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 2011, and the recommendation of the Bank's Management Board on the allocation of profit for the year ended 31 December 2011 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 2011, the Management Board Report on the activities of the Bank, and the recommendation of the Management Board on the allocation of the profit for the year ended 31 December 2011.

The aforementioned assessment has been made based on:

1. the financial statements comprising:
    - profit and loss account for the period from 1 January 2011 to 31 December 2011, showing a net profit of PLN 126,060 thousand,
    - statement of total income for the period from 1 January 2011 to 31 December 2011, showing a total income of PLN 140,808 thousand,
    - statement of financial position prepared as at 31 December 2011 showing total assets of PLN 33,386,896 thousand,
    - the statement of changes in equity for the period from 1 January 2011 to 31 December 2011, disclosing an increase in equity by PLN 140,808 thousand,
    - cash flow statement for the period from 1 January 2011 to 31 December 2011, disclosing a net cash decrease by PLN 18,189 thousand; and
    - accounting principles (policy) and additional explanatory notes,
2. Management Board Report on the activities of BGŻ S.A. in 2011,
3. Motion of the Management Board on the allocation of the profit for the year ended 31 December 2011,
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 2011, the Supervisory Board has concluded that these financial statements, in all material respects, have been prepared:

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

- in accordance with 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 2011 to 31 December 2011, as well as the economic and financial position of BGŻ S.A. as at 31 December 2011.

Selected financial data and ratios

PLN'000	31.12.2011	31.12.2010	Change	
Profit (loss) before tax	147 624	126 892	20 732	16.3%
Net profit (loss)	126 060	112 501	13 559	12.1%
Total equity	2 627 498	2 486 690	140 808	5.7%
Balance sheet total	33 386 896	28 611 114	4 775 782	16.7%

	31.12.2011	31.12 2010	Change	
Return on equity (ROE)[(1)]	4.9%	4.7%	(0.3)	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
Costs / Income (C/I)[(4)]	75.1%	75.1%	-	percentage points
Loans / Deposits[(5)]	109.5%	97.8%	11.7	percentage points
Solvency ratio	9.7%	11.1%	(1.4)	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 2011, the total value of assets of the Bank equalled PLN 33.39 billion and was higher by 16.7% than in prior year.

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.

The restructuring bonds shown as the other debt securities totally disappeared from the Bank'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.

Liabilities and equity

As at the end of the year the total value of the Bank's liabilities amounted to PLN 30.76 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 also from enterprises and BGŻOptima clients. In 2011 the Bank increased also the level of CD issue by 16.5% - which is a flexible and relatively inexpensive funding source.

As at the end of June 2011 the Bank's equity amounted to PLN 2.63 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 ,

Profit and loss account

In 2011 the Bank earned a net profit of PLN 126.1 million as compared to PLN 112.5 million in 2010.

The main growth factor for the net profit growth was increased interest result. 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 result on loans and advances granted to clients, and on overdrafts by 32.4%, achieved owing to the growth of the lending business. 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 Bank to reduce the funding in the local currency in the form of large corporations' and budget sector institutions' deposits.

The result on fees and commissions in 2011 decreased by 0.6%, which was mainly the effect of lower by 13.5% fees and commissions result on accounts, and of growth by 19.7% of fees and commissions expense. However, incomes from commissions from loans and advances grew fast – by 13.4% - and on payment cards – by 16.0%.

Drop of income from fees and commissions on the maintenance accounts was mainly the effect of the fact that, starting from November 2010 the Bank incurred extra costs associated with offering 'Konto z Podwyżką' under which the clients receive a bonus representing 1% of the proceeds in the account subject to strictly defined conditions. These bonuses are booked as decrease of income from the accounts. Additionally, in Q4 2010 the table of tariffs was modified, which consisted in the linking of the level of commissions on the account to the amounts of funds held on the account, in order to make the offer more attractive to clients and to improve the bank's competitive position. The changes resulted in decreased commission income, they, however, were stimulating the growth of funds on current accounts.

Growth of income from fees and commissions on loans and advances was reached mainly as a result of intensified granting overdrafts, especially to enterprises and farmers. Good results earned on 'Konto z Podwyżką' contributed to increased income from fees on payment cards.

Fees and commissions paid grew mainly due to higher costs of settlements with the operators of the card systems MasterCard and Visa.

Loan portfolio quality

The share of impaired exposures in gross loans and advances granted to clients improved from 6.4% at the end of 2010 to 5.8% 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 10.2%. 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 and cash loans.

Equity and solvency ratio

Capital adequacy ratio (CAR) fell from 11.0% at the end of 2010 to 9.7% at the end of 2011, breaking in this way the level of strategic minimum of the Bank (10%). Equity increased in 2011 by PLN 137.6 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 347.2 million was the consequence of the dynamic growth of the Bank'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 Financial Statements of BGŻ S.A. for 2011, no binding decisions were taken in this respect.

Assessment made by the Supervisory Board

After reviewing the financial statements of BGŻ S.A. for the year ended 31 December 2011 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 2011 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 2011

The Supervisory Board concludes that the Management Board Report on activities of Bank Gospodarki Żywnościowej S.A. for 2011 contains information consistent with the information included in the financial statements for the year ended 31 December 2011. 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 2011 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 2011

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 2011 to 31 December 2011 in the amount of PLN 126,060,059.89 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 2011, the Bank's supplementary capital would equal PLN 2,458,716,608.37.

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

The structure of the internal control system complies with requirements of the banking law, and includes risk controls, verification of compliance of the Bank's activities with legal and internal regulations, internal audit and functional control, which was reflected in the Bank's regulations.

The Supervisory Board oversees the internal control system and assesses its adequacy and effectiveness through the Internal Audit Committee of the Bank.

The Committee makes evaluations i.a. based on the results of audits carried out by the Internal Audit, it is informed on in quarterly reports of audits and the resultant recommendations. Also, the Chairman of the Committee receives reports of audits with qualified or inadequate opinion. Audit opinion relates to the quality of controls and reflects the risks faced, in relation to the acceptable risk levels.

The Committee approved the Audit Plan 2011 and was informed on any changes in the Plan and the progress in its implementation.

The Committee was reviewing the progress in realization of recommendations and suggestions issued by the external auditor and by the Polish Financial Supervision Authority.

The Bank verifies risk controls functioning at the Bank, on a regular basis. Additionally, the effectiveness of key control mechanisms is tested in selected areas.

Compliance is, in addition to the Internal Audit, an important element of the internal control system. Assessment of compliance of the Bank's activity with the laws and internal regulations was carried out based on the evaluation of 10 identified key risks in the Compliance area. In Q4 2011 an assessment of compliance was started in agreement with Compliance Rabobank International, based on the results of analysis of risks recorded in the system RCMIS (Risk & Control Management Information System), implemented throughout Rabobank Group. The system enables assessment and monitoring of the following risks: Anti Money Laundering, Customer Due Diligence, Gifts, Inducements, Information Handling & Chinese walls, Investment Research and Public Recommendations, Market Abuse, Outside Functions (interests), Personal Account dealing.

The results of the assessment were presented to the Bank's Management Board, and next, to the members of the Supervisory Board by presentations of reports of the activity of the Compliance Department as part of the work of the Internal Audit Committee of the Bank.

Additionally, as a result of the recommendations of the Committee the Compliance Department prepared information on the main elements of compliance in the selected areas of the Bank's activity and a more indepth information concerning AML.

In the opinion of the Supervisory Board, the functioning of the internal control system and the management of all material risks are satisfactory in the Bank.