)                   | (6 898)                 | (72 131)          | (29 701)                | (71 318)                   | (196)          | <b>(317 351)</b>  |
| internal interest income   | 318 958                     | 19 521                  | 104 766           | 48 926                  | (423 991)                  | 267            | -                 |
| internal interest expense  | (267 898)                   | (75 179)                | (210 056)         | (151 882)               | 503 547                    | (25 593)       | -                 |
| Net fee and commission income  | 101 027                     | 25 262                  | 46 570            | 28 500                  | 3 741                      | 2 451          | <b>153 789</b>    |
| Result on financial operations                                       | 536                         | -                       | 1 663             | 605                     | (4 513)                    | 3 310          | <b>996</b>        |
| Foreign exchange result  | 18 907                      | 1 892                   | 15 607            | 8 561                   | -                          | 82             | <b>34 596</b>     |
| Result on other operations   | (312)                       | (149)                   | (130)             | (56)                    | (12 180)                   | 18 190         | <b>5 568</b>      |
| Net impairment losses on financial assets and contingent liabilities | (66 535)                    | (8 842)                 | (31 568)          | (13 194)                | (51)                       | (12 999)       | <b>(111 153)</b>  |
| General administrative expenses                                      | (331 096)                   | (51 701)                | (97 256)          | (51 291)                | (11 820)                   | (4 695)        | <b>(444 867)</b>  |
| Depreciation and amortization  | (36 248)                    | (5 402)                 | (10 386)          | (5 465)                 | (1 266)                    | (1 935)        | <b>(49 835)</b>   |
| <b>Segment result</b>  | <b>5 204</b>                | <b>21 406</b>           | <b>32 707</b>     | <b>41 720</b>           | <b>99 707</b>              | <b>(1 699)</b> | <b>135 919</b>    |
| Profit (loss) before income tax                                      | -                           | -                       | -                 | -                       | -                          | -              | <b>135 919</b>    |
| Income tax expense   | -                           | -                       | -                 | -                       | -                          | -              | <b>(27 421)</b>   |
| Net profit for the period  | -                           | -                       | -                 | -                       | -                          | -              | <b>108 498</b>    |
| <b>Statement of financial position 30.06.2014</b>                    |                             |                         |                   |                         |                            |                |                   |
| Segment assets   | 15 996 678                  | 4 393 454               | 13 972 395        | 9 960 978               | 5 694 612                  | 3 110 852      | <b>38 774 537</b> |
| Segment liabilities  | 20 754 415                  | 1 172 966               | 7 459 396         | 3 734 895               | 4 893 687                  | 1 618 032      | <b>34 725 530</b> |



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| 1 <sup>st</sup> half of 2013   | Retail and Business Banking | including: Agro Clients | Corporate Banking | including: Agro Clients | Financial Markets and ALCO | Other           | Total             |
|--|-----------------------------|-------------------------|-------------------|-------------------------|----------------------------|-----------------|-------------------|
| <b>Statement of profit or loss</b>                                   |                             |                         |                   |                         |                            |                 |                   |
| Net interest income  | 261 993                     | 51 061                  | 130 358           | 82 153                  | 121 375                    | (32 154)        | <b>481 572</b>    |
| external interest income   | 431 756                     | 112 691                 | 374 707           | 253 271                 | 185 743                    | 31 894          | <b>1 024 100</b>  |
| external interest expense  | (296 403)                   | (13 660)                | (119 815)         | (40 638)                | (126 136)                  | (174)           | <b>(542 528)</b>  |
| internal interest income   | 419 138                     | 26 565                  | 161 395           | 63 622                  | (580 901)                  | 368             | -                 |
| internal interest expense  | (292 498)                   | (74 535)                | (285 929)         | (194 102)               | 642 669                    | (64 242)        | -                 |
| Net fee and commission income  | 81 212                      | 17 893                  | 48 349            | 28 064                  | (2 760)                    | 3 299           | <b>130 100</b>    |
| Result on financial operations                                       | 29                          | 28                      | 3 412             | 2 041                   | 30 703                     | 2 837           | <b>36 981</b>     |
| Foreign exchange result  | 16 173                      | 1 651                   | 16 614            | 8 473                   | -                          | 20              | <b>32 807</b>     |
| Result on other operations   | 1 769                       | (65)                    | (79)              | (46)                    | (4 096)                    | 9 584           | <b>7 178</b>      |
| Net impairment losses on financial assets and contingent liabilities | (31 464)                    | (4 036)                 | (57 715)          | (13 272)                | (2 188)                    | 44              | <b>(91 323)</b>   |
| General administrative expenses                                      | (327 758)                   | (48 375)                | (104 766)         | (49 023)                | (13 367)                   | 1 999           | <b>(443 892)</b>  |
| Depreciation and amortization  | (35 743)                    | (4 697)                 | (10 133)          | (4 752)                 | (1 347)                    | (2 034)         | <b>(49 257)</b>   |
| <b>Segment result</b>  |                             |                         |                   |                         |                            |                 |                   |
|  | <b>(33 789)</b>             | <b>13 460</b>           | <b>26 040</b>     | <b>53 638</b>           | <b>128 320</b>             | <b>(16 405)</b> | <b>104 166</b>    |
| Profit (loss) before income tax                                      | -                           | -                       | -                 | -                       | -                          | -               | <b>104 166</b>    |
| Income tax expense   | -                           | -                       | -                 | -                       | -                          | -               | <b>(21 634)</b>   |
| Net profit for the period  | -                           | -                       | -                 | -                       | -                          | -               | <b>82 532</b>     |
| <b>Statement of financial position 30.06.2013</b>                    |                             |                         |                   |                         |                            |                 |                   |
| Segment assets   | 14 962 950                  | 3 847 475               | 12 019 666        | 8 582 093               | 5 437 489                  | 3 357 036       | <b>35 777 141</b> |
| Segment liabilities  | 19 722 524                  | 1 133 366               | 6 832 689         | 3 216 315               | 4 295 180                  | 1 417 558       | <b>32 267 951</b> |

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## 42 The shareholders' structure of Bank Gospodarki Żywnościowej S.A.

| Shareholders  | 30.06.2014        |               | 31.12.2013        |               |
|---|-------------------|---------------|-------------------|---------------|
|   | Number of shares  | Structure (%) | Number of shares  | Structure (%) |
| Rabobank International Holding B.V.*                  | 51 073 289        | 90.98         | 45 942 004        | 89.84         |
| Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.* | 4 303 695         | 7.66          | 4 303 695         | 8.42          |
| Other shareholders                                    | 761 780           | 1.36          | 891 065           | 1.74          |
| <b>TOTAL</b>  | <b>56 138 764</b> | <b>100.00</b> | <b>51 136 764</b> | <b>100.00</b> |

\* Rabobank Group

Share capital of the Bank as at 30 June 2014 amounted to PLN 56 138 764 thousand. The nominal value of each share is PLN 1.00. Change of equity is further described in the note 9.

As at 30 June 2014 and 31 December 2013 none of the members of Management Board or Supervisory Board held the Bank's shares directly.

## 43 Dividends paid

In 2013 the Bank did not paid out the dividend. By the decision of the General Shareholders' Meeting dated 30 May 2014, net profit for the year 2013 in the amount of PLN 162 403 thousand was allocated to Other supplementary capital.

## 44 Legal issues

As at 30 June 2014 the total value of the legal proceedings against the Bank amounted to PLN 37 248 thousand, whereas the total value of the legal proceedings in which the Bank is a plaintiff amounted to PLN 77 792 thousand. As at 31 December 2013 the total value of the legal proceedings against the Bank amounted to PLN 42 849 thousand, and the total value of the legal proceedings in which the Bank is a plaintiff amounted to PLN 83 784 thousand (the amounts includes proceeding in which the value of the object of litigation exceeds PLN 100 thousand and employment-related cases excluding adverse claims).

The Bank and its subsidiary are not involved in any proceedings before a court, arbitration body, or public administration authorities which represent at least 10% of the equity.

## 45 Risk management

The most significant changes to credit risk management made in the first half of 2014 and main measures of market risk are described below. In reference to other risks that the Group has to face, the approach has not changed significantly.

### CREDIT RISK

The main activities in respect to credit risk realized by the Group in the first half of 2014 are as follows:

- review and update of the risk appetite regarding the merger of Bank BGŻ with Rabobank Polska.

Service of corporate clients of former Rabobank Polska is carried out by the newly established Division of Global Corporate Clients and Products and risk assessments is carried out by Department of Global Corporate Clients Credit Risk. This change is reflected

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in the organizational structure of BGŻ Head Office and the division of responsibility (between Business and Risk) for the various steps of credit process has been described in the newly established credit procedure dedicated for Global Corporate Clients. The decision making process has also altered (new decision makers in Global Corporate Clients, adding new members to Credit Committee and Business Advisory Team). Global Corporate Clients are now under the Credit Policy Rules that apply to all corporate clients (in particular, industry policy, environmental exception rules, collateral policies). Credit risk assessment of Global Corporate Clients is made on the basis of negative criteria (applicable to all corporate clients), rating models dedicated for this group (Large Cap, SME Emerging Markets), similar for all corporations running full reporting methodology evaluation of financial situation, the result of which is appointing a risk classification for each customer (by internal Bank classification, classification according to IAS, classification according to Minister of Finance regulation).

Altering internal limits of credit risk mitigation (defined in the Appetite for Risk and Key limits for credit risk) was related to reestimation of previously set limits due to increase of loan portfolio (the result of the merge with Rabobank Polska) and introducing new limits dedicated for Global Corporate Clients (for example limits for industries within the sub-portfolio of Global Corporate Clients, 10 largest engagements within the sub-portfolio of Global Corporate Clients; limits are determined by rating level, share of non-working portfolio)

- implementation of new rules for determining the value of the property subject to the mortgage security by verifying the value of the property by a team of valuation experts (an individual approach, used for material exposures) and the adjustment of the value of the property using internal drop-off factor (a portfolio approach, used for smaller exposures),
- modification of the model used for the assessment of credit score for individual farmers (extending of the application scope of standardized profitability indicators for different types of agricultural production),
- development of principles for a new standardized and centralized credit process for micro clients on full accounting (including credit score assessment model),
- implementation of precautionary approach for the possibility of financing advanced age micro clients,
- development of principles for a risk management concerning pre-approved operations for retail and corporate clients.

## FINANCIAL RISK

A detailed description of the financial risk for the 1<sup>st</sup> half of 2014 and the impact of the merger between BGŻ and Rabobank Polska on various types of financial risk is described in the Management Board's Report on the activities of Bank Gospodarki Żywnościowej S.A. Group for the first half of 2014.

### Market risk in the banking book

The merger of Bank BGŻ with Rabobank Polska, on 18 July 2014, had marginal effect on the Bank interest rate risk profile, due to effective structure of reevaluation of assets and liabilities of ex-Rabobank Polska. FX risk in banking book is transferred to trading book.

### Market risk in the trading book

Changes in market risk following the merger of Bank BGŻ with Rabobank Polska were immaterial and resulted substantially from increase in trading debt securities. Customer's derivative financial instruments from ex-Rabobank Polska did not affect the exposure of the merged Bank (closed back-to-back, no open positions). Exposure on market risk in trading portfolio remained low in the first half of 2014 as a result of exposure on interest rate risk, including interest swap and FRA transaction, while the weaker effect derived from debt securities. Currency exposures had a

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limited affect on market risk of the Bank, because positions at the end of the day were limited to the minimum.

#### Liquidity risk

In the first half of 2014, the Bank maintained a safe level of liquidity. Ratios and supervisory liquidity measures, like in 2013, remained at a satisfactory level, i.e. the Group complied with the supervisory liquidity measure during the period.

The merger between Bank BGŻ and Rabobank Polska resulted in a significant increase of loan portfolio, appropriately balanced on the liability side with highly stable financing. As a result, the impact on BGŻ liquidity level was neutral.

#### Counterparty risk, country risk

In the event of counterparty and country risk limit on finance trade transactions, there has been a significant increase in allocation in relation to acquisition of ex-Rabobank Polska's guarantees.

The sum of limits allocated on counterparty risk for corporate clients also increased significantly (over doubled) as a result of Rabobank Polska and BGZ merge, mainly due to adding new limits for large corporate clients. Usage of limits increased from 4% to 7%.

##### Counterparty risk exposures for corporate clients

|                  | 30.06.2014 | 31.12.2013 |
|------------------|------------|------------|
| Available limits | 1 105 825  | 451 355    |
| Exposure         | 82 695     | 19 590     |
| share %          | 7%         | 4%         |

##### Exposure to banks

|                               | 30.06.2014 | 31.12.2013 |
|-------------------------------|------------|------------|
| Financial market transactions |            |            |
| - available limits            | 2 817 400  | 2 833 400  |
| - limits used                 | 76 408     | 270 168    |
| Trade finance                 |            |            |
| - available limits            | 612 950    | 11 920     |
| - limits used                 | 554 939    | 3 560      |

## 46 Changes in the Bank's Management

On 28 April 2014, the Management Board of the Bank was notified that Mr. Johannes Gerardus Beuming submitted his resignation from the position of the Vice-president of the Management Board of Bank Gospodarki Żywnościowej S.A. effective from 30 June 2014.

## 47 Significant events in 2014

### Sale of 98.5% shares of BGŻ S.A. in favor of BNP Paribas Group

On 5 December 2013, the Rabobank International Holding BV and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. reached an agreement with BNP Paribas Group on the sale of 98.5% of the shares held by Rabobank in BGŻ S.A.

The transaction is subject to obtaining the necessary regulatory approvals.

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## Merge of BGŻ and Rabobank Polska S.A.

On 18 June 2014 BGŻ merged with Rabobank Polska S.A. Details of the transaction are presented in Note 9.

## 48 Subsequent events

As at 8 August 2014, there were no significant events after the reporting period, which were not recognized in the interim condensed consolidated financial statements.

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## II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

### Interim condensed separate statement of profit or loss

|   | 2 <sup>nd</sup> quarter<br>of 2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>of 2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|---|--|---|--|---|
| Interest income   | 438 852  | 865 046   | 481 533  | 1 018 657   |
| Interest expense  | (162 092)  | (317 197)   | (243 167)  | (538 923)   |
| <b>Net interest income</b>  | <b>276 760</b>   | <b>547 849</b>  | <b>238 366</b>   | <b>479 734</b>  |
| Fee and commission income   | 92 296   | 176 589   | 76 838   | 154 063   |
| Fee and commission expense  | (11 059)   | (22 800)  | (10 873)   | (21 102)  |
| <b>Net fee and commission income</b>                                    | <b>81 237</b>  | <b>153 789</b>  | <b>65 965</b>  | <b>132 961</b>  |
| Dividend income   | 3 302  | 3 302   | 2 837  | 2 837   |
| Net trading income  | 11 153   | 24 874  | 31 638   | 48 751  |
| Result on investing activities  | 2 307  | 5 476   | 20 613   | 20 613  |
| Result on hedge accounting  | (21)   | (156)   | 99   | (1 099)   |
| Other operating income  | 9 360  | 14 995  | 8 749  | 14 927  |
| Net impairment losses on financial<br>assets and contingent liabilities | (53 456)   | (111 008)   | (58 567)   | (91 323)  |
| General administrative expenses   | (220 787)  | (444 689)   | (213 364)  | (443 755)   |
| Depreciation and amortization   | (25 226)   | (49 834)  | (24 782)   | (49 257)  |
| Other operating expenses  | (5 506)  | (10 822)  | (3 733)  | (7 742)   |
| <b>Operating result</b>   | <b>79 123</b>  | <b>133 776</b>  | <b>67 821</b>  | <b>106 647</b>  |
| <b>Profit (loss) before income tax</b>                                  | <b>79 123</b>  | <b>133 776</b>  | <b>67 821</b>  | <b>106 647</b>  |
| Income tax expense  | (16 995)   | (27 421)  | (13 065)   | (21 634)  |
| <b>Net profit for the period</b>  | <b>62 128</b>  | <b>106 355</b>  | <b>54 756</b>  | <b>85 013</b>   |
| – attributable to equity holders of the<br>Bank                         | <b>62 128</b>  | <b>106 355</b>  | <b>54 756</b>  | <b>85 013</b>   |
| <b>Earnings per share (in PLN per<br/>share)</b>                        |  |   |  |   |
| Basic   | 1.20   | 2.07  | 1.07   | 1.66  |
| Diluted   | 1.20   | 2.07  | 1.07   | 1.66  |

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## Interim condensed separate statement of other comprehensive income

|   | 2 <sup>nd</sup> quarter<br>of 2014<br>from 01.04.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014<br>to 30.06.2014 | 2 <sup>nd</sup> quarter<br>of 2013<br>from 01.04.2013<br>to 30.06.2013 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|---|--|---|--|---|
| <b>Net profit for the period</b>  | <b>62 128</b>  | <b>106 355</b>  | <b>54 756</b>  | <b>85 013</b>   |
| <b>Other comprehensive income</b>   |  |   |  |   |
| <i>Items that are or may be reclassified subsequently to profit or loss</i> | <b>88 991</b>  | <b>88 268</b>   | <b>(67 201)</b>  | <b>(94 657)</b>   |
| Net change in valuation of available for sale financial assets              | 110 993  | 117 373   | (82 207)   | (118 668)   |
| Net change in valuation of cash flow hedges                                 | (1 128)  | (8 400)   | (757)  | 1 808   |
| Deferred tax  | (20 874)   | (20 705)  | 15 763   | 22 203  |
| <i>Items that will not be reclassified to profit or loss</i>                | <b>(1 933)</b>   | <b>(2 121)</b>  | -  | -   |
| Actuary valuation of employee benefits                                      | (2 387)  | (2 619)   | -  | -   |
| Deferred tax  | 454  | 498   | -  | -   |
| <b>Other comprehensive income (net of tax)</b>                              | <b>87 058</b>  | <b>86 147</b>   | <b>(67 201)</b>  | <b>(94 657)</b>   |
| <b>Total comprehensive income for the period</b>                            | <b>149 186</b>   | <b>192 502</b>  | <b>(12 445)</b>  | <b>(9 644)</b>  |
| - attributable to equity holders of the Bank                                | 149 186  | 192 502   | (12 445)   | (9 644)   |

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## Interim condensed separate statement of financial position

|  | 30.06.2014        | 31.12.2013        |
|--|-------------------|-------------------|
| <b>ASSETS</b>                              |                   |                   |
| Cash and balances with the Central Bank    | 1 416 197         | 1 617 713         |
| Loans and advances to banks                | 291 876           | 269 757           |
| Reverse repo transactions                  | 61 351            | 309 255           |
| Debt securities held for trading           | 300 818           | 1 018 701         |
| Derivative financial instruments           | 247 465           | 363 260           |
| Hedging instruments                        | -                 | 57 387            |
| Loans and advances to customers            | 28 952 156        | 26 330 360        |
| Available for sale financial assets        | 6 537 759         | 4 826 073         |
| Investments in subsidiaries and associates | 51 784            | 51 645            |
| Intangible assets                          | 153 405           | 158 589           |
| Property, plant and equipment              | 427 054           | 449 139           |
| Deferred tax assets                        | 159 639           | 142 792           |
| Current tax assets                         | -                 | 12 519            |
| Other assets                               | 158 924           | 156 302           |
| <b>TOTAL ASSETS</b>                        | <b>38 758 428</b> | <b>35 763 492</b> |



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## Interim condensed separate statement of financial position (continued)

|  | 30.06.2014        | 31.12.2013        |
|--|-------------------|-------------------|
| <b>LIABILITIES</b>                     |                   |                   |
| Amounts due to banks                   | 4 282 635         | 3 271 414         |
| Repo transactions                      | 159 148           | -                 |
| Financial liabilities held for trading | 53 083            | 271 288           |
| Derivative financial instruments       | 293 503           | 336 950           |
| Amounts due to customers               | 28 252 652        | 26 492 774        |
| Debt securities issued                 | 807 428           | 1 191 157         |
| Subordinated liabilities               | 308 674           | 304 817           |
| Other liabilities                      | 494 404           | 326 015           |
| Income tax liabilities                 | 1 265             | -                 |
| Provisions                             | 62 889            | 64 015            |
| <b>TOTAL LIABILITIES</b>               | <b>34 715 681</b> | <b>32 258 430</b> |
| <b>EQUITY</b>                          |                   |                   |
| Share capital                          | 56 139            | 51 137            |
| Other supplementary capital            | 3 430 785         | 3 085 059         |
| Other reserve capital                  | 449 468           | 206 463           |
| Retained earnings                      | 106 355           | 162 403           |
| - net profit for the period            | 106 355           | 162 403           |
| <b>TOTAL EQUITY</b>                    | <b>4 042 747</b>  | <b>3 505 062</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>    | <b>38 758 428</b> | <b>35 763 492</b> |

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## Interim condensed separate statement of changes in equity

|   | Share capital | Other supplementary capital | Other reserve capital | Retained earnings<br>Net profit for the period | Total            |
|---|---------------|-----------------------------|-----------------------|--|------------------|
| <b>Balance as at 1 January 2014</b>                               | <b>51 137</b> | <b>3 085 059</b>            | <b>206 463</b>        | <b>162 403</b>                                 | <b>3 505 062</b> |
| <b>Total comprehensive income for the period</b>                  | -             | -                           | <b>86 147</b>         | <b>106 355</b>                                 | <b>192 502</b>   |
| Net profit for the period   | -             | -                           | -                     | 106 355  | 106 355          |
| Other comprehensive income for the period                         | -             | -                           | 86 147                | -  | 86 147           |
| <b>Appropriation of retained earnings</b>                         | -             | <b>162 403</b>              | -                     | <b>(162 403)</b>                               | -                |
| Appropriation of retained earnings to other supplementary capital | -             | 162 403                     | -                     | (162 403)                                      | -                |
| <b>Merge</b>  | <b>5 002</b>  | <b>183 323</b>              | <b>156 858</b>        | -  | <b>345 183</b>   |
| Issued shares of H series   | 5 002         | -                           | -                     | -  | 5 002            |
| Equity resulting from the merger                                  | -             | 183 323                     | 156 858               | -  | 340 181          |
| <b>Balance as at 30 June 2014</b>                                 | <b>56 139</b> | <b>3 430 785</b>            | <b>449 468</b>        | <b>106 355</b>                                 | <b>4 042 747</b> |

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## Interim condensed separate statement of changes in equity (continued)

|   | Share capital | Other supplementary capital | Other reserve capital | Retained earnings         | Total            |
|---|---------------|-----------------------------|-----------------------|---------------------------|------------------|
|   |               |                             |                       | Net profit for the period |                  |
| <b>Balance as at 1 January 2013</b>                               | <b>51 137</b> | <b>2 950 716</b>            | <b>330 351</b>        | <b>134 343</b>            | <b>3 466 547</b> |
| <b>Total comprehensive income for the period</b>                  | -             | -                           | <b>(123 888)</b>      | <b>162 403</b>            | <b>38 515</b>    |
| Net profit for the period   | -             | -                           | -                     | 162 403                   | 162 403          |
| Other comprehensive income for the period                         | -             | -                           | (123 888)             | -                         | (123 888)        |
| <b>Appropriation of retained earnings</b>                         | -             | <b>134 343</b>              | -                     | <b>(134 343)</b>          | -                |
| Appropriation of retained earnings to other supplementary capital | -             | 134 343                     | -                     | (134 343)                 | -                |
| <b>Balance as at 31 December 2013</b>                             | <b>51 137</b> | <b>3 085 059</b>            | <b>206 463</b>        | <b>162 403</b>            | <b>3 505 062</b> |

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## Interim condensed statement of changes in equity (continued)

|   | Share capital | Other supplementary capital | Other reserve capital | Retained earnings<br>Net profit for the period | Total            |
|---|---------------|-----------------------------|-----------------------|--|------------------|
| <b>Balance as at 1 January 2013</b>                               | <b>51 137</b> | <b>2 950 716</b>            | <b>330 351</b>        | <b>134 343</b>                                 | <b>3 466 547</b> |
| <b>Total comprehensive income for the period</b>                  | -             | -                           | <b>(94 657)</b>       | <b>85 013</b>                                  | <b>(9 644)</b>   |
| Net profit for the period   | -             | -                           | -                     | 85 013   | 85 013           |
| Other comprehensive income for the period                         | -             | -                           | (94 657)              | -  | (94 657)         |
| <b>Appropriation of retained earnings</b>                         | -             | <b>134 343</b>              | -                     | <b>(134 343)</b>                               | -                |
| Appropriation of retained earnings to other supplementary capital | -             | 134 343                     | -                     | (134 343)                                      | -                |
| <b>Balance as at 30 June 2013</b>                                 | <b>51 137</b> | <b>3 085 059</b>            | <b>235 694</b>        | <b>85 013</b>                                  | <b>3 456 903</b> |

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**Interim condensed separate statement of cash flows**

|  | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014<br>to 30.06.2014 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|---|---|
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>              |   |   |
| <b>Net profit for the period</b>                         | <b>106 355</b>  | <b>85 013</b>   |
| <b>Adjustments for:</b>                                  | <b>1 826 335</b>  | <b>(834 239)</b>  |
| Income tax expense                                       | 27 421  | 21 634  |
| Depreciation and amortization                            | 49 834  | 49 257  |
| Dividend income  | (3 302)   | (2 837)   |
| Interest income  | (865 046)   | (1 025 123)   |
| Interest expense   | 317 197   | 542 528   |
| Change in provisions                                     | (3 745)   | (10 883)  |
| Change in loans and advances to banks                    | (76)  | (2)   |
| Change in reverse repo transactions                      | 247 886   | (140 953)   |
| Change in debt securities held for trading               | 706 620   | (783 832)   |
| Change in derivative financial instruments (assets)      | 115 795   | 57 944  |
| Change in loans and advances to customers                | (2 605 416)   | 395 236   |
| Change in amounts due to banks                           | 1 201 849   | (236 232)   |
| Change in repo transactions                              | 159 105   | 191 766   |
| Change in financial liabilities held for trading         | (218 205)   | 21 369  |
| Change in derivative financial instruments (liabilities) | (43 447)  | (47 519)  |
| Change in amounts due to customers                       | 1 741 284   | (197 301)   |
| Change in other assets and current tax assets            | (2 622)   | 64 422  |
| Change in other liabilities and deferred tax liabilities | 168 389   | (9 211)   |
| Other adjustments  | 350 039   | 363   |
| Interest received  | 829 762   | 856 205   |
| Interest paid  | (295 610)   | (591 388)   |
| Income tax paid  | (51 377)  | -   |
| Taxes returned   | -   | 10 318  |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                | <b>1 932 690</b>  | <b>(749 226)</b>  |

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## Interim condensed separate statement of cash flows (continued)

|  | 1 <sup>st</sup> half<br>of 2014<br>from 01.01.2014 to<br>30.06.2014 | 1 <sup>st</sup> half<br>of 2013<br>from 01.01.2013<br>to 30.06.2013 |
|--|---|---|
| CASH FLOW FROM INVESTING ACTIVITIES:                                     |   |   |
| <b>Investing activities inflows</b>                                      | <b>64 526 293</b>   | <b>119 704 766</b>  |
| Sale of available for sale financial assets                              | 64 523 111  | 119 702 826   |
| Sale of intangible assets, and property, plant and equipment             | (120)   | -   |
| Dividends received and other investing activities inflows                | 3 302   | 1 940   |
| <b>Investing activities outflows</b>                                     | <b>(66 064 372)</b>   | <b>(119 382 256)</b>  |
| Purchase of available for sale financial assets                          | (66 041 333)  | (119 348 984)   |
| Purchase of intangible assets, and property, plant and equipment         | (22 900)  | (33 142)  |
| Other investment expenses  | (139)   | (130)   |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>                                | <b>(1 538 079)</b>  | <b>322 510</b>  |
| CASH FLOW FROM FINANCING ACTIVITIES:                                     |   |   |
| <b>Financing activities inflows</b>                                      | -   | <b>613 000</b>  |
| Issue of debt securities   | -   | 613 000   |
| <b>Financing activities outflows</b>                                     | <b>(577 166)</b>  | <b>(809 061)</b>  |
| Repayment of long-term loans and advances to banks                       | (191 078)   | (203 061)   |
| Redemption of debt securities issued                                     | (386 088)   | (606 000)   |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                                | <b>(577 166)</b>  | <b>(196 061)</b>  |
| <b>TOTAL NET CASH</b>  | <b>(182 555)</b>  | <b>(622 777)</b>  |
| <b>Cash and cash equivalents at the beginning of the period</b>          | <b>1 881 640</b>  | <b>2 204 297</b>  |
| <b>Cash and cash equivalents at the end of the period, of which:</b>     | <b>1 699 085</b>  | <b>1 581 520</b>  |
| - effect of exchange rate fluctuations on cash and cash equivalents held | 1 811   | 10 086  |
| - of restricted use  | 1 669   | 2 211   |

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Accounting policies and additional explanatory notes

## EXPLANATORY INFORMATION TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

### 1 Accounting basis for the preparation of the interim condensed separate financial statements

The interim condensed separate financial statements for the first half of 2014 ended 30 June 2014 have been prepared in accordance with the International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union and with other applicable policies.

The interim condensed separate financial statements do not include all information and disclosures required for the annual financial statements, and shall be read in conjunction with the interim condensed consolidated financial statements for the first half of 2014 and with the Bank's financial statements for the year ended 31 December 2013 that were approved by the Management Board on 3 March 2014.

Accounting policies and methods relating to accounting estimates adopted during the preparation of the Bank's interim condensed separate financial statements are consistent with the accounting policies adopted for the Group's interim condensed consolidated financial statements, which are described in sections 3 and 6.

### 2 Changes in accounting policies and changes in presentation of financial data

The Bank made the described below changes in presentation of financial data. In order to ensure the comparability of financial data, the Bank made appropriate changes in presentation of financial data as at 30 June 2013 in comparison to the data published in the Interim condensed consolidated financial statement of Bank Gospodarki Żywnościowej S.A. Group for the 6-month period ended 30 June 2013. These changes referred to the methods of grouping and presentation of financial data in the statement of profit or loss and do not affect the net profit of the Bank.

### Interim condensed separate statement of profit or loss

|                            |   | 2 <sup>nd</sup> quarter of 2013 prior to changes | changes in presentation | 2 <sup>nd</sup> quarter of 2013 after changes | 1 <sup>st</sup> half of 2013 prior to changes | changes in presentation | 1 <sup>st</sup> half of 2013 after changes |
|----------------------------|---|--|-------------------------|---|---|-------------------------|--|
| Interest income            | 1 | 488 194  | (6 661)                 | 481 533                                       | 1 025 123                                     | (6 466)                 | 1 018 657                                  |
| Interest expense           | 1 | (244 634)  | 1 467                   | (243 167)                                     | (542 528)                                     | 3 605                   | (538 923)                                  |
| Fee and commission income  | 1 | 76 231   | 607                     | 76 838  | 157 609                                       | (3 546)                 | 154 063                                    |
| Fee and commission expense | 1 | (15 460)   | 4 587                   | (10 873)                                      | (27 509)                                      | 6 407                   | (21 102)                                   |
| Other operating income     | 2 | 9 620  | (871)                   | 8 749   | 16 033  | (1 106)                 | 14 927                                     |
| Other operating expenses   | 2 | (4 604)  | 871                     | (3 733)                                       | (8 848)                                       | 1 106                   | (7 742)                                    |

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## Accounting policies and additional explanatory notes

1. The Bank changed the presentation of income and expenses from the sale of insurance products. After the change, income from sale of insurance products is presented in net value, meaning the net value is further decreased by return of insurance premium which results from earlier termination of insurance and is recognized in interest income from related financial products or presented in commission income for products not related with financial instruments.
2. The Bank changed the presentation of result on sale of liquidation of items of from property, plant and equipment or intangible assets. Currently, the result is presented as other operating income or expenses.

### 3 Related party transactions

Bank Gospodarki Żywnościowej S.A. is a subsidiary of Rabobank Group, the parent company of which is Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Bank Gospodarki Żywnościowej S.A. is the parent company of Bank Gospodarki Żywnościowej S.A. Group. The Group consists of a subsidiary – **Bankowy Fundusz Nieruchomości Actus Sp. z o.o.** - BGŻ S.A. holds 100% of the share capital of the company and 100% of votes at the General Meeting of Shareholders.

BGŻ S. A. holds 49% shares in the share capital of the Company and 49% of votes at the General Meeting of Shareholders in an associate - BGŻ Leasing Sp. z o.o.

All transactions between the Bank and related parties were due to current operation activities and consisted primarily of loans, deposits, derivative transactions and income and expenses on advisory services and financial intermediation.



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## Accounting policies and additional explanatory notes

### Transactions with BGŻ S.A. shareholders and related parties

| 30.06.2014   | COÖPERATIEVE CENTRALE<br>RAIFFEISEN-BOERENLEENBANK<br>B.A. | RABOBANK GROUP<br>ENTITIES | KEY<br>PERSONNEL | BGŻ LEASING<br>SP. Z O.O. | BFN ACTUS SP<br>Z O.O. | TOTAL            |
|--|--|----------------------------|------------------|---------------------------|------------------------|------------------|
| <b>Assets</b>  | <b>84 162</b>  | <b>62 995</b>              | <b>21</b>        | <b>92 572</b>             | <b>36 909</b>          | <b>276 659</b>   |
| Current accounts, interbank placements and loans and advances        | 70 557   | 62 921                     | 21               | 91 899                    | 36 909                 | 262 307          |
| Derivative financial instruments                                     | 13 363   | -                          | -                | -                         | -                      | 13 363           |
| Other assets   | 242  | 74                         | -                | 673                       | -                      | 989              |
| <b>Liabilities</b>   | <b>3 953 756</b>   | <b>7 263</b>               | <b>3 155</b>     | <b>57 425</b>             | <b>13</b>              | <b>4 021 612</b> |
| Loans and advances received  | 3 594 237  | -                          | -                | -                         | -                      | 3 594 237        |
| Interbank deposits and current accounts                              | 215  | 7 237                      | 3 155            | 57 425                    | 13                     | 68 045           |
| Subordinated liabilities   | 308 676  | -                          | -                | -                         | -                      | 308 676          |
| Derivative financial instruments                                     | 25 249   | -                          | -                | -                         | -                      | 25 249           |
| Other liabilities  | 25 379   | 26                         | -                | -                         | -                      | 25 405           |
| <b>Contingent liabilities</b>  |  |                            |                  |                           |                        |                  |
| Financial commitments granted  | -  | 53 688                     | 29               | 6 002                     | -                      | 59 719           |
| Guarantees granted   | 1 152  | -                          | -                | -                         | -                      | 1 152            |
| Commitments received   | 2 192 527  | -                          | -                | -                         | -                      | 2 192 527        |
| Derivative financial instruments (face value)                        | 6 638 462  | -                          | -                | -                         | -                      | 6 638 462        |
| <b>1<sup>st</sup> half of 2014<br/>from 01.01.2014 to 30.06.2014</b> |  |                            |                  |                           |                        |                  |
| <b>Statement of profit or loss</b>                                   | <b>(20 179)</b>  | <b>18</b>                  | <b>(35)</b>      | <b>1 712</b>              | <b>876</b>             | <b>(17 608)</b>  |
| Interest income  | 776  | 15                         | -                | 1 580                     | 869                    | 3 240            |
| Interest expense   | (21 247)   | (5)                        | (35)             | (938)                     | -                      | (22 225)         |
| Fee and commission income  | -  | 8                          | -                | 1 157                     | -                      | 1 165            |
| Fee and commission expense   | (1 161)  | -                          | -                | (127)                     | -                      | (1 288)          |
| Net trading income   | 11 206   | -                          | -                | 25                        | -                      | 11 231           |
| Other operating income   | 220  | -                          | -                | 15                        | 7                      | 242              |
| General administrative expenses                                      | (9 973)  | -                          | -                | -                         | -                      | (9 973)          |

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## Accounting policies and additional explanatory notes

| 31.12.2013   | COÖPERATIEVE CENTRALE<br>RAIFFEISEN-BOERENLEENBANK<br>B.A. | RABOBANK GROUP<br>ENTITIES | KEY<br>PERSONNEL | BGŻ LEASING<br>SP. Z O.O. | BFN ACTUS SP<br>Z O.O. | TOTAL            |
|--|--|----------------------------|------------------|---------------------------|------------------------|------------------|
| <b>Assets</b>  | <b>71 681</b>  | <b>134 303</b>             | <b>21</b>        | <b>90 020</b>             | <b>36 040</b>          | <b>332 065</b>   |
| Current accounts, interbank placements and loans and advances        | 166  | 128 563                    | 21               | 89 325                    | 36 040                 | 254 115          |
| Derivative financial instruments                                     | 71 084   | 5 740                      | -                | -                         | -                      | 76 824           |
| Other assets   | 431  | -                          | -                | 695                       | -                      | 1 126            |
| <b>Liabilities</b>   | <b>2 788 799</b>   | <b>5 773</b>               | <b>3 136</b>     | <b>61 439</b>             | <b>58</b>              | <b>2 859 205</b> |
| Loans and advances received  | 2 447 145  | -                          | -                | -                         | -                      | 2 447 145        |
| Interbank deposits and current accounts                              | 2 096  | 32                         | 3 136            | 61 439                    | 58                     | 66 761           |
| Subordinated liabilities   | 304 819  | -                          | -                | -                         | -                      | 304 819          |
| Derivative financial instruments                                     | 23 539   | 5 741                      | -                | -                         | -                      | 29 280           |
| Other liabilities  | 11 200   | -                          | -                | -                         | -                      | 11 200           |
| <b>Contingent liabilities</b>  |  |                            |                  |                           |                        |                  |
| Financial commitments granted  | -  | -                          | 59               | 37 297                    | -                      | 37 356           |
| Guarantees granted   | 1 151  | -                          | -                | -                         | -                      | 1 151            |
| Commitments received   | 1 151  | -                          | -                | -                         | -                      | 1 151            |
| Derivative financial instruments (face value)                        | 8 443 696  | 309 968                    | -                | -                         | -                      | 8 753 664        |
| <b>1<sup>st</sup> half of 2013<br/>from 01.01.2013 to 30.06.2013</b> |  |                            |                  |                           |                        |                  |
| <b>Statement of profit or loss</b>                                   | <b>(66 077)</b>  | <b>(255)</b>               | <b>(33)</b>      | <b>567</b>                | <b>1 030</b>           | <b>(64 768)</b>  |
| Interest income  | 301  | 415                        | -                | 305                       | 1 023                  | 2 044            |
| Interest expense   | (21 805)   | (1)                        | (33)             | (1 107)                   | -                      | (22 946)         |
| Fee and commission income  | -  | -                          | -                | 1 457                     | -                      | 1 457            |
| Fee and commission expense   | (4)  | -                          | -                | (96)                      | -                      | (100)            |
| Net trading income   | (36 777)   | (669)                      | -                | (8)                       | -                      | (37 454)         |
| Other operating income   | 1 530  | -                          | -                | 16                        | 7                      | 1 553            |
| General administrative expenses                                      | (9 322)  | -                          | -                | -                         | -                      | (9 322)          |

# Bank Gospodarki Żywnościowej S.A. Group

Semi-annual Consolidated Report for the 6-month period ended 30 June 2014

Interim Condensed Separate Financial Statements

- data in PLN thousand



## Accounting policies and additional explanatory notes

### Remuneration of the Management Board and the Supervisory Board of the Bank

| <b>Management Board</b>                   | <b>30.06.2014</b> | <b>31.12.2013</b> |
|---|-------------------|-------------------|
| Short-term employee benefits              | 7 242             | 11 450            |
| Long-term benefits                        | 667               | 465               |
| Benefits due to termination of employment | -                 | 3 300             |
| Share-based payments                      | 1 313             | 1 339             |
| <b>Total</b>                              | <b>9 222</b>      | <b>16 554</b>     |

| <b>Supervisory Board</b>                  | <b>30.06.2014</b> | <b>31.12.2013</b> |
|---|-------------------|-------------------|
| Short-term employee benefits              | 333               | 596               |
| Long-term benefits                        | -                 | -                 |
| Benefits due to termination of employment | -                 | -                 |
| Share-based payments                      | -                 | -                 |
| <b>Total</b>                              | <b>333</b>        | <b>596</b>        |

#### **4 Seasonality and cyclicity of operation**

The operations of the Bank are not subject to any material seasonal or periodical occurrences.

#### **5 Debt securities issued and redeemed**

The issue and redemption of debt securities is described in the note 32 of the interim condensed consolidated financial statements for the first half of 2014.

#### **6 Dividends paid**

In 2013 the Bank did not paid out the dividend. By the decision of the General Shareholders' Meeting dated 30 May 2014, net profit for the year 2013 in the amount of PLN 162 403 thousand was allocated to other supplementary capital.

# Bank Gospodarki Żywnościowej S.A. Group

Semi-annual Consolidated Report for the 6-month period ended 30 June 2014

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Accounting policies and additional explanatory notes

## 7 Contingent liabilities

|  | 30.06.2014       | 31.12.2013       |
|--|------------------|------------------|
| <b>Contingent commitments granted</b>  | <b>5 495 357</b> | <b>4 605 578</b> |
| - Financial commitments                | 4 974 918        | 3 852 656        |
| - Guarantees                           | 520 439          | 752 922          |
| <b>Contingent commitments received</b> | <b>3 054 036</b> | <b>16 789</b>    |
| - Financial commitments                | 1 693 543        | 10 378           |
| - Guarantees                           | 1 360 493        | 6 411            |

Additionally, as at 30 June 2014, the Bank issued loan commitments promises of granting loans, which will be used with high probability in the amount of PLN 782 887 thousand (PLN 588 378 thousand as at 31 December 2013).

## 8 Subsequent events

As at 8 August 2014, there were no significant events after the reporting period, which were not recognized in the interim condensed separate financial statements.

.....  
Józef Wancer  
*President of the Management Board*

.....  
Gerardus Cornelis Embrechts  
*First Vice-President of the Management Board*

.....  
Witold Okarma  
*Vice-President of the Management Board*

.....  
Andrzej Sieradz  
*Vice-President of the Management Board*

.....  
Dariusz Odzioba  
*Vice-President of the Management Board*

.....  
Wojciech Sass  
*Vice-President of the Management Board*

.....  
Magdalena Legęć  
*Vice-President of the Management Board*

.....  
Monika Nachyła  
*Vice-President of the Management Board*

.....  
Katarzyna Romaszewska-Rosiak  
*Managing Director of Finance and Reporting Department  
Chief Accountant*

Warsaw, 8 August 2014