

I. SUPERVISORY BOARD'S ASSESSMENT OF OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2015

2015 was the second year in which we saw a high economic growth in Poland. It is estimated that the generated Gross Domestic Product rose by 3.6% over 3.3% in 2014. The labour market saw further improvement – over the year the unemployment rate went down by 1.6 p.p. and as at the end of December for the first time since 2008 it settled below 10% , i.e. at 9.8%. Also real salaries augmented by 3.5% from 3.9% a year ago on the yearly average basis. The downward trend in consumer prices started back in H2 2014 continued. It resulted in the average deflation arriving at -0.9%.

The condition of the banking sector was directly impacted by statutory and regulatory changes as well as changes of the Central Bank's monetary policy. On 29 January 2015, the laws lowering the interchange fees even further, namely from 0.5%-0.6% to 0.2%-0.3%, became effective. In early March, the NBP base interest rate was lowered by 0.5 p.p., which made the reference rate of the National Bank of Poland arrive at 1.5% and the lombard rate at 2.5%. At the end of the year, the banking sector was affected by two developments impacting its performance: bankruptcy of Bank Rzemiosła i Rolnictwa in Wołomin (additional contributions to the Bank Guarantee Fund amounted to PLN 2 billion) and formation of the Borrower Financial Assistance Fund (total cost incurred by the sector arrived at PLN 600 million).

Regardless of the additional, unexpected encumbrances, ING Bank Śląski S.A. generated in 2015 the net profit of PLN 1,140 million over PLN 1,068 million in 2014 (up by 6.7%). The increase was possible due to:

- higher income. In 2015, the Bank's income totalled PLN 3,644 million over PLN 3,394 million a year earlier (up by 7.4%). The main driver was the increase of the net interest income by 6.0%, triggered mainly by significant business volume boost. Also the sale of 20% of ING PTE's shares – impact of PLN 170 million and the sale of some part of the portfolio of securities with positive valuation – PLN 50 million contributed to the income. The net income on fees and commissions was lower by 5.1%, mainly due to lower commissions on card transactions,
- optimal operation expenses. Admittedly, in 2015, the Bank incurred costs of PLN 2,035 million, being PLN 221 million (or 11%) more than in 2014; however, the costs reported in 2015 were affected by three considerable and extra encumbrances: contribution to BGF for the release of deposits guaranteed to clients of the bankrupt Bank Rzemiosła i Rolnictwa in Wołomin in the amount of PLN 157.4 million, contribution for the newly established Borrower Financial Assistance Fund in the amount of PLN 6.4 million and increased annual and prudential contributions to BGF – PLN 50 million. The factors increasingly differentiating this-year costs from the ones incurred previous year totalled PLN 214 million. Excluding their impact, the costs were similar to the ones in 2014 (growth rate of 0.4%), whereas the scale of Bank's operations increased significantly,
- lower balance of loan loss provisions. Very good quality of the lending portfolio as well as the sale of irregular receivables – a positive impact on risk costs of approx. PLN 37 million – resulted in relatively low loan loss provisions. In 2015, the increase of the net loan provisions was PLN 213 million and it was nearly PLN 31 million lower than last year. The provision coverage ratio for impaired receivables being 66.6% proves the loan provisions to be adequate. The ratio went down when compared with 2014 by 10 p.p.; however, this is a natural consequence of selling irregular receivables, which if still included in the balance sheet are fully provisioned for.

As part of the operations of the Audit Committee, the Supervisory Board supervise on an ongoing basis the management of various types of risk at ING Bank Śląski S.A.

As part of monitoring the effectiveness of internal control systems and internal audit function in 2015, the Audit Committee recommended that the Supervisory Board approve the following: updated ING Bank Śląski S.A. Policy – Internal Control System, Annual report on the standard of internal control of ING Bank Śląski S.A. as at 31 December 2014 updated as at 16 February 2015 along with the update on the completion of the 2014 Audit Plan, the results of the competence profiles review, headcount level and structure of the Internal Audit Department, the 2015 quality assurance plan, updated internal audit plan for 2015, results of the internal quality review of the Internal Audit Department, as well as the scope and rules of cooperation specified in Detailed scope of cooperation between Internal Audit Department and Corporate Audit Services of ING Bank N.V. The Audit Committee also recommended that the Supervisory Board approve the Audit Strategy Memorandum with Long-Term Internal Audit Plan for years 2016-2020 and Internal Audit Plan for 2016.

Also the Committee recommended to the Supervisory Board to acknowledge the results of the audit concerning verification of the Bank's compliance with the requirements of Recommendation D as presented in the Recommendation D Implementation Audit Form.

At each of their meetings, the Audit Committee acquainted themselves with the periodic management information on the operational risk and compliance risk – Non-Financial Risk Dashboard (NFRD). The Committee received quarterly risk reports on utilisation of non-financial risk tolerance limits. Both documents are a fixed item on the agenda of the Supervisory Board meeting. Furthermore, the Audit Committee recommended that the Supervisory Board approve the Non-Financial Risk Appetite Statement of the Bank for the year 2015 as well as amended ING Bank Śląski S.A. Compliance Risk Management Policy and ING Bank Śląski S.A. Operational Risk Management Policy.

The Audit Committee support the Supervisory Board in terms of monitoring and overseeing the financial risk management system (credit risk and market risk). As part of the said actions, the Audit Committee during each of its meetings acquaint themselves with the periodic Risk Dashboard presenting the retail and corporate credit risk management as well as market risk management areas. The Audit Committee recommended that the Supervisory Board approve the updated General principles of credit and market risk management and mitigation in ING Bank Śląski S.A., and amended Funding and Liquidity Risk Management Policy at ING Bank Śląski S.A. In their sessions, the Audit Committee also accepted the changes to the parameters of the Risk Appetite Statement (RAS) for 2015 regarding the strategic clients lending portfolio and the corporate loan portfolio and recommended that the Supervisory Board approve the same.

The Committee also supervise the internal capital assessment, capital management and capital planning processes. In 2015, the Committee recommended that the Supervisory Board approve the following updated documents: ICAAP and Capital Management Policy at ING Bank Śląski S.A., Stress-Testing Policy in ING Bank Śląski S.A., Funding and Liquidity Risk Management Policy at ING Bank Śląski S.A. The Audit Committee also acquainted themselves with the Report on the 2015 ICAAP Review at ING Bank Śląski S.A. and the Report on 2015 ILAAP Review at ING Bank Śląski S.A., and issued relevant recommendations to the Supervisory Board. Furthermore, the Committee recommended that the Supervisory Board approve the changes to the internal limit of the total capital requirement for the entire Group.

To fulfil the requirement arising from PFSA Resolution No. 385/2008, the Audit Committee recommended that the Supervisory Board approve the updated Policy of disclosing qualitative and quantitative information on capital adequacy and the scope of published information of ING Bank Śląski S.A.

The Chairman of the Audit Committee holds periodic meetings with the Chief Financial Officer in which the Chairman is updated on the interim financial results of the Bank prior to their publication.

Following the amendments to the Banking Law Act as of 01 November 2015, on 26 November 2015 the Supervisory Body established the Risk Committee and passed a resolution on their Bylaw. The Risk Committee will support the Supervisory Board in monitoring and supervising the risk management process, including operational risk, credit risk and market risk, as well as in the internal capital assessment and capital planning processes, the model risk management and the capital adequacy area. The Committee consists of 4 Members of the Supervisory Board, including one Independent Member.

In the opinion of the Supervisory Board, ING Bank Śląski S.A. risk management system covers all risk types material. Moreover, to identify, measure and manage risks the Bank applies instruments and techniques adequate for a given risk type. In 2015, ING Bank Śląski S.A. fulfilled all the requirements of sound business operations and capital adequacy, and in particular:

- pursued prudent lending policy. The lending processes and procedures applied by the Bank were compliant with the regulatory requirements and best practices on the market. In 2015, the Bank took account of the economic situation in its lending policy and applied more restrictive procedures towards sectors characterised by increased risk. The Bank's lending portfolio was diversified with a significant share of high-quality loans extended to business entities. The quality of the bank's lending portfolio was significantly better than the market average.
- has systems and procedures in the market risk management area (related to interest rate or currency, among others) that meet the top market standards. Throughout 2015, individual market risk categories were managed actively so that their levels were within the limits effective at the Bank. The balance sheet structure is balanced from the currency perspective; its distinctive feature is the low share of FX receivables in the total mortgage receivables, among other things,

- maintained good liquidity. As at 2015 yearend, the deposits volume was substantially higher than the loans volume. The sound liquidity position of the Bank is attributable to one of the largest among Polish banks (and still growing) stable household deposits base,
- had a high level of equity. In December 2015, the solvency ratio of ING Bank Śląski S.A. totalled 15.1%. At the same time, the Company's own funds were fully high-quality capital; i.e. Tier 1 capital.

Furthermore, the internal audit and compliance risk management procedures binding at the Bank effectively secure its operations against unexpected developments in that regard.

The expected continuation of the economic growth in 2016 and stabilisation of interest rates may contribute to sustained demand on loans and increase in their volume in the banking sector. However the new regulations encumbering banks may limit their capacity to build the capital base needed to keep the lending growing. This is why, the Supervisory Board are of the opinion that the Bank should continue to focus on the actions to enhance its security as well as competitiveness of products and customer experience, such as:

- adequate capital management in order to ensure a safe increase in lending as well as fulfilment of all present and future regulatory requirements.
- further development of the product offer and electronic distribution channels. In stiff competition, it is possible to increase revenues by expanding the customer base through acquiring new customers and increasing loyalty of existing ones. Such an approach boosts customer balances and transaction volumes,
- increasing lending capabilities, while being prudent when assessing clients' risk. This will foster keeping high quality of the portfolio and boost net interest income.
- maintenance of adequate stable deposits. It will ensure liquidity indispensable to develop lending,
- optimal use of available resources. Further improvement of cost effectiveness by enlarging the scale of operations with the use of available resources and maintaining high quality of the processes.

According to the Supervisory Board, the strategy pursued by the Bank over the last few years to increase the scale of its operations proved to be successful which is reflected in the achieved financial and commercial results. It justifies the assumption that also in 2016 the Bank will continue its strategy, while keeping adequate capital base.