

**Report of the Supervisory Board of ING Bank Śląski S.A.**  
**on Their Operations for 2013**

The Supervisory Board of ING Bank Śląski S.A. operates pursuant to the Banking Law, the Commercial Companies and Partnerships 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. The current term of office started on 03 April 2009 and will expire as at the day on which the General Meeting approve the financial statements for 2013.

As at 31.12.2013, the Supervisory Board worked in the following composition:

<b>Anna Fornalczyk</b>	–	<b>Chair</b>
<b>Brunon Bartkiewicz</b>	–	<b>Deputy Chair</b>
<b>Wojciech Popiołek</b>	–	<b>Secretary to the Supervisory Board</b>
<b>Roland Boekhout</b>	–	<b>Member</b>
<b>Nicolaas Jue</b>	–	<b>Member</b>
<b>Ad Kas</b>	–	<b>Member</b>
<b>Mirosław Kośmider</b>	–	<b>Member</b>

The following changes took place in 2013 in the Supervisory Board:

- Following his appointment as CEO of ING Group, Mr Ralph Hamers tendered his resignation as the Member of the Supervisory Board, effective as of 19 April 2013,
- on 19 April 2013, the General Meeting appointed Mr Ad Kas as Member of the Supervisory Board.

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, Ad Kas and Nicolaas Jue, have ties with ING Bank NV, the strategic shareholder of the Bank. The CVs of the Supervisory Board Members are available on the Bank's web site.



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### **General Matters**

Throughout 2013, 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, finance and reporting of public companies. The works of the Supervisory Board proceeded smoothly with all Members taking an active part.

The Supervisory Board of ING Bank Śląski S.A. analysed thoroughly all aspects of the Bank's operations. The Bank 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 Bank 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 01 January 2013 and 31 December 2013, the Supervisory Board met six times, and adopted 63 resolutions in total, including 9 passed by way of circulation. The Audit Committee and the Remuneration and Compensation Committee met 5 times in 2013. 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 18 January 2013, the Supervisory Board approved the strategy of ING Bank Śląski S.A. for 2013-16. During the subsequent meetings the Supervisory Board monitored the execution of the approved financial plan and reviewed the current financial results of the Bank.

As part of overseeing the financial reporting and external audit process, upon familiarising themselves with the recommendation of the Audit Committee, the Supervisory Board selected KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorised to audit the statutory financial statements of ING Bank Śląski S.A.

As regards the oversight of the internal control system, the Supervisory Board approved the results of the Internal Audit Department Competence Profile Review and the Report of the Internal Audit Department on the audit of the remuneration process at the Bank, thus fulfilling the requirements of the PFSA Resolution No. 258/2011. During that same meeting, the Supervisory Board also approved amendments to the *ING Bank Śląski S.A. Policy – Internal Control System*.

As part of monitoring the system of variable remuneration components, the Supervisory Board approved the following updated documents: the *Variable Remuneration Policy of Persons Holding*



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*Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A., and the Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A.*

In an effort to adapt its own regulations to external and internal requirements, the Supervisory Board reviewed its bylaws and resolved to approve the amendments to the *Bylaw of the Supervisory Board of ING Bank Śląski S.A.*, as well as to the *Bylaws of the Audit Committee* and of the *Remuneration and Nomination Committee*.

The beginning of the year was also the time when the Supervisory Board resolved to adopt the *Risk Appetite Statement for Non-Financial Risk at ING Bank Śląski S.A. for 2013*.

During the next meeting on 07 March 2013, the Supervisory Board approved the Bank's Annual Financial Statements for 2012 (standalone and consolidated ones) and the Report of the Management Board on the Bank's Operations in 2012 as well as the Supervisory Board's Report on the Results of their assessment of the documents listed in Article 382 §3 of the Commercial Companies and Partnerships Code and the assessment of the Bank's standing in 2012. The Supervisory Board also adopted the *ING Bank Śląski S.A. Management Board Report on Observance of Corporate Governance Rules in 2012*.

The Supervisory Board agreed with the recommendation of the Remuneration and Nomination Committee and appointed Ms Joanna Erdman as Vice-President of the Bank Management Board in charge of the Strategic Clients and Financial Markets Divisions, effective as of 01 April 2013. Furthermore, pursuant to the recommendation of the Remuneration and Nomination Committee the Supervisory Board approved the key performance indicators (KPI) for 2013 for the Members of the Bank Management Board and approved changes in their remuneration.

As per the recommendation of the Audit Committee, the Supervisory Board reviewed the results of the internal quality review (IQR) of the Internal Audit Department for 2012.

On 18 March, the Supervisory Board passed a resolution by way of circulation and approved the convention of the Ordinary General Meeting ING Bank Śląski S.A., as well as draft resolutions of the GM and the Management Board's proposal regarding the distribution of profit of ING Bank Śląski S.A. for 2012.

On 28 March, also by way of circulation, the Supervisory Board approved the results of the pay review of the employees of the Internal Audit Department (IAD) and the results of the review of the Internal Audit Department's headcount level and structure.



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Last year the General Meeting of ING Bank Śląski S.A. was held on 19 April. The Supervisory Board met on the same day and passed several resolutions including, among others, a resolution on approval of amendments to the *List of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*

The next meeting of the Supervisory Board took place in June. During that meeting, the Supervisory Board passed a number of resolutions concerning the credit- and market risk management area, including inter alia the resolutions concerning approval of the following documents: the 2013 strategy for retail credit risk management at ING Bank Śląski S.A., the updated *Risk Materiality Assessment Policy at ING Bank Śląski S.A.*, *Stress-Testing Policy in ING Bank Śląski S.A.*, as well as resolutions concerning approval of documents from the non-financial risk management area: *Compliance Risk Management Policy* and the *Operational Risk Management Policy at ING Bank Śląski S.A.*

The Supervisory Board also approved the Internal Audit Department Semi-Annual Report on the Standard of Internal Control of ING Bank Śląski S.A. As part of monitoring the remuneration area, the Supervisory Board approved amendments to the *Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A.* and the *Phantom Stock Scheme Regulations of ING Bank Śląski S.A.*

During the meeting in September, the Supervisory Board approved amendments to the *Capital Management and ICAAP Process Policy at ING Bank Śląski S.A.*, as well as the *Difficult-to-Measure Risks Management Policy at ING Bank Śląski S.A.* and *Planning Policy at ING Bank Śląski S.A.*, and the *Principles of DTI Stress Testing* as enclosed with the *Credit Bylaw – Principles of Credit Risk Assessment for Retail Clients*.

The Supervisory Board devoted much attention to the audit-related issues – the Board approved, among other things, the updated internal audit plan for 2013 as well as the report on the audit of HR/ remuneration processes. Furthermore, the Supervisory Board approved changes to the methodology of establishing the *List of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* The Supervisory Board also acknowledged the report from the external review as to the compliance of the Internal Audit Department's activities with Recommendation H issued by PFSA.

In November, the Supervisory Board approved the Audit Strategy Memorandum including the long-term audit planning for the years 2014-2018 and the 2014 Annual Audit Plan.

Risk-related issues were another important item on the agenda of the Supervisory Board. The Supervisory Board approved the updated *Funding and Liquidity Risk Management Policy at ING Bank*



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*Śląski S.A.* As regards the oversight of the risk and capital management system, the Supervisory Board approved the *Report on the Review of the ICAAP Process at ING Bank Śląski S.A. for 2013*. The Supervisory Board also approved the *2014 Plan of Work for the Supervisory Board and the Committees*.

As recommended by the Audit Committee, throughout the year, the Supervisory Board approved the documents submitted by the Internal Audit Department – the changes to the annual audit plan and the semi-annual reports on the operations of the Department.

The Non-Financial Risk Dashboard including, among other things, information concerning operational and compliance risks, 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 attended a number of separate meetings with the members of the Bank Management Board and senior management staff of the Bank. At the request of the Supervisory Board, the Bank holds workshops held on various subjects. On 06 March 2013, the independent members of the Supervisory Board attended a workshop on the corporate credit risk management and on 20 June they attended a workshop on liquidity management. Both workshops were highly regarded by the attendees. Other workshops were included in the 2014 Plan of Work.

Members of the Supervisory Board also 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 their powers, 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 and



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the risk management system, including operational risk, compliance risk, credit- and market risk, relations between the Bank and related entities as well as between the Bank and the entity auditing Bank's financial statements.

In 2013, the Audit Committee worked in the following composition:

<b>Mirosław Kośmider</b>	–	<b>Chair</b>
<b>Brunon Bartkiewicz</b>	–	<b>Member</b>
<b>Ralph Hamers</b>	–	<b>Member (until 19 April 2013)</b>
<b>Nicolaas Jue</b>	–	<b>Member</b>
<b>Ad Kas</b>	–	<b>Member (as of 21 June 2013)</b>

### **Agenda of the Audit Committee Meetings**

During their first meeting in 2013, upon reviewing the motion of the Bank Management Board, the Audit Committee gave their recommendation regarding the choice of KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorised to audit the statutory financial statements of ING Bank Śląski S.A. During that meeting the Audit Committee also dealt with issues related to the internal audit area. The Committee gave their positive advice on the updated *ING Bank Śląski Policy – Internal Control System* and the results of the Internal Audit Department Competence Profile Review, and recommended the Supervisory Board approval thereof.

In March, the Audit Committee focused on the Annual Report – the 2012 Financial Statements (consolidated and stand-alone), including the opinion of the external auditor; the Audit Committee recommended the Supervisory Board approval thereof. The Audit Committee also paid much attention to the issues related to the internal audit area – the Audit Committee gave recommendations concerning, among other things, the Report on the Execution of the 2012 Annual Internal Audit Plan and the results of the 2012 internal quality review (IQR) of the Internal Audit Department. Furthermore, the Audit Committee gave their recommendation regarding the Annex to the Cooperation Agreement with ING Group NV and ING Bank NV for 2013.

During the meeting in June, the Audit Committee reviewed the Management Letter for 2012 and the Bank's responses thereto. The Committee also reviewed the consolidated quarterly report of the ING Bank Śląski S.A. Capital Group. As part of monitoring the independence of the chartered auditor, the Audit Committee gave positive advice on amendments to the *ING Bank Śląski S.A. External Auditor Independence Policy*. The Committee also accepted a number of policies related to the risk area and recommended the Supervisory Board approval thereof.



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Furthermore, the Audit Committee made a recommendation regarding *the Internal Audit Department Semi-Annual Report on the Standard of Internal Control of ING Bank Śląski S.A.*

In September, the Audit Committee reviewed the Bank's results for the first half of 2013, including the external auditor's report on their review.

As regards the monitoring of the internal audit area, the Audit Committee positively advised on amendments to the 2013 Annual Internal Audit Plan. The Committee also acknowledged the report from the external review of the Internal Audit Department's compliance with Recommendation H issued by PFSA.

Further, the Audit Committee also received a number of regulations from the credit- and market risk area and resolved to recommend their approval to the Supervisory Board.

During their final meeting in November 2013, the Audit Committee reviewed the financial results for Q3 2013. At the same time, the Audit Committee accepted the Report on ICAAP Process Review at ING Bank Śląski S.A. for 2013 as well as the results of the Overview of ILAAP Process at ING Bank Śląski S.A., including the *Liquidity and Funding Policy*, and gave the relevant recommendation to the Supervisory Board.

The Audit Committee also accepted the *Audit Strategy Memorandum including the long-term audit planning for the years 2014-2018* and the *2014 Annual Audit Plan*, and recommended the Supervisory Board approval thereof.

The Audit Committee reviews the following documents at every meeting:

- Non-Financial Risk Dashboard
- 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.

The Chairman of the Audit Committee holds periodic meetings with the Chief Financial Officer. During those meetings, the Chairman is updated on the periodic financial results of the Bank prior to their publication. The Chairman of the Audit Committee also represented the Supervisory Board during the closing meeting summarising the inspection conducted by the Polish Financial Supervision Authority in November and December 2013.



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### **Remuneration and Nomination Committee**

The Remuneration and Nomination Committee support the Supervisory Board with regard to the monitoring and supervision 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 2013, the Remuneration and Nomination Committee worked in the following composition:

<b>Anna Fornalczyk</b>	–	<b>Chair</b>
<b>Brunon Bartkiewicz</b>	–	<b>Member</b>
<b>Nicolaas Jue</b>	–	<b>Member</b>
<b>Wojciech Popiolek</b>	–	<b>Member</b>

There were no changes in the Committee in 2013.

### **Agenda of the Remuneration and Nomination Committee Meetings**

During their first meeting in January, the Remuneration and Nomination Committee gave positive advice on the results of the review of the List of managerial positions within the meaning of Polish Financial Supervision Authority Resolution No. 258/2011 and the changes to the *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* Furthermore, the Remuneration and Nomination Committee accepted the updated *Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A.*

In March, the Remuneration and Nomination Committee discussed and agreed on the key performance indicators (KPI) for the Bank Management Board Members for 2013 and the changes in the remuneration of the Bank Management Board Members. The Remuneration and Nomination Committee also recommended the Supervisory Board the appointment of Ms Joanna Erdman as the Vice-President of the Bank Management Board in charge of the Strategic Clients and Financial Markets Divisions.

Also in March, by way of circulation, the Committee accepted the results of the pay review of the employees of the Internal Audit Department (IAD) of ING BSK and the results of the review of the Internal Audit Department's headcount level and structure; the Committee found the results are adequate and recommended the Supervisory Board their approval.

During the meeting in April, the Remuneration and Nomination Committee resolved to recommend the Supervisory Board approval of the amendments to the *List of Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*





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In June, the Committee accepted the changes to the *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*, as well as the amendments to the *Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A.* and to the *Phantom Stock Scheme Regulations of ING Bank Śląski S.A.*; the Committee recommended the Supervisory Board approval thereof.

Furthermore, the Remuneration and Nomination Committee acknowledged the update on the quarterly review of the *List of Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* and the update on the summary of the succession plans for 2013.

During their last meeting in September the Committee gave positive recommendation on changes to the methodology of establishing the *List of Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* Furthermore, the Committee acknowledged the Bank Management Board's update on the essential provisions of the CRD IV Directive as regards variable remuneration policy and the guidelines of the European Banking Authority on the assessment of the suitability of the members of the management body and key function holders. As in the previous quarters, the Committee familiarised themselves with the update on the quarterly review of the *List of Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*

### **Conclusions**

The Supervisory Board confirm that they have exercised regular and ongoing supervision over the Bank's operations throughout 2013 in accordance with their powers and the legal requirements concerning joint-stock companies. The Supervisory Board Members are well prepared to exercise all statutory and Charter-defined rights and duties and perform their tasks properly, ensuring adequate supervision over the Bank in all material aspects of its operations. The Supervisory Board consider their operations in 2013 to have been effective and in keeping with the best market standards.

At the same time, the Supervisory Board of ING Bank Śląski S.A. consider 2013 to be yet another year of successful and constructive co-operation with the Bank Management Board, both during the regular meetings and throughout the year. The Supervisory Board express their appreciation for the Bank Management Board's contribution in 2013, including in particular the consistent high financial results, implementation of innovative solutions to the Bank's offer and building positive image of the Company among the staff and in the society at large.

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