

**Bank Gospodarki Żywnościowej
S.A. Group**

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2014**

The opinion contains 2 pages
The supplementary report contains 12 pages
Opinion of the independent auditor
and the supplementary report
on the audit of the consolidated financial statements
for the financial year ended
31 December 2014

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Gospodarki Żywnościowej S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Bank Gospodarki Żywnościowej S.A. with its registered office in Warsaw, 10/16 Kasprzaka Street (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s and Supervisory Board’s Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group’s activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group’s activities are in compliance with the requirements set forth in the Accounting Act.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Bank Gospodarki Żywnościowej S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

As required under the Accounting Act, we report that the accompanying report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original

.....
Justyna Zań
Key Certified Auditor
Registration No. 12750
Limited Liability Partner
with power of attorney

4 March 2015

Signed on the Polish original

.....
Stacy Ligas
Limited Liability Partner
with power of attorney

**Bank Gospodarki Żywnościowej S.A.
Group**

Supplementary report
on the audit of the consolidated
financial statements
Financial Year ended
31 December 2014

The supplementary report contains 12 pages
The supplementary report
on the audit of the consolidated financial statements
for the financial year ended
31 December 2014

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1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Gospodarki Żywnościowej S.A. Group

1.1.2 Registered office of the Parent Entity of the Group

10/16 Kasprzaka Street
01-211 Warsaw

1.1.3 Registration of the Parent Entity in the National Court Register

Registration court: District Court for the Capital City of Warsaw in Warsaw,
XII Commercial Department of the National Court Register
Date: 11 May 2001
Registration number: KRS 0000011571
Share capital as at
the end of reporting period: 56,138,764.00 PLN

1.1.4. Management of the Parent Entity

The Management Board is responsible for management of the Parent Entity.

As at 31 December 2014, the Management Board of the Parent Entity was comprised of the following members:

- Józef Wancer – President of Management Board
- Gerardus Cornelis Embrechts – First Vice President of Management Board
- Andrzej Sieradz – Vice President of Management Board
- Dariusz Odzioba – Vice President of Management Board
- Magdalena Legęć – Vice President of Management Board
- Monika Nachyła – Vice President of Management Board
- Witold Okarma – Vice President of Management Board
- Wojciech Sass – Vice President of Management Board

There were the following changes in the composition of the Management Board during the year through the date of the opinion:

- Johannes Gerardus Beuming resigned from the post of the Vice President of the Management Board as from 30 June 2014.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2014, the following companies were consolidated by the Group:

Parent Entity:

- Bank Gospodarki Żywnościowej S.A.

Subsidiaries consolidated on the full consolidation basis:

- Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o.

1.2.2 Entities excluded from consolidation

As at 31 December 2014, there were no subsidiaries of the Group that were not consolidated.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname: Justyna Zań
Registration number: 12750

1.3.2 Audit Firm information

Name: KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office: ul. Chłodna 51, 00-867 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of entities authorised to audit financial statements, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2013 were audited by KPMG Audyty spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 30 May 2014.

The consolidated financial statements were submitted to the Registry Court on 12 June 2014.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Gospodarki Żywnościowej S.A. with its registered office in Warsaw, 10/16 Kasprzaka Street and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The consolidated financial statements have been audited in accordance with the contract dated 10 May 2013, concluded on the basis of the resolution of Supervisory Board dated 28 January 2013 on the appointment of the auditor.



We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”), National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements at the Group entities during the period from 1 October 2014 to 4 March 2015.

Management of the Parent Entity is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group’s activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the financial statements.

The Management Board of the Parent Entity submitted a statement, dated the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfil the independence requirements from the companies included in the Group as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2009 No. 77, item 649 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Entity

The separate financial statements of the Parent Entity for the year ended 31 December 2014 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Bankowy Fundusz Nieruchomościowy Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	In progress

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2014 PLN '000	% of total assets	31.12.2013 PLN '000	% of total assets
Cash and balances with the Central Bank	1 790 160	4.4	1 617 713	4.5
Loans and advances to banks	404 724	1.0	269 757	0.8
Reverse repo transactions	100 668	0.3	309 255	0.9
Debt securities held for trading	199 404	0.5	1 018 701	2.8
Derivative financial instruments	420 152	1.0	363 260	1.0
Hedging instruments	-	-	57 387	0.2
Loans and advances to customers	29 631 923	73.2	26 297 916	73.5
Available for sale financial assets	7 084 017	17.5	4 826 073	13.5
Investment property	54 627	0.1	62 524	0.2
Investments in associates	-	-	35 052	0.1
Intangible assets	165 307	0.4	158 589	0.4
Property, plant and equipment	411 063	1.0	449 139	1.3
Deferred tax assets	173 828	0.4	142 792	0.4
Current tax assets	-	-	12 519	-
Other assets	60 702	0.2	156 464	0.4
TOTAL ASSETS	40 496 575	100.0	35 777 141	100.0
EQUITY AND LIABILITIES	31.12.2014 PLN '000	% of total liabilities	31.12.2013 PLN '000	% of total liabilities
Liabilities				
Amounts due to banks	1 546 739	3.8	3 271 414	9.1
Repo transactions	45 364	-	-	-
Financial liabilities held for trading	-	-	271 288	0.8
Derivative financial instruments	448 908	1.1	336 950	0.9
Amounts due to customers	32 804 444	81.1	26 492 716	74.1
Debt securities issued	762 311	1.9	1 191 158	3.3
Subordinated liabilities	320 951	0.8	304 817	0.9
Other liabilities	325 751	0.8	326 041	0.9
Provisions for deferred tax	9 639	-	-	-
Deferred income tax liabilities	8 052	-	9 552	-
Provisions	68 112	0.2	64 015	0.2
Total liabilities	36 340 271	89.7	32 267 951	90.2
Equity				
Share capital	56 139	0.1	51 137	0.1
Other supplementary capital	3 430 785	8.5	3 085 059	8.6
Other reserve capital	527 221	1.3	206 463	0.6
Retained earnings:	142 159	0.4	166 531	0.5
- Net profit from previous period	4 128	-	6 387	-
- Net profit for the period	138 031	0.4	160 144	0.5
Total equity	4 156 304	10.3	3 509 190	9.8
TOTAL EQUITY AND LIABILITIES	40 496 575	100.0	35 777 141	100.0



2.1.2. Consolidated statement of profit and loss

	1.01.2014 - 31.12.2014 PLN '000	1.01.2013 - 31.12.2013 PLN '000
Interest income	1 795 097	1 899 414
Interest expense	(676 813)	(895 424)
Net interest income	1 118 284	1 003 990
Fee and commission income	357 243	333 712
Fee and commission expense	(46 744)	(45 782)
Net fee and commission income	310 499	287 930
Dividend income	3 303	2 848
Net trading income	63 723	80 424
Result in investing activities	24 465	39 223
Result on hedge accounting	(156)	(1 077)
Other operating income	37 937	49 940
Net impairment losses on financial assets and contingent liabilities	(310 966)	(248 650)
General administrative expenses	(930 525)	(880 963)
Depreciation and amortization	(100 995)	(99 219)
Other operating expenses	(37 393)	(21 146)
Operating results	178 176	213 300
Share in profit/ loss of associates	-	(11 079)
Profit before income tax	178 176	202 221
Income tax expense	(40 145)	(42 077)
Net profit for the period	138 031	160 144
– attributable to equity holders of the Bank	138 031	160 144
Earnings (loss) per share		
Basic earnings per share (PLN)	2.56	3.14
Diluted earnings per share (PLN)	2.56	3.14



2.1.3. Consolidated statement of comprehensive income

	1.01.2014 - 31.12.2014 PLN '000	1.01.2013 - 31.12.2013 PLN '000
<i>Other comprehensive income for the period</i>		
Net profit for the period	138 031	160 144
<i>Items that are or may be reclassified subsequently to profit or loss</i>	167 795	(123 888)
Net change in valuation of financial assets available for sale	215 554	(139 491)
Net change in valuation of cash flow hedges	(8 400)	(13 457)
Deferred tax	(39 359)	29 060
<i>Items that will not be reclassified to profit or loss subsequently to profit or loss</i>	(3 895)	-
Actuarial valuation of employee benefits	(4 808)	-
Deferred tax	913	-
<i>Other comprehensive income (net of tax)</i>	163 900	(123 888)
<i>Total comprehensive income for the period</i>	301 931	36 256
– attributable to equity holders of the Group	301 931	36 256
Total comprehensive income per share		
Basic total comprehensive income per share (PLN)	5.61	0.68
Diluted total comprehensive income per share (PLN)	5.61	0.68

2.2 Selected financial ratios

	2014	2013	2012
Total assets (PLN '000)	40 496 575	35 777 141	37 246 734
Profit before income tax (PLN '000)	178 176	202 221	173 964
Net profit for the period (PLN '000)	138 031	160 144	130 049
Shareholders' equity (PLN '000)*	4 018 273	3 349 046	3 342 568
Return on equity *	3%	5%	4%
Receivables to total assets	74%	75%	71%
Income generating assets to total assets	98%	97%	97%
Interest bearing liabilities to total liabilities	89%	89%	89%

* *excluding current-year net profit*

3 Detailed report

3.1 Accounting principles

The Parent Entity maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Entity.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Entity.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Entity.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Gospodarki Żywnościowej S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3 Method of consolidation

The method of consolidation is described in note 2.5 of the notes to the consolidated financial statements.

3.4 Consolidation of equity and calculation of non- controlling interest

The share capital of the Group is equal to the share capital of the Parent Entity.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Entity's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Entity.

Only equity of subsidiaries arising after the Parent Entity obtained control of the subsidiary is included in the equity of the Group.

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Gospodarki Żywnościowej S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.6 Compliance with banking regulations

Based on our audit, we have not identified significant incompliance by the Group with banking prudential regulatory norms, and also, we have not identified any material misstatements in determination of the solvency ratio.

3.7 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Entity on the Group's activities

The report of the Management Board of the Parent Entity on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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4 March 2015

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