REPORT
of the Supervisory Board on results of the assessment of the financial statements of BGŻ S.A. and the activity report of the Management Board of the Bank for the year ended 31 December 2012, and the recommendation of the Bank's Management Board on the allocation of profit for the year ended 31 December 2012 together with the assessment of adequacy and effectiveness of the internal control system at the Bank

In accordance with Article 382 § 3 of the Code of Commercial Companies, the Supervisory Board of Bank Gospodarki Żywnościowej S.A. assessed the financial statements of the Bank for the year ended 31 December 2012, the Management Board Report on the activities of BGŻ S.A., and the recommendation of the Management Board on the allocation of the profit for the year ended 31 December 2012.

The aforementioned assessment has been made based on:

1. the financial statements comprising:
    - profit and loss account for the period from 1 January 2012 to 31 December 2012, showing a net profit of PLN 134 343 thousand,
    - statement of total income for the period from 1 January 2012 to 31 December 2012, showing a total income of PLN 339 049 thousand,
    - statement of financial position prepared as at 31 December 2012 showing total assets of PLN 37 180 622 thousand,
    - the statement of changes in total equity for the period from 1 January 2012 to 31 December 2012, disclosing an increase in equity by PLN 839 049 thousand,
    - cash flow statement for the period from 1 January 2012 to 31 December 2012, disclosing a net cash increase by PLN 611 648 thousand; and
    - accounting principles (policy) and additional explanatory notes,
2. Management Board Report on the activities of BGŻ S.A. in 2012,
3. Motion of the Management Board on the allocation of the profit for the year ended 31 December 2012,
4. opinion and report of the independent auditor – Ernst &Young Audit Sp. z o.o. – appointed to audit the financial statements based on the resolution of the Supervisory Board No 18/2010 of 20 April 2010.

The Supervisory Board has stated as follows:

Ad. 1) Financial statements

Based on the assessment of the financial statements of BGŻ S.A. for the year ended 31 December 2012, the Supervisory Board has concluded that these financial statements, in all material respects, have been prepared:

- in accordance with the International Financial Reporting Standards approved by the European Union;
- based on properly maintained accounting records;

- in accordance with the provisions of the law governing preparation of the financial statements and provisions of the Bank's Statute influencing the form and content of the financial statements;

and give a fair and clear view of all information material for the evaluation of the financial result of business activities for the period from 1 January 2012 to 31 December 2012, as well as the economic and financial position of BGŻ S.A. as at 31 December 2012.

Selected financial data and ratios

PLN'000	31.12.2012	31.12.2011	Change	
Profit (loss) before tax	178 467	147 624	30 843	20.9%
Net profit (loss)	134 343	126 060	8 283	6.6%
Total equity	3 466 547	2 627 498	839 049	31.9%
Balance sheet total	37 180 622	33 386 896	3 793 726	11.4%

	31.12.2012	31.12 2011	Change	
Return on equity (ROE)(1)	4.5%	4.9%	(0.4)	percentage points
Return on assets (ROA)(2)	0.4%	0.4%	-	percentage points
Net interest margin (NIM)(3)	2.9%	2.8%	0.1	percentage points
Costs / Income (C/I)(4)	69.8%	75.1%	(5.3)	percentage points
Loans / Deposits(5)	101.7%	109.5%	(7.8)	percentage points
Solvency ratio	11.8%	9.7%	(2.1)	percentage points

(1) Net profit to average equity calculated based on balances as at the end of the years.

(2) Net profit to average assets calculated based on balances as at the end of the years.

(3) Result on interest to average assets calculated based on balances as at the end of the years.

(4) Total administrative costs and depreciation/amortisation to total result on banking activities and other operating income and costs excluding depreciation/amortisation.

(5) Carrying amount of loans and advances granted to clients to liabilities to clients. Balances as at the end of the year.

Assets

As at the end of 2012, the total value of the Bank's assets equalled PLN 37.18 billion and was higher by 11.4% than in the previous year.

Loans and advances granted to clients grew by 8.7%, that is much slower than in 2011 when the growth reached 21.9%. The main factor of the loans growth in 2012 was PLN mortgages (acceleration in comparison with 2011) and overdrafts in the current accounts for enterprises and farmers (the growth is similar to the one reached in 2011). A slower growth was recorded in case of the investment loans for enterprises and preferential loans, whereas FX mortgages and working capital loans for enterprises decreased.

The weakening of the loans growth in 2012 was accompanied by increase in the total securities, and the securities available for sale grew by 89.5% whereas the marketable securities fell by 86.6%. The growth of securities in the Bank's assets corresponded with the growth of the financial surplus due to the fact that deposits were growing faster than loans and due to the recapitalisation. The shift between the financial assets held for trading and available-for-sale was related to a more intensive placing of financial surplus in NBP bills classified as available for sale at the end of 2012.

The increase of the cash and balances with the Central Bank by 52.3% was shaped by the needs related to settlement of a mandatory reserve with NBP (this item undergoes considerable daily fluctuations, which is a natural phenomenon).

Liabilities and equity

As at the end of the year the total value of the Bank's liabilities amounted to PLN 33.71 billion and was by 9.6% higher than the year before. The main growth factor were liabilities due to customers which grew by 17.4%, first of all because of the deposits acquired by BGŻOptima, the retail network and from other financial entities. Due to a slower pace of the loans growth, the Bank limited debt securities financing. Liabilities due to other banks decreased, mainly due to repayment of a part of a CHF loan from Rabobank in accordance with the schedule, and strengthening of the PLN towards the CHF.

The total equity increased in 2012 by PLN 839.0 million, which was contributed by the following factors:

- increase of the share capital by issuance of 8 million shares of the nominal value PLN 1 each, and the issue price PLN 62.50 (the total recapitalisation value: PLN 500 million);
- growth of the remaining capital by PLN 204 706 thousand due to the increase of the financial assets revaluation reserve (that is the portfolio of debt securities available for sale held by the Bank) and the increase of the hedge transactions revaluation reserve related to hedge accounting;
- retaining of the net profit for 2011 and 2012.

Profit and loss account

In 2012 the Bank earned the net profit of PLN 134.3 million as compared to PLN 126.1 million in 2011. The main growth factor for the net profit growth was increased result from interest, fees and commissions and investment activities.

In 2012 the net interest income grew by 22.5%, which was caused by the increase of interest income by 27.4% over interest expense at 32.3%.

The net fee and commission income increased by 9.7% in 2012 as compared to the previous year, which was the effect of 12.9% growth of the fee and commission income accompanied by the growth of fees and commissions expense by 32.2%

In 2012 the result on trading activities decreased by 3.2% as compared with 2011, which was contributed by the change of external financing structure following the receipt of a CHF loan in 2011. Having the direct financing in CHF, the Bank reduced the scale of swap transactions to hedge against the FX risk and the interest rate risk within the so-called 'old retail portfolio of FX mortgages' granted before April 2009. In consequence, the result on the so-called swap points decreased, which is included in the trading activities result, and the interest result increased due to a replacement of PLN financing with higher interest rate into CHF financing with lower interest rate. The commercial activity result also includes the income on margins on FX transactions and on financial instruments concluded with clients, which showed a significant growth in comparison to the previous year.

The result on investment activities grew by 704.0% in 2012. The main component of this result was the result on the portfolio of securities available for sale earned by benefiting from favourable market conditions, particularly in Q4 2012, when the markets began to discount the interest rates reductions in Poland more intensively, and the risk premium for investment in the Polish securities expected by them stayed at a relatively low level.

Other operating income grew by 4.0% in 2012 as compared with 2011, mostly as a result of the increase of income due to:

- the release of the provision for liabilities as a result of releasing the provisions for court litigations, unused holiday leaves, jubilee rewards and retirement gratuities, as well as for future liabilities due to settlement of preferential loans subsidies.
- the release of unused provisions for personnel cost 2011.
- other operating income which consisted, ia, in a return of overpaid amount after the settlement of advance payment related to fees for the PFSA for 2011 and a release of a provision related to services rendered for BGŻ by Rabobank Group.

Revenues from PARP compensation decreased by PLN 4,2 million, as a result of a significant limitation of the scope of trainings carried out under this programme.

Loan portfolio quality

The share of impaired exposures in gross loans and advances granted to clients deteriorated from 5.8% at the end of 2011 to 7.1% at the end of 2012. For retail loans the ratio worsened from 5.4% to 6.6% in the discussed period, and for institutional loans from 5.9% to 7.4%, respectively. The deterioration of the ratios was partly an effect of changes in the impairment estimation model introduced in December 2012 (including mainly the concept of quarantine of the receivables exiting the "impaired" category). In case of retail loans the model change translated into the growth of the impaired receivables ratio by 1.4 percentage points and in case of institutional loans by 0.5 percentage points, respectively. In the total loan portfolio the change translated into the increase of the ratio by 0.8 percentage points. Analysing the changes in the ratios in 2012 excluding the model change effect, it should be emphasised that they were stabilized in the mortgages portfolio and improved in the cash loans portfolio. The quality of the institutional loans deteriorated both in the Large Enterprises segment (mainly due to a bankruptcy of one of the clients from the construction sector in June 2012 due to general problems in this sector) and in the Small and Medium-sized Enterprises and Micro-enterprises, following the deterioration of the macroeconomic situation.

The factor stabilizing the portfolio quality was a very good situation of the portfolio of loans for individual farmers (at the end of 2012 they constituted 22.4% of the Bank's loans portfolio) in which the share of impaired loans was 3.6% at the end of 2012 (excluding the model change: 3.2%) as compared with 3.5% at the end of 2011.

Equity and solvency ratio

Capital adequacy ratio (CAR) increased from 9.7% at the end of 2011 to 11.8% at the end of 2012. It was mainly the effect of the equity increase by 32.4%, which was influenced by the following factors:

- issuance of 8 000 000 G series shares with the nominal value of PLN 1 each and the issue price of PLN 62.50 passed on 28 August 2012 by the Extraordinary General Meeting of Shareholders and fully subscribed for within private subscription by Rabobank International Holding B.V. The Bank's equity increase was registered by the court on 14 September;
- allocation of the total net profit for 2011 to the reserve capital upon decision of the Ordinary Gneral Meeting of Shareholders dated 25 June 2012;
- recognition of the net profit for the 1st half of 2012 to the basic funds after review of the financial statements by an auditor;
- increase of supplementary capital from revaluation of financial assets for sale

At the same time in 2012 the total capital requirement increased by 8.9% which was influenced mainly by the loans growth in the described period and also by entering into force as of 30 June 2012 of provisions increasing the weight of FX mortgages in the calculation of the capital requirement for credit risk in the basic method from 75% to 100%.

Assessment made by the Supervisory Board

After reviewing the financial statements of BGŻ S.A. for the year ended 31 December 2012 prepared by the Management Board and the independent registered auditor's opinion and report, the Supervisory Board decides to issue a positive opinion on the financial statements of BGŻ S.A. for the year ended 31 December 2012 and to recommend the Ordinary General Meeting to approve these financial statements.

Ad. 2) Management Board Report on the activities of BGŻ S.A. in 2012

The Supervisory Board concludes that the Management Board Report on activities of Bank Gospodarki Żywnościowej S.A. for 2012 contains information consistent with the information included in the financial statements for the year ended 31 December 2012. The Supervisory Board recommends the Ordinary General Meeting of BGŻ S.A. to approve the Management Board Report on activities of BGŻ S.A. in 2012 and to grant a vote of acceptance to the members of the Management Board in respect of their duties.

Ad. 3) Recommendation of the Management Board on the allocation of the profit for 2012

The Supervisory Board would like to express a positive opinion on the recommendation of the Management Board to allocate net profit for the period from 1 January 2012 to 31 December 2012 in the amount of PLN 134 343 467.58 to the supplementary capital of BGŻ S.A. After the General Meeting of BGŻ S.A.'s approval of the proposed allocation of net profit for 2012, the Bank's supplementary capital would equal PLN 3 085 060 075.95.

Assessment of adequacy and effectiveness of the internal control system at the Bank

The organisation of the internal control system is in line with the banking law requirements and resolution of the Polish Financial Supervision Authority No. 258/2011 and it encompasses the risk control mechanisms (including functional control), checking the compliance of the Bank's activities with the provisions of law and internal regulations, as well as the internal audit. The internal control system is adjusted to the specifics of the conducted activity and takes into consideration the Bank's resources. The Bank performs periodic verification of the risk control mechanisms functioning in the Bank. Besides, the effectiveness of key control mechanisms is tested in selected areas.

The Management Board of the Bank is responsible for the effectiveness of the risk management system, internal control system, internal capital assessment and reviews, the internal capital assessment and maintenance process, and for the supervision over the efficiency of these processes, making necessary adjustments and improvements in case of a change of the risk level in the Bank's activity, economic environment factors, and irregularities in systems and processes functioning. Moreover, the Management Board determines the principles of functioning of the organizational units which participate in the Bank management, and is responsible for the preparation, introduction, and update of the written policies, strategies, and procedures in this respect.

The Supervisory Board performs supervision over the internal control system and evaluates its adequacy and effectiveness via the Bank's Internal Audit Committee. The Committee performs assessment, among others, on the basis of the results of audits conducted by the internal audit unit, about which it is informed in quarterly reports on audits and recommendations issued after them. Audit reports with qualified or inadequate opinion are provided to the Chairman of the Committee. Beside this the Committee becomes familiar with the progress in the realization of the recommendation issued by an external auditor and the Polish Financial Supervision Authority.

The Committee approved of the Audit Plan for 2012 and was informed about the changes in the Plan and the level of its realization. The Internal Audit Department monitors the situation in the Bank on the current basis, including the realization of the key undertakings and changes in its environment and – if needed – makes necessary adjustments in the Audit Plan.

The Internal Audit Department supports the Bank in achieving its targets by the checking and assessing, in an independent and objective manner, the compliance as well as adequacy and effectiveness of the internal control system, the correctness and effectiveness of the systems and internal procedures in the Bank, and by providing opinions on the Bank's management system, including the effectiveness of management of the risk related to the Bank's activity.

The Compliance, beside the Internal Audit, is an important element of the internal control system.

In connection with that, supervision is performed particularly in relation to:

1. The compliance with the principles aimed to counteract introduction of financial assets originating from illegal or undisclosed sources to the financial circulation,
2. The application of the principles determined in the Regulations of the conflict of interest management in BGŻ S. A.,
3. Conclusion of proprietary transactions,
4. Compliance with the rules of ethical conduct.

Additionally, assessment is performed as to the compliance of the Bank activities with the provisions of law and internal regulations.

The assessment is made, among others, on the basis of the results of analysis of the risks recorded in the RCMIS system (Risk & Control Management Information System) within Rabo Group.

The assessment results are submitted to the Bank's Management Board and next to the Supervisory Board members in the form of presentation of reports on the Compliance Department activities within the work of the Bank's Internal Audit Committee.

In the opinion of the Supervisory Board, the internal control system and managing all the material risks in the Bank function on a satisfactory level.