Enclosure with the Supervisory Board Resolution of 3 March 2017

I. Supervisory Board's assessment of operations of ING Bank Śląski S.A. in 2016

A slowdown in the Polish economy growth from 3.6% in 2015 to 2.8% in 2016 stemmed from the drop in the demand for corporate lending (particularly visible in H2 2016) and was most likely connected with the investments being suspended by business entities. On the other hand, demand for household lending was at the level similar to that in 2015. ING analyses show that there is lower interest in short-term loans, but this is mainly true for non-bank lending institutions. This was most probably the result of the pay-out of 500+ allowances that materially add to the budgets of less well-off households. As per the Central Statistical Office, business entities were more likely to decide to finance investment projects with their own funds. As a result, the enterprise deposits growth saw a downward trend throughout most of 2016. Household deposits growth remained relatively high. This was the upshot of a good situation in the labour market (and the continued increase in the salary fund) as well as the pay-out of 500+ allowances (the major part of which was put aside by the households).

Banks' results were also shaped by regulatory and statutory factors. After interest rates were cut back to yet another record-breaking level for the last time in March 2015 (reference rate and lombard rate to 1.5% and 2.5% respectively), the area of the monetary policy of the National Bank of Poland saw no further changes. Since February 2016, the Act on Tax on Certain Financial Institutions has been in force. The so-called bank levy burdened the sector costs with approximately PLN 3.2 billion. Furthermore, banks had to pay the bankruptcy costs of a cooperative bank for a second consecutive year. The bankruptcy of Bank Spółdzielczy in Nadarzyn encumbered sector costs with approximately PLN 150 million.

Despite those additional encumbrances, in 2016, the ING Bank Śląski S.A. posted the net profit of PLN 1,208.7 million vis-a-vis PLN 1,140.0 million in 2015 (up by 6.0%). The increase was possible due to:

- income increase. In 2016, the Bank's income totalled PLN 4,136.0 million versus PLN 3,643.7 million a year earlier (up by 13.5%). The main driver was the increase in the net interest income of 20.5%, triggered both by higher business volumes and improved interest margin which followed marking to market of the deposit offer. Income and fees and commissions rose by 6.7%, mainly owing to higher income on payment and credit cards. Income was further lifted by the closed sale transaction of Visa shares – impact of PLN 189.6 million.

and it was partially neutralised with:

- increase in operating expenses. Although the costs of the Bank dropped by PLN 25.3 million to PLN 2,009.7 million (or down by 1.2%), it followed additional one-off charges borne by the Bank in 2015 (additional BGF contribution following the bankruptcy of SK Bank and Mortgage Support Fund provisioning in 2015 as well as additional BGF contribution due to the bankruptcy of Bank Spółdzielczy in Nadarzyn in 2016). Had the one-offs been eliminated, the costs would have gone up by PLN 126.3 million to PLN 1,997.5 million (or by 6.7%) due to higher personnel expenses (PLN 77.1 million y/y), recurring BGF costs (PLN 27.8 million y/y) and depreciation/amortization (PLN 23.7 million y/y) driven by the expanded business scale.

- higher balance of loan loss provisions. Provisioning balance increase of PLN 55.7 million (or up by 26.2%) to PLN 268.5 million has been primarily triggered by the formation of the IBNR provision for the portion of the CHF mortgage portfolio as higher portfolio severity was expected due to depreciation of PLN against CHF (provisions of PLN 31.8 million). The other increase is owed to the higher provisioning balance connected with the higher lending portfolio. As a year ago, the provisioning balance was also impacted by the receivables sale transactions, whereby the balance was reduced by PLN 51.1 million vis-a-vis PLN 37.0 million in 2015. The quality of the lending portfolio remains high (the share of impaired loans settled at 2.2% in December 2016). Adequacy of loan provisions is proven by the provision coverage ratio for the impaired receivables of 66.4%.

- bank levy costs. Since 2016 the Bank has been incurring the costs of bank levy. In 2016, it closed with PLN 280.2 million. Although the payment was made, it should be noted that it is not tax deductible, and thus it results in a higher effective tax rate (up to 23.4% from 18.3% in 2015).

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

Following the amendments to the Banking Law Act made as at the end of previous year, in 2016, the Risk Committee established by the Supervisory Board on 26 November 2015, formally started their operations. The Risk Committee took over some tasks so far performed by the Audit Committee. Specifically, the Committee supports 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, capital management and planning processes, as well as the model risk management and the capital adequacy area.

During the first year of business, the Risk Committee recommended that the Supervisory Board approve the 2016-2018 risk management strategy along with the funding plan, both being a component of the 2016-2018 ING Bank Śląski S.A strategy; high-level RAS for 2016 for the retail and corporate areas as well as for market risk, and also 2016 non-financial risk appetite statement of the Bank as amended.

The Committee also accepted amendments to the bank regulations concerning risk management, including the amendments to the following documents: *Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and Variable Components of Remuneration of ING Bank Śląski S.A., 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, Risk Model and Valuation Models Management Policy at ING Bank Śląski S.A., Operational Risk Management Policy at ING Bank Śląski S.A., General Principles of Credit and Market Risk Management and Mitigation in ING Bank Śląski S.A.* (including a change to the document title to *General Principles of Credit, Market and Operational Risk Management and Mitigation at ING Bank Śląski S.A.), Risk Materiality Assessment Policy at ING Bank Śląski S.A., ICAAP and Capital Management Policy at ING Bank Śląski S.A.* (including a change to the document title to *Capital Management Policy at ICAAP and Capital Management Policy at ING Bank Śląski S.A*.) and amendments to the *Stress-Testing Policy in ING Bank Śląski S.A.*

Furthermore, the Risk Committee recommended that the Supervisory Board approve the *Recovery Plan for ING Bank Śląski S.A. Group* drafted in line with the Directive of the European Parliament and of the Council 2014/59/EU of 15 May 2014 and the Bank Guarantee Fund Act of 10 June 2016 and transposing the directive requirements into Polish law.

At each of their meetings, the Risk Committee reviewed the Risk Report and the Non-Financial Risk Dashboard which was included in the Risk Report in 2016. 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.

In 2016, the Committee also reviewed the update on the activities of the Anti-fraud Department and the update from the Data Protection Officer.

Assessment of effectiveness of risk mitigants and of quality of compliance risk management rests with the Audit Committee. In this context, at each of their meetings, the Audit Committee reviewed the Compliance Risk Report (including the 2015 Report), and also the report on actual loss limits utilisation as laid down in the 2016 Non-Financial Risk Appetite Statement of ING Bank Śląski S.A. as well as the Non-Financial Risk Dashboard. These documents are another fixed item on the agenda of the Supervisory Board meeting. Furthermore, the Committee recommended that the Supervisory Board approve the *2016 Non-Financial Risk Appetite Statement of the Bank* (as amended) as well as amendments to the *Operational Risk Management Policy at ING Bank Śląski S.A.* as well as recommended approval of the *Policy – General Rules of Limiting and Managing Conflicts of Interest Related to Segregation of Responsibilities at ING Bank Śląski S.A.*

As part of monitoring the efficiency of internal control systems and internal audit, throughout 2016 the Audit Committee recommended that the Supervisory Board approve: the *Annual Report on the standard of internal control of ING Bank Śląski S.A. as at 31 December 2016,* results of the review of the competence profiles and headcount level and structure at the Internal Audit Department and the *Report on the execution of the audit assignments in 2016 – status and update, including amendments to the 2016 Audit Plan.* The Audit Committee also recommended that the Supervisory Board approve the Audit Strategy Memorandum with Long-Term Internal Audit Plan for years 2017-2019 and Internal Audit Plan for 2017. Furthermore, the Audit Committee issued a positive opinion on the candidates for the position of the Compliance Department Director and Internal Audit Department Director and recommended that the Supervisory Board approve the same.

In 2016, the Committee recommended that the Supervisory Board approve the 2016-2018 Capital Plan of ING Bank Śląski S.A., the *ING Bank Śląski S.A. Dividend Policy*, and also amendments to the *Planning Policy at ING Bank Śląski S.A.* and *ING Bank Śląski S.A. External Auditor Independence Policy.* The Committee reviewed the update on actual and forecast capital ratios as well.

To fulfil the requirement arising from Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 and PFSA Recommendation M concerning operational risk management at banks (enclosure with PFSA Resolution No. 8/2003 of 08 January 2013), the Audit Committee recommended that the Supervisory Board approve the updated *Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and Variable Components of Remuneration of ING Bank Śląski S.A.* (being the revision of the previous Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and the Scope of Published Information of ING Bank Śląski S.A.).

As part of monitoring the financial reporting process, the Audit Committee periodically analyse the Bank financial statements and the results of their audit. Further, 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.

The Supervisory Board also attend to the client and staff-related matters. At each of their meetings, the Supervisory Board review the client complaint report. The Supervisory Board analyse the complaint root causes and may judge the actions taken by the Bank to resolve them. Each year, the Supervisory Board review the results of the employee satisfaction survey. In 2016, the Supervisory Board received the OHI survey results for 2015 (organizational health index survey) which revealed that the organization was in a very good condition (83 scores out of 100 possible). There was also established the Remuneration and Nomination Committee within the Supervisory Board, which monitors inter alia the process of employee turnover or staff satisfaction survey results. The turnover report which the Committee reviewed in 2016 read that the attrition rate at the Bank is stable, while the number of employees who resolve to leave the Bank is falling down. The Committee regularly monitors the remuneration system of the Bank, the payroll and bonus policy included.

In the opinion of the Supervisory Board, the risk management system at the ING Bank Śląski S.A. covers all material risk types. Moreover, to identify, measure and manage risks the Bank applies instruments and techniques adequate for a given risk type. In 2016, ING Bank Śląski S.A. satisfied 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 2016, 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 granted to business entities. Within the Bank, impaired credit receivables represented 2.6% of the total exposure, which is significantly less than the average for the entire banking sector,

- has systems and procedures in the market risk management area (for interest rate or currency risk, among others) that meet the top market standards. Throughout 2016, 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 2016 yearend, the LtD ratio settled at 77.9%. 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 2016, the solvency ratio of the ING Bank Śląski S.A. was 16.6%, while the Tier 1 ratio stood at 15.4%.

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 acceleration of the economic growth in 2017 and continuation of stable interest rates may bring about higher demand for loans and increase in their volume in the banking sector. However, the new regulations concerning FX mortgage loans may limit the capacity of banks 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 safe lending growth 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 the existing ones. Such an approach boosts customer balances and transactions' 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 increasing cost effectiveness by higher scale of operations based on 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 2017 the Bank will continue its strategy, while keeping adequate capital base.