

Report of the Supervisory Board of ING Bank Śląski S.A.
on their operations for 2012

The Supervisory Board of ING Bank Śląski S.A. operates pursuant to the Banking Law, the Commercial Companies Code, the Bank's Charter and the Supervisory Board Bylaw. Pursuant to § 19 item 5 of the Charter of ING Bank Śląski S.A., members of the Supervisory Board are appointed for a joint 5-year term of office. Current term of office started on 3 April 2009.

There were no changes on the Supervisory Board in 2012, and as at 31 December 2012 the composition of the Supervisory Board was as follows:

Anna Fornalczyk	-	Chair
Brunon Bartkiewicz	-	Deputy Chair
Wojciech Popiołek	-	Secretary
Roland Boekhout	-	Member
Ralph Hamers	-	Member
Nicolaas Cornelis Jue	-	Member
Mirosław Kośmider	-	Member

In an effort to adhere to the Corporate Governance rules, the Bank introduced independent members to the Supervisory Board. There are currently three members of the Supervisory Board, notably: Ms. Anna Fornalczyk, Mr. Wojciech Popiołek and Mr. Mirosław Kośmider, who meet the independence criteria set out in the Charter. The other members, namely: Messrs. Brunon Bartkiewicz, Roland Boekhout, Ralph Hamers and Nicolaas Cornelis Jue, have ties with ING Bank N.V., the strategic shareholder of the Bank.

The CVs of the Supervisory Board Members are available at the Bank's web site.

General Issues

Throughout 2012, the Supervisory Board exercised ongoing oversight over the Company's operations, kept watch over the Company's adherence to the relevant regulations in the area of accounting, finances and reporting of public companies. The works of the Supervisory

Board proceeded smoothly, and all Members took an active part.

The Supervisory Board of ING Bank Śląski S.A. analysed thoroughly all aspects of the Bank's operations. The Management Board supported the Supervisory Board in the decision-taking process by submitting comprehensive materials and taking an active part in the Supervisory Board's meetings. The co-operation between the Supervisory Board and the Management Board was efficient, and the co-operation formula adopted by the parties ensured unbiased corporate governance and observance of best practices in that respect.

In keeping with the approved plan of work, between 1 January 2012 and 31 December 2012, the Supervisory Board met seven times, and adopted 48 resolutions in total, including 4 adopted by way of circulation. As regards the Supervisory Board's Committees, the Audit Committee met 5 times, and the Remuneration and Compensation Committee met 6 times. Attendance at all meetings of the Supervisory Board and the Committees was very high.

Agenda of the Supervisory Board Meetings

During their first meeting on 9 January 2012, the Supervisory Board agreed with the recommendation of the Remuneration and Nomination Committee and approved changes on the Bank Management Board. Thus, the Supervisory Board appointed Mr. Ignacio Juliá Vilar as Vice-President of the Management Board in charge of the Retail Banking Division as of 1 February 2012.

During the next meeting on 2 March 2012, the Supervisory Board approved the Bank's Annual Financial Statements for 2011 (standalone and consolidated) and the Report of the Management Board on the Bank's Operations in 2011 (standalone and consolidated), and one of the most important corporate documents – the Bank's Strategy for 2012-2015. The Supervisory Board also agreed on the date and the agenda of the General Meeting and gave their advice on the draft resolutions of the General Meeting.

Furthermore, the Supervisory Board passed resolutions in the area of credit- and market risk management regarding the approval of *Retail and Corporate Risk Appetite Statements metrics/ limits in ING Bank Śląski S.A.* and the *Overview of ING Bank Śląski Key Market Risk Indicators (KRI)*. As required under the Polish Financial Supervision Authority's Resolution no. 258/2011, the Supervisory Board passed resolution regarding approval of the list of

executive positions that have a material impact on the Bank's risk profile. In addition, the Supervisory Board agreed on the 2012 bonus tasks for the members of the Bank Management Board.

As recommended by the Audit Committee, on 12 April the Supervisory Board elected, by way of circulation, Ernst&Young Audit Spółka z o.o. as the entity authorised to audit financial statements of ING Bank Śląski S.A. and the Group of ING Bank Śląski S.A. for 2012.

The most important corporate event, that is the General Meeting, was held on 19 April. The Supervisory Board also met on that day and passed resolutions on the establishment by ING Bank Śląski S.A. of its own debt issuance programme and approval of the document called *General Principles of Credit and Market Risk Management in ING Bank Śląski S.A.*

During that same meeting the Management Board submitted a new document called "*Variable Remuneration Policy of Persons Holding Managerial Positions*", which was prepared on the basis of the Polish Financial Supervision Authority's Resolution no. 258/2011 on detailed principles of functioning of the risk management system and internal control system, and specific terms of internal capital assessment, reviewing the process of internal capital assessment and maintenance by banks, and principles of developing policy on variable components of remuneration of persons holding managerial positions. The Supervisory Board reviewed the Policy in detail; the Policy was officially approved on 31 May by way of circulation.

In July, the Supervisory Board resolved among other things the updated *Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A.* and approved the Policies concerning information security. The Supervisory Board also familiarised themselves with the Management Board's update on the higher-risk sector.

During the meeting in September, the Supervisory Board reviewed the Bank's results for the 1st half of 2012, including a presentation on the Bank's competitive position vis-à-vis its peers. Furthermore, the Supervisory Board was updated by the Management Board on the findings of the comprehensive inspection of the Polish Financial Supervision Authority at the Bank. During that meeting the Supervisory Board approved the *ING Bank Śląski S.A. General*



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Conditions of the Phantom Equity Plan.

In October, there was an additional meeting of the Supervisory Board, which was devoted exclusively devoted to the issues related to the implementation of the post-inspection recommendations of the Polish Financial Supervision Authority.

In November, the Supervisory Board discussed the Bank's current financial results and the assumptions to the Strategy of ING Bank Śląski S.A. for 2013-2016.

Much attention was devoted to the audit issues – the Supervisory Board approved, among others, Audit Strategy Memorandum (ASM) including long-term planning for the years 2013-2017 and the Annual Internal Audit Plan for 2013. Furthermore, during that meeting the Supervisory Board approved the updated *Capital Management and ICAAP Process Policy at ING Bank Śląski S.A.* and the *Capital Management Procedure at ING Bank Śląski S.A.*

Credit risk was another major issue discussed during the November meeting of the Supervisory Board – the Supervisory Board approved the updated *General Principles of Credit and Market Risk Management and Limitation at ING Bank Śląski S.A.* and *Retail and Corporate Risk Appetite Statements Metrics / Limits.*

The Supervisory Board also devoted much time to the remuneration area and approved the following documents: the *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees*, the updated *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* and the updated *Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A.* The Supervisory Board also approved the Plan of Work of the Supervisory Board and its Committees for the following year.

As per the recommendations of the Audit Committee throughout the year the Supervisory Board approved the documents submitted by the IAD: the annual audit plan and the semi-annual reports on the assessment of the internal audit system.

The Non-Financial Risk Dashboard including, among other things, information concerning compliance risk and the Summary Risk Report which covered the retail and corporate credit risk management area and the market risk management area were the other regular items on the agenda.



Details of actions taken by the Supervisory Board are reflected in the minutes which are kept at the registered office of the Company.

Apart from the above meetings described in detail, the members of the Supervisory Board also attend a number of separate meetings with the members of the Management Board and senior management staff of the Bank.

At the request of the Supervisory Board, there are workshops devoted to various subjects. On 23 November 2012, the independent members of the Supervisory Board attended a highly regarded workshop on the principles of credit risk appraisal for retail clients. In view of the interest among the Supervisory Board members in such events, other workshops were included in the 2013 plan of work.

In addition, members of the Supervisory Board represent the Bank on the outside by attending various conferences and industry seminars.

Operations of the Supervisory Board Committees

In order to ensure support for the Supervisory Board in exercising its competences, the Supervisory Board established the Audit Committee and the Remuneration & Nomination Committee from among its members. The Committees perform consulting and advising functions.

Audit Committee

The Audit Committee support the Supervisory Board with regard to monitoring and supervising the internal and external audit and the risk management system at the Bank and its subsidiaries. In particular the Committee oversee the adequacy and effectiveness of the internal control system, risk management system, including compliance risk, relations between the Bank and related entities as well as between the Bank and the entity auditing Bank's financial statements.

In 2012, the Audit Committee operated in the following composition:

Mirosław Kośmider	-	Chair
Brunon Bartkiewicz	-	Member
Ralph Hamers	-	Member
Nicolaas Cornelis Jue	-	Member

There were no changes on the Committee in 2012.

Agenda of the Audit Committee Meetings

At their first meeting in 2012, the Audit Committee focused on the Annual Report – the Financial Statements for the Accounting Year 2011 including the auditor’s report, and recommended that the Supervisory Board issue positive advice. The Audit Committee also discussed the draft Management Letter.

The Audit Committee gave positive advice as to the *Retail and Corporate Risk Appetite Statements metrics / limits in ING Bank Śląski S.A.* and the *Overview of ING Bank Śląski Key Market Risk Indicators (KRI)*, and recommended the Supervisory Board approval thereof.

In April, the Committee accepted the document called the *General Principles of Credit and Market Risk Management at ING Bank Śląski S.A.* and recommended the Supervisory Board approval thereof. The Committee also reviewed the report on the execution of the *2011 Annual Internal Audit Plan*. Furthermore, the Committee accepted the CEO’s update regarding the comprehensive inspection by PFSA.

During the meeting in July, the Audit Committee accepted the Semi-Annual Report by the Internal Audit Department and recommended the Supervisory Board approval thereof. The Committee gave positive advice regarding the update on the *2012 Internal Audit Plan* and resolved to request the Supervisory Board for passing a resolution to that effect. The Committee also accepted a number of policies in the area of information security and recommended their approval to the Supervisory Board.

In September, the Audit Committee familiarised themselves with the Bank’s results for the first half of 2012 and acknowledged the *CAS Quality Assurance Review (QAR)* issued by the Corporate Audit Services of ING Group. The Audit Committee also accepted the updated *2012 Internal Audit Plan* and the updated *Policy of ING Bank Śląski S.A. – Internal Audit System* while recommending their approval to the Supervisory Board.

The Audit Committee familiarised themselves with the Management Board’s information regarding the process of risk-weighted assets (RWA) optimisation and the SOX process at the Bank. The Audit Committee also accepted the Annex to the Co-operation Agreement with ING Group NV and ING Bank NV for 2012.

During their final meeting in 2012, the Audit Committee reviewed the financial results for Q3 2012. The Committee acknowledged the presentation concerning the findings of the limited review for Q3 2012 by the external auditor. At the same time, the Audit Committee accepted the *Internal Audit Department Semi-annual Report on the Standard of Internal Control of ING Bank Śląski S.A.* and the *Audit Strategy Memorandum (ASM) including long term planning for the years 2013-2017 and the Annual Internal Audit Plan for 2013*, and recommended their approval to the Supervisory Board. The Audit Committee also gave positive advice as to the document called *Specific rules of inspection of the level of remuneration and protection against groundless dismissal for employees of the internal audit unit*; the document was implemented at the Bank as required under PFSA Resolution 258/2011.

The Audit Committee acknowledged the update on the progress of works related to the implementation of post-inspection recommendations of the Polish Financial Supervision Authority. It was agreed that the schedule of recommendation implementation would be a regular item on the Supervisory Board's agenda.

As regards oversight of the risk and capital management system, the Audit Committee accepted a number of documents concerning ICAAP at ING Bank Śląski S.A., and recommended their approval to the Supervisory Board. Furthermore, the Committee gave positive advice regarding the updated documents called *The General Principles of Credit- and Market Risk Management and Limitations in ING Bank Śląski S.A.* and the *Retail and Corporate Risk Appetite Statements Metrics/ Limits at ING Bank Śląski S.A. for 2013* and recommended their approval to the Supervisory Board.

Pursuant to §8.6 of the Audit Committee Bylaw, the members of the Committee held also a separate meeting with the representatives of the internal and external auditor.

Regular issues that are debated during all Audit Committee meetings include:

- Non-Financial Risk Dashboard submitted by the Bank Executive Director responsible for the Operational Risk Management, Compliance and Anti-Fraud area,
- Risk Report including the retail credit risk and corporate credit risk management area as well as the market risk management area.
- List of agreements with related entities accepted by the Committee upon confirmation that the agreements are concluded on an arm's length basis.



In keeping with existing practice, the Chairman of the Audit Committee held periodic meetings with the Chief Financial Officer. During those meetings the Chairman was updated on the periodic financial results of the Bank prior to their publication.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee support the Supervisory Board with regard to the monitoring and supervising of the HR and pay area, including in particular succession plans, employee-turnover processes, employee satisfaction surveys, as well as the remunerating and rewarding policy.

In 2012, the Remuneration and Nomination Committee worked in the following composition:

Anna Fornalczyk	-	Chair
Brunon Bartkiewicz	-	Member
Nicolaas Cornelis Jue	-	Member
Wojciech Popiolek	-	Member

In 2012, there were no changes on the Committee.

Agenda of the Remuneration & Nomination Committee

During the first meeting of the Remuneration and Nomination Committee in January the Committee gave positive advice as to the appointment of Mr. Ignacio Juliá Vilar to the Management Board of ING Bank Śląski S.A., effective 01 February 2012, and recommended that the Supervisory Board pass a resolution to that effect. The Committee also acknowledged the update on the results of the Winning Performance Culture Scan (WPC) at the Bank.

In March, the Remuneration and Nomination Committee accepted the list of executive positions at ING Bank Śląski S.A. within the meaning of PFSA Resolution no. 258/2011 including methodology thereof, and recommended that the Supervisory Board pass a relevant resolution in that respect. The Remuneration and Nomination Committee devoted much attention to the issues related to the determination of the 2012 bonus tasks (KPIs) for and the remuneration of the members of the Management Board.

During the meeting in April, the Remuneration and Nomination Committee resolved to recommend that the Supervisory Board approve the document called *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*



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In July, the Committee accepted amendments to the said Policy, as well as the *Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A.*, and recommended their approval to the Supervisory Board.

During the meeting in September, the Committee issued positive recommendation regarding the *ING Bank Śląski General Conditions of the Phantom Equity Plan*. In addition, the Committee acknowledged the Management Board's update on the Winning Performance Culture Scan at the Bank (WPC).

In November, the Committee acknowledged the report on the remuneration of supervisory boards. The Remuneration and Nomination Committee accepted, among others, the document called *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees* and recommended the Supervisory Board approval thereof.

Summary

The Supervisory Board confirm that they exercised regular and ongoing supervision over the Bank's activity throughout the reporting period in accordance with their competences and the legal requirements concerning joint-stock companies. The Supervisory Board consider their operations in 2012 to have been effective and in keeping with the best market standards.

The co-operation with the Management Board of ING Bank Śląski S.A. was successful and constructive. The Supervisory Board express their appreciation for the Management Board's dedication and contribution in 2012, as well as the consistent implementation of the Bank's business strategy, according to which the Bank puts the client's needs in the center, strives to achieve operational excellence, and creates friendly and attractive working environment for its employees as a responsible employer.
