



BGŻ Group

Presentation of 2013 results

Warsaw, 5 March 2014

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Executive summary

Net profit up 23% in 2013, rebound of income in Q4, cost savings realised, impairments under control.

Financials

- Net profit for FY 2013 at PLN 160m, an increase by 23% y/y (+PLN 30.1m)
- Total income decreased by 2% in 2013, driven by NBP rate cuts and fee accounting changes. Rebound in Q4 q/q (+4% or PLN 25,2m)
- Expenses under control, lower y/y by 4% (-PLN 42.6m) with cost restructuring program paying off
- Net impairment losses lower by 8% y/y (-PLN 21.8m).

Clients

- Solid loan growth in selected focus business (F&A 2.5% and Retail 7%) while exposure reduced by choice in Large Caps due to more selective sector approach
- More than 1 million Retail customers, with +7% y/y (+69,2k customers, of which BGŻOptima increased +48% y/y from 76k to 112k)
- Continued growth on our focus Food and Agri segment - client base +12% y/y (6.9k customers)
- Growth of retail sales in 2013: cash loans +60% y/y, personal accounts +14% 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 27.5%, deposits at 12.8%
 - Customer experience further improved, as confirmed by service quality surveys
 - Divisionalization: BGŻ well positioned for further growth in SME and micro segments
 - Cost restructuring program: Delivery of cost saving initiatives on track (PLN 25m annualized savings for FTE program, PLN 30m for non-FTE projects)

Funding & Risk

- Optimisation of liquidity position. LDR at 103.9%, CAR at 13.3% after Tier 2 facility from Rabobank.
- Impairments lower y/y but impact of economic slowdown still felt. Review of impairment model led to higher collective impairments in Q4 .

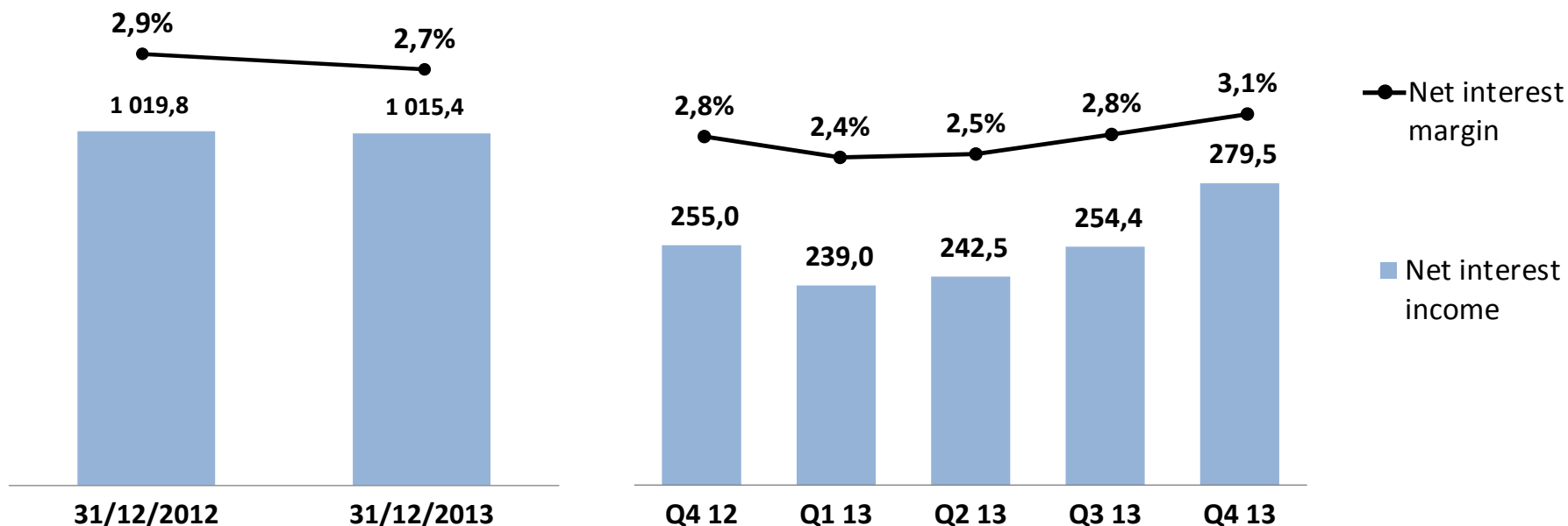
Financial summary

PLN million	YTD Dec 2012	YTD Dec 2013	Change y/y	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Change q/q
Total income	1 467,5	1 442,1	-2%	385,9	325,9	364,0	371,4	380,7	+3%
Total expenses	(1 022,8)	(980,2)	-4%	(273,0)	(254,9)	(238,2)	(246,3)	(240,7)	-2%
Net impairment losses	(270,4)	(248,7)	-8%	(43,9)	(32,8)	(58,6)	(57,8)	(99,5)	+72%
Pre-tax profit	174,0	202,2	+16%	68,5	38,1	66,1	66,1	31,9	-52%
Net profit	130,0	160,1	+23%	52,4	29,5	53,0	51,8	25,9	-50%
ROE	4,4%	4,6%	0,2%	6,2%	3,4%	6,1%	6,0%	3,0%	(3,0%)
Cost / Income	69,7%	68,0%	(1,7%)	70,8%	78,2%	65,4%	66,3%	63,2%	(3,1%)
CAR	11,8%	13,3%	1,5%	11,8%	12,0%	11,9%	13,1%	13,3%	0,1%

Net interest income

Net interest income and margin

(PLN m)

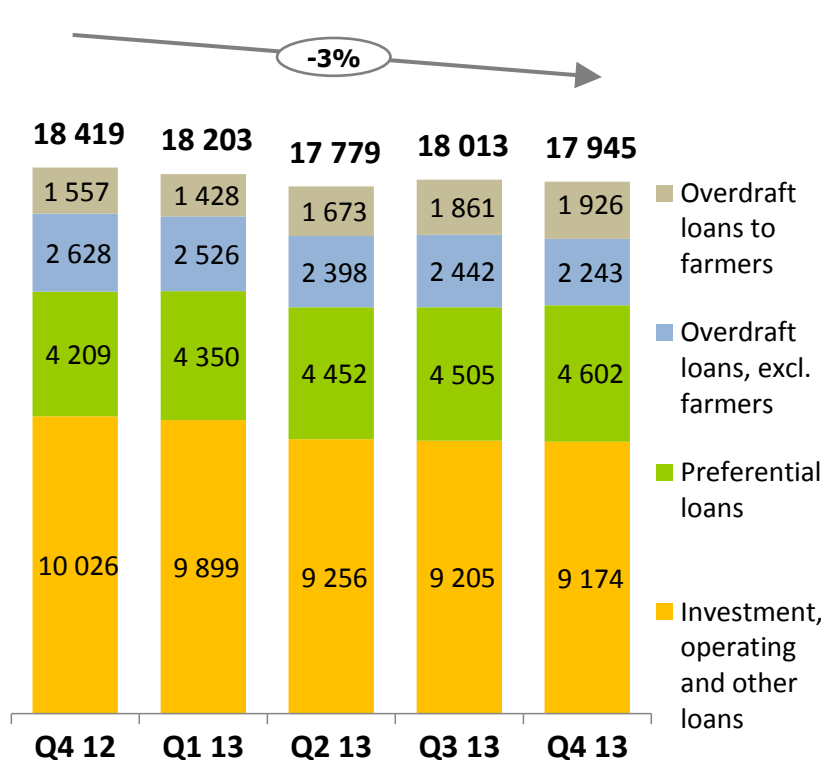


- Rebound of NIM and NII in H2 after pressure from NBP interest rate cuts in H1
- Saving accounts particularly affected in H1 and partly in Q3, as Payments Services Directive requirements lead to delayed pricing reaction (2-months client notice period)
- Reflection of lower deposit rates and optimised liquidity buffers translates into improved NIM q/q
- Preferential loans hedged against impact of the NBP rediscount rate multiplier.

Loan growth

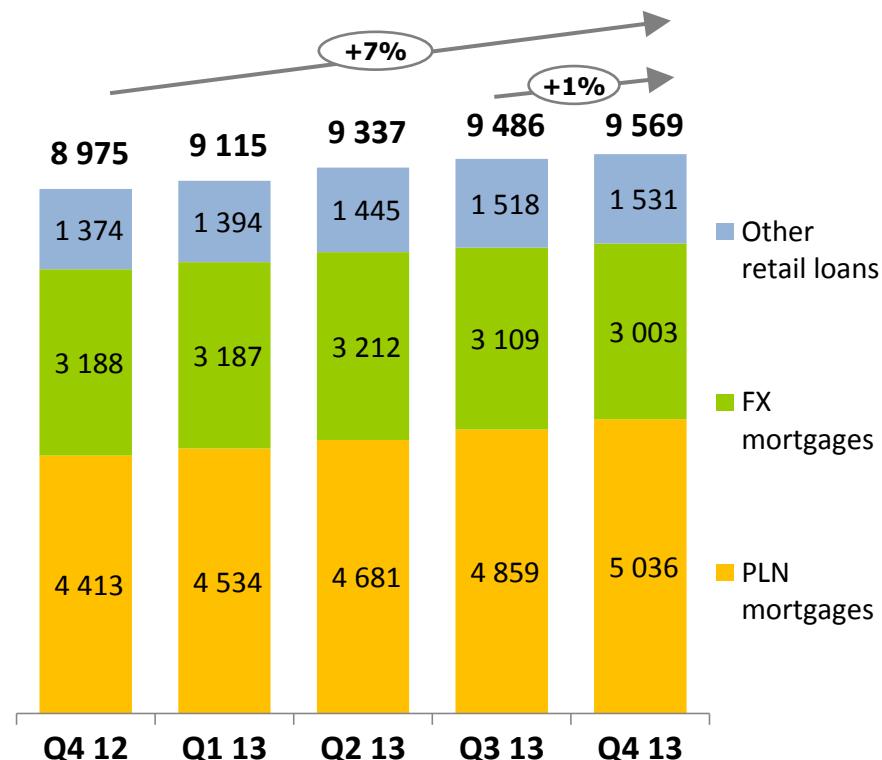
Institutional loans, gross

(PLN m, quarter-end)



Retail loans, gross

(PLN m, quarter-end)

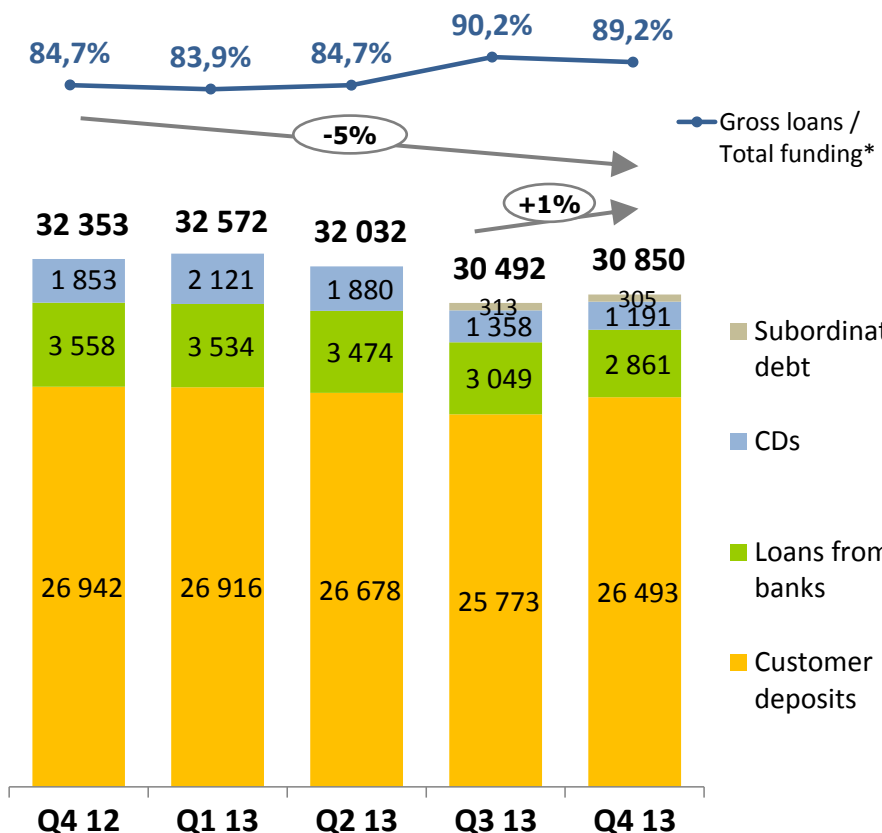


- Dynamic growth in Retail loans, mainly cash loans and mortgages, enabled to partly offset decrease in institutional loans.
- F&A focus pays off through continued growth of the F&A portfolio driven by preferential loans and Agro Ekspres
- Agro Progres loan in the offer since September (substitution for preferential loans for land purchase)

Funding mix

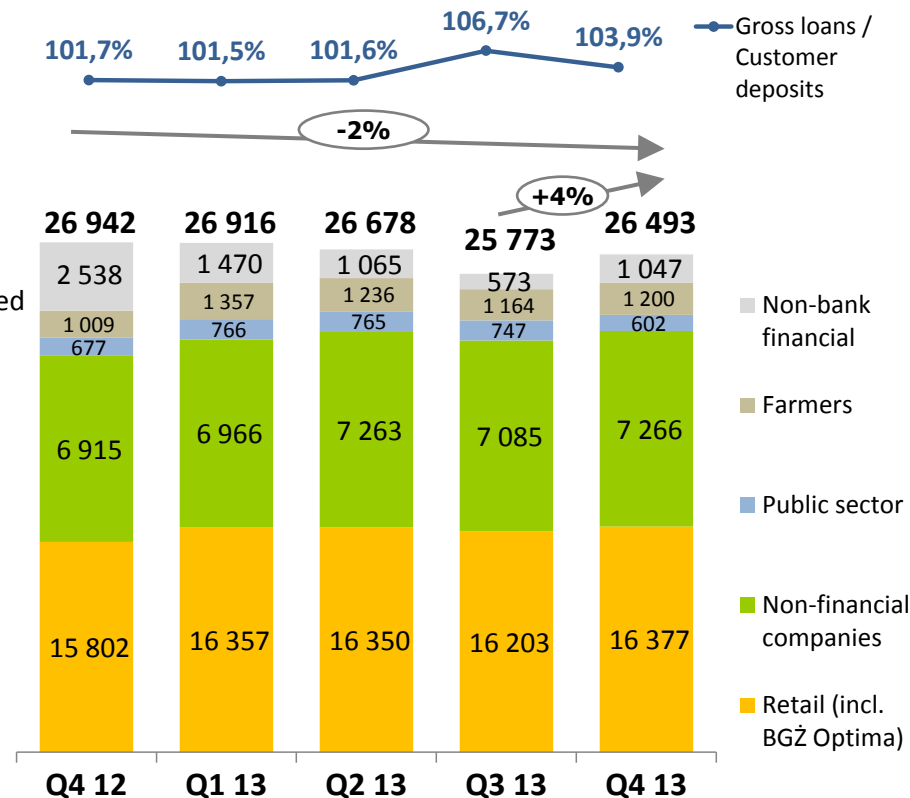
Funding sources

(PLN m, quarter-end)



Customer deposits

(PLN m, quarter-end)



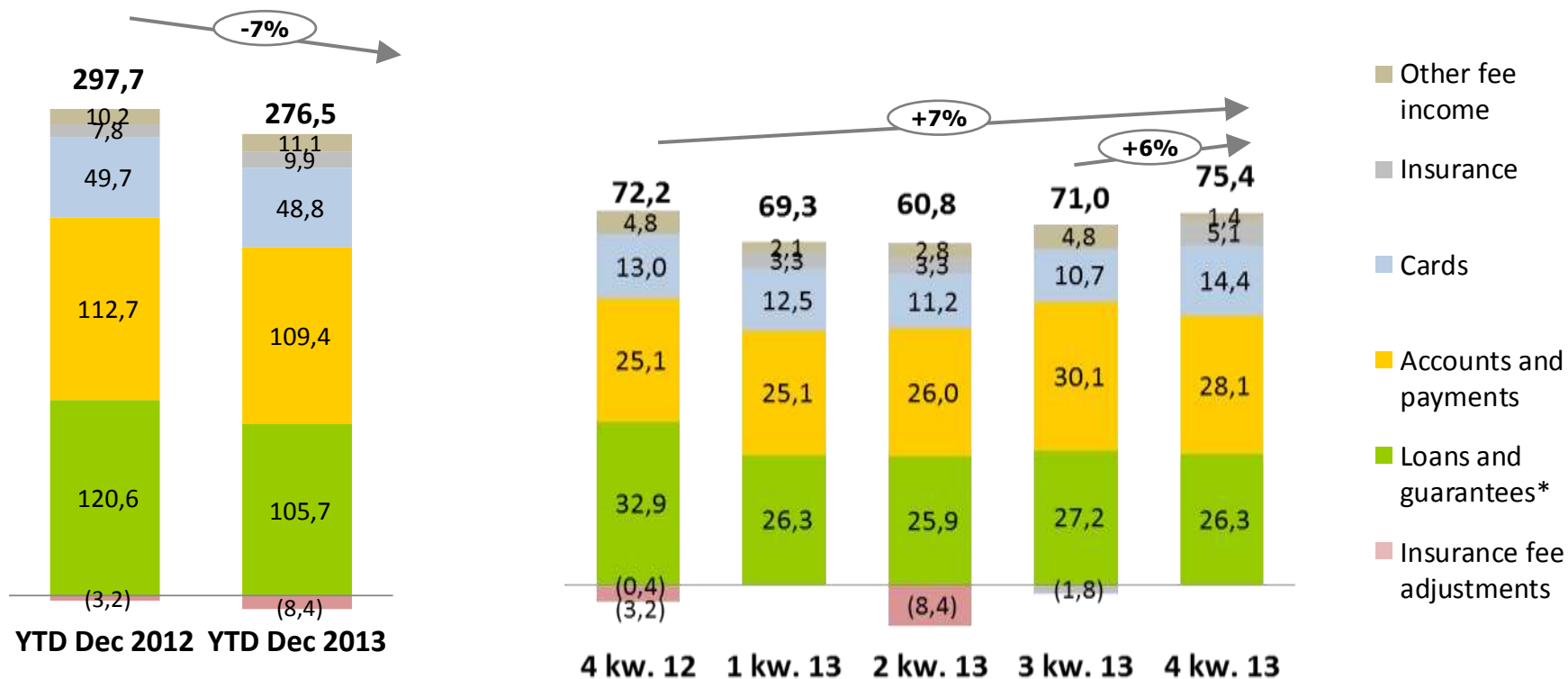
- Optimisation of surplus liquidity buffer – no new CDs issued, non-bank financial institutions deposits not rolled forward.
- Subordinated debt (Tier 2) carved out of the „loans from banks” from Q3 onwards
- Solid deposits portfolio and comfortable level of loan to deposit ratio – with increased funding from retail (incl. BGZOptima), non financial companies and farmers.

* Total funding = customer deposits + loans from banks + debt securities issued (CDs)

Net fee and commission income

Net fee and commission income by product type

(PLN m)



- Y/y fees lower, mainly due to loans and guarantees. Q/Q developments positive with 6% growth**.
- Y/y comparison affected also by accounting changes with respect to recognition of fee income on credit insurance (PLN -8.4m reversal of upfront fees in June) and credit promises
- Fee income rising q/q in Q4 2013, aided by fees on Cards.

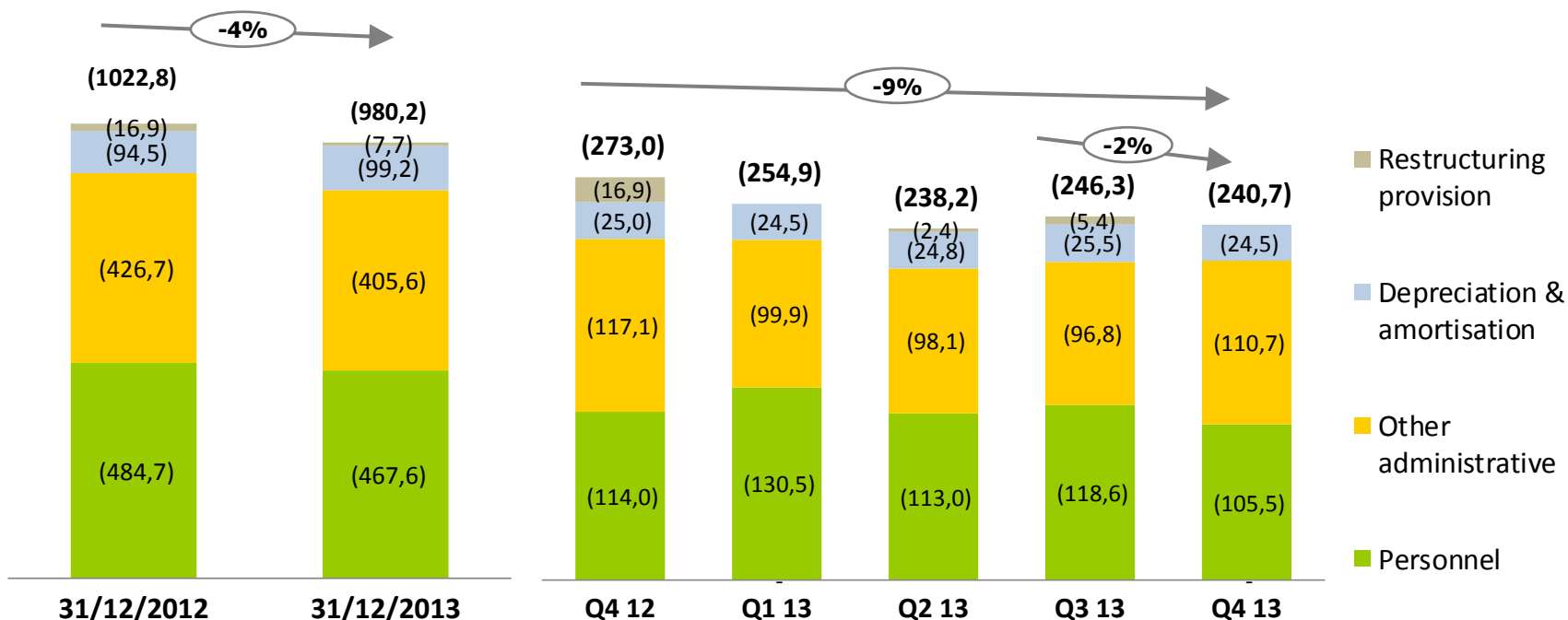
*) Contains credit fees not accounted for using the effective interest rate method (i.e. mostly on overdrafts and annexes to credit contracts)

**) Q4 increase in fees partly driven (2.5%) by fee expenses on mortgage insurance moved to interest income.

Operating expenses

General administrative expenses, depreciation and amortisation

(PLN m)

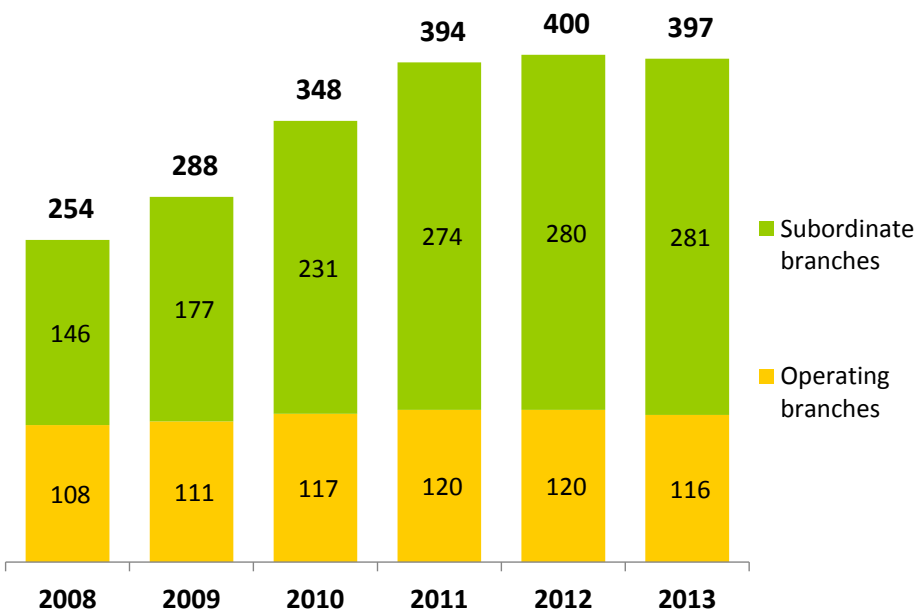


- Cost restructuring programme paying off as HR and 40 non-HR saving initiatives are being realised in line with the plan
- Increase in Q4 administrative costs caused by autumn marketing campaigns and additional regulatory fees („bank tax”) as well as some seasonal spending. Lower salary outlays due to reduction in FTEs and reversal of bonus accrual.

Focus on efficiency after completion investments

Branch expansion completed

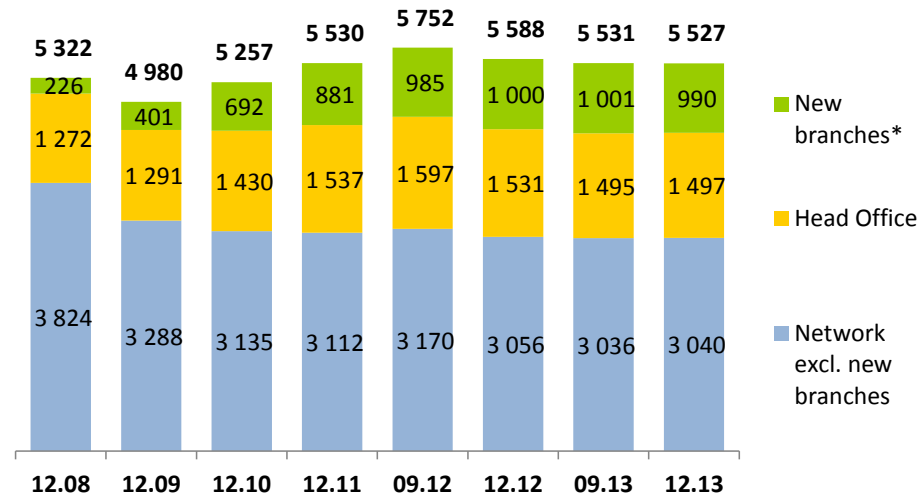
(period-end)



- Branch optimization: Focus on branch performance and profitability, resulting in branch restructuring where necessary

Staff restructuring underway

(period-end)



- Cost restructuring:
 - FTEs reduced by 200+ over 2012/2013 (mostly from H/O and regional centres)
 - Total annualised HR cost saving amounts to PLN 25m

* Opened in 2008-2012

Asset quality (NPL ratios)

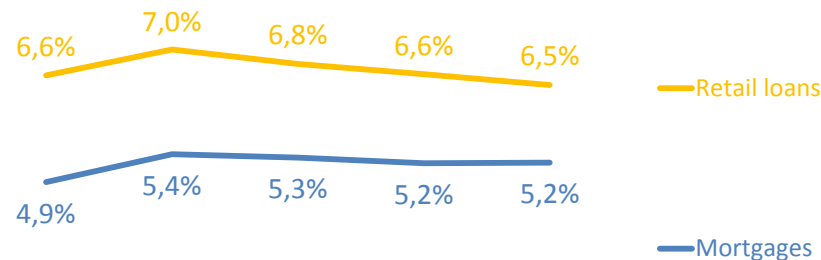
Total loans

(quarter-end)



Retail loans

(quarter-end)



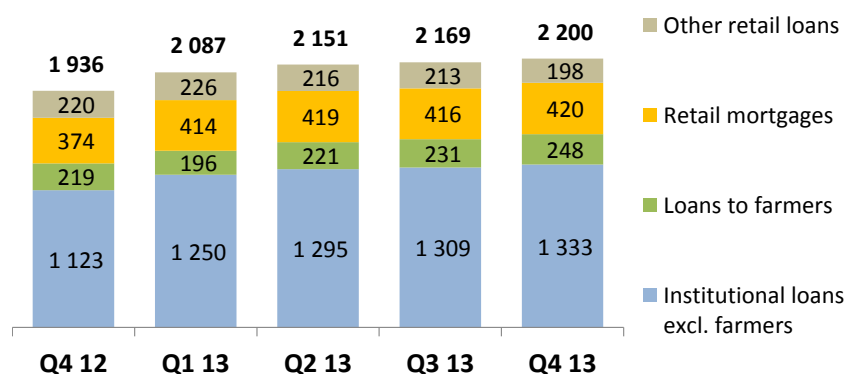
Institutional loans

(quarter-end)



Impaired portfolio

(gross exposure, PLN m, quarter-end)

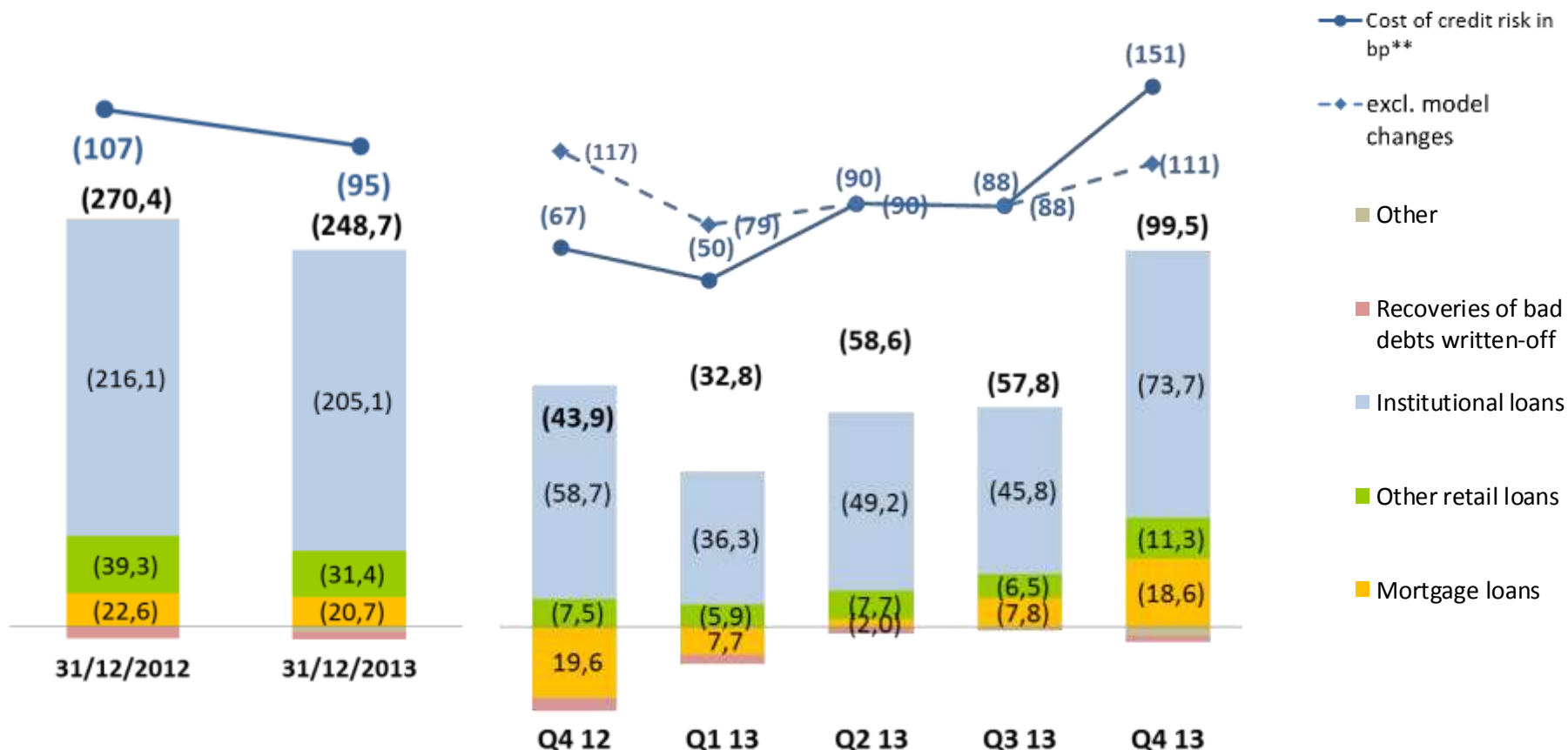


- Growth of impaired portfolio as delayed effect of past quarters slow down in economy, affecting both institutional and mortgage loans
- Negative asset growth in institutional loans explains rising NPL ratio for institutional loans
- Impairment coverage of NPL amounted to 50,7% in 2013, excluding write-offs 52,7% (51,3% in 2012)

Net impairment losses

Net impairment losses by main portfolios*

(PLN m)

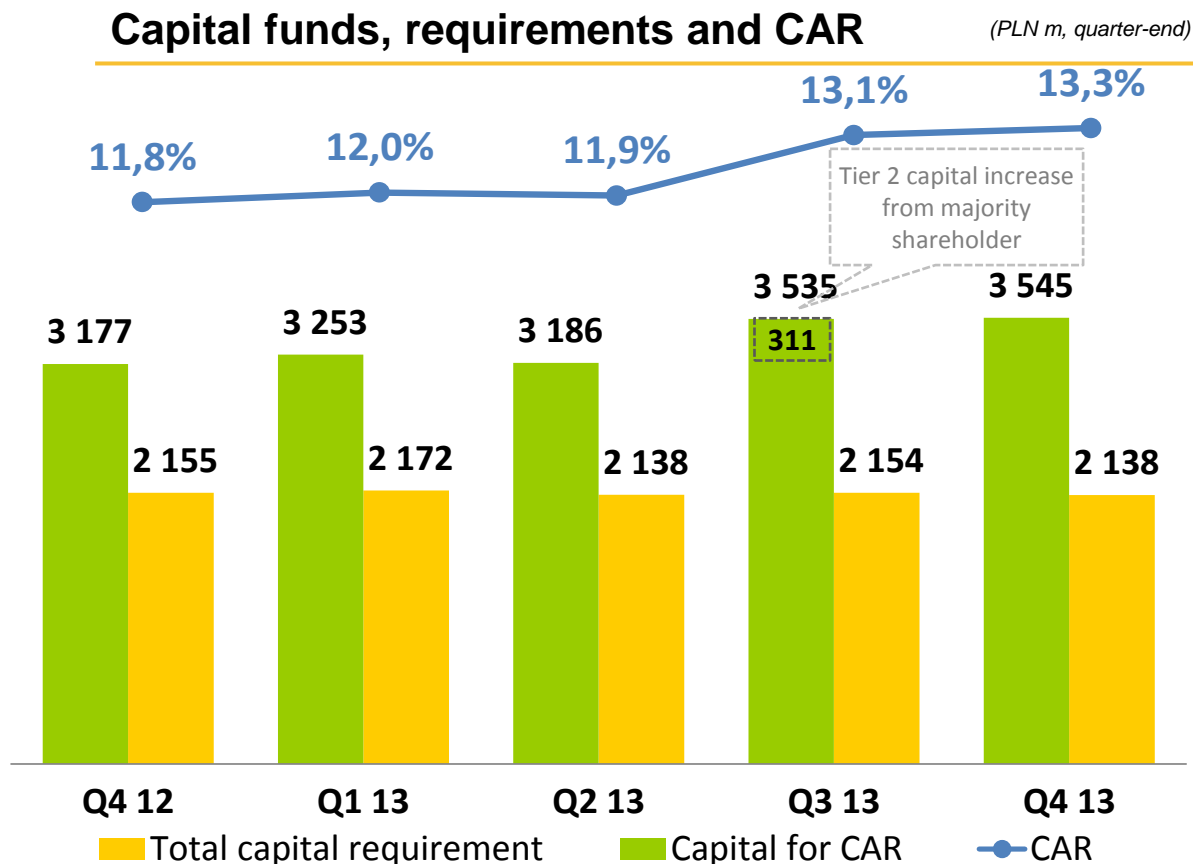


- Impairments lower y/y but impact of economic slowdown still felt. Model review led in Q4 led to higher collective impairments

* Split by segments according to BGZ management information, includes loans serviced by the workout centre

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

Capital adequacy ratio



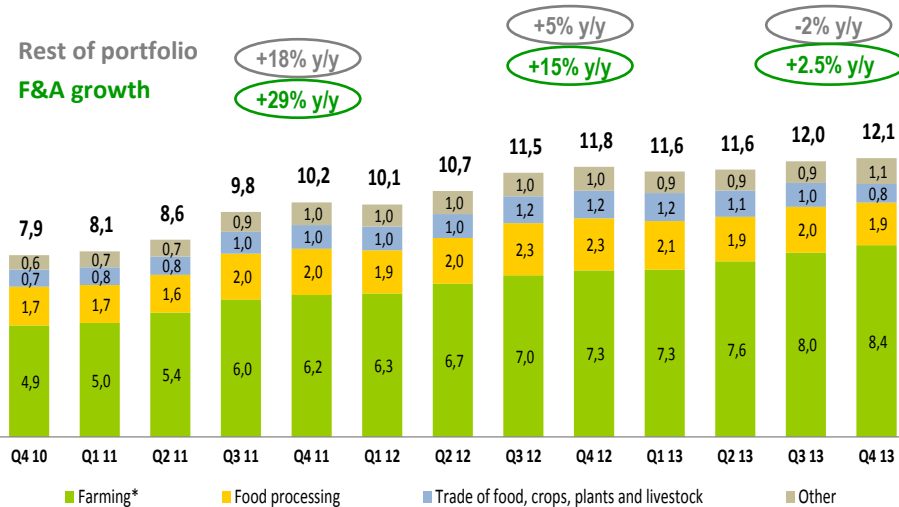
- Stabilisation of capital requirement
- CHF 90m subordinated debt provided by Rabobank and approved by the KNF in August as Tier 2 capital
- All 2012 net profit retained for the capital



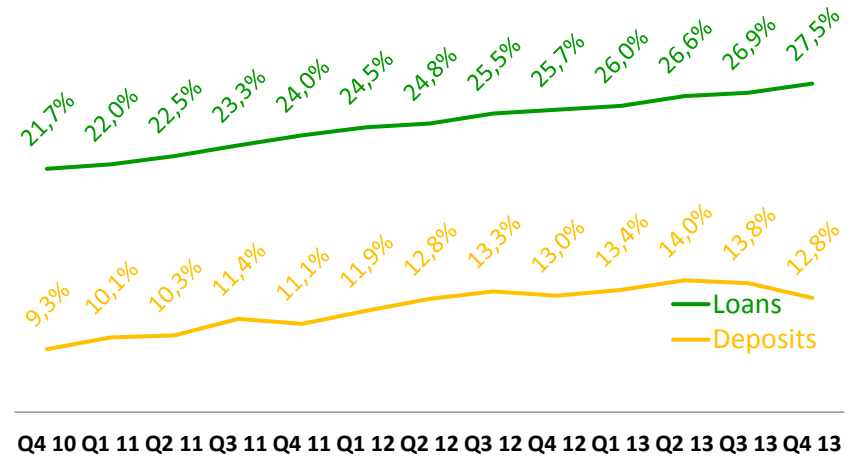
Business highlights

Food & Agri focus

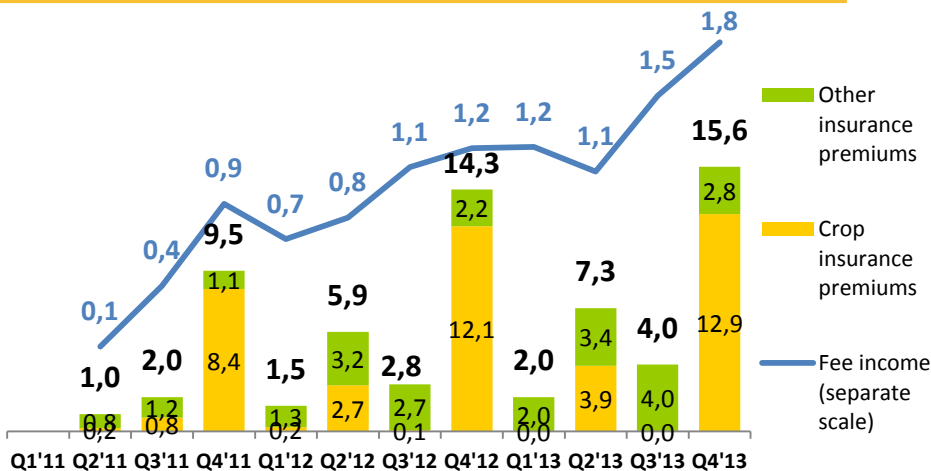
F&A loan portfolio



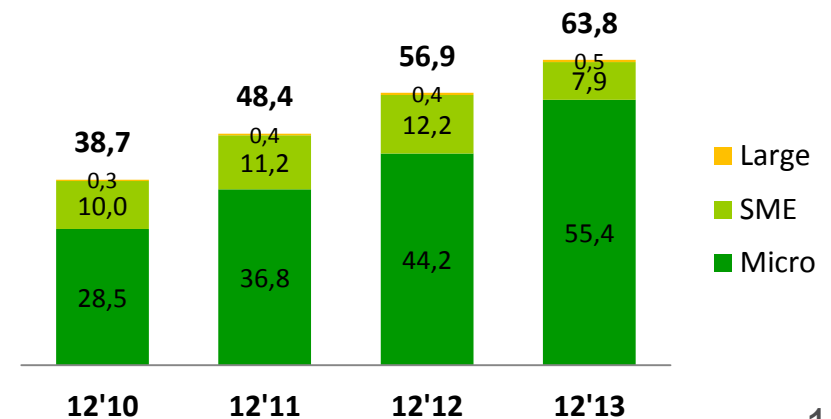
BGZ market share in farmer volumes (quarter-end)



Performance on farmer insurance (PLN m, quarterly)



Number of F&A clients (in thousands)

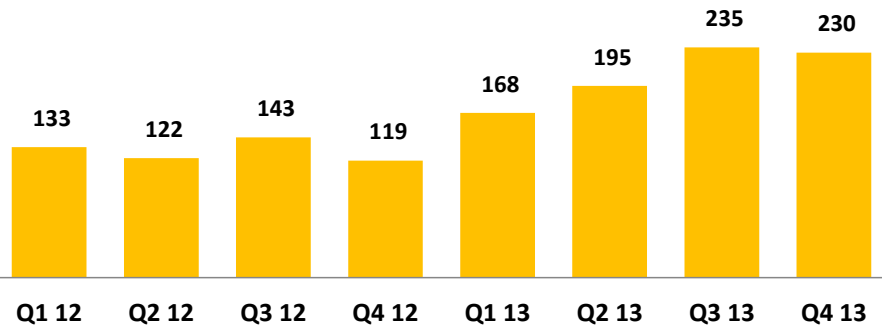


* Incl. individual farmers and companies in agricultural business

Turnaround in retail business

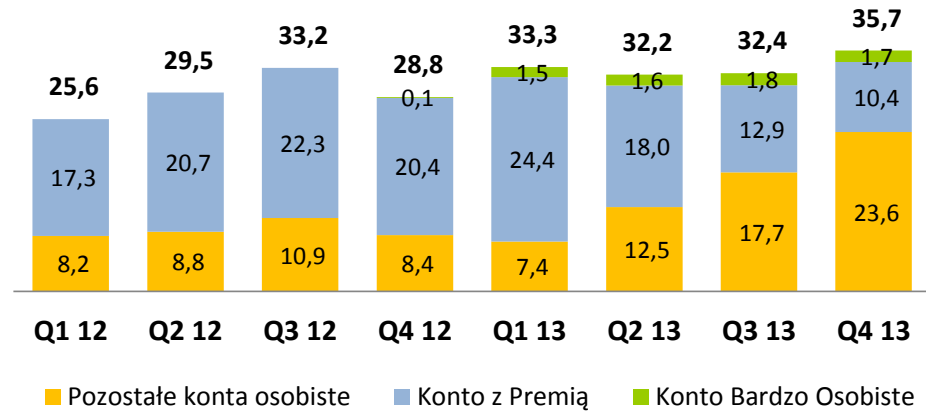
Cash loans sales

(PLN m, quarterly)



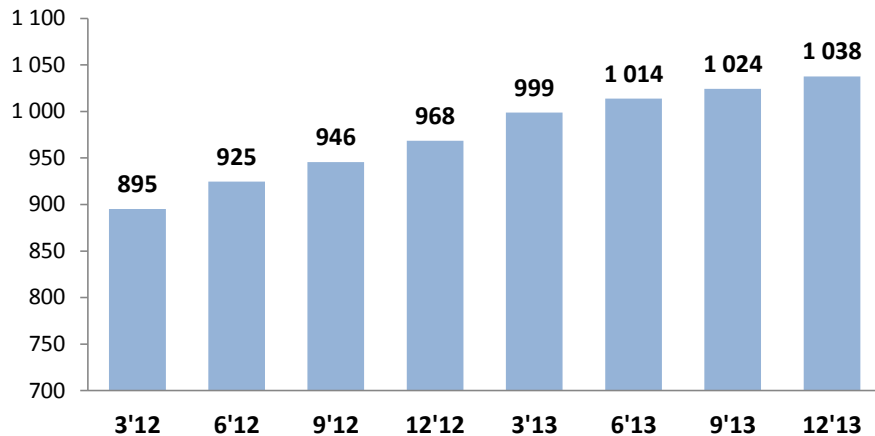
Personal accounts sales

(in thousands, quarterly)



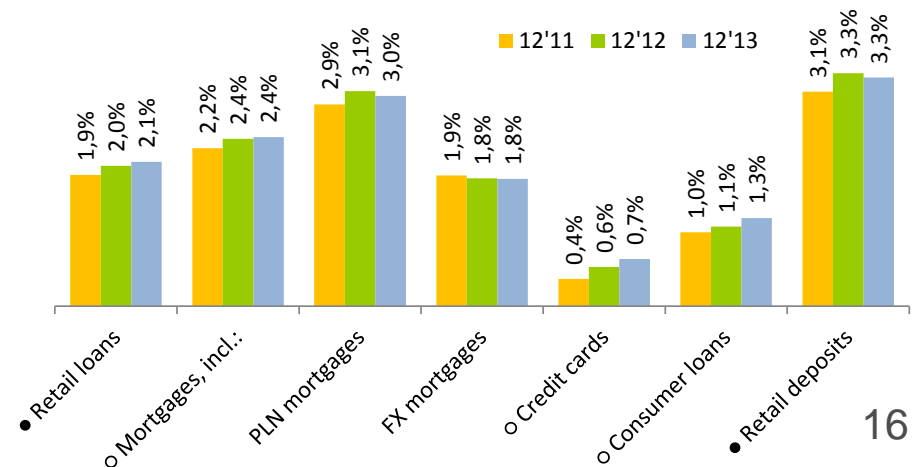
Total number of retail clients

(in thousands, month-end)
Incl. BGZ Optima



BGZ shares in retail market

(in volumes)



2013 Achievements



- Second consecutive year of progress in "Newsweek" ranking:
 - 2011: 14th place
 - 2012: 9th place
 - 2013: 6th place



- 4th place in the "TOP Brands 2013" by „Press” magazine for media presence in financial sector



- Winner (3rd time in a row) of the 9th edition of **Laurel of Client and Consumer** in SME loans

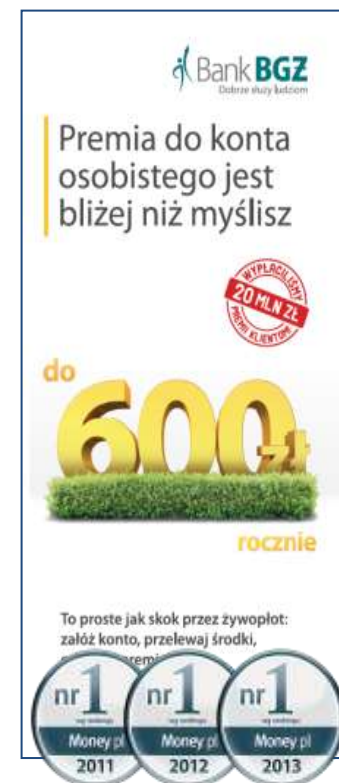


- Leader in **Corporate Social Responsibility** 2013 – in finance, banking and insurance category, by Dziennik Gazeta Prawna competition



- „Entrepreneur – Friendly Bank” Honorable Distinction and Promotional Emblem awarded in the XIV edition of the competition.

- Winner (3rd time in a row) for the best personal account in the Money.pl ranking





Financial appendices

Consolidated income statement

PLN thousands

Year-to-date basis

Quarterly basis

Consolidated income statement	Year-to-date basis		Quarterly basis							
	31/12/2013	31/12/2012	31/12/2013	30/09/2013	30/06/2013	31/03/2013	31/12/2012	30/09/2012	30/06/2012	31/03/2012
Interest income	1 910 852	2 154 916	442 206	444 546	487 171	536 929	571 165	550 142	528 243	505 366
Interest expense	(895 424)	(1 135 111)	(162 701)	(190 195)	(244 634)	(297 894)	(316 192)	(287 571)	(270 787)	(260 561)
Net interest income	1 015 428	1 019 805	279 505	254 351	242 537	239 035	254 973	262 571	257 456	244 805
Fee and commission income	333 712	346 113	85 440	90 663	76 231	81 378	80 186	91 794	91 302	82 831
Fee and commission expense	(57 220)	(48 374)	(10 086)	(19 625)	(15 460)	(12 049)	(7 937)	(14 486)	(13 729)	(12 222)
Net fee and commission income	276 492	297 739	75 354	71 038	60 771	69 329	72 249	77 308	77 573	70 609
Dividend income	2 848	3 416	-	11	2 837	-	-	20	3 396	-
Net trading income	80 424	98 567	13 245	18 428	31 638	17 113	30 235	28 340	11 213	28 779
Result on investing activities	39 223	43 329	5 696	12 914	20 613	-	25 792	(8)	9 930	7 615
Result on hedge accounting	(1 077)	1 233	(47)	69	99	(1 198)	100	1 133	-	-
Other operating income	49 940	35 003	11 961	21 953	10 125	5 901	10 920	7 020	7 763	9 300
Net impairment losses on financial assets and contingent liabilities	(248 650)	(270 433)	(99 495)	(57 832)	(58 567)	(32 756)	(43 879)	(70 486)	(114 708)	(41 360)
General administrative expenses	(880 963)	(928 281)	(216 269)	(220 802)	(213 449)	(230 443)	(247 999)	(225 610)	(222 777)	(231 895)
Depreciation and amortization	(99 219)	(94 518)	(24 475)	(25 487)	(24 782)	(24 475)	(25 016)	(24 077)	(23 297)	(22 128)
Other operating expenses	(21 146)	(31 580)	(4 979)	(7 319)	(4 604)	(4 244)	(8 391)	(5 402)	(6 556)	(11 231)
Operating result	213 300	174 280	40 496	67 324	67 218	38 262	68 984	50 809	(7)	54 494
Share in profit (loss) of associates	(11 079)	(316)	(8 577)	(1 188)	(1 165)	(149)	(519)	1 095	(1 778)	886
Profit (loss) before income tax	202 221	173 964	31 919	66 136	66 053	38 113	68 465	51 904	(1 785)	55 380
Income tax expense	(42 077)	(43 915)	(6 059)	(14 384)	(13 065)	(8 569)	(16 074)	(13 702)	762	(14 901)
Net profit (loss) for the period	160 144	130 049	25 860	51 752	52 988	29 544	52 391	38 202	(1 023)	40 479

Consolidated assets

<i>PLN thousands</i>	<i>new presentation*</i>				<i>previous presentation</i>					
<u>Consolidated statement of financial position</u>	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
ASSETS										
Cash and balances with the Central Bank	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	269 757	551 033	238 510	104 035	68 558	104 035	568 349	273 397	132 820	221 071
Reverse repo transactions	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	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	363 260	412 483	322 529	380 473	469 846	474 058	335 151	351 899	448 655	883 109
Hedging instruments	57 387	48 564	36 668	69 179	---	---	---	---	---	---
Loans and advances to customers	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	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
Investment property	62 524	62 301	62 301	62 301	62 301	62 301	63 401	63 401	63 401	63 401
Investments in associates	35 052	43 628	44 816	46 139	45 981	46 139	46 658	45 563	47 341	46 245
Intangible assets	158 589	148 860	148 235	152 674	147 339	152 674	142 011	140 420	141 981	146 443
Property, plant and equipment	449 139	449 812	456 384	469 098	457 152	469 098	469 186	472 029	475 620	485 943
Deferred tax assets	142 792	130 154	131 660	130 818	128 689	130 818	156 238	182 559	202 823	207 794
Current tax assets	12 519	-	-	10 318	10 318	10 318	22 273	46 242	4 802	-
Other assets	156 464	129 957	137 358	200 365	110 397	125 888	147 580	132 153	105 222	123 968
TOTAL ASSETS	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

<i>PLN thousands</i>	<i>new presentation*</i>				<i>previous presentation</i>					
Consolidated statement of financial position	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
LIABILITIES										
Amounts due to banks	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	-	-	224 639	32 341	3 567 604	104 346	767 416	1 393 391	1 554 218	-
Financial liabilities held for trading	271 288	223 959	93 374	72 005	---	---	---	---	---	---
Derivative financial instruments	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	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	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	304 817	312 660	-	-	-	-	-	-	-	-
Other liabilities	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	9 510	9 510	9 510	9 510	9 510	9 719	9 719	9 719	9 719
Current tax liabilities	-	421	-	-	-	-	-	-	-	-
Provisions	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	32 267 951	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	43 137	43 137	43 137
Other supplementary capital	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	206 463	194 479	235 694	330 351	302 895	330 351	229 511	174 233	149 030	125 645
Retained earnings	166 531	140 671	88 919	140 413	169 957	140 413	88 022	49 820	176 903	136 424
- retained profit	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	160 144	134 284	82 532	130 049	159 593	130 049	77 658	39 456	168 576	128 097
TOTAL EQUITY	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	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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