REPORT

of the Supervisory Board on results of the assessment of the consolidated financial statements of BGŻ S.A. Capital Group for the year ended 31 December 2014 and report on the activity of BGŻ S.A. Capital Group in 2014

Pursuant to Article 382 §3 of the Code of Commercial Companies, the Supervisory Board of Bank Gospodarki Żywnościowej S.A. conducted an assessment of the consolidated financial statements of BGŻ S.A. Capital Group for the year ended 31 December 2014 and the report on the activity of the Capital Group in 2014.

The aforementioned assessment was conducted on the basis of:

1. Consolidated financial statements covering:
   - consolidated profit and loss account for the period from 1 January 2014 to 31 December 2014, showing a net profit of PLN 138 031 thousand,
   - consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014, showing a total income of PLN 301 931 thousand,
   - consolidated statement of financial situation drawn up as at 31 December 2014, which shows the total assets in the amount of PLN 40 496 575 thousand,
   - consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, showing an increase in equity of PLN 647 114 thousand,
   - consolidated cash flow statement for the period from 1 January 2014 to 31 December 2014, disclosing a positive net cash in the amount of PLN 299 341 thousand, and
   - accounting principles (policies) and notes to financial statements.
2. Report of the Management Board on the activity of BGŻ S.A. Capital Group in 2014.
3. Opinion and report of the independent statutory auditor – KPMG Audyt Spółka z ograniczoną odpowiedzalnością Sp.k. – selected for the audit of the financial statements based on the resolution of the Supervisory Board No. 1/2013 of 28 January 2013.

The Supervisory Board states as follows:

Ad.1. Consolidated financial statements

As a result of the assessment of consolidated financial statements of BGŻ S.A. Capital Group for the year ended on 31 December 2014, the Supervisory Board states that the statements in all relevant aspects:

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

and reliably and clearly present all information relevant for the assessment of the financial result on the business activity for the period from 1 January 2014 to 31 December 2014, as well as the economic and financial position of BGŻ S.A. Capital Group as at 31 December 2014.

Selected financial data and ratios

tPLN	31.12.2014	31.12.2013	Change	
Gross profit (loss)	178 176	202 221	(24 045)	(11,9%)
Net profit (loss)	138 031	160 144	(22 113)	(13,8%)
Total shareholder's equity	4 156 304	3 509 190	647 114	18,4%
Balance sheet total	40 496 575	35 777 141	4 719 434	13,2%

Financial ratios	31.12.2014	31.12.2013	Change
Return on Equity (ROE)(1)	3,6%	4,6%	(1,0 p.p.)
Return on assets (ROA)(2)	0,4%	0,4%	0,0 p.p.
Net Interest Margin (NIM)(3)	2,9%	2,7%	0,2 p.p.
Cost / Income (C/I)(4)	67,8%	68,0%	(0,2 p.p.)
Loans / Deposits(5)	101,8%	103,9%	(2,1 p.p.)
Solvency ratio (CAR)	13,8%	13,3%	0,5 p.p.

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

Assets

As at the end of 2014 the total value of the Capital Group's assets amounted to PLN 40 496 575 thousand and was by PLN 4 719 434 thousand, i.e. by 13.2% higher than at the end of 2013.

Asset structure was dominated by loans and advances to customers which share decreased by 0.3 p.p. compared to 31 December 2013. In terms of volume it increased by PLN 3 334 007 thousand, i.e. 12.7% and was the main factor of assets increase. Increased loan activity was a result of, among others, acquisition of Rabobank loans portfolio amounting to PLN 1.9 billion on 18 June 2014 (PLN 1.2 billion as at 31 December 2014).

Additionally, financial assets available for sale increased by PLN 2 257 944 thousand, i.e. 46.8% due to increase of PLN 1 849 916 thousand of NBP bills and treasury bonds (of PLN 418 176 thousand).

Cash remained at similar level, but balances with Central Bank fluctuated and was followed by the current needs of the Bank to settle the obligatory reserve requirements. Declared obligatory reserve in December 2014 amounted to PLN 1 086 490 thousand (compared to PLN 896 724 thousand in December 2013).

As at 31 December 2013 investment in associates includes shares in BGŻ Leasing Sp. z o.o. with Head Office in Warsaw. On 10 September 2014 BGŻ and De Lage Landen International B.V. signed a sale agreement of shares of BGŻ Leasing Sp. z o.o. By the agreement BGŻ disposed 42 373 shares of total net nominal value of PLN 42 373 000 (nominal value of one share amounts to PLN 1 000) which accounted for 49% of share capital of BGŻ Leasing. The sale price amounted to PLN 35 005 thousand. The transfer of shares' ownership occurred on 11 September 2014 as a result of termination of cooperation agreement between BGŻ S.A., BGŻ Leasing and De Lage Landen International.

Liabilities and equity

As at the end of 2014 total value of the Capital Group's liabilities amounted to PLN 36 340 271 thousand and was by PLN 4 072 320 thousand (i.e. 12.6%) higher than at the end of 2013.

Main increase factor were amounts due to customers. Increase was mainly a result of:

- Increase of liabilities due to other financial entities by PLN 3 175 167 thousand, primarily due to acquisition of Rabobank's liabilities under the agreement signed by Societe Anonyme De Gestion D'Investissements Et De Participations ("Sagip"), BNP Paribas SA and Rabobank on 19 September 2014. As at 31 December 2014 state of the loan capital amounted to PLN 2 286 332 thousand.
- Increase of amounts due to corporate clients and budget entities by total PLN 974 315 thousand (i.e. 10.7%). In the analysed period amounts due to farmers decreased in the volume of current accounts by PLN 158 578 thousand, what was partially off-set by increase of volume of term deposits (increase of 101.2%).
- Increase of amounts due to retail customers by PLN 2 162 246 thousand (i.e. 13.2%), resulting mainly from increase of volume of term deposits by PLN 2 603 559 thousand, what increased their share by almost 10 p.p. in liabilities of this segment. Volume of deposits collected by BGŻOptima increased by 22% in this period.

Liabilities from debt securities issuance have been reduced by PLN 428 847 thousand (i.e. 36.0%) as a result of non-renewal of expiring portion of securities in a situation of Bank's reduced demand for funding. As at 31 December 2014 state of issuance of deposit certificates amounted to PLN 755 000 thousand (nominal value) compared to PLN 1 184 000 (nominal value) as at 31 December 2013.

By the end of 2014 Group's equity amounted to PLN 4 156 304 thousand and was by PLN 647 114 thousand higher than at the end of 2013. The change in equity during the period was the result of merger with Rabobank Polska. There was an increase of other supplementary capital by PLN 345 726 thousand (i.e. 11.2%) and other reserve capital by PLN 320 758 thousand (i.e. 155.4%), which covered lower financial result generated in 2014, compared to 2013 (decrease by PLN 22 113 thousand).

Consolidated profit and loss account

In 2014, the Capital Group of BGŻ S.A. generated **net profit** of PLN 138 031 thousand i.e. PLN 22 113 thousand lower than in 2013 (13.8%). In fourth quarter of 2014 the Group created higher allowances for impairment of assets, due to review of loan portfolio by BNP Paribas Group, review of assets quality (AQR) by the PFSA and creating additional provisions on potential impact of Russian embargo. Additionally, integration costs connected with merger resulted in higher general administrative costs. Above mentioned negative factors were partially off-set by higher net interest income as well as net fee and commission income.

If impact of mentioned above one-off events and integration costs were eliminated, net profit would amount to PLN 237 701 thousand and would be by 48% higher than in 2013.

In 2014, **net interest income**, being the main source of income, increased by PLN 114 294 thousand, i.e. 11.4%, what was an effect of reducing interest expenses by PLN 218 611 thousand, i.e. 24.4% y/y, off-setting decrease of interest income of PLN 104 317 thousand, i.e. 5.5% y/y. Both external factors and growth rate of commercial volumes had impact on the level of interest income and expense.

Among the external factors should be mentioned policy of the Polish National Bank regarding shaping of basic interest rates. In 2013, occurred six interest rates cuts of total value of 1.75 p.p. Another cut in October 2014 pushed the interest rates to the recorded low level (reference rate was set at 2%).

Interest income from loans and advances to customers is the biggest position in the structure of interest income (67%). However, their value decreased by PLN 27 867 thousand (2.3%) in comparison to 2013, mostly due to interest rate cuts combined with the fact that significant part of loan volume is based on the variable rate.

The decrease in interest expense was caused mainly by the reduction of interest expense on amounts due to customers by PLN 147 243 thousand (i.e. 21.8% y/y), mainly due to cuts in interest rates on deposits following NBP reference rate cuts. Price adjustments of deposits to the low interest rate level, which started in the second half of 2013, had positive impact on net interest result in 2014.

Net fee and commission income in 2014 was higher by PLN 22 569 thousand, i.e. 7.8% y/y in comparison to 2013. This was mainly due to the increase in fee and commission income by PLN 23 531 thousand (i.e. 7.1% y/y) and simultaneous increase in fee and commission expense by PLN 962 thousand (i.e. 2.1% y/y).

Increase in the net fee and commission income was a result of higher income on:

- account maintenance – thanks to the increase in the number of accounts and the effect of changes to the Fees and Commissions Table,
- loans and advances - primarily in segment,
- brokerage operations – due to focusing on retail services and selected institutional clients, constant increase of distributed investment funds, higher activity on primary market and service of tender offer for BGŻ shares, the Bank recorded good results of the Brokerage Office, which resulted in 57.9% increase of fees and commissions from brokerage operations.

Interchange fee cut since 1 July 2014 and lower income from card organizations due to transactional bonuses resulted in decrease of PLN 2 114 thousand (i.e. 2.6%) of net fee and commission income from payment cards in comparison to 2013.

The increase of fee and commission expense was mainly caused higher costs of loans and advances, partially off-set by lower costs of insurance products' sale.

Dividend income in 2014 increased by PLN 455 thousand, i.e. 16.0%.

Net trading income in 2014, was lower by PLN 16 701 (i.e. 20.8%) thousand than in 2013. The level and volatility of this result is shaped mainly by the valuation of the Bank's position in the instruments of interest rate swaps (IRS) as a hedge against interest rate risk, and trading activity on debt securities whose profitability is dependent on the accuracy of predicted changes on the market.

The most significant impact on the net trading income had the negative valuation of derivatives in the 1st, 2nd and 4rt quarter of 2014, which was partially off-set by positive result generated in the period from August to September.

Result on investing activities in 2014 fell by PLN 14 758 thousand (i.e. 37.6% y/y) compared to 2013, what was a result of lower realized gains on the portfolio of securities available for sale than in 2013.

Other operating income decreased by PLN 12 003 thousand (i.e. 24.0%) as at the end of 2014 compared to the analogical period of the previous year, mostly due to decreased income from recovery of overdue, amortized and uncollectable debts, and repayment of debts excluded from statement of financial position, in which in 3Q 2013 the Bank recognized a substantial income from payment of receivable from a corporate client from agricultural sector, which was earlier written off from the Bank's balance sheet.

Moreover, in 4Q 2013, the Bank partially (PLN 7 788 thousand) released provision for penalty imposed on the Bank by the President of the Office of Competition and Consumer Protection in 2006 regarding fees from credit cards – due to decision of court about decrease of penalty.

General administrative expenses of the Group in 2014 increased by PLN 49 562 thousand (i.e. 5.6%) compared to 2013, primarily due to increase in personnel expenses, external services, the Bank Guarantee Fund fee (new prudential fee), combined with lower marketing costs.

In 2014, **other operating expenses** increased by PLN 16 247 thousand (i.e. 76.8%) in comparison to 2013, primarily due to, valuation on investment property (undeveloped land of 46.85 ha area in Wrocław), higher debt collection costs by PLN 3 193 thousand (i.e. 42.3%) being a result of increased engagement of external law firms in servicing debt collection process and higher by PLN 1 626 thousand costs of impairment charges on other receivables.

Credit portfolio quality

As at 31 December 2014 the share of loans with identified impairment, in the portfolio of loans and advances granted to customers amounted to 7.9% in comparison to 8.0% as at 31 December 2013.

Quality of cash loans to retail customers significantly improved; respectively, decrease from 13.2% as at the end of 2013 to 9.8% as at the end of analysed period was recorded, what was a result of dynamic growth of this portfolio (increase of volume by 34% y/y). Moreover, share of impaired exposures in the portfolio of mortgage loans decreased from 5.2% to 4.2%.

Equity and capital adequacy ratio (CAR)

The capital adequacy ratio increased from 13.27% at the end of 2013 to 13.81% at the end of the 2014.

Own funds increased by PLN 371 325 thousand, which was the result of the merger with Rabobank Polska and in particular of following factors:

- increase of equity by PLN 5 002 thousand – due to issuance of H series shares;
- increase of supplementary capital, of which: (i) retained Bank's net profit from 2013 in amount higher by PLN 28 060 thousand than in 2012, (ii) capital created as a result of merger – PLN 183 323 thousand;
- increase of supplementary capital and general risk fund by total PLN 156 859 thousand due to merger.

Assessment made by the Supervisory Board

After becoming acquainted with the consolidated financial statements of BGŻ S.A. Capital Group for the year ended on 31 December 2014 prepared by the Management Board, and the opinion and report of the independent statutory auditor, the Supervisory Board decides to give a positive opinion to the financial statements of the Group for the year ended on 31 December 2014, and recommend the approval of the financial statements to the Ordinary General Meeting.

Ad.2. Report of the Management Board on activity of BGŻ S.A. Capital Group in 2014

The Supervisory Board declares that the report on activity of BGŻ S.A. Capital Group in 2014 is consistent with information contained in the consolidated financial statements for the year ended on 31 December 2014. The Supervisory Board recommends the approval of the report on activity of the BGŻ S.A. Capital Group in 2014 to the Ordinary General Meeting of BGŻ S.A.