

Report of the Supervisory Board of ING Bank Śląski S.A.
on Their Operations for 2014

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 section 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 term of office of the former Supervisory Board expired on 10 April 2014, as at the day on which the General Meeting approved the financial statements for 2013. On 10 April 2014, the General Meeting appointed new members of the Supervisory Board for another 5-year term of office. The Supervisory Board held their first meeting and was constituted on the same day. The Supervisory Board also selected the members of the Audit Committee and of the Remuneration and Compensation Committee.

From 01 January 2014 to 10 April 2014, the Supervisory Board worked in the following composition:

Anna Fornalczyk	–	Chair (independent member)
Brunon Bartkiewicz	–	Deputy Chair
Wojciech Popiolek	–	Secretary (independent member)
Roland Boekhout	–	Member
Nicolaas Jue	–	Member
Ad Kas	–	Member
Mirosław Kośmider	–	Member (independent member)

From 10 April 2014 to 31 December 2014, the Supervisory Board worked in the following composition:

Antoni Reczek	–	Chair (independent member)
Brunon Bartkiewicz	–	Deputy Chair
Aleksander Galos	–	Secretary (independent member)
Roland Boekhout	–	Member
Nicolaas Jue	–	Member
Ad Kas	–	Member
Aleksander Kutela	–	Member (independent member)

In line with the Corporate Governance rules, there are independent members on the Supervisory Board of the Bank. At present, three members of the Supervisory Board: Mr Antoni Reczek, Mr Aleksander Galos and Mr Aleksander Kutela meet the independence criteria set out in the Charter. Other members – Mr Brunon Bartkiewicz, Mr Roland Boekhout, Mr Ad Kas and Mr Nicolaas Jue – have ties with ING Bank N.V., the strategic shareholder of the Bank and held functions in the Supervisory Board in the previous term of office. The CVs of the members of the Supervisory Board are available on the Bank's web site.

General Matters

Throughout 2014, 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 in them.

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 good practices in that respect.

In keeping with the approved plan of work, between 01 January 2014 and 31 December 2014, the Supervisory Board met six times, and adopted 76 resolutions in total, including 10 passed by way of circulation. The Audit Committee and the Remuneration and Compensation Committee met five times in 2014. 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 31 January 2014, the Supervisory Board approved the Strategy of ING Bank Śląski S.A. for 2014-2016. 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 the oversight over the Bank's operations, the Supervisory Board saw the results of the review as regards the execution of recommendations of the Polish Financial Supervision Authority's comprehensive inspection conducted at the Bank in 2012 and also the information on the thematic

inspection conducted at the Bank by the Polish Financial Supervision Authority between November and December 2013.

As part of oversight over the internal control system, the Supervisory Board acknowledged the *Report on the execution of the 2013 Annual Internal Audit Plan* and took note of the results of the external review regarding conformance of the internal audit function to the standards of the Institute of Internal Auditors (IIA standards). The Supervisory Board also approved the results of the Internal Audit Department Competence Profile Review.

Moreover, the Supervisory Board approved the amended *By-law of making use of the bank products by the Bank authorities members and the persons holding senior positions and the entities connected with them in terms of capital or in organisational terms, as well as by other entities stipulated by the By-law*.

The Supervisory Board also gave a lot of attention to risk management-related topics. The Supervisory Board approved the Risk Appetite Statement including the key credit- and market risk limits for 2014 and adopted the Non-Financial Risk Appetite Statement of the Bank for 2014.

Furthermore, the Supervisory Board approved the amended *Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and the Scope of Published Information of ING Bank Śląski S.A.*

The next meeting was held on 07 March 2014. During that meeting, the Supervisory Board approved the Bank's Annual Financial Statements for 2013 (standalone and consolidated ones) and the Report of the Management Board on the Bank's Operations in 2013 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 2013. The Supervisory Board also adopted the *ING Bank Śląski S.A. Management Board Report on Observance of Principles of Corporate Governance in 2013*. Furthermore, the Supervisory Board approved the date and agenda of the Ordinary General Meeting as well as OGM's draft resolutions.

In keeping with the Audit Committee's recommendation, the Supervisory Board approved the amendments to the *ING Bank Śląski S.A. External Auditor Independence Policy* and the budget for the services to be rendered in 2014 by the entities from the network of the Bank's auditor, KPMG.

The Supervisory Board approved the Internal Audit Department's Semi-Annual Report on the assessment of the internal control system at ING Bank Śląski S.A. as at 31 December 2013, updated as



at 31 January 2014. Furthermore, the Supervisory Board also approved the results of the review of the employment level and structure, taking account of the remuneration budget arising from the adopted competence profile and tasks set out in the Audit Plan governed by the *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees*. In keeping with the recommendation of the Remuneration and Nomination Committee, the Supervisory Board also approved the review results of the execution of the payroll policy for the Internal Audit employees and the IAD Director, having regard to potential changes/deviations as well as the remuneration budget arising from the *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees*.

Another significant topic discussed during that meeting was the assessment of the execution of the bonus tasks by the members of the Bank Management Board for 2013 and determination of the terms and conditions of remuneration for the members of the Bank Management Board for the following year. In keeping with the recommendation of the Remuneration and Nomination Committee, the Supervisory Board approved the changes to the *General Conditions of Phantom Equity Plan of ING Bank Śląski S.A.* Moreover, the Supervisory Board took note of the results of the annual review of the *List of Managerial Positions Having Material Impact on the Risk Profile of the Bank*.

On 26 March, the Supervisory Board set, by way of circulation, the bonus tasks (KPIs) for the Members of the ING Bank Śląski S.A. Management Board.

The General Meeting of ING Bank Śląski S.A. was held on 10 April 2014. The Supervisory Board of the new term of office held their first meeting on the very same day. The Supervisory Board was constituted and also selected the members of the Audit Committee and of the Remuneration and Compensation Committee. The Supervisory Board of the new term of office comprises three new independent members, that is Messrs Antoni Reczek, Aleksander Galos and Aleksander Kutela plus four members from the previous term of office who are related to the strategic shareholder of the Bank, that is Messrs Brunon Bartkiewicz, Roland Boekhout, Nicolaas Jue and Ad Kas.

The next meeting of the Supervisory Board took place in June. It was the first full meeting of the Supervisory Board in the new composition.

During that meeting, the Supervisory Board passed a number of resolutions in the credit- and market risk management area – the Supervisory Board approved the following documents, among other things: the corporate credit risk strategy including new limits for the maximum LtV level and the minimum downpayment amount in keeping with the Recommendation S issued by the Polish



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Financial Supervision Authority, bancassurance strategy, updated *General Principles of Credit and Market Risk Management and Limitation in ING Bank Śląski S.A.*, changes to the credit and market risk appetite level (RAS) as regards market risk as well as the updated *Stress Testing Policy*. In keeping with the Polish Financial Supervision Authority's requirements, the Supervisory Board also approved the methodology for DTI stress-testing and for LTV stress-testing for mortgage-backed exposures. The Supervisory Board also approved changes to the capital limit on residual risk and default and counterparty risk.

In terms of the non-financial risk area, the Supervisory Board granted consent to implementing at the Bank the updated *Operational Risk Management Policy at ING Bank Śląski S.A.* and also reviewed the quarterly report on utilisation of non-financial risk tolerance limits. In keeping with the Polish Financial Supervision Authority's recommendation, starting from the meeting in June, the Supervisory Board has been reviewing the report on clients complaints.

The Supervisory Board also approved the IAD Report including an update on the status of the 2014 audit plan execution as well as took note of the results of the internal audit functions review.

During the meeting in October, the Supervisory Board approved amendments to the *Planning Policy* and the *Capital Management and ICAAP Process Policy at ING Bank Śląski S.A.*, as well as the *Risk Materiality Assessment Policy* and the *Difficult-to-Measure Risks Management Policy at ING Bank Śląski S.A.*

Much attention was paid to the audit-related issues – the Supervisory Board approved, among other things, the updated internal audit plan for 2014 as well as the report on the audit of HR/ remuneration processes. Furthermore, the Supervisory Board approved changes to the *List of managerial positions having material impact on the risk profile of ING Bank Śląski S.A.*

In November, the Supervisory Board passed a resolution regarding observance by the Bank of the *Principles of Corporate Governance for Supervised Institutions* issued by the Polish Financial Supervision Authority. Following the adoption of the aforementioned Principles and also the review of the Board and its Committees' bylaws, the Supervisory Board approved changes to the *Bylaw of the Bank Management Board*, the *Bylaw of the Supervisory Board* and the *Bylaw of the Audit Committee*. The Supervisory Board also passed a resolution regarding appointment of Mr Aleksander Galos as an independent member of the Audit Committee.

Furthermore, the Supervisory Board approved the *Audit Strategy Memorandum including long-term*

audit planning for the years 2015-2019 and the 2015 Annual Audit Plan, as well as amendments to the Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees.

Risk-related issues were another important item on that agenda of the Supervisory Board meeting. The Supervisory Board approved the updated *Funding and Liquidity Risk Management Policy at ING Bank Śląski S.A.* As regards the oversight over 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 2014.*

The Supervisory Board paid much attention also to the issues related to the determination of the *List of managerial positions having material impact on the risk profile of the Bank* (risk takers) and their remuneration. In that regard, the Supervisory Board approved the methodology for choosing those positions as well as 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 recommended by the Audit Committee, throughout the year, the Supervisory Board approved the documents submitted by the Internal Audit Department – 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 meetings described in detail hereinabove, the members of the Supervisory Board attended a number of separate meetings with the members of the Bank Management Board and executive staff of the Bank. At the request of the Supervisory Board, the Bank holds workshops on various subjects. On 05 June 2014, independent members of the Supervisory Board of the new term of office participated in the workshops devoted to general issues of risk management. On 02 October 2014, independent members of the Supervisory Board participated in the workshops devoted to functioning of the HR area at ING Bank Śląski S.A. and on 27 November 2014 in the workshops on liquidity risk management.

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 their powers, the Supervisory Board established the Audit Committee and the Remuneration & Nomination Committee from among their 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 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.

Between 01 January and 10 April 2014, the Audit Committee worked in the following composition:

Mirosław Kośmider	–	Chair
Brunon Bartkiewicz	–	Member
Nicolaas Jue	–	Member
Ad Kas	–	Member

Mr. Antoni Reczek has been the Committee Chairman as of 10 April 2014. Furthermore, on 28 November 2014, the Supervisory Board appointed Mr Aleksander Galos to the Audit Committee. Thus, as at the end of 2014, the Audit Committee worked in the following composition:

Antoni Reczek	–	Chair
Brunon Bartkiewicz	–	Member
Aleksander Galos	–	Member
Nicolaas Jue	–	Member
Ad Kas	–	Member

Agenda of the Audit Committee Meetings

During the first meeting in 2014, the Audit Committee issued positive advice on the amendments to the *Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy of ING Bank Śląski S.A.*, recommending their approval by the Supervisory Board. The Audit Committee devoted much attention also to the issues related to the internal audit area by issuing recommendations for the Supervisory Board on the results of the Internal Audit Department competence profiles review arising



from the *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees* and the status report of the annual internal audit plan for 2013. The Audit Committee also acknowledged the results of the external review of the internal audit function's conformance to the IIA Standards. The Committee positively advised upon the updated *By-law of making use of the bank products by the Bank authorities members and the persons holding senior positions and the entities connected with them in terms of capital or in organisational terms, as well as by other entities stipulated by the By-law*.

As part of the oversight over risk management, the Audit Committee issued a recommendation on the RAS document covering the key credit- and market risk limits for 2014 and also on the Non-Financial Risk Appetite Statement of the Bank for 2014. The Committee also reviewed the quarterly report on the utilisation of non-financial risk tolerance levels in Q4 2013 and the Non-Financial Risk Dashboard (NFRD) – those materials are a regular item on the Committee meeting agenda.

In March, the Audit Committee focused on the Annual Report – the 2013 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 relating to the internal audit area – the Audit Committee gave recommendations concerning, among other things, the Internal Audit Department Semi-Annual Report on the Standard of Internal Control of ING Bank Śląski S.A. as at 31 December 2013 and updated as at 31 January 2014. Furthermore, the Audit Committee gave their recommendation regarding the Annex to the Cooperation Agreement with ING Group NV and ING Bank NV for 2014.

The Audit Committee also discussed matters relating to the Bank's external auditor and issued recommendations on the changes to the *ING Bank Śląski S.A. External Auditor Independence Policy* and the budget for the services to be rendered in 2014 by the entities from the KPMG Network.

During the meeting in June, which was the first meeting in the new composition, the Audit Committee reviewed the Management Letter for 2013 and the Bank's responses to the issues raised therein. The Committee also reviewed the consolidated quarterly report of the ING Bank Śląski S.A. Capital Group. The Committee also accepted a number of policies related to the risk area and recommended the Supervisory Board approval thereof.

Furthermore, the Audit Committee issued a recommendation on the *IAD Report including an update on the status of the 2014 audit plan execution*.

In October, the Audit Committee reviewed the Bank's results for the first half of 2014, including the external auditor's report on their review.

As part of monitoring of the internal audit area, the Audit Committee positively advised on amendments to the 2014 Annual Internal Audit Plan.

The Audit Committee also received a number of updated regulations from the credit- and market risk area, including the *Risk Materiality Assessment Policy* and the *Difficult-to-Measure Risks Management Policy at ING Bank Śląski S.A.*, recommending their approval by the Supervisory Board.

During their final meeting in November 2014, the Audit Committee reviewed the financial results for Q3 2013. At the same time, the Audit Committee accepted the *Report on the ICAAP Process Review at ING Bank Śląski S.A. for 2014*, and gave the relevant recommendation to the Supervisory Board. The Committee also recommended that the Supervisory Board approve the updated *Funding and Liquidity Risk Management Policy at ING Bank Śląski S.A.*

In the audit area, the Audit Committee also accepted the *Audit Strategy Memorandum including long-term audit planning for the years 2015-2019* and the *2015 Annual Audit Plan*, and recommended the Supervisory Board approval thereof. Furthermore, the Committee accepted the changes to the *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.

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. In line with the requirements of the *Bylaw of the Audit Committee*, on 28 November 2014 the Audit Committee also held a closed meeting with the representatives of the external and internal auditors.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee support the Supervisory Board with regard to the monitoring and supervision of the HR and payroll area, including, in particular, succession plans,

employee-turnover processes, employee satisfaction surveys as well as the remunerating and rewarding policy.

From 01 January 2014 to 10 April 2014, the Remuneration and Nomination Committee worked in the following composition:

Anna Fornalczyk	–	Chair
Brunon Bartkiewicz	–	Member
Nicolaas Jue	–	Member
Wojciech Popiolek	–	Member

As of 10 April 2014, the Remuneration and Nomination Committee worked in the following composition:

Aleksander Galos	–	Chair
Brunon Bartkiewicz	–	Member
Roland Boekhout	–	Member
Aleksander Kutela	–	Member

Agenda of the Remuneration and Nomination Committee Meetings

During the first meeting of the Remuneration and Nomination Committee in January, the Committee positively advised upon the amendments to the *Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and the Scope of Published Information of ING Bank Śląski S.A.* and recommended the Supervisory Board approval thereof. Furthermore, the Remuneration and Nomination Committee reviewed the assumptions for the Bank's payroll policy for 2014. The Committee also acknowledged an update on the results of the Winning Performance Culture (WPC) scan for 2013 and plan of follow-up actions for 2014.

In March, the Remuneration and Nomination Committee paid much attention to the matters related to the persons holding managerial positions having material impact on the risk profile – the Committee took note, among other things, of an update on the results of the annual review of the list of the above mentioned persons.

The Committee accepted the results of the pay review of the employees of the Internal Audit Department and the results of the review of the employment level and structure in the Internal Audit Department. The Audit Committee had no reservations about the results and recommended the Supervisory Board their approval.



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The Committee also issued a recommendation for the Supervisory Board on the assessment of the bonus tasks execution (KPIs) by the members of the Bank Management Board for 2013 and determined the terms and conditions of their remuneration for 2014.

In view of the upcoming expiry of the Supervisory Board's term of office, the Committee also issued a recommendation for the Supervisory Board on the determination of remuneration for the members of the Supervisory Board in connection with the new term of office of the Board.

The first meeting of the Committee of the new term of office was held in June. The Committee acknowledged the update on the status of the follow-up actions taken in respect of the Winning Performance Culture (WPC) scan for 2013. The Committee also acknowledged the update on the implementation status of the CRD IV Directive as regards the variable remuneration policy and the guidelines of the European Banking Authority on the assessment of the suitability of the management body and key function holders as well as the technical standard as regards Risk Takers identification.

During the meeting in October, the Committee familiarised themselves with the results of the remuneration review at the Bank. The Committee also acknowledged the results of the review of the *List of Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*, recommending the Supervisory Board approval of the updated List.

During their last meeting in November, the Committee recommended the Supervisory Board approval of the methodology for the selection of the managerial positions having material impact on the risk profile of the Bank (risk takers) arising from the EBA Regulatory Technical Standard and the updated *List of Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* prepared on that basis. The Committee also accepted the amendments to the *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*, and recommended the Supervisory Board approval thereof. Furthermore, the Committee accepted the changes to the *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees* and issued a positive recommendation to the Supervisory Board. The Committee also acknowledged an update on the results of the Winning Performance Culture (WPC) scan for 2014.

Conclusions:

The Supervisory Board confirm that they exercised regular and ongoing supervision over the Bank's operations throughout 2014 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 2014 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 2014 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 2014, 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. The effectiveness of the Bank's efforts is confirmed by numerous awards and distinctions won by the Bank in 2014.

The Supervisory Board congratulate the Management Board and the employees on their achievements last year.
