

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

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

## **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 issued with 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 45 of the of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2011.

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 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 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 2010, the Bank's issued share capital amounted to 43,137 thousand zlotys. Equity as at that date amounted to 2,627,498 thousand zlotys.

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

*BANK GOSPODARKI ŻYWNOŚCIOWEJ S.A.  
Long-form auditors' report  
for the year ended 31 December 2011  
in thousand zlotys)*

	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%
<b>Total</b>	----- 43,136,764 =====	----- 43,136,764 =====	----- 43,136,764 =====	----- 100.00% =====

\* Rabobank Group

The following changes took place in the ownership structure of the Bank'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 Bank.

As at 5 March 2012, the Bank's Management Board 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 Legeć	- 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 Legeć as the Vice-president of the Bank BGŻ S.A. effective from 1 October 2011.

There were no changes in the Bank's Management Board composition during the period from the reporting date to the date of the opinion.

## **2. Financial Statements**

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

### **2.1 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 2011.

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 5 March 2012, 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 2011 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 2011 to 31 December 2011, statement of financial position as at 31 December 2011, the statement of changes in equity, the 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 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

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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'

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.

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 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 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 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 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 10 October 2011 to 5 March 2012. We conducted our audit at the Bank's premises from 10 October 2011 to 25 November 2011 and from 9 January 2012 to 5 March 2012.

## **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 5 March 2012, 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.

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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 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, 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 2010. The Bank's financial statements for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 10 May 2011, and the shareholders resolved to appropriate the net profit for the year ended 31 December 2010 amounting to 112,501 thousand fully to reserve capital.

The financial statements for the financial year ended 31 December 2010, 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 3 June 2011 with the National Court Register.

The statement of financial position as at 31 December 2010, 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 2010, 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. 1306 on 8 August 2011.

The closing balances as at 31 December 2010 were correctly brought forward in the accounts as the opening balances as at 1 January 2011.

## **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 2009 - 2011. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2010 and 31 December 2011.

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Total assets</b>	33,386,896	28,611,114	24,526,981
<b>Share capital</b>	2,627,498	2,486,690	2,377,879
<b>Net profit</b>	126,060	112,501	107,991
<b>Solvency ratio</b>	9.7%	11.0%	11.6%
<b>Profitability ratio</b>	7.9%	7.8%	7.8%



*BANK GOSPODARKI ŻYWNOŚCIOWEJ S.A.  
Long-form auditors' report  
for the year ended 31 December 2011  
in thousand zlotys)*

profit before tax			
total costs			
<b>The operating costs to income ratio</b>	75.1%	75.1%	76.2%
total costs			
Total operating income			
<b>Return on Equity (ROE)</b>	4.9%	4.6%	4.7%
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	4.3%	2.6%	3.5%
December against December	4.6%	3.1%	3.5%

### 3.2 Comments

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

- the total assets increased from the level of 24,526,981 thousand zlotys as at 31 December 2009 to the level of 28,611,114 thousand zlotys as at 31 December 2010 and to the level of 33,386,896 thousand zlotys as at 31 December 2011,
- the shareholder's equity increased from the level of 2,377,879 thousand zlotys as at 31 December 2009 to the level of 2,486,690 thousand zlotys as at 31 December 2010 and to the level of 2,627,498 thousand zlotys as at 31 December 2011,
- the net profit increased from the level of 107,991 thousand zlotys in 2009 to the level of 112,501 thousand zlotys in 2010 and to the level of 126,060 thousand zlotys in 2011,
- the profitability ratio remained at the same level in 2009 and 2010 and amounted to 7.8% and increased to the level of 7.9% in 2011,
- the operating cost to income ratio decreased from the level of 76.2% in 2009 to the level of 75.1% in 2010 and remained at the same level in 2011,
- the return on equity ratio decreased from the level of 4.7% in 2009 to the level of 4.6% in 2010 and increased to 4.9% in 2011,
- the return on assets ratio remained at the same level in 2009, 2010 and 2011 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 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 explanation to the Bank's audited financial statements for the year ended 31 December 2011, 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 2011 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 2011, 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 ('KNF'), envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and suretyships to risk categories, recognition of provisions related to banking operations,
- solvency,
- liquidity,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January 2011 to 31 December 2011 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 2011 in accordance with Resolution no 76/2010 of KNF dated 10 March 2010 on the scope and detailed principles for determining capital requirements for particular risks (Official KNF 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 Bank Street, Oracle SGW, Flexcube and Eurobank On-line at the Bank's head office and by regional branches. The Brokerage Office's accounts are kept using the Makler II 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 2011.

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 2011.

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

The additional notes and explanations to the 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.

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

We have read the Directors' report on the Company's activities in the period from 1 January 2011 to 31 December 2011 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. Results of the inspection**

In the financial year Polish FSA conducted complex control in the Bank. As it was presented in Note 50 of the additional notes and explanation to the attached audited financial statements, in the Management's Board opinion, the results of the KNF inspection have no material influence on the financial statements of the Bank for the year ended 31 December 2011.

## **6. 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.

## **7. 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.

## **8. 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  
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