

***CAPITAL GROUP OF  
BANK GOSPODARKI ŻYWNOŚCIOWEJ S.A.***

**LONG-FORM AUDITORS' REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31 DECEMBER 2011**

## **I. GENERAL NOTES**

### **1 Background**

The holding company of the Bank Gospodarki Żywnościowej S.A. Capital Group (hereinafter 'the Group' or 'the Capital Group') is Bank Gospodarki Żywnościowej S.A. ('the holding company', 'the Company', 'the Bank').

The holding company was 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 Company's registered office is located in Warsaw at Kasprzaka 10/16.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

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

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

The holding company belongs to Rabobank Capital Group (Rabobank Group N.V.)

The principal activities of the holding company 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 depository 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 operations of subordinated entities being subsidiaries or associates include the following activities:

- A. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. with its registered office in Warsaw, at Kasprzaka Street 10/16. The main area of the Company's activities includes:
- acquisition and disposal of real estate and limited property laws relating to real estate,
  - management of own and third party construction investments,
  - real estate trading intermediary services and lease of premises,
  - rent and lease of real estate and rent of premises,
  - services of: real estate valuation, real estate management, real estate advisory (activities of real estate services agency).

The Company is entered in the National Court Register kept by the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register, Entry No. 0000023062.

As at 31 December 2011 the Bank owned 100% shares of this Company and had 100% votes at the Annual General Meeting.

- B. BGŻ Leasing Sp. z o.o. with its registered office in Warsaw, at Jan Paweł II Avenue 29. The main area of the Company's activities includes:
- offering financial solutions based on assets
  - offering borrowings.

The Company is entered in the National Court Register kept by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register, Entry No. 0000285406.

As at 31 December 2011 the Bank owned 49% shares of this Company and had 49% votes at the Annual General Meeting. The owner of the rest of the shares is De Lage Landen International N.V.

As at 31 December 2011, the Bank's issued share capital amounted to 43,137 thousand zlotys. The Group's equity as at that date amounted to 2,637,862 thousand zlotys.

In accordance with the Shares Register the ownership structure of the Bank's share capital as at 31 December 2011 was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Rabobank International Holding B.V.	21,298,609	21,298,609	21,298,609	49.37%
State Treasury	11,015,937	11,015,937	11,015,937	25.54%
Cooperative Centrale Raiffeisen-Boerenleenbank B.A.*	4,303,695	4,303,695	4,303,695	9.98%
Other shareholders	6,518,523	6,518,523	6,518,523	15.11%
Total	----- 43,136,764 =====	----- 43,136,764 =====	----- 43,136,764 =====	----- 100.00% =====

\* Rabobank Group

The following changes took place in the ownership structure of the holding company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- On 14 October 2010 Extraordinary General Meeting of the Bank agreed to apply for admission of the Bank's shares on regulated market trading and their dematerialization. The final number of Sale Shares offered in the public offer amounted to 5,200,000, representing 12.05% of the share capital of the Bank. The first listing of the Bank's shares on the Warsaw Stock Exchange occurred on 27 May 2011.
- As a consequence of shares dematerialization process carried out in connection to initial public offering, the disclosed number of Bank's shares held by Rabobank International Holding B.V. was increased by 1,025 shares.
- In year 2011 the Bank continued to conclude agreements, on behalf of the State Treasury, concerning free-of-charge disposal of shares of BGŻ SA to entitled persons based on the Act on functioning of cooperative banks, their joining together and the banks bringing together cooperative banks amended on 16 February 2007 and based on the Decree of the Minister of the State Treasury dated 2 August 2007 amending the decree concerning the

manner of distributing to entitled persons 15% of shares in Bank Gospodarki Żywnościowej S.A. held by the State Treasury. In 2011 1,786 of shares were disposed free-of-charge to the entitled persons, whereas in 2010 7,154 shares.

During the financial year and between the balance sheet date and the date of the opinion there were no movements in the share capital of the holding company.

As at 5 March 2012, the holding company's Management Board of the Bank was 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

There were the following changes in the Management Board in the reporting period:

- a) As of 31 March 2011 Mr Hieronymus Nijssen resigned from the position of the 1st Vice President of the Management Board.
- b) As of 31 March 2011 the Supervisory Board appointed following persons as the members of the Management Board:
  - Mr Gerardus Cornelis Embrechts effective from 1 April 2011 as 1st Vice President,
  - Mr Johannes Gerardus Beuming effective from 1 May 2011 as the Vice President,
  - Mr Dariusz Odzioba effective from 10 May 2011 as the Vice President,
  - Mr Wojciech Sass effective from 15 June 2011 as the Vice President.
- c) As of 1 September 2011 the Supervisory Board appointed Ms Magdalena Legęć as the Vice-president of the Bank BGŻ S.A. effective from 1 October 2011.

During the period from the reporting date to the date of this opinion there were no changes in the composition of the Bank's Management Board.

## **2. Group Structure**

As at 31 December 2011, the Group of Bank Gospodarki Żywnościowej S.A. consisted of the following subsidiaries subject to full consolidation method:

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial	Reporting date
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			statements	
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	Full method	unqualified, with an emphasis on matter	Ernst & Young Audit sp. z o.o.	31.12.2011

As at 31 December 2011 shares in the following associates (direct and indirect) were recognized in the Group's consolidated financial statements using the equity method:

Entity name and seat	Type of activity
BGŻ Leasing Sp. z o.o. with its registered seat in Warsaw, 29 Jan Paweł II Avenue	Offering financial solutions based on assets, offering loans

There were no changes to the list of consolidated companies when compared to the prior year.

### **3. Consolidated Financial Statements**

#### **3.1 Auditors' opinion and audit of consolidated 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 Group'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 holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2011.

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

Based on our audit, we issued an auditors' opinion dated 5 March 2012 stating the following:

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

1. We have audited the attached consolidated financial statements of the Bank Gospodarki Żywnościowej S.A. Capital Group (‘the Group’), for which the holding company is Bank Gospodarki Żywnościowej S.A. (‘the Bank’) located in Warsaw at Kasprzaka street 10/16, for the year ended 31 December 2011, containing the consolidated income statement and the consolidated statement of comprehensive income for the period from 1 January 2011 to 31 December 2011, consolidated statement of financial position as at 31 December 2011, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2011 to 31 December 2011 and the summary of significant accounting policies and additional explanatory notes (‘the attached consolidated financial statements’).
2. The truth and fairness<sup>1</sup> of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation 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 consolidated 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 consolidated 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 and whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and the results of the operations of the Group.
3. We conducted our audit of the attached consolidated 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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. In our opinion, the attached consolidated financial statements, in all material respects:

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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: ‘*rzetelne i jasne*’

- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2011 to 31 December 2011, as well as its financial position<sup>3</sup> as at 31 December 2011;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
  - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated 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).<sup>7</sup>

We conducted the audit of the Group's consolidated financial statements during the period from 10 October 2011 to 5 March 2012. We conducted our audit at the holding company's premises from 10 October 2011 to 25 November 2011 and from 9 January 2012 to 5 March 2012.

### 3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness<sup>4</sup> of the consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations.

We also obtained a written representation dated 5 March 2012, from the Management Board of the holding company confirming that:

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

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

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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"



### 3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2010 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, register no. 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2010. The consolidated financial statements of the Group for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 10 May 2011.

The consolidated financial statements of the Group for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 3 June 2011 with the National Court Register.

The consolidated statement of financial position as at 31 December 2010, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2010, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1306 on 8 August 2011.

## 4. Analytical Review

### 4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2009 – 2011. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2010 and 31 December 2011, respectively.

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Total assets</b>	33,407,213	28,629,599	24,545,501
<b>Share capital</b>	2,637,862	2,495,017	2,386,366
<b>Net profit</b>	128,097	112,341	100,643
<b>Solvency ratio</b>	9.7%	11.1%	11.6%
<b>Profitability ratio</b>	8.0%	7.8%	7.2%
	<hr/> profit before tax <hr/> total costs		
<b>The operating costs to income ratio</b>	75.2%	75.2%	77.0%
	<hr/> total costs <hr/> Total operating income		

<b>Return on Equity (ROE)</b>	5.0%	4.6%	4.3%
<hr/> net profit <hr/> average level of shareholders' funds			
<b>Return on Assets (ROA)</b>	0.4%	0.4%	0.4%
<hr/> net profit <hr/> average level of total assets			
 <b>Inflation ratios</b>			
Year average	4.3%	2.6 %	3.5%
December against December	4.6%	3.1 %	3.5%

## 4.2 Comments

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

- the total assets increased from the level of 24,545,501 thousand zlotys as at 31 December 2009 to the level of 28,629,599 thousand zlotys as at 31 December 2010 and to the level of 33,407,213 thousand zlotys as at 31 December 2011,
- the shareholder's equity increased from the level of 2,386,366 thousand zlotys as at 31 December 2009 to the level of 2,495,017 thousand zlotys as at 31 December 2010 and to the level of 2,637,862 thousand zlotys as at 31 December 2011,
- the net profit decreased from the level of 100,643 thousand zlotys in 2009 to the level of 112,341 thousand zlotys in 2010 and increased to the level of 128,097 thousand zlotys in 2011,
- the profitability ratio increased from the level of 7.2% in 2009 to the level of 7.8% in 2010 and increased to the level of 8.0% in 2011,
- the operating cost to income ratio decreased from the level of 77.0% in 2009 to the level of 75.2% in 2010 and remained at the same level in 2011,
- the return on equity ratio increased from the level of 4.3% in 2009 to the level of 4.6% in 2010 and increased to 5.9% in 2011,
- the return on assets ratio remained at the same level in 2009, 2010 and 2011 and amounted to 0.4%.

## 4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2011 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 explanations to the Group's audited consolidated financial statements for the year ended 31 December 2011, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities

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will continue as a going concern for a period of at least twelve months subsequent to 31 December 2011 and that there are no circumstances that would indicate a threat to its continued activity.

## **II. DETAILED REPORT**

### **1. Completeness and accuracy of consolidation documentation**

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

### **2. Accounting policies for the valuation of assets and liabilities**

The Group's accounting policies and rules for the presentation of data are detailed in note 2 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2011.

### **3. Structure of assets, liabilities and equity**

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2011.

The data disclosed in the audited consolidated financial statements reconcile with the consolidation documentation.

#### **3.1 Goodwill on consolidation and amortisation**

There was no goodwill on consolidation in the audited consolidated financial statements of the Capital Group for the year ended 31 December 2011.

#### **3.2 Shareholders' funds including non-controlling interest**

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. There were no non-controlling interest as at 31 December 2011.

Information on shareholders' funds has been presented in notes 40 and 41 of the additional notes and explanations to the consolidated financial statements for the year ended 31 December 2011.

#### **3.3 Financial year**

The financial statements of all Group companies forming the basis for the preparation of the audited consolidated financial statements were prepared as at 31 December 2011 and include the financial data for the period from 1 January 2011 to 31 December 2011.

#### **4. Consolidation adjustments**

##### **4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.**

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

##### **4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends**

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

#### **5. Disposal of all or part of shares in a subordinated entity**

During the financial year the Group did not sell any shares in subordinated entities.

#### **6. Items which have an impact on the group's result for the year**

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2011.

#### **7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU**

During the process of preparation of the audited consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting, which could cause modifications in auditor's opinion.

#### **8. Issues specific for the audit of banks**

We have addressed the issue of complying by the Bank with the obligatory norms mitigating banking risks and the issue of correctness of calculation of capital adequacy ratio in our report dated 5 March 2012, supplementing the independent auditors' opinion on the financial statements of the Bank for the year ended 31 December 2011.

#### **9. Additional Notes and Explanations to the Consolidated Financial Statements**

The additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2011 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

## 10. Directors' Report

We have read the Directors' report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated 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).

## 11. Results of the inspection

In the financial year Polish FSA conducted complex control in the Bank. As it was presented in Note 49 of the additional notes and explanation to the attached audited consolidated financial statements, in the Management's Board opinion, the results of the KNF inspection have no material influence on the consolidated financial statements of the Group for the year ended 31 December 2011.

## 12. Conformity with Law and Regulations

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

## 12. Work of Experts

During our audit we have taken into account the results of the work of the independent property appraisers – in the calculation of the level of loan loss provisions the Bank took into consideration 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  
Reg. No 130

Key Certified Auditor

Partner

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*Marcin Dymek*  
Certified Auditor  
No. 9899

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*Dominik Januszewski*

Warsaw, 5 March 2012