

***BANK GOSPODARKI ŻYWNOŚCIOWEJ S.A.***

**LONG-FORM AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

## **I. GENERAL NOTES**

### **1. Background**

Bank Gospodarki Żywnościowej S.A. (hereinafter 'the Bank', 'the Company') is a bank formed as a result of transformation of Bank Gospodarki Żywnościowej on the basis of the Article 29 of the Bank Gospodarki Żywnościowej and Cooperative Banks Restructuring Act dated 24 June 1994 (Journal of Laws No. 80, item 369) as well as the Minister of Finance deed on Bank Gospodarki Żywnościowej transformation into joint-stock company dated 9 September 1994. The Bank's registered office is located in Warsaw at Kasprzaka Street 10/16.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000011571 on 11 May 2001.

The Bank was assigned tax identification number (NIP) 526-10-08-546 on 21 December 1994 and statistical number (REGON) 010778878 on 3 November 1994.

The Bank is the holding company of the Bank Gospodarki Żywnościowej S.A. Capital Group. Details of the affiliated entities and the list of companies in which the Bank holds at least 20% of the share in the share capital or in the total number of votes in the company's governing body are included in the Note 1 and Note 47 of the of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the financial statements for the year ended 31 December 2012.

The principal activities of the Bank are as follows:

- accepting a-vista and term deposits and maintaining deposit accounts,
- maintaining other bank accounts,
- granting loans and cash advances,
- issuing and confirming bank guarantees and letters of credit,
- issuing bank securities,
- conducting bank monetary settlements,
- cheque and bill of exchange transactions and transactions in warrants,
- issuing payment cards and performing transactions with the use of cards,
- forward financial transactions,
- purchasing and sale of debts,
- safekeeping of objects and securities and offering safety deposit box services to clients,
- purchasing and sale of foreign currencies,
- issuing and confirming guarantees,
- performing commissioned activities relating to issue of securities,
- intermediary services in cash transfers and foreign currency settlements,
- issuing e-money instruments,
- taking up and purchasing shares and rights attached to shares, shares in other corporate entities or participation units in investment funds,
- raising liabilities arising from issuing of debt securities
- trading in securities,
- exchanging amounts due from the debtor for his/her assets on terms agreed with the debtor,
- purchasing and sale of real estate,
- providing financial advisory/consulting services,

- conducting brokerage activities (operating Brokerage Office),
- conducting acquisition activities within the meaning of the regulations concerning the organising and functioning of open-ended pension funds,
- acting as depositary within the meaning of the regulations concerning the organising and functioning of open-ended pension funds,
- keeping in custody assets of investment funds,
- operating securities deposit,
- intermediary services in trading in participation units of investment funds,
- providing financial-settlement and advisory services in respect of financial market instruments,
- providing trust and factoring services,
- providing transport services in respect of cash and cash equivalents,
- providing insurance intermediary services within the scope allowed by the Insurance Intermediary Services Act,
- providing operating finance leases,
- trading in treasury stamps and numismatic items.

The Brokerage Office of Bank Gospodarki Żywnościowej S.A (hereinafter ‘The Brokerage Office’, ‘the Office’) was incorporated on the basis of the Bank’s Management Board resolution No. 9/B/91 dated on 18 April 1991. In May 1992 in accordance with the decision of the Polish Securities Commission (KPW-ZDM-14/92) dated 21 February 1992, replaced by the decision of the Polish Securities and Exchange Commission dated 7 August 2001 (KPWiG-4021018/2001-6027) the Office initiated its activity on the equity market. Since 10 April 1992, on the basis of the Resolution No. 56/92 of the Management Board of Warsaw Stock Exchange, Bank Gospodarki Żywnościowej S.A. has been a direct participant of National Deposit for Securities (‘KDPW’).

As at 31 December 2012, the Bank’s issued share capital amounted to 51,137 thousand zlotys. Equity as at that date amounted to 3,466,547 thousand zlotys.

In accordance with the Current Report No. 112/2012 published by the Bank’s Management Board on 28 September 2012, the ownership structure of the Bank’s issued share capital as at 31 December 2012 was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Rabobank International Holding B.V.	45 941 751	45 941 751	45 941 751	89,84%
Cooperative Centrale Raiffeisen-Boerenleenbank B.A	4 303 695	4 303 695	4 303 695	8,42%
Other shareholders	891 318	891 318	891 318	1,74%
Total	51 136 764	51 136 764	51 136 764	100,00%

The following changes took place in the ownership structure of the holding company's issued share capital during the financial year ended 31 December 2012:

- On 11 April 2012 Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and Rabobank International Holding B.V. announced tender offer for the purchase of all outstanding shares of BGŻ with intention to obtain 100% of the shares of BGŻ. The offered call price was established at the level of 72.50 zlotys per share. As a result of the tender offer, Rabobank International Holding B.V. acquired 16,371,446 shares, increasing the share of Rabobank Group to 42,245,446 shares comprising 97.93% of the share capital and the same number of votes at Annual General Meeting.
- On 28 August 2012 the Extraordinary Shareholders Meeting of the Bank adopted a resolution on the issue of 8,000,000 shares Series G. The whole issue of Series G shares was offered in a private placement to Rabobank International Holding BV (RIH). As a result of the tender offer share of Rabobank Group increased to 50,245,446 shares comprising 98.26% of the share capital and the same number of votes at General Shareholders Meeting of the Bank.

The following changes took place in the share capital of the holding company's during the financial year ended 31 December 2012:

- On 28 August 2012 the Extraordinary Shareholders Meeting of the Bank adopted a resolution on the issue of 8,000,000 shares Series G. The offered call price was established at the level of 62.50 zlotys per share. The whole issue of Series G shares was offered in a private placement to Rabobank International Holding BV (RIH). The issue resulted in increase of Bank's share capital of 8,000,000 zlotys to the level of 51 137 thousand zlotys. The increase was registered on 14 September 2012.

	Number of shares	Par value of shares
Opening balance	43 136 764	43 136 764
Issue of shares G series	8 000 000	8 000 000
	-----	-----
Closing balance	51 136 764	51 136 764
	=====	=====

Between the balance sheet date and the date of the opinion there were no movements neither in the share capital of the Bank nor in the ownership structure.

As at 4 March 2013, the Bank's Management Board composed of:

Jacek Bartkiewicz	- President
Gerardus Cornelis Embrechts	- 1st Vice President
Johannes Gerardus Beuming	- Vice President
Dariusz Odzioba	- Vice President
Wiktor Okarma	- Vice President
Wojciech Sass	- Vice President
Andrzej Sieradz	- Vice President
Magdalena Legęć	- Vice President

In the year ended 31 December 2012 and from the reporting date to the date of the opinion there were no changes in the Management Board in the reporting period.

On 24 February 2013 the Management Board was notified on the resignation of Mr Jacek Bartkiewicz from the post of the President of the Management Board the Management Board of Bank Gospodarki Żywnościowej as of 31 March 2013.

## **2. Financial Statements**

As at 29 June 2007 the General Shareholders' Meeting of the Bank decided on preparation of Bank's financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

### **2.2 Auditors' opinion and audit of financial statements**

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Bank's Supervisory Board on 20 April 2010 to audit the Bank's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 14 June 2010 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2012.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated 4 March 2013, stating the following:

**“To the Supervisory Board of Bank Gospodarki Żywnościowej S.A.**

1. We have audited the attached financial statements for the year ended 31 December 2012 of Bank Gospodarki Żywnościowej S.A. (‘the Bank’) located in Warsaw at Kasprzaka street 10/16, containing the income statement and the statement of comprehensive income for the period from 1 January 2012 to 31 December 2012, statement of financial position as at 31 December 2012, the statement of changes in equity, the statement of cash flows for the period from 1 January 2012 to 31 December 2012 and the summary of significant accounting policies and additional explanatory notes (‘the attached financial statements’).
2. The truth and fairness<sup>1</sup> of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank’s Management Board. In addition, the Bank’s Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors’ Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – ‘the Accounting Act’). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and the results of the operations of the Bank and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
  - chapter 7 of the Accounting Act,
  - national auditing standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

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<sup>1</sup> Translation of the following expression in Polish: ‘rzetelność i jasność’

<sup>2</sup> Translation of the following expression in Polish: ‘rzetelnie i jasno’

4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position<sup>3</sup> as at 31 December 2012;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
  - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Articles of Association.
5. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments)."

We conducted the audit of the Bank's standalone financial statements during the period from 22 October 2012 to 4 March 2013. We conducted our audit at the Bank's premises from 22 October 2012 to 30 November 2012 and from 7 January 2013 to 4 March 2013.

## **2.2 Representations provided and data availability**

The Management Board confirmed its responsibility for the truth and fairness<sup>4</sup> of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 4 March 2013, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the reporting date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

We declare that during the audit of the financial statements, there were no limitations of scope.

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<sup>3</sup> Translation of the following expression in Polish: *'sytuacja majątkowa i finansowa'*

<sup>4</sup> Translation of the following expression in Polish: *"rzetelność, i jasność"*

### **2.3 Financial statements for prior financial year**

The Bank's financial statements for the year ended 31 December 2011 were audited by Marcin Dymek, key certified auditor No. 9899, acting on behalf of Ernst & Young Audit sp. z o.o. located in Warsaw at Rondo ONZ 1, an entity authorised to audit financial statements under no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2011. The Bank's financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting of the Bank on 25 June 2012, and the shareholders resolved to appropriate the net profit for the year ended 31 December 2011 amounting to 126,060 thousand fully to reserve capital.

The financial statements for the financial year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 9 July 2012 with the National Court Register.

The statement of financial position as at 31 December 2011, the profit and loss account, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 2466 on 11 October 2012.

The closing balances as at 31 December 2011 were correctly brought forward in the accounts as the opening balances as at 1 January 2012.

## **3. Analytical Review**

### **3.1 Basic data and financial ratios**

Presented below are selected financial ratios indicating the economic or financial performance of the Bank for the years 2010 - 2012. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2011 and 31 December 2012.

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Total assets</b>	37 180 622	33 386 896	28 611 114
<b>Share capital</b>	3 466 547	2 627 498	2 486 690
<b>Net profit</b>	134 343	126 060	112 501
<b>Solvency ratio</b>	11,8%	9,7%	11,0%
<b>Profitability ratio</b>	7,9%	7,9%	7,8%
	<hr/> $\frac{\text{profit before tax}}{\text{total costs}}$		

<b>The operating costs to income ratio</b>	69,9%	75,1%	75,1%
total costs			
----- Total operating income			
<b>Return on Equity (ROE)</b>	4,4%	4,9%	4,6%
net profit			
----- average level of shareholders' funds			
<b>Return on Assets (ROA)</b>	0,4%	0,4%	0,4%
net profit			
----- average level of total assets			
<b>Inflation ratios</b>			
Year average	3,7%	4,3%	2,6%
December against December	2,4%	4,6%	3,1%

### 3.2 Comments

The following trends may be observed based on the above financial ratios:

- the profitability ratio in 2010 was 7.8% and it increased in 2011 and 2012 to the level of 7,9%
- the operating cost to income ratio in 2010 and 2011 was stable at the level of 75.1% and it decreased in 2012 to the level 69,9%
- the return on equity ratio increased from the level of 4.6% in 2010 to the level of 4.9% in 2011 and decreased to 4.4% in 2012,
- the return on assets ratio remained at the same level in 2010, 2011 and 2012 and amounted to 0.4%.

### 3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least 12 months subsequent to 31 December 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.2 of the additional notes and explanation to the Bank's audited financial statements for the year ended 31 December 2012, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least 12 months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity.

### **3.4. Application of regulations mitigating banking risk**

As at 31 December 2012, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Financial Supervision Committee ('PFSA'), envisaged banking regulatory norms in relation to the following items:

- concentration of credit risk,
- concentration of investments in shares,
- liquidity,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January 2012 to 31 December 2012 the Bank did not comply with these regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

### **3.5. Correctness of calculation of capital adequacy ratio**

During our audit we have not identified any material irregularities in relation to the calculation, in all material respects, of the capital adequacy ratio as of 31 December 2012 in accordance with Resolution no 76/2010 of PFSA dated 10 March 2010 on the scope and detailed principles for determining capital requirements for particular risks (Official PFSA Journal of 2010.2.11 as of 9 April 2010 as amended).

## **II. DETAILED REPORT**

### **1. Accounting System**

The Bank's accounts are kept using the BankStreet, Oracle SGW, Flexcube, Thaler and Eurobank On-line at the Bank's head office and by regional branches. The Brokerage Office's accounts are kept using the Q-Finanse finance-accounting computer system at the Brokerage Head Office. In all material for the audited financial statements respects, the Bank has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the consistency of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### **2. Assets, Liabilities and Equity, Profit and Loss Account**

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2012.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2012.

### **3. Additional Notes and Explanations to the Financial Statements**

The additional notes and explanations to the financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

### **4. Directors' Report**

We have read the Directors' report on the Company's activities in the period from 1 January 2012 to 31 December 2012 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements.

The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

**5. Materiality Level**

When determining the materiality level, professional judgement was applied taking into account the specific characteristics relating to the Bank. This included consideration of both values and quantities.

**6. Conformity with Law and Regulations**

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Bank's Articles of Association were breached during the financial year which have material impact on the audited financial statements.

**7. Work of Experts**

During our audit we have taken into account the results of the work of independent property appraisers – the Bank included in its calculation of the level of specific provisions for loan receivables the value of collateral established in valuations performed by property appraisers engaged by the Bank.

on behalf of  
Ernst & Young Audit sp. z o.o.  
Rondo ONZ 1, 00-124 Warsaw  
Registration No. 130

Key Certified Auditor

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*Dominik Januszewski*  
Certified Auditor  
No. 9707

Warsaw, 4 March 2013