



BGŻ Group

Presentation of 2014 Q1 results

Warsaw, 14 May 2014

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Executive summary

Net profit up 51% in 2014 Q1 YoY, cost savings realised.

Financials

- Net profit PLN 44.6m, an increase by 51% YoY (PLN +15.1m)
- Total income increased by 11% YoY (PLN +34,3m), with significant decrease of interest expense
- Expenses under control, lower by 2% YoY (PLN -5.2m)
- Net impairment losses higher by 76% YoY (PLN +25m), but lower than in 4Q2013 (by PLN 41m)

Clients

- Solid loan growth in selected businesses (F&A +7% and Retail +6.5%) while corporate exposure recovering QoQ
- More than 1 million Retail customers, +4.5% growth y/y (+46k customers, of which BGŻOptima increased +26% y/y from 95k to 120k)
- Continued growth on our focus Food and Agri segment - client base +12% y/y (+7.2k customers)
- Growth of retail sales: cash loans +52% y/y, personal accounts +7% y/y

Strategy

- Execution of strategy on track:
 - F&A leadership: F&A business growing faster than non-F&A, market share in loans to farmers further rising to 27.9%, deposits at 12.3%
 - Divisionalization: BGŻ well positioned for further growth in SME and micro segments

Funding & Risk

- Optimisation of liquidity position. LDR at 102.2%, CAR at 13.0%.
- Impairments higher in comparison to 2013 Q1 (which benefited from one-offs) but lower vs 2013 Q4 - review of impairment model led to higher collective impairments in 2013 Q4.

Financial summary

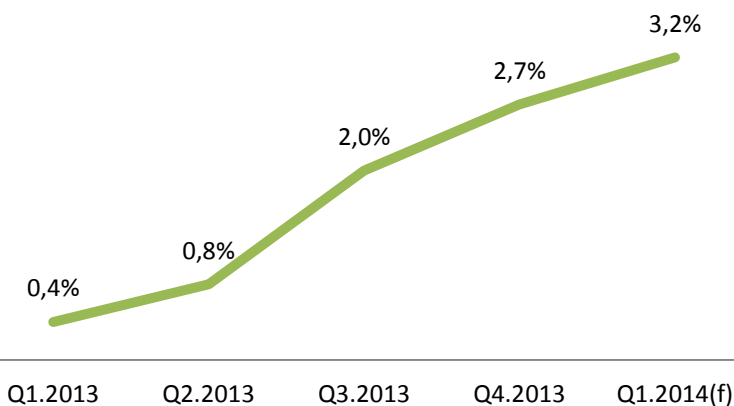
PLN million	YTD March 2013	YTD March 2014	Change y/y	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Change q/q
Total income	325,9	360,2	+11%	325,9	364,0	371,4	380,7	360,2	-5%
Total expenses	(254,9)	(248,6)	-2%	(254,9)	(238,2)	(246,3)	(240,7)	(248,6)	+3%
Net impairment losses	(32,8)	(57,8)	+76%	(32,8)	(58,6)	(57,8)	(99,5)	(57,8)	-42%
Pre-tax profit	38,1	55,1	+44%	38,1	66,1	66,1	31,9	55,1	+73%
Net profit	29,5	44,6	+51%	29,5	53,0	51,8	25,9	44,6	+73%
ROE	3,4%	5,1%	+1,7%	3,4%	6,1%	6,0%	3,0%	5,1%	+2,1%
Cost / Income	78,2%	69,0%	-9,2%	78,2%	65,4%	66,3%	63,2%	69,0%	+5,8%
CAR	12,0%	13,0%	+1,0%	12,0%	11,9%	13,1%	13,3%	13,0%	-0,3%

Macroeconomics

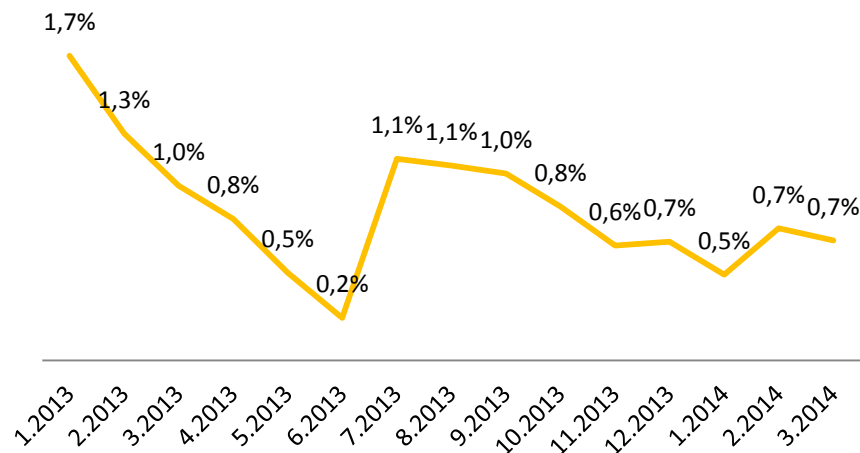
Q1 2014 Polish economy – Highlights

- The Bank forecasts the GDP to be at 3.2% after Q1 2014 (same for FY 2014)
- Inflation remains low at 0.7% (with estimate of 0.9% for 2014 year end)
- Unemployment still remains high at 13.5% (and expected to stay at this level in 2014), but is lower than during 2013 1Q
- The NBP reference rate remains low at 2.5%
- Signs of economic recovery on the market
- Ukraine turmoil had little to no effect on 2014 1Q results of the Bank

GDP



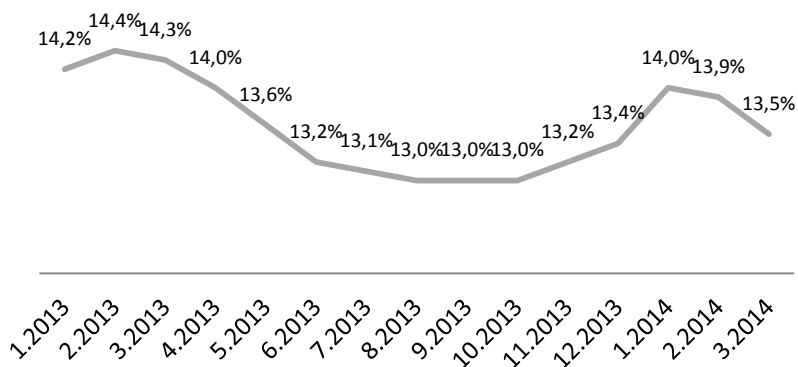
Inflation



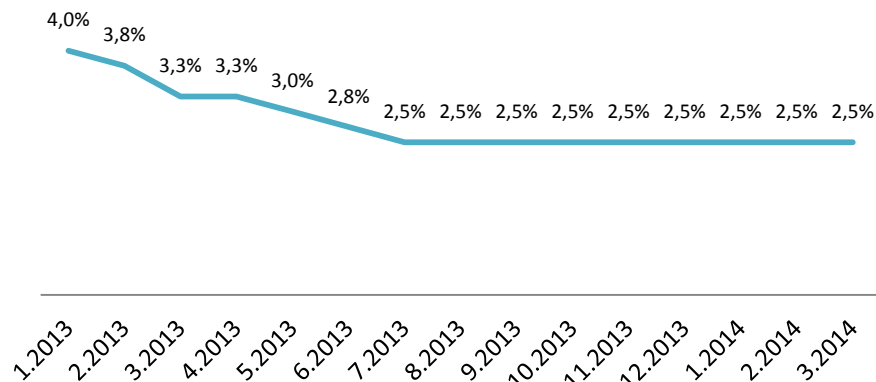
Macroeconomics

Good start for the Polish economy

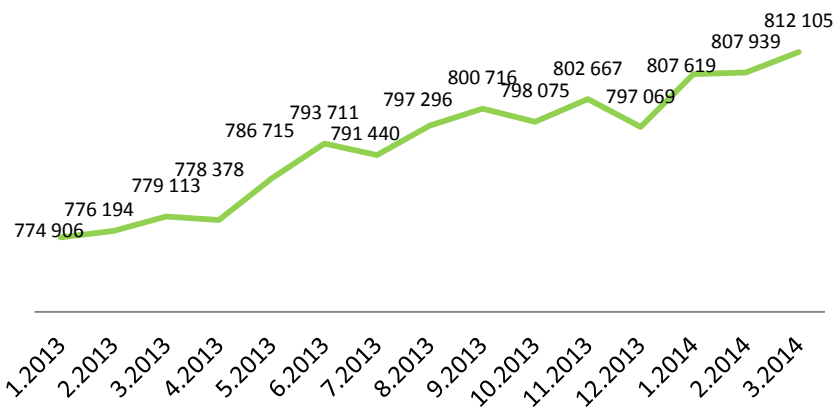
Unemployment



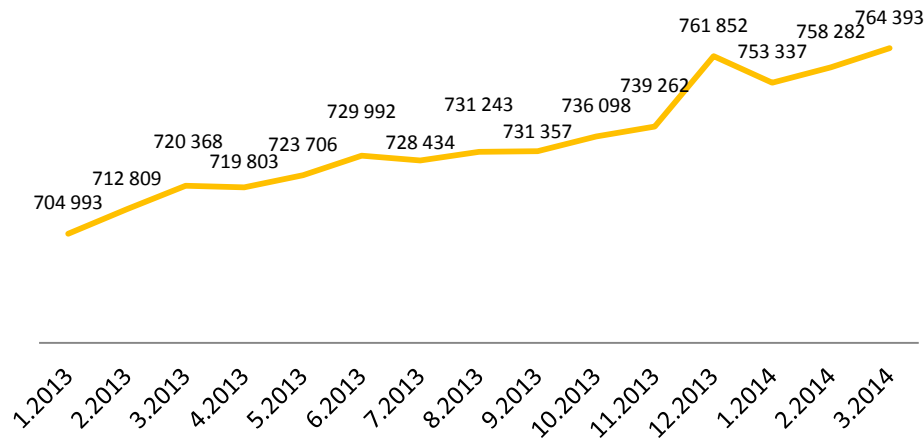
NBP reference rate



Total Loans & Advances (PLN mio)



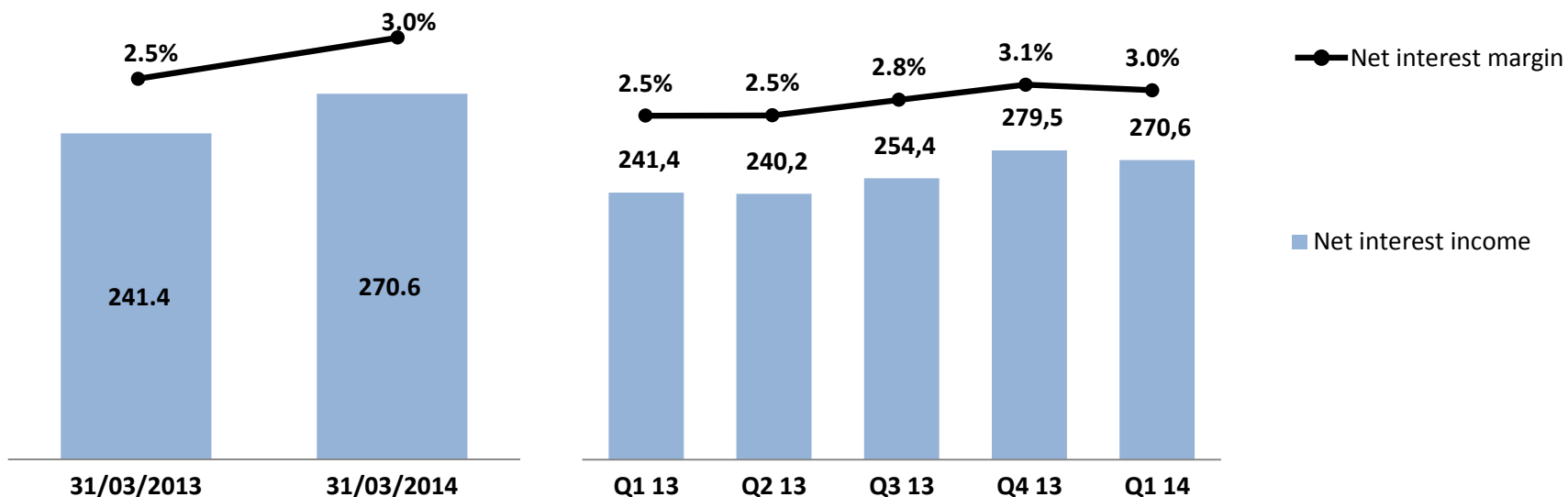
Deposits & other liabilities of banks to non-financial sector (PLN mio)



Net interest income

Net interest income and margin

(PLN m)

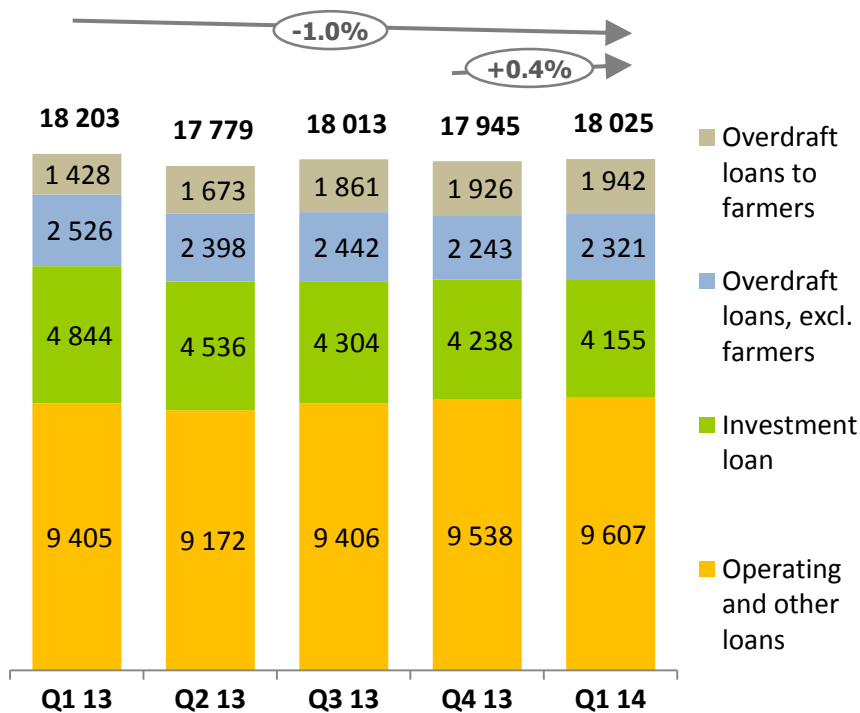


- Positive trend on NIM sustained
- Reflection of lower deposit rates and optimised liquidity buffers translates into improved NIM y/y
- Preferential loans hedged against impact of the NBP rediscount rate multiplier phasing out in Q1 2014.

Loan growth

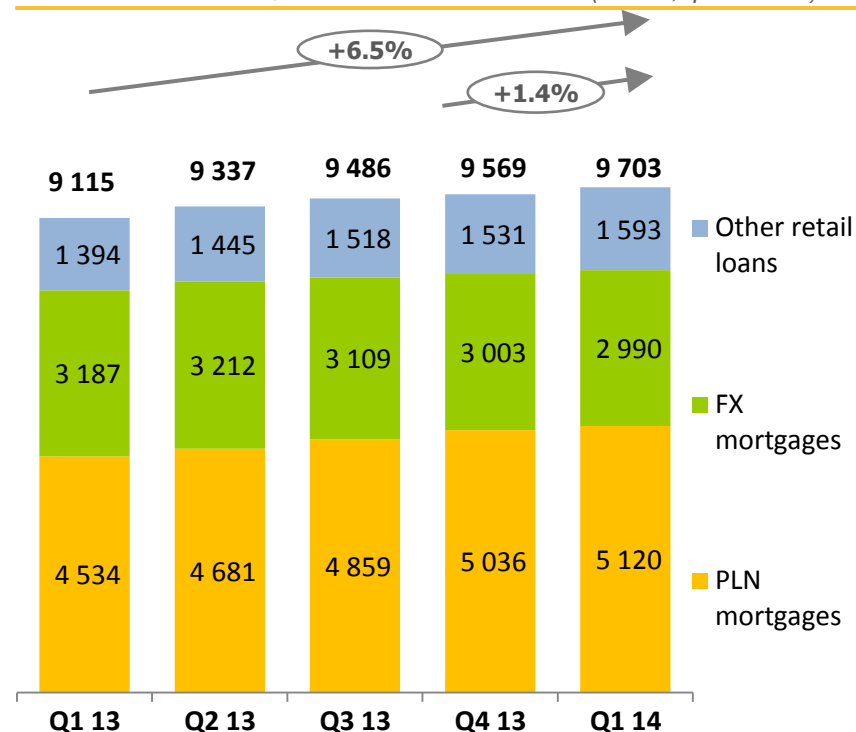
Institutional loans, gross

(PLN m, quarter-end)



Retail loans, gross

(PLN m, quarter-end)

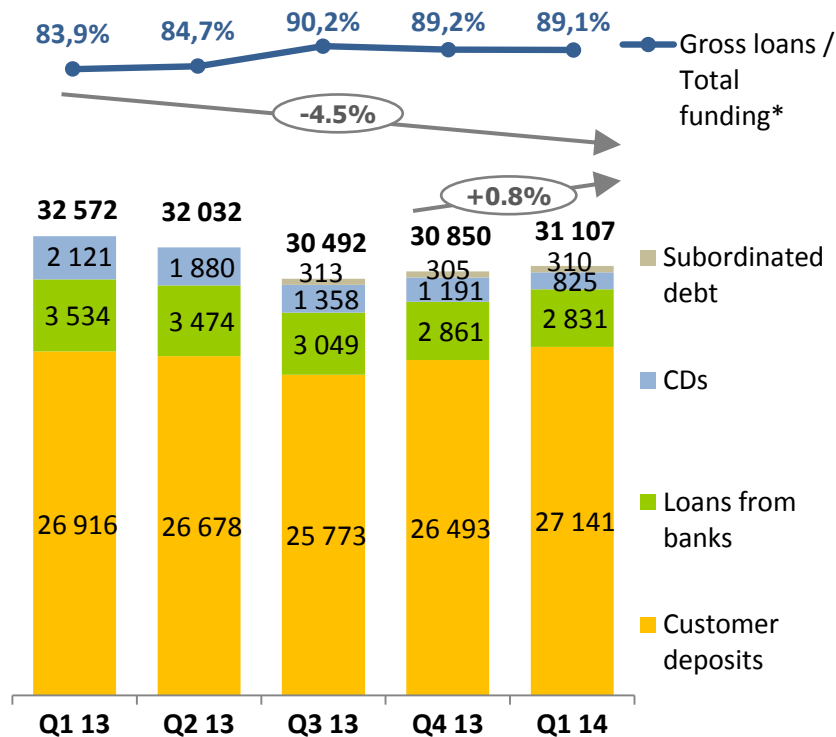


- Growth in Retail loans, mainly cash loans and mortgages, recovery in institutional loans QoQ.
- F&A focus pays off through continued growth of the F&A portfolio driven by preferential loans and Agro Ekspres

Funding mix

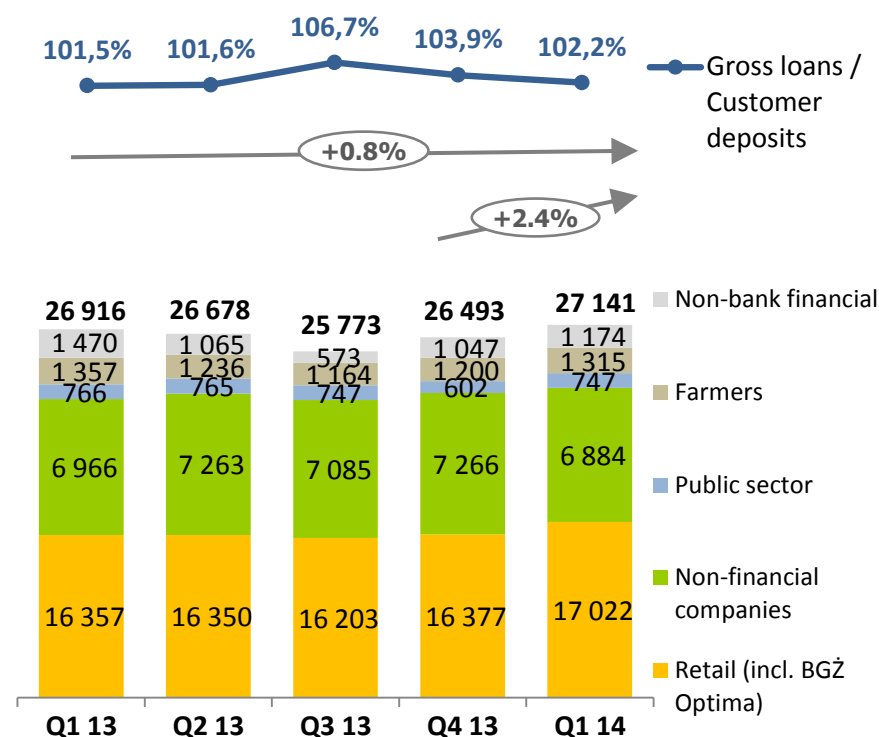
Funding sources

(PLN m, quarter-end)



Customer deposits

(PLN m, quarter-end)

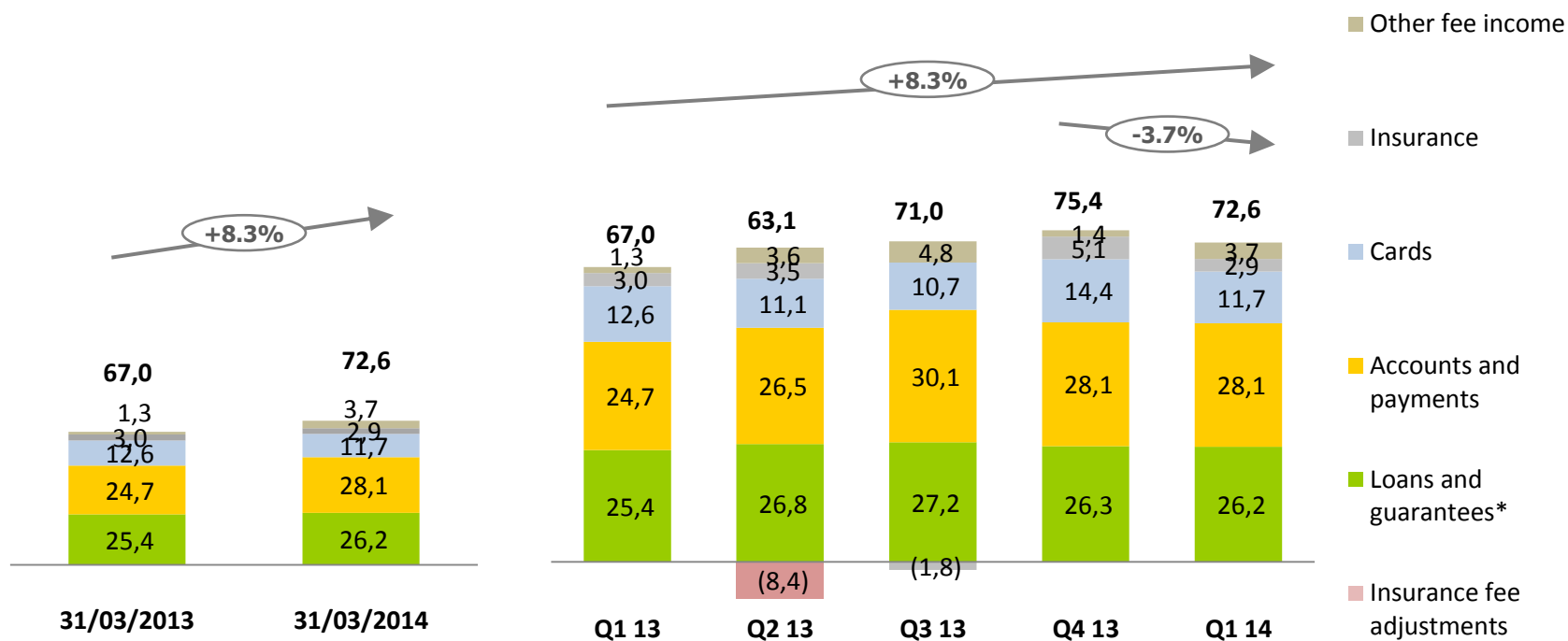


- Solid deposits portfolio and comfortable level of loan to deposit ratio – with increased funding from retail (incl. BGZ Optima) and farmers.
- Optimisation of surplus liquidity buffer – no new CDs issued, non-bank financial institutions deposits not rolled forward.
- Subordinated debt (Tier 2) carved out of the „loans from banks” .

Net fee and commission income

Net fee and commission income by product type

(PLN m)



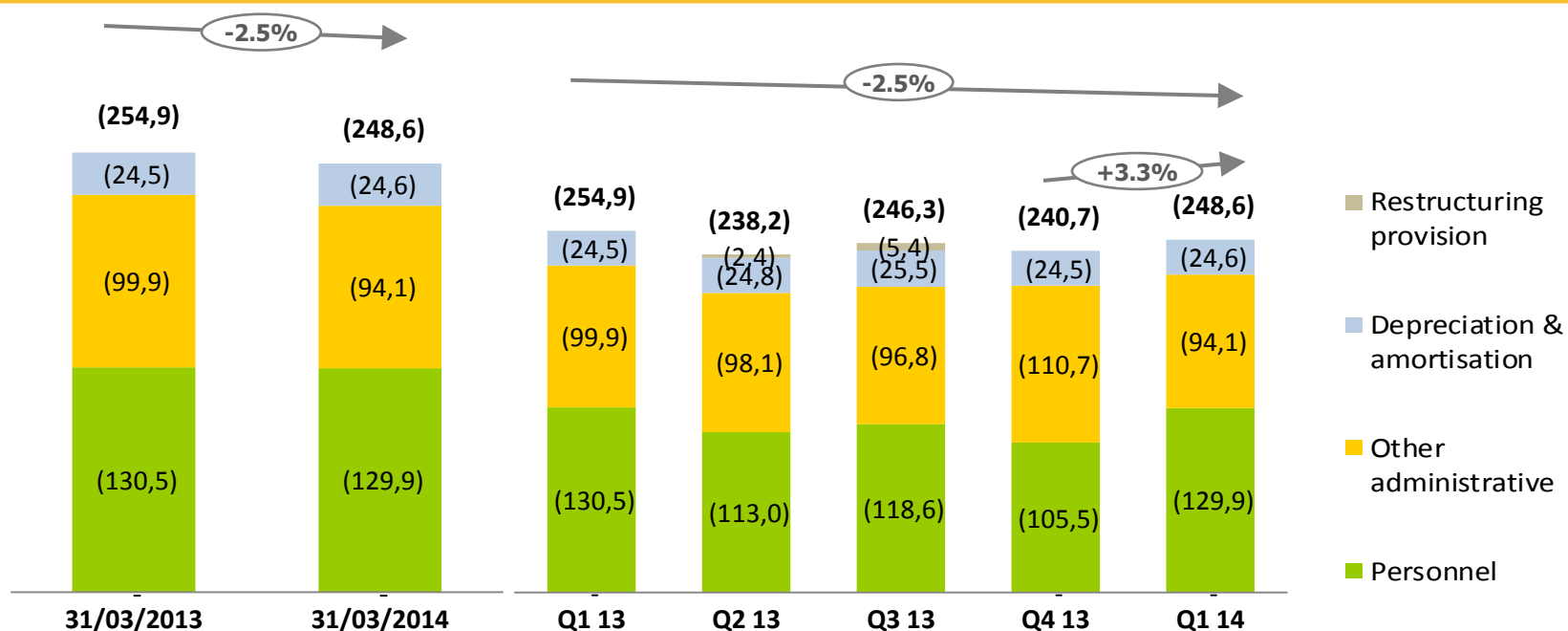
- 2014 Q1 vs 2013 Q1 fees higher, mainly due to accounts and payments.
- Q/Q decrease of 3.7% mainly due to seasonal developments in insurance and new regulations for cards.

*) Contains credit fees not accounted for using the effective interest rate method (i.e. mostly on overdrafts and annexes to credit contracts)

Operating expenses

General administrative expenses, depreciation and amortisation

(PLN m)

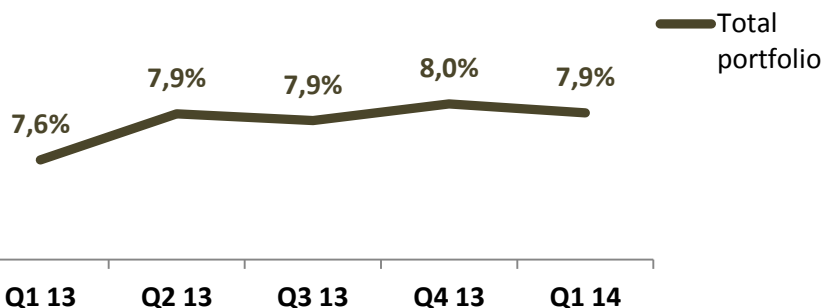


- YoY costs down due to positive effects of cost optimisation program
- QoQ rise in personal costs due to higher bonus accrual in Q1 2014
- QoQ other administrative costs lower, as Q4 contained seasonal spending and higher marketing costs.

Asset quality (NPL ratios)

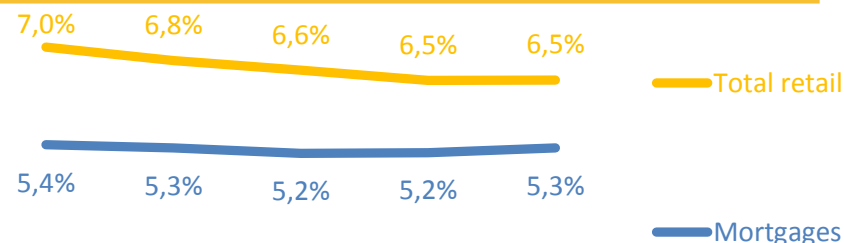
Total loans

(quarter-end)



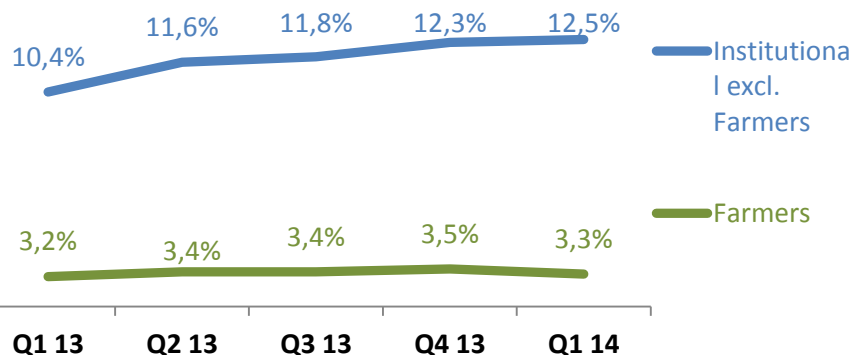
Retail loans

(quarter-end)



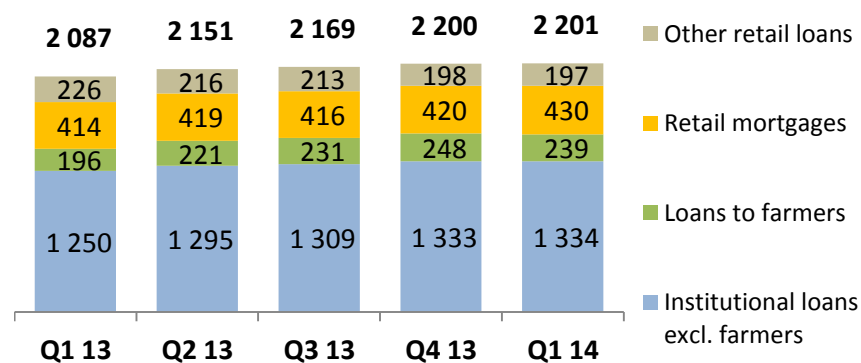
Institutional loans

(quarter-end)



Impaired portfolio

(gross exposure, PLN m, quarter-end)

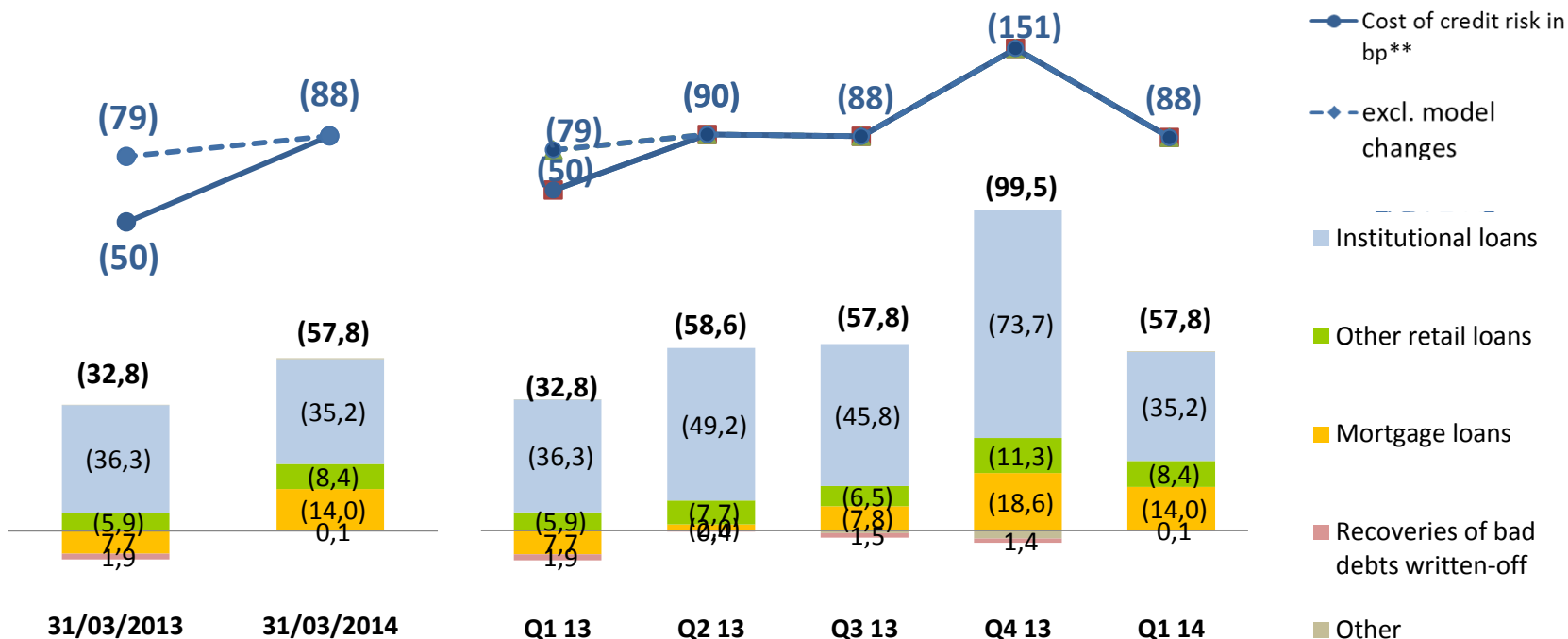


- Stabilisation of impaired portfolio after a few quarters of growth which was a delayed effect of past quarters slow down in economy.
- Lack of significant asset growth in institutional loans explains rising NPL ratio for institutional loans.

Net impairment losses

Net impairment losses by main portfolios

(PLN m)



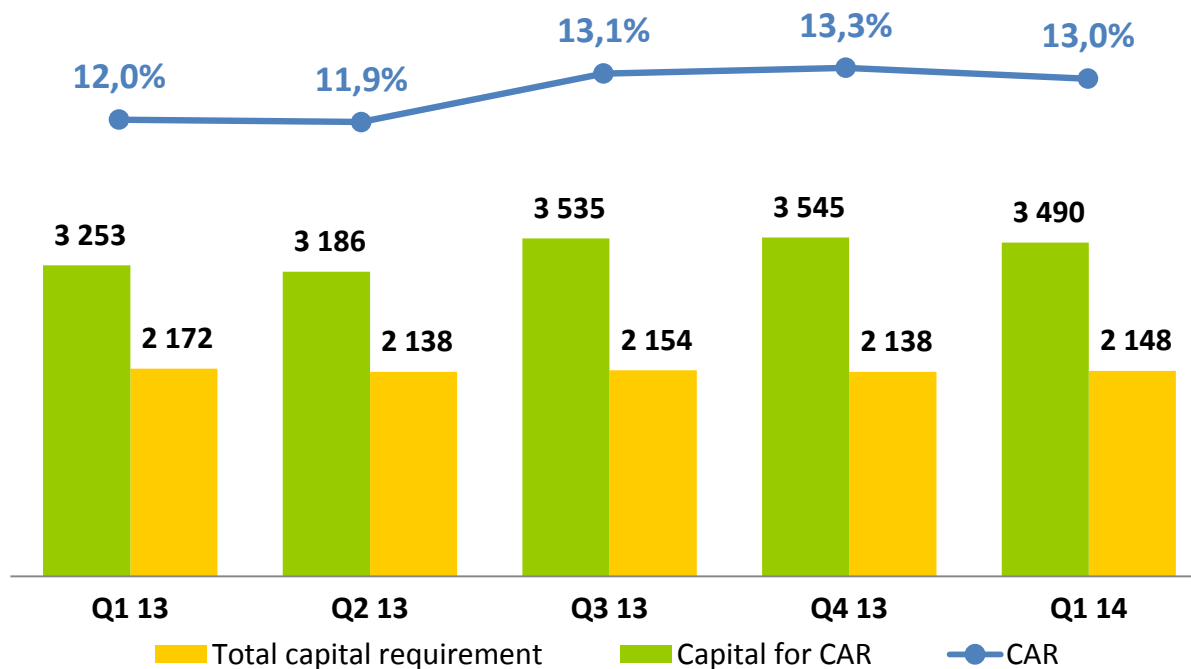
- Impairments lower than in 2013 Q4 but impact of economic slowdown still felt. Model review in Q4 led to higher collective impairments.
- Impairments higher in 2014Q1 YoY as 2013Q1 saw a windfall effect from the model changes on mortgages.

** Calculated as net impairment losses divided by average balance sheet value of the total loan portfolio (annualised basis)

Capital adequacy ratio

Capital funds, requirements and CAR

(PLN m, quarter-end)



- Stabilisation of capital requirement.
- CHF 90m (PLN 311m) subordinated debt provided by Rabobank and approved by the KNF in August 2013 as Tier 2 capital.
- All 2013 net profit retained for capital.

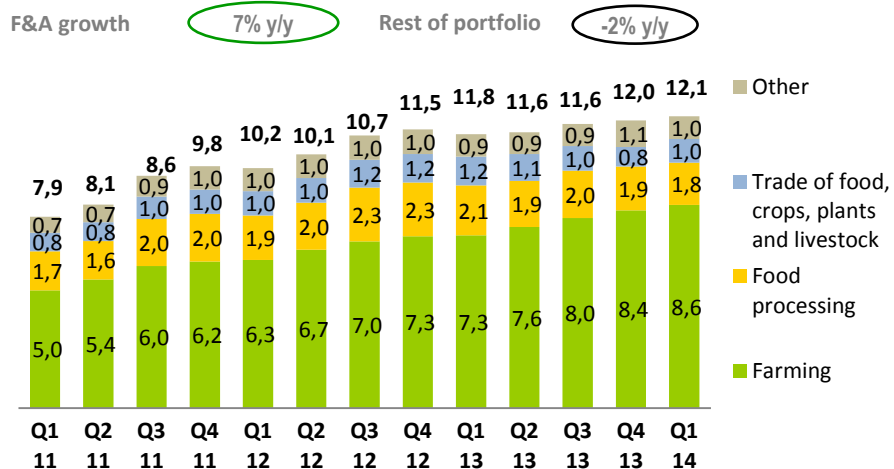


Business highlights

Food & Agri focus

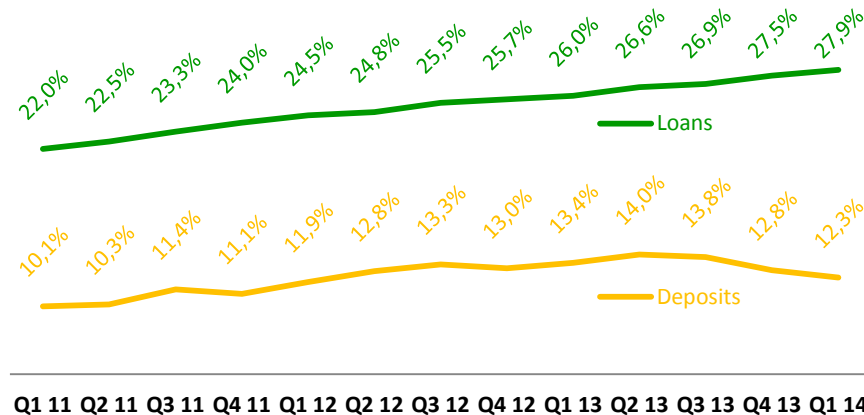
F&A loan portfolio

(PLN bln)



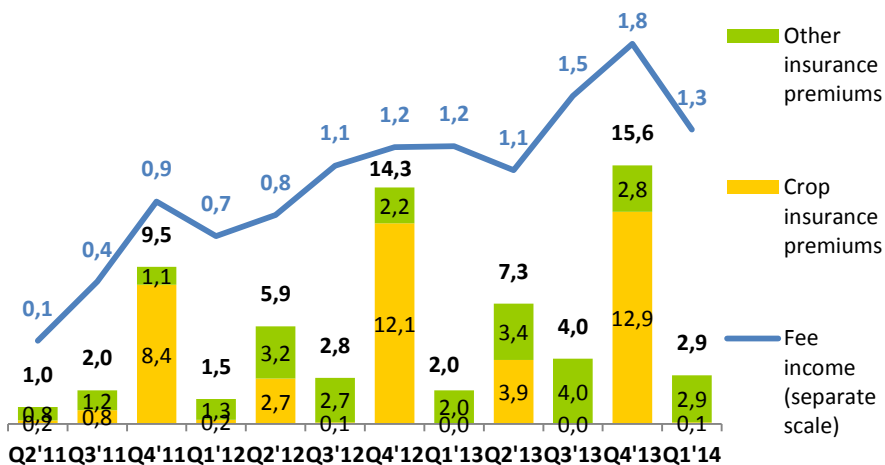
BGZ market share in farmer volumes

(quarter-end)



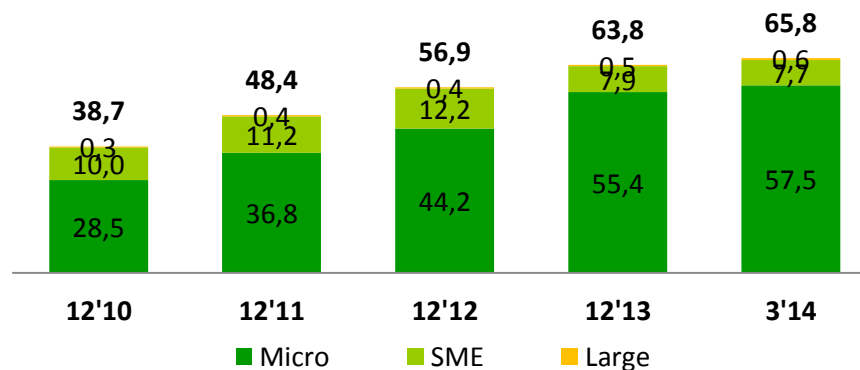
Performance on farmer insurance

(PLN m)



Number of F&A clients

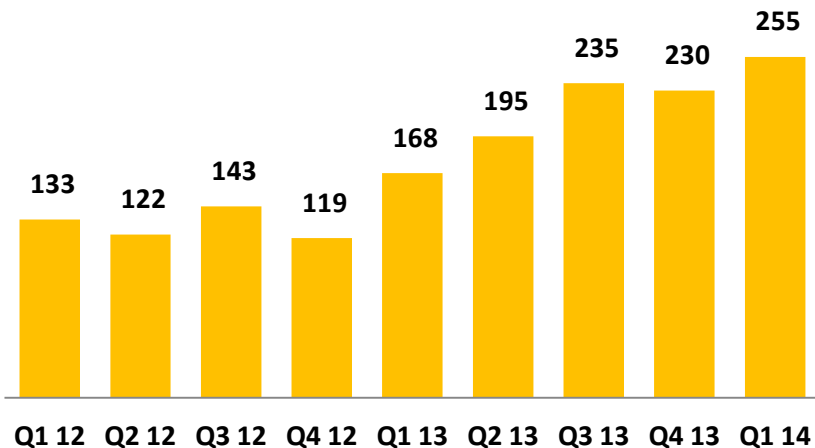
(in thousands)



Retail business performance

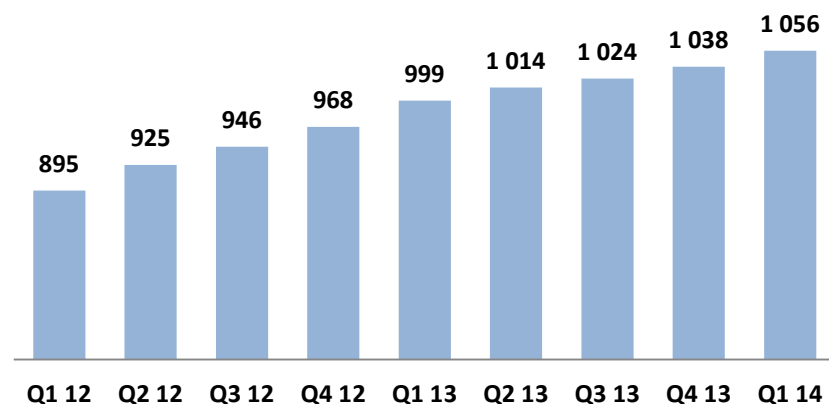
Cash loans sales

(PLN m, quarterly)



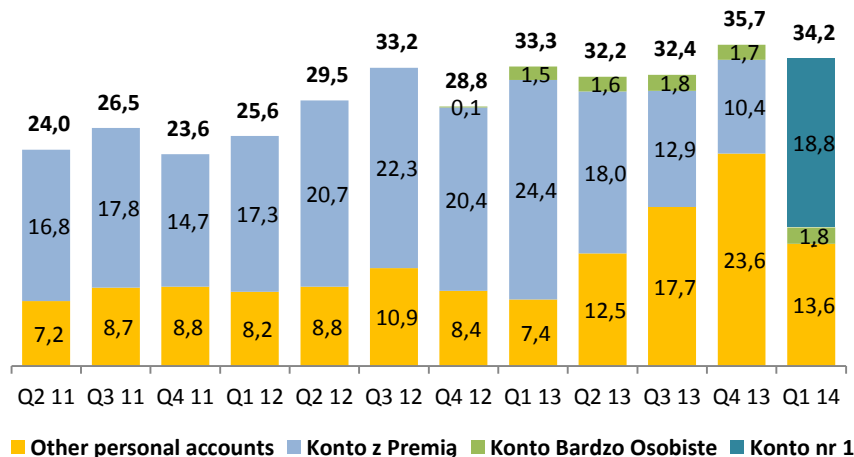
Total number of retail clients

(in thousands, Incl. BGZ Optima)



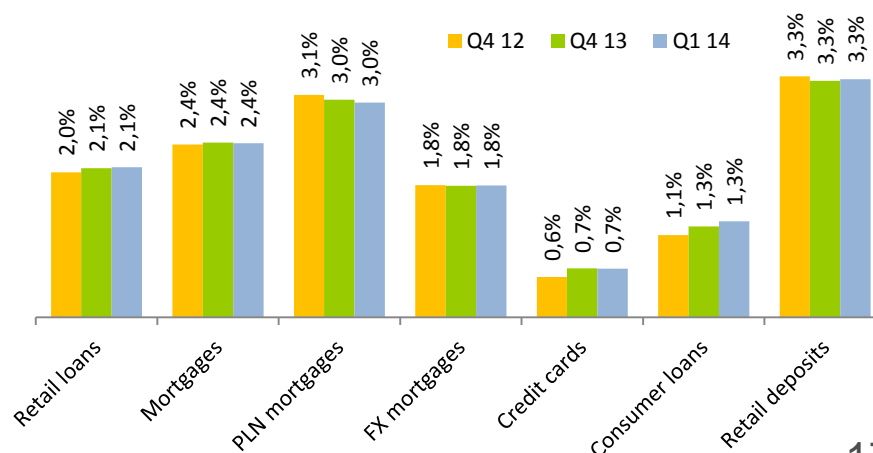
Personal accounts sales

(in thousands, quarterly)



BGZ shares in retail market

(in volumes)





Financial appendices

Consolidated income statement

PLN thousands	Year-to-date basis		Quarterly basis								
	31/03/2014	31/03/2013	31/03/2014	31/12/2013	30/09/2013	30/06/2013	31/03/2013	31/12/2012	30/09/2012	30/06/2012	31/03/2012
Consolidated income statement											
Interest income	425 840	537 124	425 840	442 206	444 546	486 976	537 124	571 165	550 142	528 243	505 366
Interest expense	(155 260)	(295 756)	(155 260)	(162 701)	(190 195)	(246 772)	(295 756)	(316 192)	(287 571)	(270 787)	(260 561)
Net interest income	270 580	241 368	270 580	279 505	254 351	240 204	241 368	254 973	262 571	257 456	244 805
Fee and commission income	84 293	77 225	84 293	85 440	90 663	80 384	77 225	80 186	91 794	91 302	82 831
Fee and commission expense	(11 741)	(10 229)	(11 741)	(10 086)	(19 625)	(17 280)	(10 229)	(7 937)	(14 486)	(13 729)	(12 222)
Net fee and commission income	72 552	66 996	72 552	75 354	71 038	63 104	66 996	72 249	77 308	77 573	70 609
Dividend income	-	-	-	-	11	2 837	-	-	20	3 396	-
Net trading income	13 721	17 113	13 721	13 245	18 428	31 638	17 113	30 235	28 340	11 213	28 779
Result on investing activities	3 169	-	3 169	5 696	12 914	20 613	-	25 792	(8)	9 930	7 615
Result on hedge accounting	(135)	(1 198)	(135)	(47)	69	99	(1 198)	100	1 133	-	-
Other operating income	5 632	5 901	5 632	13 510	21 510	9 019	5 901	11 403	7 018	7 290	9 292
Net impairment losses on financial assets and contingent liabilities	(57 776)	(32 756)	(57 776)	(99 495)	(57 832)	(58 567)	(32 756)	(43 879)	(70 486)	(114 708)	(41 360)
General administrative expenses	(224 009)	(230 443)	(224 009)	(216 269)	(220 802)	(213 449)	(230 443)	(247 999)	(225 610)	(222 777)	(231 895)
Depreciation and amortization	(24 608)	(24 475)	(24 608)	(24 475)	(25 487)	(24 782)	(24 475)	(25 016)	(24 077)	(23 297)	(22 128)
Other operating expenses	(5 316)	(4 244)	(5 316)	(6 528)	(6 876)	(3 498)	(4 244)	(8 874)	(5 400)	(6 083)	(11 223)
Operating result	53 810	38 262	53 810	40 496	67 324	67 218	38 262	68 984	50 809	(7)	54 494
Share in profit (loss) of associates	1 254	(149)	1 254	(8 577)	(1 188)	(1 165)	(149)	(519)	1 095	(1 778)	886
Profit (loss) before income tax	55 064	38 113	55 064	31 919	66 136	66 053	38 113	68 465	51 904	(1 785)	55 380
Income tax expense	(10 426)	(8 569)	(10 426)	(6 059)	(14 384)	(13 065)	(8 569)	(16 074)	(13 702)	762	(14 901)
Net profit (loss) for the period	44 638	29 544	44 638	25 860	51 752	52 988	29 544	52 391	38 202	(1 023)	40 479

Consolidated assets

PLN thousands	new presentation*					previous presentation					
	31/03/2014	31/12/2013	30/09/2013	30/06/2013	31/12/2012	31/03/2013	31/12/2012	30/09/2012	30/06/2012	31/03/2012	31/12/2011
Consolidated statement of financial position											
ASSETS											
Cash and balances with the Central Bank	1 607 994	1 617 713	1 630 272	1 347 978	2 106 657	1 465 748	2 106 657	1 583 499	1 502 744	1 548 602	1 383 321
Loans and advances to banks	109 767	269 757	551 033	238 510	104 035	68 558	104 035	568 349	273 397	132 820	221 071
Reverse repo transactions	34 508	309 255	224 159	249 837	104 369	2 332 638	104 369	1 019 673	662 417	706 569	366 343
Debt securities held for trading	171 331	1 018 701	1 467 576	1 021 476	219 051	1 606 820	219 051	651 364	2 262 776	2 470 411	1 632 434
Derivative financial instruments	302 609	363 260	412 483	322 529	380 473	469 846	474 058	335 151	351 899	448 655	883 109
Hedging instruments	67 218	57 387	48 564	36 668	69 179	---	---	---	---	---	---
Loans and advances to customers	26 458 387	26 297 916	26 314 121	25 968 836	26 323 700	26 221 221	26 323 700	26 320 067	25 270 400	24 209 279	24 222 391
Available for sale financial assets	6 377 810	4 826 073	4 137 456	6 535 385	6 867 557	7 717 236	6 867 557	4 733 320	3 663 762	4 174 221	3 624 750
Other debt securities	-	-	-	-	-	-	-	-	-	-	-
Investment property	62 524	62 524	62 301	62 301	62 301	62 301	62 301	63 401	63 401	63 401	63 401
Investments in associates	36 259	35 052	43 628	44 816	46 139	45 981	46 139	46 658	45 563	47 341	46 245
Intangible assets	152 684	158 589	148 860	148 235	152 674	147 339	152 674	142 011	140 420	141 981	146 443
Property, plant and equipment	436 637	449 139	449 812	456 384	469 098	457 152	469 098	469 186	472 029	475 620	485 943
Deferred tax assets	155 552	142 792	130 154	131 660	130 818	128 689	130 818	156 238	182 559	202 823	207 794
Current tax assets	6 820	12 519	-	-	10 318	10 318	10 318	22 273	46 242	4 802	-
Other assets	192 159	156 464	129 957	137 358	200 365	110 397	125 888	147 580	132 153	105 222	123 968
TOTAL ASSETS	36 172 259	35 777 141	35 750 376	36 701 973	37 246 734	40 844 244	37 196 663	36 258 770	35 069 762	34 731 747	33 407 213

* Since financial statements as of 30/06/2013

Consolidated liabilities and capital

PLN thousands	new presentation*					previous presentation					
	31/03/2014	31/12/2013	30/09/2013	30/06/2013	31/12/2012	31/03/2013	31/12/2012	30/09/2012	30/06/2012	31/03/2012	31/12/2011
Consolidated statement of financial position											
LIABILITIES											
Amounts due to banks	3 207 120	3 271 414	3 650 916	3 652 564	4 094 436	3 997 661	4 094 436	3 706 266	4 050 991	3 963 697	4 446 716
Repo transactions	261 837	-	-	224 639	32 341	3 567 604	104 346	767 416	1 393 391	1 554 218	-
Financial liabilities held for trading	28 513	271 288	223 959	93 374	72 005	---	---	---	---	---	---
Derivative financial instruments	320 866	336 950	381 879	278 696	326 215	371 671	350 621	235 013	343 042	490 608	795 707
Hedging instruments	-	-	1 609	-	-	-	-	-	-	-	-
Amounts due to customers	27 140 819	26 492 716	25 772 536	26 677 885	26 941 971	26 916 236	26 941 971	25 654 452	24 123 812	23 397 656	22 941 652
Debt securities issued	824 879	1 191 158	1 357 745	1 880 228	1 852 931	2 121 082	1 852 931	1 972 127	1 967 408	2 129 784	2 033 267
Subordinated debt	309 805	304 817	312 660	-	-	-	-	-	-	-	-
Other liabilities	453 453	326 041	503 574	369 975	379 207	315 539	292 168	521 726	383 502	410 507	474 952
Deferred tax liabilities	9 552	9 552	9 510	9 510	9 510	9 510	9 510	9 719	9 719	9 719	9 719
Current tax liabilities	-	-	421	-	-	-	-	-	-	-	-
Provisions	62 508	64 015	64 221	54 293	65 501	39 165	51 094	45 277	42 959	44 610	41 926
Liabilities arising from employee benefits	---	---	---	---	---	31 071	26 969	27 388	29 032	29 222	25 412
TOTAL LIABILITIES	32 619 352	32 267 951	32 279 030	33 241 164	33 774 117	37 369 539	33 724 046	32 939 384	32 343 856	32 030 021	30 769 351
EQUITY											
Share capital	51 137	51 137	51 137	51 137	51 137	51 137	51 137	51 137	43 137	43 137	43 137
Other supplementary capital	3 085 059	3 085 059	3 085 059	3 085 059	2 950 716	2 950 716	2 950 716	2 950 716	2 458 716	2 332 656	2 332 656
Other reserve capital	205 552	206 463	194 479	235 694	330 351	302 895	330 351	229 511	174 233	149 030	125 645
Retained earnings	211 159	166 531	140 671	88 919	140 413	169 957	140 413	88 022	49 820	176 903	136 424
- retained profit	166 521	6 387	6 387	6 387	10 364	10 364	10 364	10 364	10 364	8 327	8 327
- net profit for the period	44 638	160 144	134 284	82 532	130 049	159 593	130 049	77 658	39 456	168 576	128 097
TOTAL EQUITY	3 552 907	3 509 190	3 471 346	3 460 809	3 472 617	3 474 705	3 472 617	3 319 386	2 725 906	2 701 726	2 637 862
TOTAL LIABILITIES AND EQUITY	36 172 259	35 777 141	35 750 376	36 701 973	37 246 734	40 844 244	37 196 663	36 258 770	35 069 762	34 731 747	33 407 213

* Since financial statements as of 30/06/2013

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