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BGŻ Group

Presentation of H1 2013 results

Warsaw, 13 August 2013

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Executive summary

Income pressure more than compensated by positive impairment and cost performance; further growth in client base

Financials

- Net profit for H1'13 increased by 109% y/y
- Total income decreased by 3% y/y in H1'13 due to NBP rate cuts and accounting changes
- Rebound of income in Q2'13 driven by trading and investing results and recovering NIM
- Expenses decreased y/y; cost restructuring paying off

Clients

- Loan portfolio grew by 3% y/y with reduced exposure in Large Caps and growth in focus segments, especially F&A
- Customer deposits grew by 11% y/y fuelled by the success of BGŽOptima
- Continued growth of client base in our focus segments: F&A +12% y/y, Retail +5% y/y and Optima +88% y/y (from 55k to 103k)
- Growth of retail sales in H1'2013: cash loans +42% y/y, personal accounts +19% y/y

Strategy

- Execution of strategy well on track:
 - F&A business growing faster than non-F&A (loan portfolio +9% y/y vs. -1% on average for other segments)
 - Branch expansion finalized – last branches opened in early Q1 2013
 - BGŽOptima – growth of volumes and clients on track (103k clients as at H1-end)

Funding & Risk

- Comfortable liquidity situation
- Impairments significantly lower y/y but impact of economic slowdown still felt, especially in SME

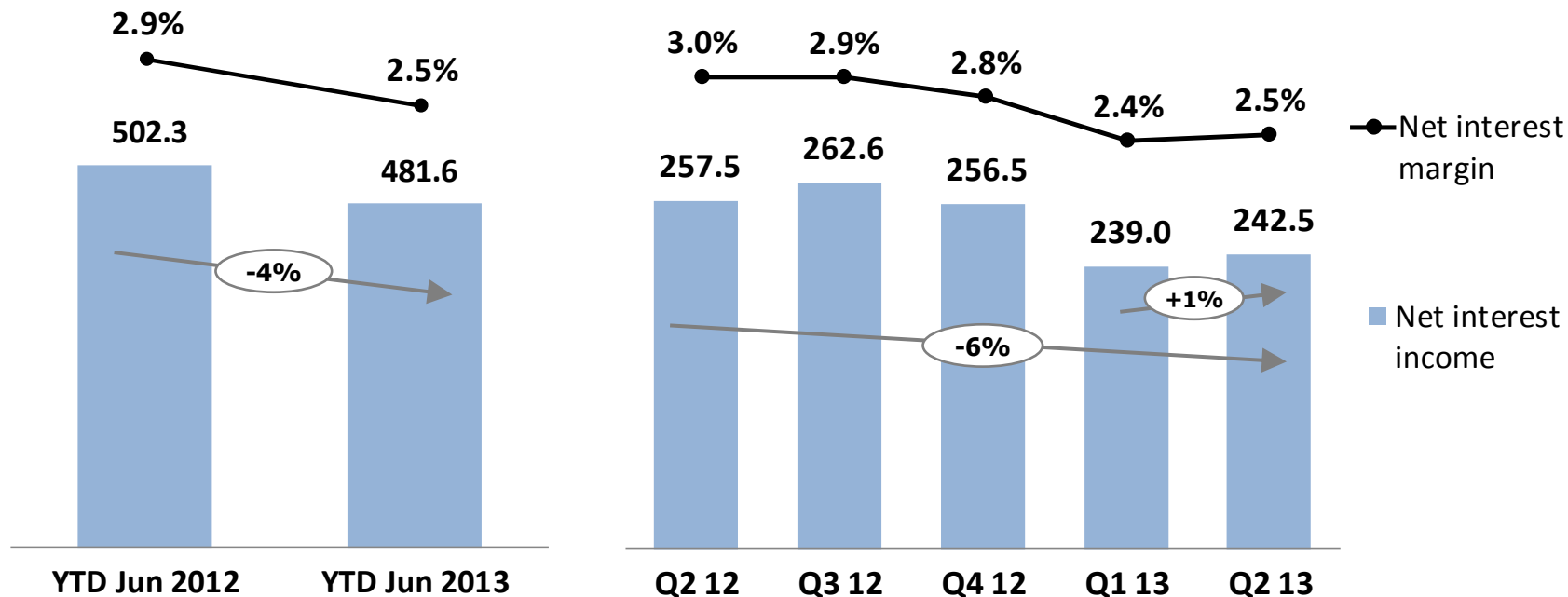
Financial summary

PLN million	YTD Jun 2012	YTD Jun 2013	Change y/y	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Change q/q
Total income	710.7	690.0	-3%	360.8	372.5	386.5	325.9	364.0	+12%
Total expenses	(500.1)	(493.1)	-1%	(246.1)	(249.7)	(273.1)	(254.9)	(238.2)	-7%
Net impairment losses	(156.1)	(91.3)	-41%	(114.7)	(72.0)	(44.4)	(32.8)	(58.6)	+79%
Pre-tax profit	53.6	104.2	+94%	(1.8)	51.9	68.5	38.1	66.1	+73%
Net profit	39.5	82.5	+109%	(1.0)	38.2	52.4	29.5	53.0	+79%
ROE	2.9%	4.8%	+1.8 pp	(0.2%)	5.1%	6.2%	3.4%	6.1%	+2.7 pp
Cost / Income	70.4%	71.5%	+1.1 pp	68.2%	67.0%	70.7%	78.2%	65.4%	-12.8 pp
CAR	9.5%	11.9%	+2.4 pp	9.5%	11.4%	11.8%	12.0%	11.9%	-0.1 pp

Net interest income

Net interest income and margin

(PLN m)

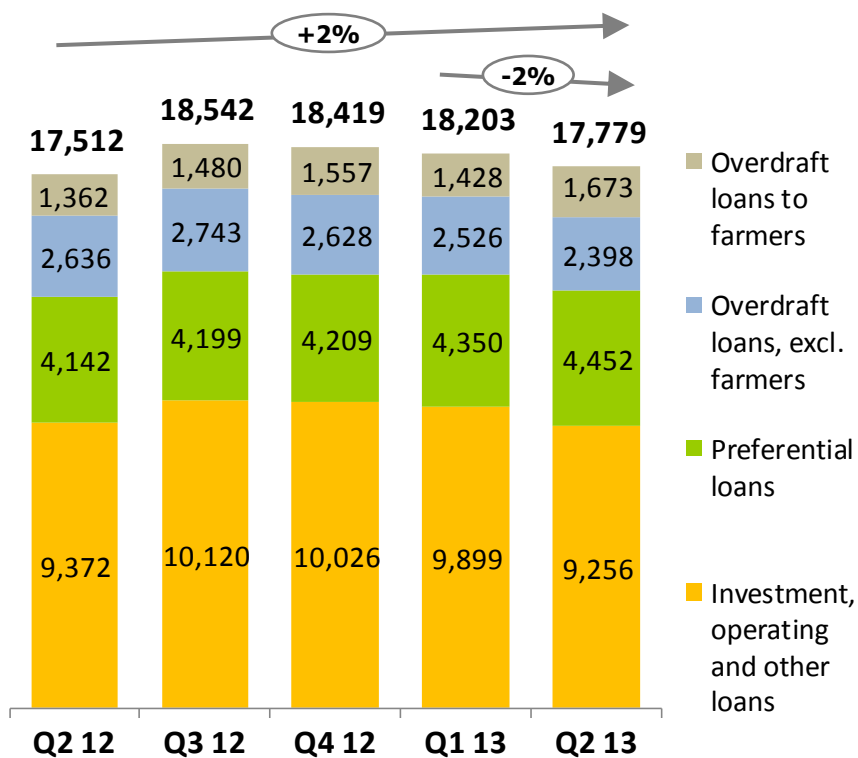


- NII under pressure from NBP interest rate cuts but in line with the market; NIM improved q/q due to deposit rate cuts; further improvement expected for Q3'13
- Saving accounts affected in particular, as Payments Services Directive requirements slow down pricing reaction (2-months client notice period)
- Preferential loans hedged against the NBP rediscount rate multiplier effect (2/3 of the portfolio)
- Gradual optimisation of liquidity surplus and reduction of cash-in-hand

Loan growth

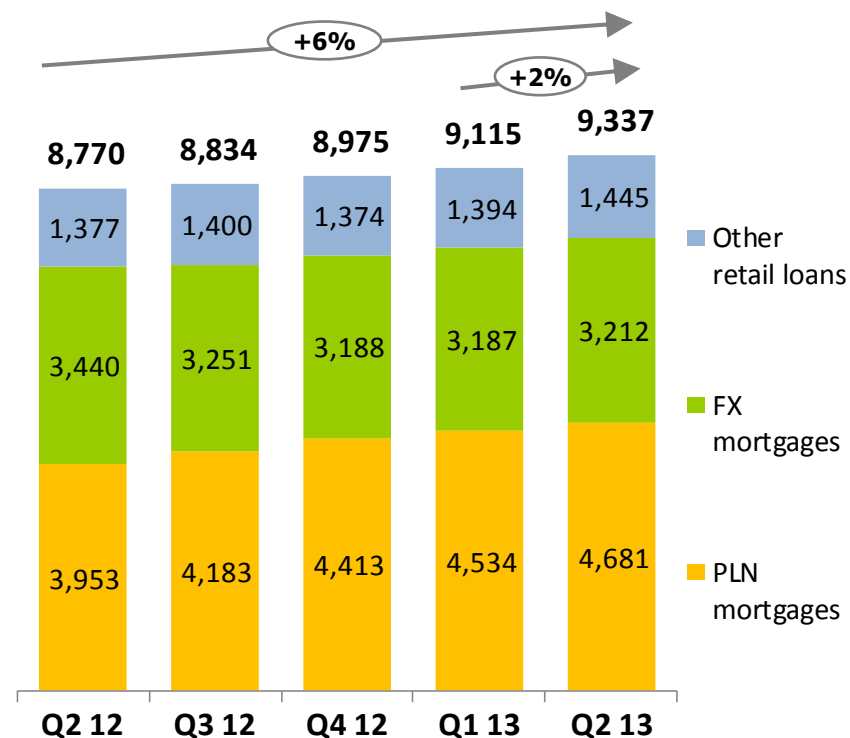
Institutional loans, gross

(PLN m, quarter-end)



Retail loans, gross

(PLN m, quarter-end)

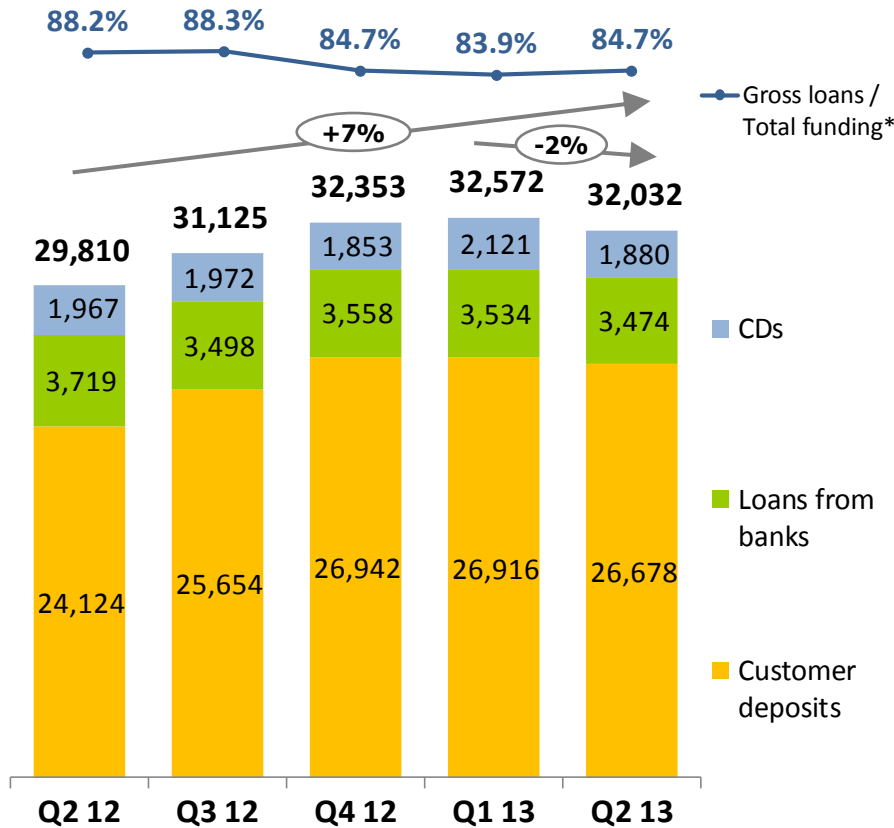


- Total loan portfolio growth slowed down to 3% y/y in Q2'13 from 9% y/y in Q1'13
- F&A focus pays off through continued growth of the portfolio, supported by new quota for preferential loans received from ARMA agency for H2'2013 (PLN 560m)
- Slowdown in institutional portfolio driven by slower credit demand due to weaker economy, hence a more selective approach to corporate lending, and some seasonal factors
- Focus on retail sales translated into rise of cash loans portfolio (+15% y/y)

Funding mix

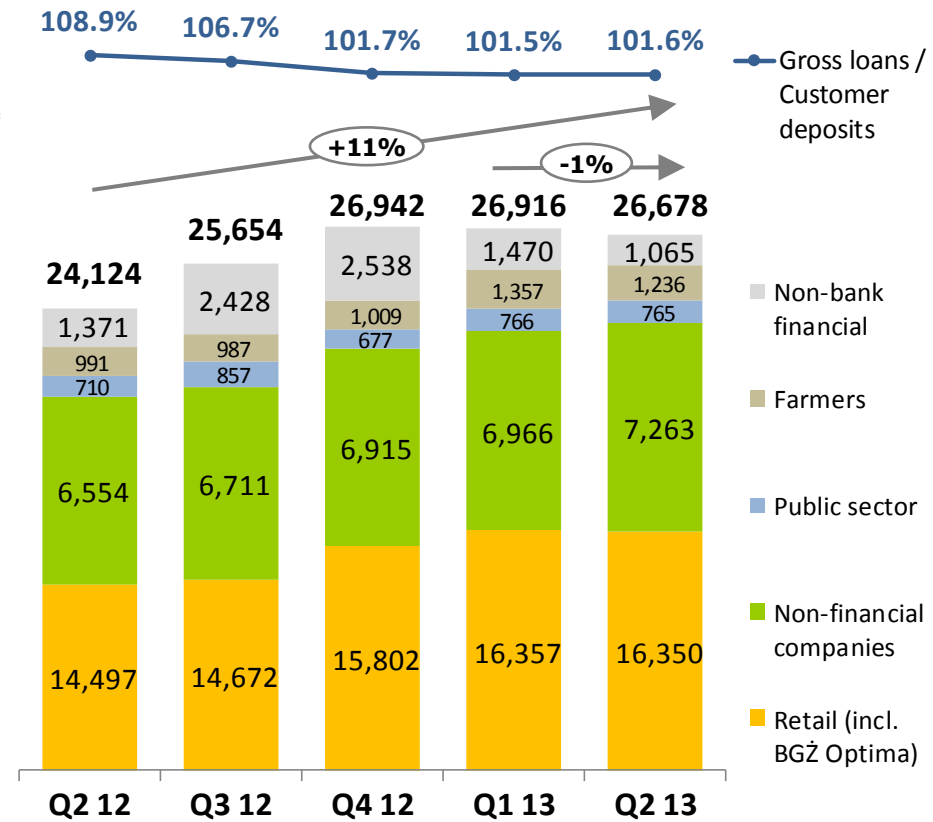
Funding sources

(PLN m, quarter-end)



Customer deposits

(PLN m, quarter-end)



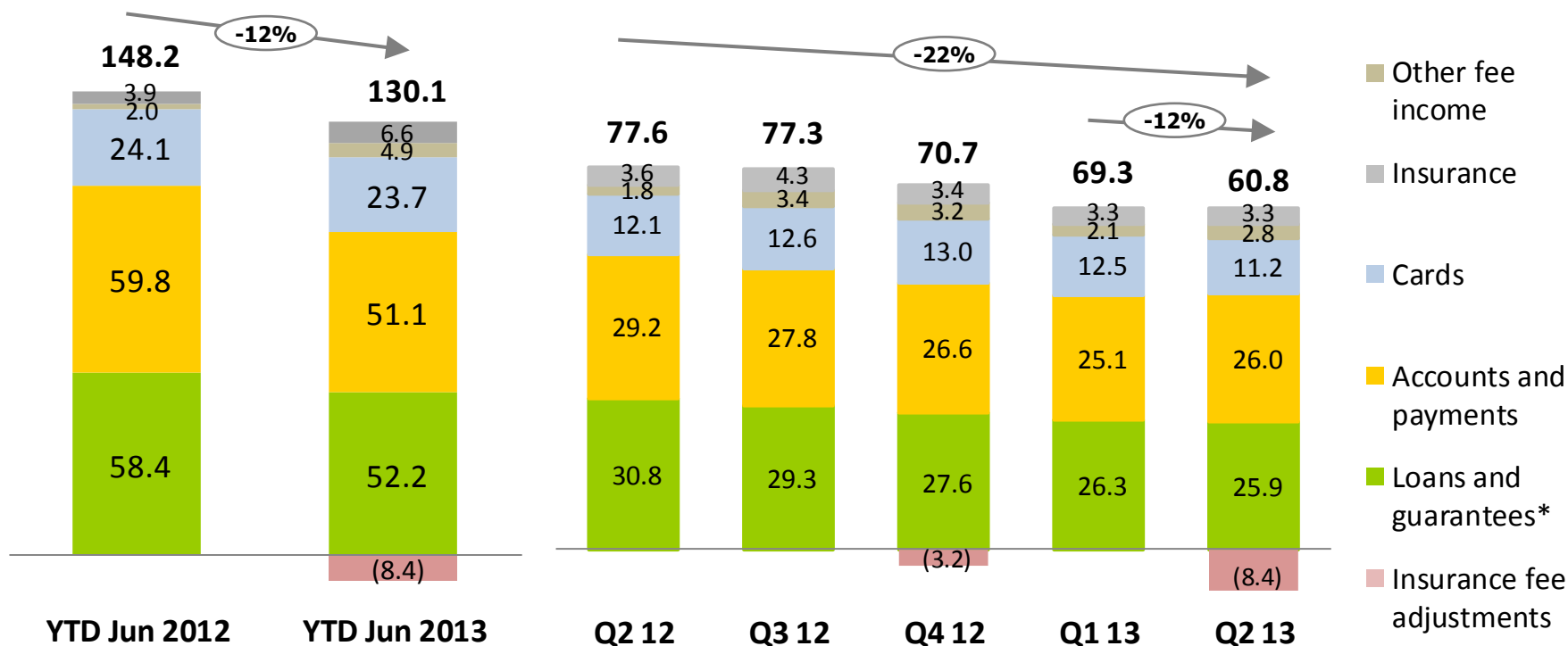
- Customer deposits growth driven by BGZ Optima with 48k clients added over the past year
- Focus on growth of current account balances (+17.5% y/y in retail)
- Good growth of SME and Micro deposits; part of deposits from non-bank financial institutions not rolled forward due to comfortable funding situation

* 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)



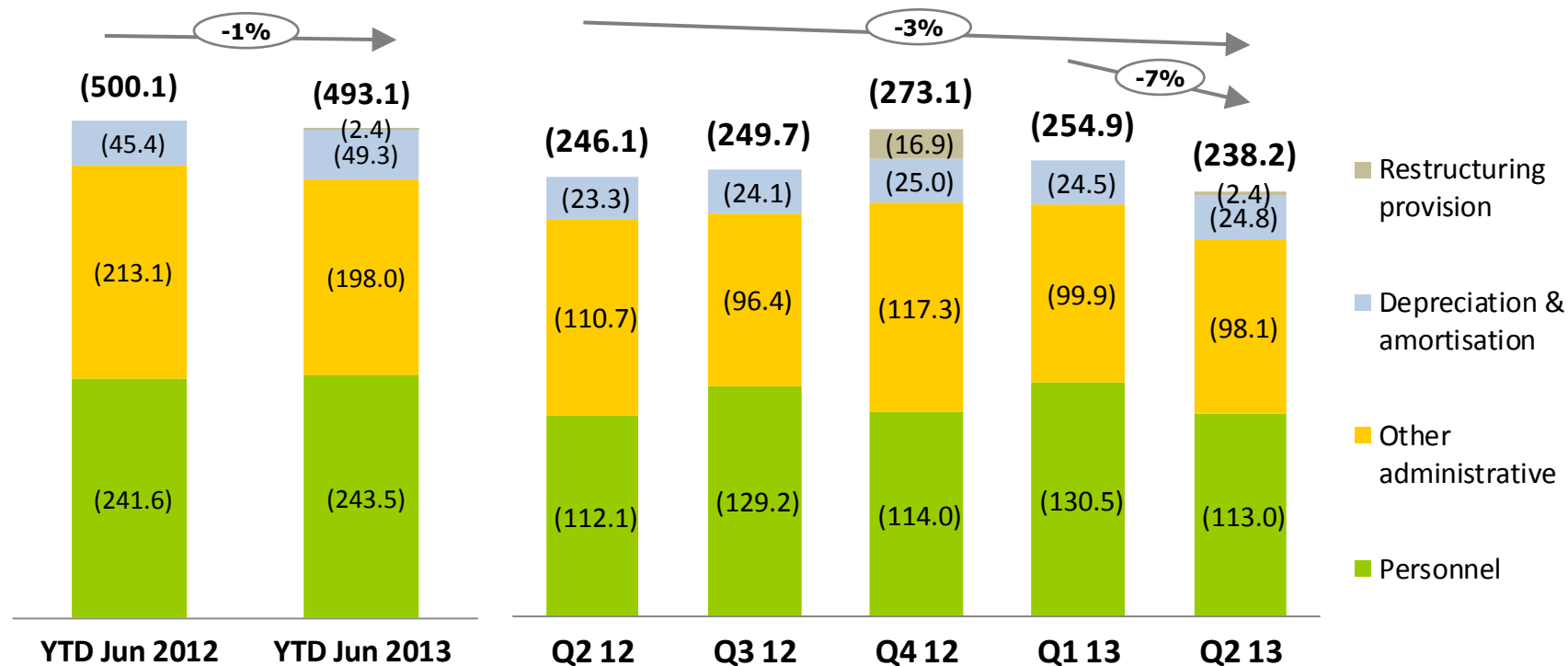
- Net fee income affected by accounting changes with respect to recognition of fee income on credit insurance [PLN -8.4m reversal] and credit promises [estimated at PLN -1.5m]; excluding the impact of accounting changes, the decline of net fee income would have been stemmed
- Further pressure from slowdown in lending, reduction of interchange fees
- Modification of conditions for bonus payments to holders of "Konto z Premią" translated into higher fee income from current accounts

* 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)

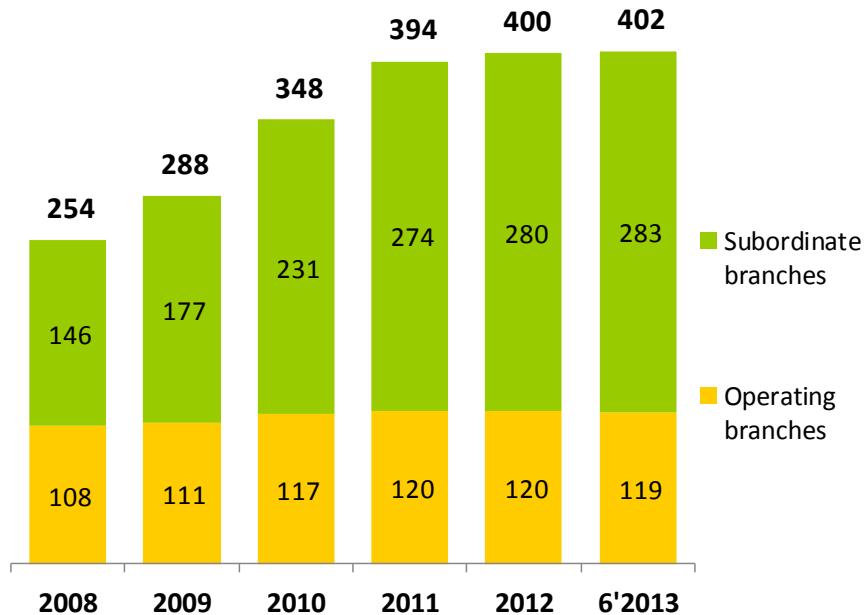


- Cost restructuring programme paying off as HR and non-HR saving initiatives are being realised in line with the plan
- Partial reversal of bonus accruals
- Reduction of marketing spending, especially on deposit products

Focus on efficiency after completion of investments

Branch expansion completed

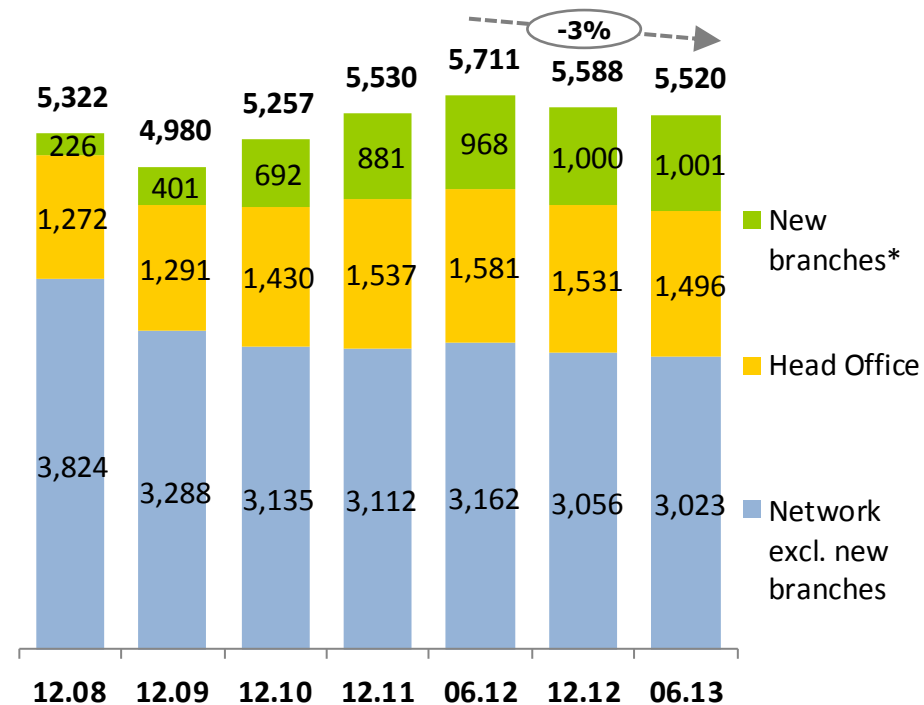
(period-end)



- 3 new branches opened and 1 closed in Q1 2013
- No plans for further branch expansion
- Continued focus on branch performance and profitability

Staff restructuring underway

(period-end)

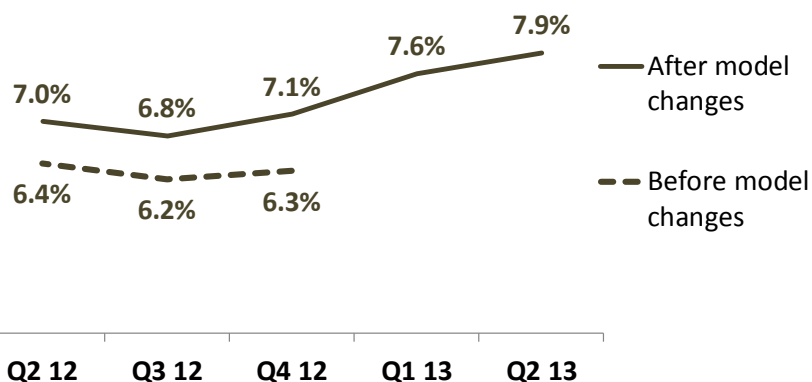


- Cost restructuring:
 - FTEs reduced by 236 as of June 2013 (mostly from H/O and regional centres)
 - Non-FTE costs : 43 cost savings initiatives, of which 27 already completed
 - Total annualised saving amounts to PLN 59m 10

Asset quality (NPL ratios)

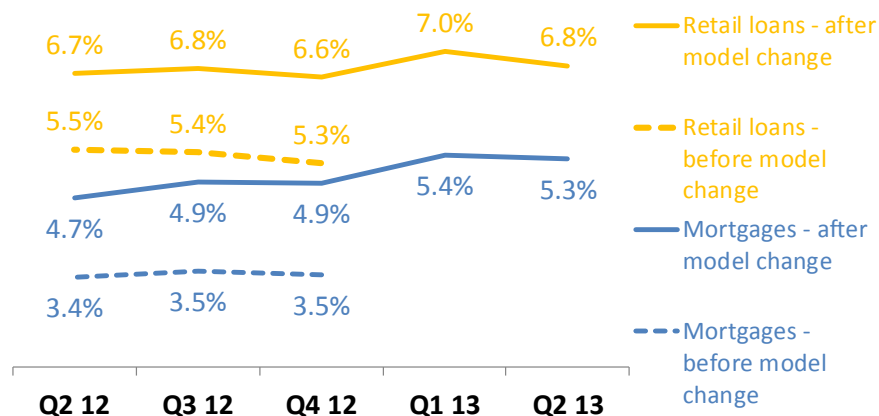
Total loans

(quarter-end)



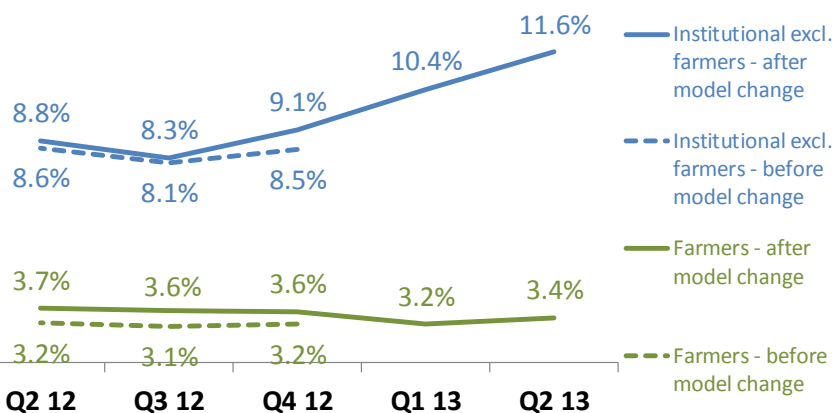
Retail loans

(quarter-end)



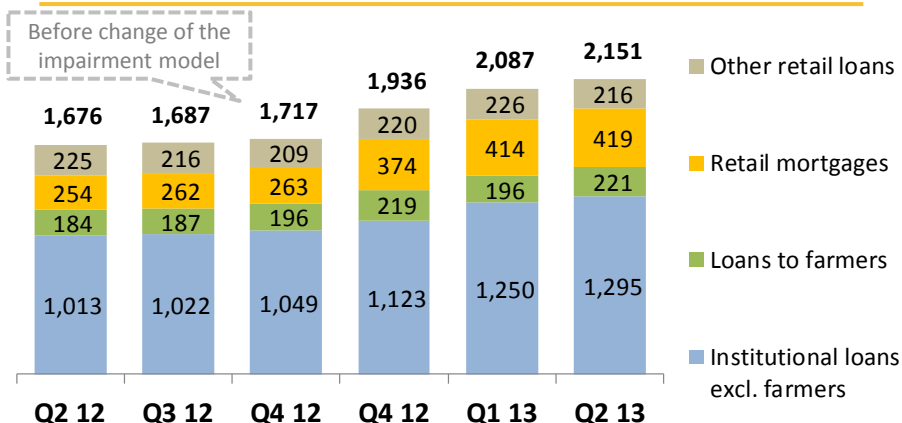
Institutional loans

(quarter-end)



Impaired portfolio

(gross exposure, PLN m, quarter-end)

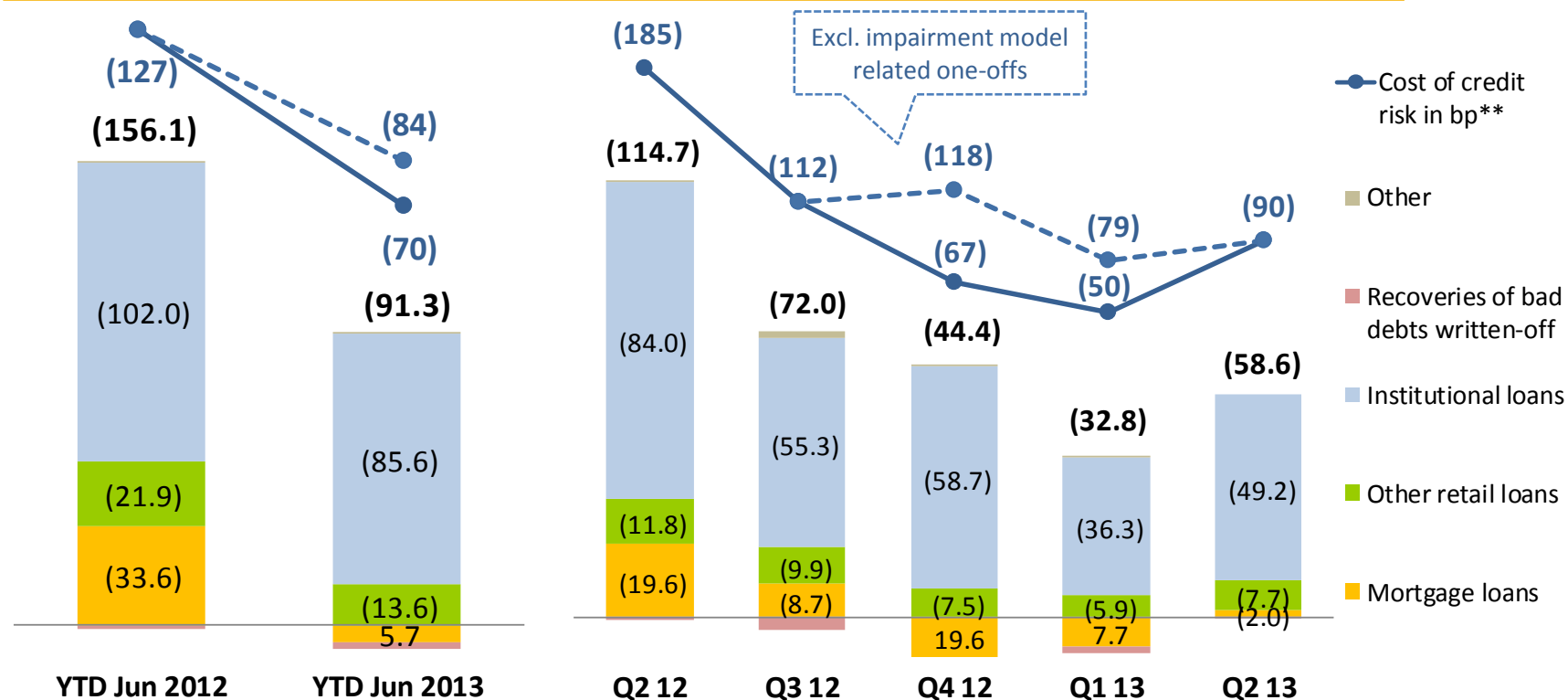


- Growth of impaired portfolio reflecting slowdown in the economy, mainly affecting institutional loans
- Better recovery rates in mortgages partially dampen the effect of rising NPLs on net impairment losses
- Model changes in Q4'12 led to higher NPL ratios but lower risk costs. NPL ratios before the model change showed by dotted lines
- Total market NPL ratio remains stable at 8%. BGZ has better NPLs on institutional and consumer loans and worse on mortgages

Net impairment losses

Net impairment losses by main portfolios*

(PLN m)



- Improvement in net impairment losses in Q1'13 driven by mortgage loans, cash loans and loans to farmers
- Impairments of institutional loans (excl. farmers) under pressure from adverse macroeconomic conditions (esp. SME)
- Q2'13 affected by incremental provisioning for, among others, the corporate construction sector client
- Extra positive effect from credit risk models (PLN 18.9m in Q1'13 vs. PLN 33m in Q4'12); mostly on mortgages and cash loans

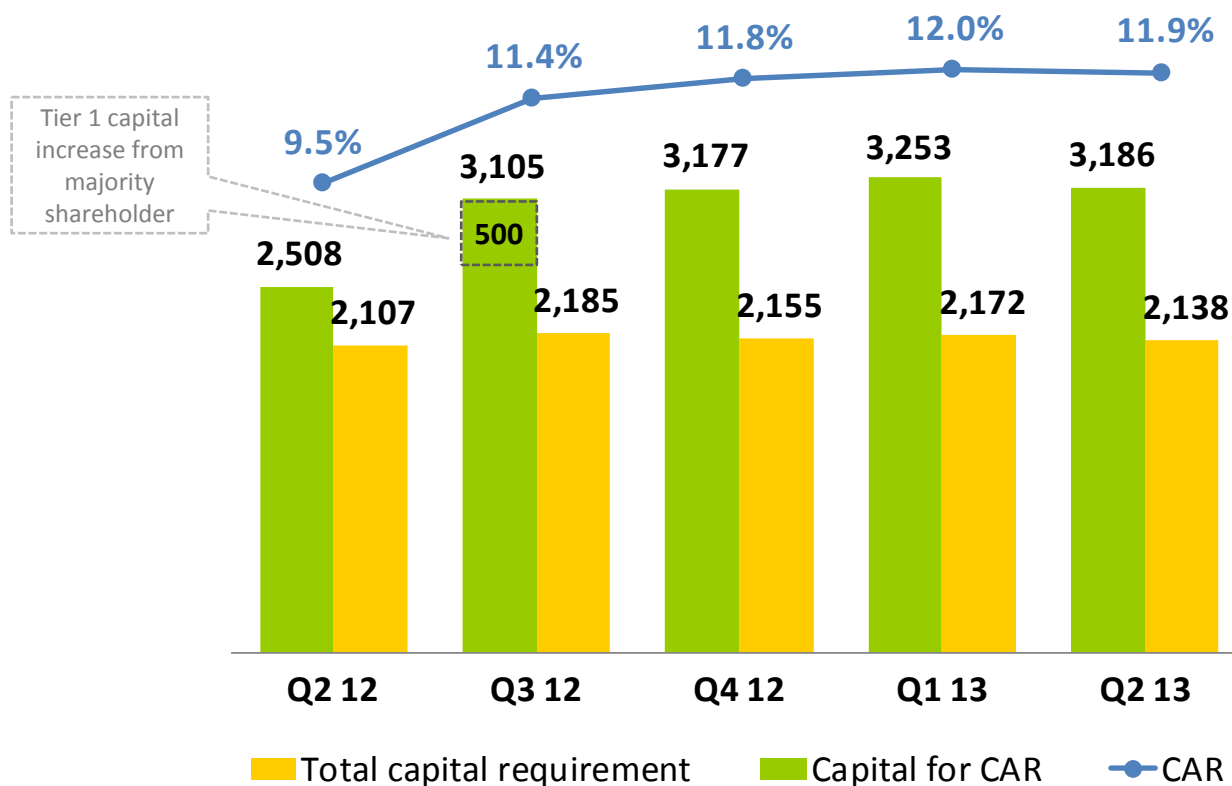
* Split by segments according to BGZ management information, includes loans serviced by the workout centre

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

Capital adequacy ratio

Capital funds, requirements and CAR

(PLN m, quarter-end)



- Stabilisation of CAR given flat loan growth
- All 2012 net profit retained for the capital
- CHF 90m Tier2 capital provided by Rabobank, pending approval by the Polish FSA; once approved the CAR ratio grows to c.a. 13%

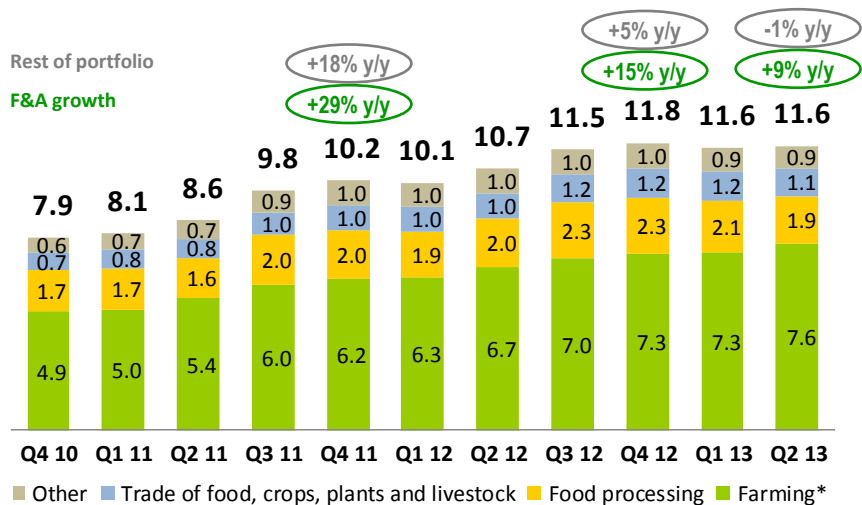


Business highlights

Food & Agri focus

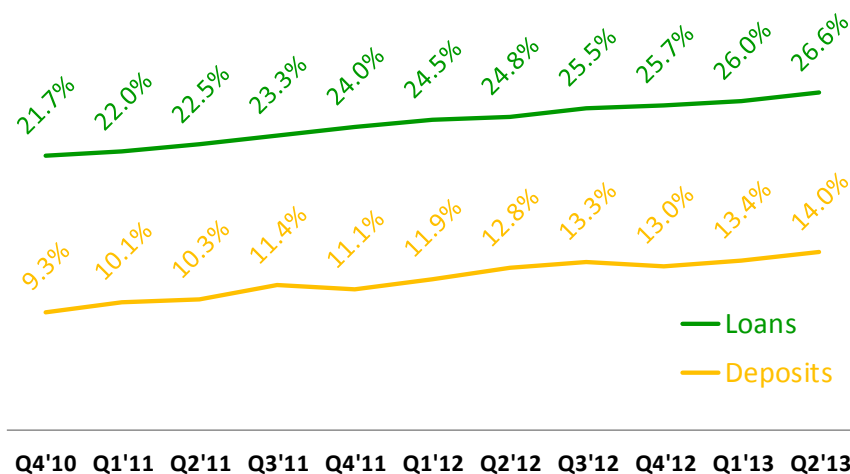
F&A loan portfolio

(PLN bn, quarter-end)



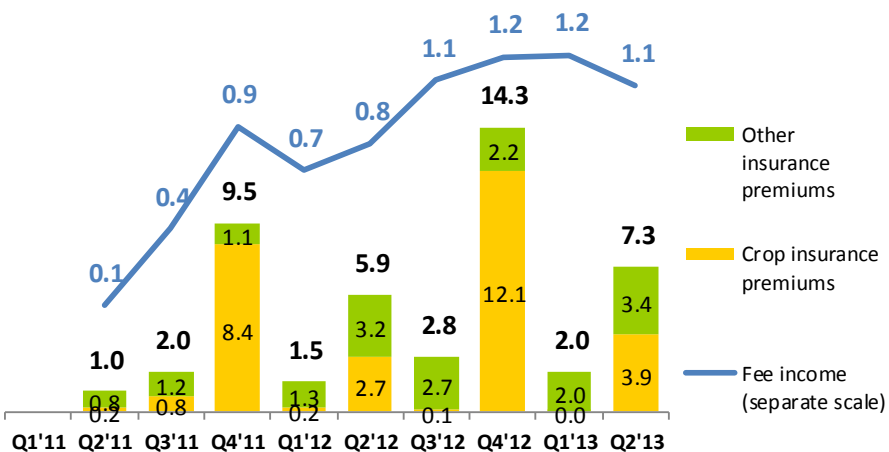
BGZ market share in farmer volumes

(quarter-end)



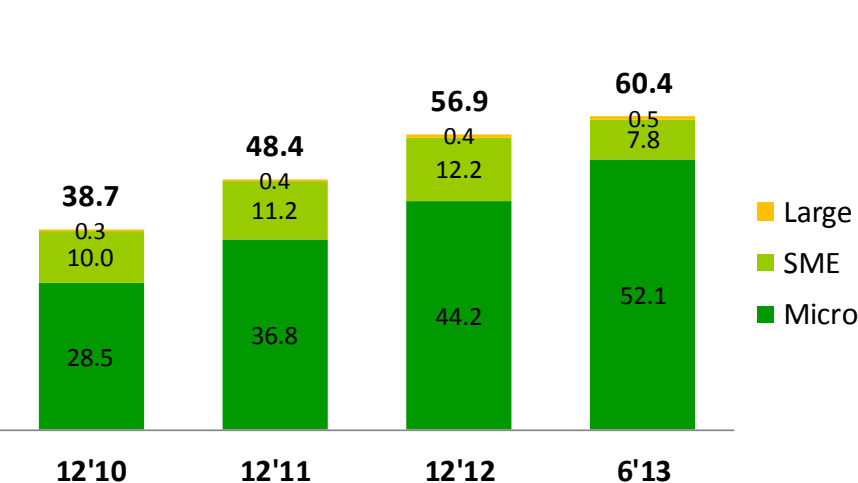
Performance on farmer insurance

(PLN m, quarterly)



Number of F&A clients

(in thousands)

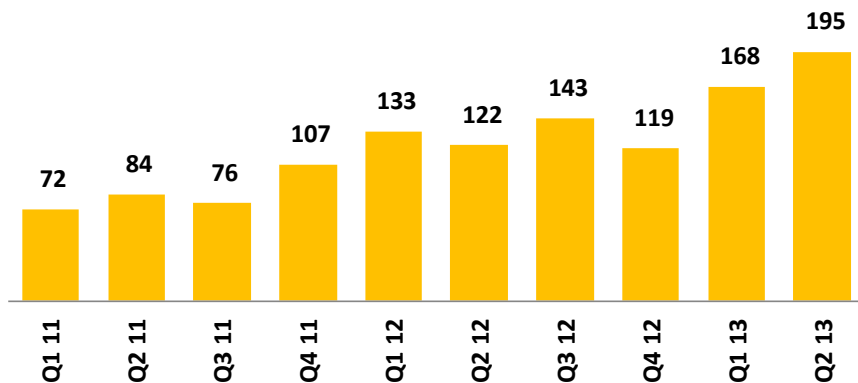


* Incl. individual farmers and companies in agricultural business

Turnaround in retail business

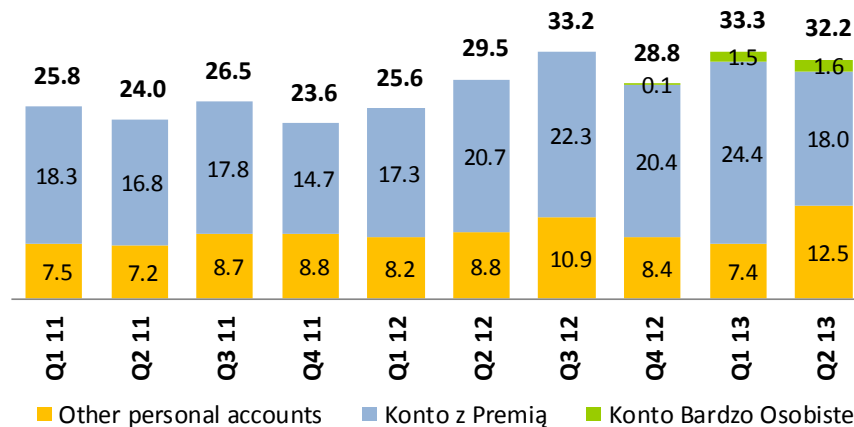
Cash loans sales

(PLN m, quarterly)



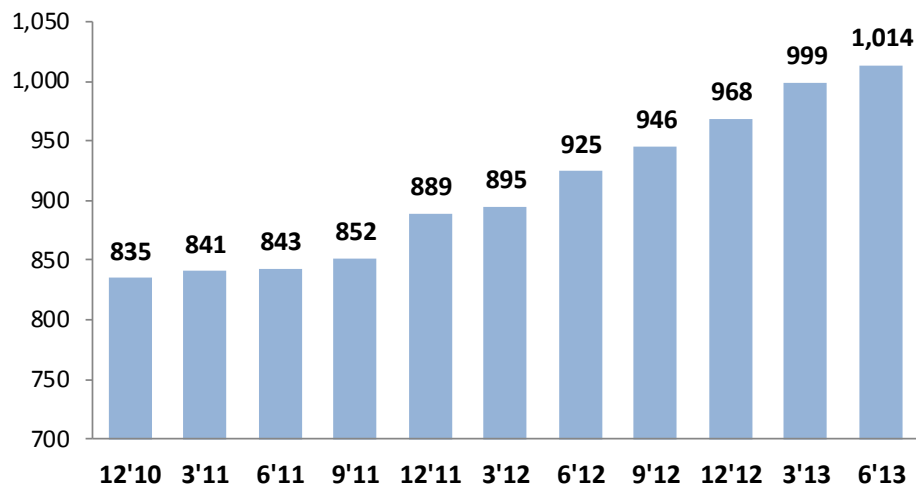
Personal accounts sales

(in thousands, quarterly)



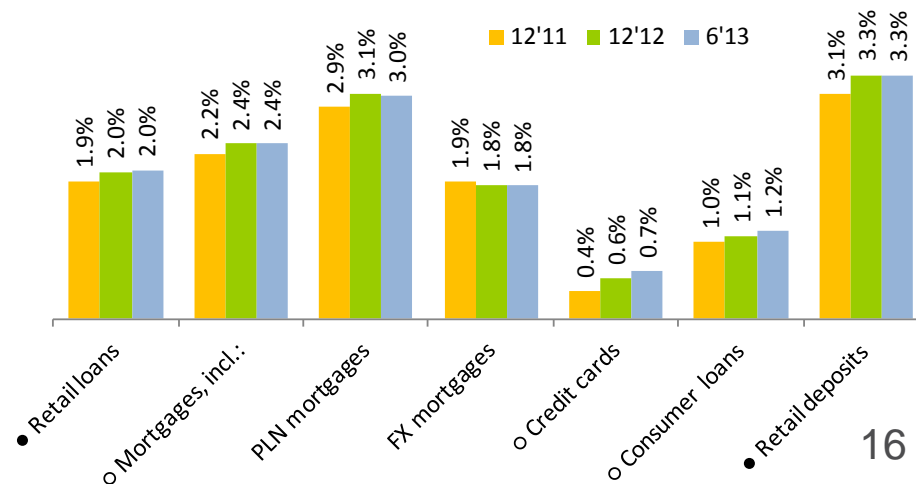
Total number of retail clients

(in thousands, month-end)



BGZ shares in retail market

(in volumes)



Awards in 2013



5. BGŻ

Pierwszy bank w zestawieniu, o którym więcej pisze się dobrze niż źle. BGŻ, który zaciekle walczy, by stać się bankiem masowym, a nie tylko kojarzonym z rolnictwem, ma więc powody do dumy.

Przed wszystkim w sieci można znaleźć masę pozytywnych opinii o kontach oferowanych przez BGŻ. Bank, by zachęcić klientów, dodaje do nich całą masę bonusów. Firma Expandi do opinii BGŻ dorzuca też te o BGŻ Optima. Dzięki temu bank zyskuje w oczach internautów, którzy wysoko oceniają ich lokaty.

- BGŻ reached 5th place in the "**Najlepsze banki w Polsce**" (**Best Banks in Poland**) ranking, prepared by the research company Expandi on behalf of the Polish portal – Wirtualna Polska. The report was based on Internet users opinions on the products and services offered by major banks in Poland gathered during the course of 12 months.
- Bank BGŻ personal account "**Konto z Premią**" won for the third time in a row the **ranking on all types of personal accounts**. The ranking is prepared by Money.pl – a financial portal. Experts have analyzed 110 personal accounts in 30 banks, the evaluation had over 41 different criteria.

- Bank BGZ won in the 9th edition of the Client and "**Laur Konsumenta**" (**Consumers Laurel**) award for **SME Loans**. Thus, BGZ for the third time in a row was considered as most popular/recommended brand in its peer group.
- During the 14th edition of the "**Bank Przyjazny dla Przedsiębiorców**" (**Entrepreneur Friendly Bank**), the Bank received a **honorary mention along with promotional emblem with six golden stars**. This was granted in favour of SMEs, along with the extensive offer of high quality customer services for the SME sector.



Financial appendices

Consolidated income statement

PLN thousands

Year-to-date basis

Quarterly basis

Consolidated income statement	Year-to-date basis		Quarterly basis					
	30/06/2013	30/06/2012	30/06/2013	31/03/2013	31/12/2012	30/09/2012	30/06/2012	31/03/2012
Interest income	1,024,100	1,033,609	487,171	536,929	572,727	550,142	528,243	505,366
Interest expense	(542,528)	(531,348)	(244,634)	(297,894)	(316,192)	(287,571)	(270,787)	(260,561)
Net interest income	481,572	502,261	242,537	239,035	256,535	262,571	257,456	244,805
Fee and commission income	157,609	174,133	76,231	81,378	84,417	91,794	91,302	82,831
Fee and commission expense	(27,509)	(25,951)	(15,460)	(12,049)	(13,730)	(14,486)	(13,729)	(12,222)
Net fee and commission income	130,100	148,182	60,771	69,329	70,687	77,308	77,573	70,609
Dividend income	2,837	3,396	2,837	-	-	20	3,396	-
Net trading income	48,751	39,992	31,638	17,113	30,235	28,340	11,213	28,779
Result on investing activities	20,613	17,545	20,613	-	25,792	(8)	9,930	7,615
Result on hedge accounting	(1,099)	-	99	(1,198)	100	1,133	-	-
Other operating income	16,026	17,063	10,125	5,901	12,679	8,500	7,763	9,300
Net impairment losses on financial assets and contingent liabilities	(91,323)	(156,068)	(58,567)	(32,756)	(44,357)	(71,973)	(114,708)	(41,360)
General administrative expenses	(443,892)	(454,672)	(213,449)	(230,443)	(248,104)	(225,610)	(222,777)	(231,895)
Depreciation and amortization	(49,257)	(45,425)	(24,782)	(24,475)	(25,016)	(24,077)	(23,296)	(22,129)
Other operating expenses	(8,848)	(17,787)	(4,604)	(4,244)	(9,567)	(5,396)	(6,556)	(11,231)
Operating result	105,480	54,487	67,218	38,262	68,984	50,809	(7)	54,494
Share in profit (loss) of associates	(1,314)	(892)	(1,165)	(149)	(519)	1,095	(1,778)	886
Profit (loss) before income tax	104,166	53,595	66,053	38,113	68,465	51,904	(1,785)	55,380
Income tax expense	(21,634)	(14,139)	(13,065)	(8,569)	(16,074)	(13,702)	762	(14,901)
Net profit (loss) for the period	82,532	39,456	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>					
Consolidated statement of financial position	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	1,347,978	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	238,510	104,035	68,558	104,035	568,349	273,397	132,820	221,071
Reverse repo transactions	249,837	104,369	2,332,638	104,369	1,019,673	662,417	706,569	366,343
Debt securities held for trading	1,021,476	219,051	1,606,820	219,051	651,364	2,262,776	2,470,411	1,632,434
Derivative financial instruments	322,529	380,473	469,846	474,058	335,151	351,899	448,655	883,109
Hedging instruments	36,668	69,179	---	---	---	---	---	---
Loans and advances to customers	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	6,535,385	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	62,301	62,301	62,301	62,301	63,401	63,401	63,401	63,401
Investments in associates	44,816	46,139	45,981	46,139	46,658	45,563	47,341	46,245
Intangible assets	148,235	152,674	147,339	152,674	142,011	140,420	141,981	146,443
Property, plant and equipment	456,384	469,098	457,152	469,098	469,186	472,029	475,620	485,943
Deferred tax assets	131,660	130,818	128,689	130,818	156,238	182,559	202,823	207,794
Current tax assets	-	10,318	10,318	10,318	22,273	46,242	4,802	-
Other assets	137,358	200,365	110,397	125,888	147,580	132,153	105,222	123,968
TOTAL ASSETS	36,701,973	37,246,734	40,844,244	37,196,663	36,258,770	35,069,762	34,731,747	33,407,213

* New presentation since the consolidated report for H1 2013. For details see the respective explanatory note to the financial statements.

Consolidated liabilities and capital

<i>PLN thousands</i>	<i>new presentation*</i>		<i>previous presentation</i>					
Consolidated statement of financial position	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	3,652,564	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	93,374	72,005						
Derivative financial instruments	278,696	326,215	371,671	350,621	235,013	343,042	490,608	795,707
Amounts due to customers	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	1,880,228	1,852,931	2,121,082	1,852,931	1,972,127	1,967,408	2,129,784	2,033,267
Other liabilities	369,975	379,207	315,539	292,168	521,726	383,502	410,507	474,952
Deferred tax liabilities	9,510	9,510	9,510	9,510	9,719	9,719	9,719	9,719
Provisions	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	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	43,137	43,137	43,137
Other supplementary capital	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	235,694	330,351	302,895	330,351	229,511	174,233	149,030	125,645
Retained earnings	88,919	140,413	169,957	140,413	88,022	49,820	176,903	136,424
- retained profit	6,387	10,364	10,364	10,364	10,364	10,364	8,327	8,327
- net profit for the period	82,532	130,049	159,593	130,049	77,658	39,456	168,576	128,097
TOTAL EQUITY	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	36,701,973	37,246,734	40,844,244	37,196,663	36,258,770	35,069,762	34,731,747	33,407,213

* New presentation since the consolidated report for H1 2013. For details see the respective explanatory note to the financial statements.

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