REPORT

of the Supervisory Board on the appraisal report

of consolidated financial statements of BGŻ S.A. Capital Group

for the year ended 31 December 2011 and report on the activity

of BGŻ S.A. Capital Group in 2011

Pursuant to Article 382 § 3 of the Code of Commercial Companies, the Supervisory Board of Bank Gospodarki Żywnościowej S.A. conducted an assessment of the consolidated financial statements of BGŻ S.A. Capital Group for the year ended 31 December 2011 and the report on the activity of the Capital Group in 2011.

The above assessment was conducted on the basis of:

1. consolidated financial statements including:
    - consolidated profit and loss account for the period from 1 January 2011 to 31 December 2011, showing net profit of PLN 128 097 thousand,
    - consolidated income statement for the period from 1 January 2011 to 31 December 2011, showing total income of PLN 142,845 THOUSAND,
    - consolidated statement of financial situation drawn up as of 31 December 2011, which shows the amount of PLN 33,407,213 thousand on the asset side,
    - consolidated statement of changes in equity for the period from 1 January 2011 to 31 December 2011, showing an increase in equity of PLN 142,845 thousand,
    - consolidated cash flow statement for the period from 1 January 2011 to 31 December 2011, showing a decrease in net cash of PLN 18,189 thousand, and
    - accounting principles (policy) and notes to financial statements,
2. report of the Management Board on the activity of BGŻ S.A. Capital Group in 2011,
3. opinion and report of the independent statutory auditor – Ernst &Young Audit Sp. z o.o. – selected for the audit of the financial statements based on the resolution of the Supervisory Board No 18/2010 of 20 April 2010.

The Supervisory Board states as follows:

Re: 1) Consolidated financial statements

As a result of the assessment of consolidated financial statements of BGŻ S.A. Capital Group for the year ended on 31 December 2011, the Supervisory Board states that the statements in all relevant aspects:

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

and reliably and clearly present all information relevant for the assessment of the financial results of business activities for the period from 1 January 2011 to 31 December 2011, as well as the assets and financial situation of BGŻ S.A. Capital Group as at 31 December 2011.

Selected financial data and ratios

PLN'000	31.12. 2011	31.12.2010	Change	
Gross profit (loss)	149 566	126 865	22 701	17.9%
Net profit (loss)	128 097	112 341	15 756	14%
Total shareholders' equity	2 637 862	2 495 017	142 845	5.7%
Balance sheet total	33 407 213	28 629 599	4 777 614	16.7%

	31.12.2011	31.12. 2010	Change	
Return on Equity (ROE)(1)	5.0%	4.6%	0.4	percentage points
Return on Assets (ROA)(2)	0.4%	0.4%	-	percentage points
Net Interest Margin (NIM)(3)	2.8%	2.3%	0.5	percentage points
Cost / Income (C/I)(4)	75.2%	75.2%	-	percentage points
Loans / Deposits (5)	109.4.4%	94.4%	11.7	percentage points
Solvency ratio	9.7%	11.1%	(1.4)	percentage points

(1) Ratio of net profit to average capital calculated as at year ends.

(2) Ratio of net profit to average assets calculated as at year ends.

(3) Ratio of interest gain/loss to average assets calculated as at year ends.

(4) Ratio of the total general administrative expenses and depreciation to the total results from banking activity and other operating income and expenses, excluding depreciation.

(5) Ratio of the balance sheet value of credits and loans granted to customers to liabilities towards customers. As at year end.

Assets

As at the end of 2011, the total value of assets of BGŻ S.A. Capital Group amounted to PLN 33.41 billion. The balance sheet total increased in 2011 by 16.7% in comparison with 2010.

The main asset growth factor was loans and advances granted to customers, which increased by 21.9%, mainly as a result of the increase in overdrafts for enterprises and farmers, investment loans for enterprises and preferential loans to farmers. In 2011 the Bank noted a 37.4% growth of purchase of receivables against 2010.

The restructuring bonds shown as the other debt securities totally disappeared from the Group's assets in 2011. On 24.09.2011, the Finance Ministry redeemed, as per the schedule, the final tranche of the restructuring bonds provided to the Bank in 1996 for the purpose of equity increase.

Growth of the intangible assets by 51.3% was mainly caused by capitalization of the IT system implemented for BGŻOptima and investment in the current development of the Bank's IT infrastructure.

Increased investments in subsidiary companies by 46.6% resulted from another recapitalization of the subsidiary company BGŻ Leasing sp. z o.o.

Liabilities and equity

As at the end of 2011 the total value of the Group's liabilities amounted to PLN 30.77 billion and was by 17.7% higher than in prior year. The main growth factor were liabilities towards other banks, which grew by 335.8%, first of all because of the loan in the amount of CHF 1 008 million taken from the majority shareholder and a loan of EUR 50 million from the European Bank for Reconstruction and Development. A considerable growth – by 9.0% - was shown by liabilities towards clients which grew mainly because of deposits gathered by BGŻOptima.

Another significant development on the side of liabilities towards clients was outflow of budget sector client deposits in connection with the legislation that came into force on 1st July 2011, on the consolidation of funds of selected budget sector institutions with the state-owned Bank Gospodarstwa Krajowego S.A. (BGK). Amendment of the law covered one of the important deposit clients of the Bank – a governmental agency operating in the agro-food sector. In consequence, liabilities towards budget sector clients fell in 2011 by 54.1%. Outflow of these deposits has been compensated by a growth of other client deposits – initially mainly from other financial entities, and later from enterprises and BGŻOptima clients. In 2011 the Group increased also the level of CD issue by 16.5%.

As at the end of 2011 the Group's equity amounted to PLN 2.64 bn. and was by 5.7% higher than in prior year. The growth resulted from retention of net profit for 2010, and also from the reserve fund from revaluation of financial assets for sale , the reasons of which are described in the total income paragraph.

Consolidated profit and loss account

In 2011 the Group earned a net profit of PLN 128.1 million as compared to PLN 112.34 million in 2010. The main growth factor for the net profit growth was increased interest income.

Interest result grew by 38.0% in 2011 as compared to 2010, which was caused by the increase of interest income by 22.9% over interest expense at 11.1%.

Growth of interest income was mainly determined by higher by 20.7% interest income on loans and advances granted to clients, and on overdrafts by 32.4%, achieved owing to the growth of the lending business in the first place. This especially concerned interest income on preferential loans, mortgage loans to retail clients, as well as overdrafts to farmers and clients from the SME segment. A significant factor of growth of interest income from preferential loans were four increases of the Central Bank (NBP) rediscount rate, to which interest rate on these loans is linked. Additionally, the growth of interest income was caused by higher by 22.4% income on debt securities which was mainly the effect of the change of the structure of debt securities portfolio for sale, consisting in decreased share in this portfolio of short-term NBP treasury bills bearing lower interest rate in favour of increased share of long-term, higher interest bearing bonds issued by the central government institutions.

The main reason for a slower growth of interest expense was hampered growth of interest expense on liabilities towards clients which was achieved owing to improved interest margins on client deposits, including especially on the savings accounts Eskalacja and fixed-term deposits. Launch, on 16th November 2011, of direct bank BGŻOptima did not, at that time, have any significant impact on the level of interest expense in 2011.

Additional factor contributing to decreased interest expense on deposits was a CHF facility obtained from the Bank's majority shareholder, enabling the Group to reduce the funding, in the local currency in the form of large corporations' deposits and budget sector institutions.

The result on fees and commissions decreased by 0.6%, which was mainly the effect of lower by 13.5% fees and commissions on accounts, and of growth by 19.7% of increased expended fees and commissions. However, incomes from commissions from loans and advances grew fast – by 13.4% - and on payment cards – by 16.0%.

Quality of the loan portfolio

The share of impaired exposures in gross loans and advances granted to clients improved from 6.4% at the end of 2010 to 5.7% at the end of 2011. This situation was determined by the growth of the gross loan portfolio by 22.1%, which was higher than the growth of gross impaired receivables by 9.0%. The quality of the portfolio was stabilized by very good and still improving situation of the portfolio of loans to individual farmers, which, at the end of the year 2011 represented 21.0% of the gross loan portfolio. Also the quality of the loan portfolio to non-agri institutional clients improved – owing to considerable repayments received from the large corporate clients.

The main factor of the growth of impaired receivables were, however, receivables due from retail clients having mortgage loans, and - to a lesser degree – cash loans.

Own funds and solvency ratio

Capital adequacy ratio (CAR) fell to 9.7% at the end of 2011, breaking in this way the level of strategic minimum of the Group (10%). Equity increased in 2011 by PLN 130.6 million, mainly because of 2010 net profit retention and recognition of net profit for the 1st half of 2011 (after review by an independent auditor), and of growth of supplementary capital from revaluation of financial assets for sale.

Growth of the total capital requirement by PLN 342.31 million was the consequence of the dynamic growth of the Group's lending business.

On 15th December 2011 the Management Board presented to the Supervisory Board a request for recapitalization together with analysis of the opportunities of capital acquisition available. As a result of the request, the major shareholders of the Bank – Rabobank and the Ministry of State Treasury – undertook talks in order to solve the problem of capital increase.

Until the date of approval of the Consolidated Financial Statements of BGŻ S.A. Capital Group for 2011, no binding decisions were taken in this respect.

Assessment made by the Supervisory Board

After becoming acquainted with the consolidated financial statements of BGŻ S.A. Capital Group for the year ended on 31 December 2011 prepared by the Management Board, and the opinion and report of the independent statutory auditor, the Supervisory Board decides to give a positive opinion to the financial statements of the Group for the year ended on 31 December 2011, and recommend the approval of the financial statements to the Ordinary General Meeting.

Re: 2) Report of the Management Board on the activity of BGŻ S.A. Capital Group in 2011

The Supervisory Board declares that the report on activity of BGŻ S.A. Capital Group in 2011 is consistent with information contained in the consolidated financial statements for the year ended on 31 December 2011. The Supervisory Board recommends the approval of the report on activity of the BGŻ S.A. Capital Group in 2011 to the Ordinary General Meeting of BGŻ S.A..