

**Report of the Supervisory Board of ING Bank Śląski S.A.
on Their Operations for 2017**

Pursuant to Article 382 §1 of the Commercial Companies and Partnerships Code and the provisions of the Code of Best Practice for WSE Listed Companies, the Supervisory Board of ING Bank Śląski S.A. herewith submit to the Ordinary General Meeting the *Report of the Supervisory Board of ING Bank Śląski S.A. on Their Operations for 2017*.

I. Legal basis of the functioning of the Supervisory Board at ING Bank Śląski S.A.

The Supervisory Board of ING Bank Śląski S.A. operate pursuant to the Banking Law, the Commercial Companies and Partnerships Code, the Bank Charter and the Supervisory Board Bylaw. Pursuant to §19.5 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 commenced on 10 April 2014.

II. Composition of the Supervisory Board at ING Bank Śląski S.A., division of functions, and changes on the Supervisory Board during the financial year

The following changes took place on the Supervisory Board in 2017:

On 15 March 2017, Mr Roland Boekhout tendered resignation from his capacity as Deputy Chairman of the Supervisory Board, with immediate effect, due to his appointment to the MBB of ING Group. Mr Roland Boekhout's resignation also resulted in a change on the Risk Committee of which he was a member.

On 21 April 2017, the Ordinary General Meeting appointed Mr Norman Tambach as Member of the Supervisory Board. The newly appointed member is related to ING Group. Furthermore, during the meeting on 21 April 2017, the Bank Supervisory Board appointed Ms Małgorzata Kołakowska Deputy Chair of the Supervisory Board.

As at 31.12.2017, the Supervisory Board worked in the following composition:

Antoni Reczek	Chairman (independent member)
Małgorzata Kołakowska	Deputy Chair
Aleksander Galos	Secretary (independent member)
Ad Kas	Member
Aleksander Kutela	Member (independent member)
Christopher Steane	Member
Norman Tambach	Member

The Supervisory Board confirm that the number of members is sufficient for and adequate to the nature and to the scale of the Bank's operations.

III. Compliance with the Principles of Corporate Governance for Supervised Institutions and Best Practices of WSE Listed Companies.

The Supervisory Body fulfil their tasks pursuant to special authorisation granted under the *Company Charter* and *Bylaw of the Supervisory Board*, as well as the requirements of the *Principles of Corporate Governance for Supervised Institutions* and the *Code of Best Practice for WSE Listed Companies*.

Under the corporate governance rules, there should be at least two independent members on the Supervisory Board. According to the written statements filed by the members of the Supervisory Board, three (3) out of seven (7) members of the Supervisory Board meet the independence criteria set out in the Charter. Those are: the Supervisory Board Chairman – Mr Antoni Reczek, the Supervisory Board Secretary – Mr Aleksander Galos and Mr Aleksander Kutela who is a member of the Supervisory Board. The other members, namely: Mr Ad Kas, Ms Małgorzata Kołakowska, Mr Christopher Steane and Mr Norman Tambach have ties with ING Bank N.V., the strategic shareholder of the Bank.

In keeping with the Bank's practice, the independent members file each year a statement to confirm that they have no relationship with the Bank, its shareholders, or employees that could have significant impact on their ability to make impartial decisions. On 21 April 2017, that is on the day of the Ordinary General Meeting, the independent members re-submitted such statements. Their status has not changed ever since. On the Bank's website, there are professional resumes of all members of the Supervisory Board including their functions on the Supervisory Board Committees. Furthermore, on the Bank's website, there are annotations on filing independence statements or statements on ties with ING Bank N.V. There is also the information on compliance with the requirements under Article 22aa of the Polish Banking Law Act. In keeping with the Code of Best Practice for WSE Listed Companies, there is also an update on the share of men and women in the Management Board and Supervisory Board of ING Bank Śląski S.A. on the Bank's website.

The Supervisory Board confirm that their members have the knowledge, skills and practical experience required to perform their duties in a proper manner. The competences of the individual members of the Supervisory Board are complementary and allow for ensuring adequate level of collective performance of supervision duties in respect of all the business areas of the Bank. All members have the relevant experience and knowledge that enable them to exercise oversight of the Bank. The Chairman of the Supervisory Board (and also of the Audit Committee) is an independent member and also has knowledge and skills in the area of financial auditing, as required under Article 129.1 of the Statutory Auditors, Auditing Firms and Public Oversight Act of 11 May 2017.

IV. Form of oversight. Number and frequency of the Supervisory Board's meetings. Number of resolutions issued by the Supervisory Board

The Supervisory Board operated according to a meetings schedule and a framework plan of work. The meeting agendas included ongoing business matters, submissions made by the Bank Management Board, as well as any other material issues that required attention of the Supervisory Board.

The Supervisory Board exercised oversight of the Bank's operations primarily during the meetings and took the required decisions in the form of resolutions. During the meetings, the members of the Supervisory Board are joined by members of the Management Board, as well as the Internal Audit

Department Director and Compliance Department Director, and other invited guests who give presentations on specific topics within their competence.

In keeping with the approved work calendar, between 01 January 2017 and 31 December 2017, the Supervisory Board met six times at the following dates: 10 February, 3 March, 21 April, 8 June, 6 October and 24 November. In total, the Supervisory Body adopted 95 resolutions, including 19 passed by way of circulation. All the meetings were quorate and held in line with the procedures so that binding resolutions could be taken; the attendance rate during the meetings was very high. A detailed description of the actions taken by the Supervisory Board in 2017 is presented in the minutes from the Supervisory Board meetings; the minutes and the resolutions passed by the Supervisory Board are kept at the Company's registered office.

In addition to regular meetings, the members of the Supervisory Board stayed in regular and direct contact with the Bank Management Board and took an active part in all the material matters concerning the Company's business. The Chairman of the Supervisory Board (who also chairs the Audit Committee) held regular meetings with the Bank's CFO to discuss the Bank's financial statements prior to their publication. In consequence, the Supervisory Board was able to exercise a blanket oversight of the operations of the Management Board and of the Company.

V. Agenda of the Supervisory Board Meetings

Throughout 2017, 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.

During the meetings, the Supervisory Board reviewed the matters required under the Commercial Companies and Partnerships Code, as well as the matters relating to the day-to-day operations of the Company. The Supervisory Board received extensive reports from the Bank Management Board regarding the current financial standing of the Bank, its functioning, action plans and all the material developments that may have an impact on its functioning.

The topics discussed by the Supervisory Board in 2017 included but were not limited to the topics listed below. Those topics were also discussed by the Supervisory Board Committees (within their remit) who gave their recommendations for the Supervisory Board.

1) Finance, including:

- approval of the Bank's Strategy for 2017-2020 and continuous oversight of the implementation of the approved financial plan,
- the report on the results of review of the annual financial statements of ING Bank Śląski for 2016, the report of the Management Board of ING Bank Śląski S.A. on Bank's operations in 2016 and review of the Bank Management Board motion regarding distribution of the profit earned by the Bank in 2016,
- the report on the results of assessment of the annual consolidated financial statements of the ING Bank Śląski S.A. Group for 2016 and the Bank Management Board's report on the operations of the ING Bank Śląski S.A. Group for 2016,
- approval of amendments to the *Policy of Disclosing Qualitative and Quantitative Information on*

- *Capital Adequacy and Variable Components of Remuneration of ING Bank Śląski S.A.,*
 - approval of amendments to the *Capital Management Policy at ING Bank Śląski S.A.,*
 - approval of the Report on ICAAP Process Review at ING Bank Śląski S.A. for 2016,
 - approval of an amendment to the *Dividend Policy of the Bank,*
 - approval of the adjustment to the Financial Plan being an integral part of the ING Bank Śląski S.A. Strategy for 2017-2020,
 - approval of the updated Recovery Plan for ING Bank Śląski S.A. Group,
 - the Management Board's update on related-party agreements,
- 2) Internal audit at the Bank, including:
- Annual Report on the Standard of Internal Control of ING Bank Śląski S.A. as at 31 December 2016,
 - approval of the *Policy – Audit Charter,*
 - approval of amendments to the *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees*
 - approval of the updated 2017 audit plan,
 - approval of the *Report on the audit of the principles of remunerating the persons holding managerial positions having material impact on the risk profile of ("Identified Staff") at ING Bank Śląski S.A.,*
 - Report on the status of the 2017 audit plan delivery and the status and changes in due dates of audit issue closure,
 - approval of the Internal Audit Strategy Memorandum along with the long-term and annual audit plan for 2018-2020,
 - approval of amendments to the *Detailed Scope of Cooperation by Internal Audit Department with ING Bank Corporate Audit Services,*
- 3) Monitoring the efficiency of the risk management system at the Bank, including compliance risk and non-financial risk:
- approval of the high-level RAS for credit risk for 2017 for the retail and corporate areas and for market risk,
 - adoption of the Non-financial Risk Appetite Statement of the Bank for 2017 (as amended), and oversight of its implementation,
 - approval of the ING Bank Śląski S.A. ILAAP Review Report for 2016,
 - approval of amendments to the *Policy – Internal Control System at ING Bank Śląski S.A.,*
 - approval of amendments to the *ING Bank Śląski S.A. Operational Risk Management Policy,*
 - approval of amendments to the *General Principles of Credit, Market and Operational Risk Management and Mitigation at ING Bank Śląski S.A.,*
 - the introduction of the new *Policy of Anonymous Reporting of Infringements of Law, Internal Regulations and Ethical Standards,*
 - approval of amendments to the *Compliance Policy of ING Bank Śląski S.A.,*
 - approval of amendments to the *Stress Testing Policy in ING Bank Śląski S.A.;*
 - regular Risk Report describing the main aspects from the credit- and market risk area,
 - quarterly report on risk tolerance limits utilisation for non-financial risk area,
 - compliance risk report.
- 4) Relations with the external auditor, including:

- granting consent for the existing auditor to provide additional services for the Bank,
 - approval of the *Policy on selection of the auditing firm to audit the financial statements, assessment of its independence and provision of other permitted services at ING Bank Śląski S.A.*,
- 5) Monitoring and supervising the HR and payroll area at the Bank, including:
- approval of amendments to the *ING Bank Śląski S.A. Group Remuneration Policy*,
 - approval of amendments to the *Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A.*, and
 - approval of amendments to the *Executive Remuneration Bylaw for Members of the Management Board of ING Bank Śląski S.A.*,
 - approval of amendments to the *Policy for the Assessment of the Suitability of the members of the Supervisory Board, Management Board and Key Function Holders at ING Bank Śląski S.A.*,
 - the assessment of the 2016 performance of the members of the Bank Management Board and setting KPIs for 2017,
 - approval of the methodology for updating the *List of Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*,
 - giving advice on the draft *ING Bank Śląski S.A. Supervisory Board Members Remuneration Policy*,
 - the appointment of a Vice-President of the Bank Management Board,
 - approval of amendments to the *List of qualitative and quantitative criteria and the additional criteria qualifying staff members to be included in the 2018 List of Identified Staff of ING Bank Śląski S.A.*
 - the appointment of the Deputy Chair of the Supervisory Board and new members of the Supervisory Board Committees,
 - approval of the results of the review of headcount level and structure at the Internal Audit Department,
 - approval of the results of the review of the salaries of the Internal Audit Department employees and Director,
 - approval of the Internal Audit Department's Report on the audit of the principles of remunerating the persons holding managerial positions having material impact on the risk profile of ("Identified Staff") at ING Bank Śląski S.A.,
 - approval of the remuneration packages of control function holders at the Bank,
 - approval of changes on the Audit Committee,
- 6) Implementation of the recommendations issued by the Polish Financial Supervision Authority
- Adoption of the Declaration on the evaluation of the implementation by the Bank Brokerage Office of the "Guidelines for the management of information technology and security of the ICT environment in investment firms" (as at 31.12.2016),
 - giving advice on the stance of the Bank Management Board on the implementation of the Polish Financial Supervision Authority recommendation regarding profit distribution for 2016,
 - review of the schedule of works regarding the implementation of post-inspection recommendations of the Polish Financial Supervision Authority,
 - report on data quality,
 - update on the status of the Bank's preparations to fulfil the GDPR requirements,
 - report on the provision of brokerage services by the Bank on the OTC derivative market between Q1 2016 and Q2 2017.
 - bancassurance policy implementation under Recommendation U,
 - report on the Bank Clients' complaints.

VI. Self-assessment of the Supervisory Board's Work in 2017

The Supervisory Board confirm that they have exercised regular and ongoing supervision over the Bank's business throughout 2017 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. All members of the Supervisory Board exercised their duties with due care, while taking advantage of their knowledge and experience in terms of supervising a joint-stock company. The Supervisory Board consider their operations in 2017 to have been effective and in keeping with the best market standards.

The cooperation with the Bank Management Board was very good; the Management Board provided the required information in a clear, reliable and exhaustive manner. The Supervisory Board express their appreciation for the Bank Management Board's contribution in 2017, including in particular their determination in the implementation of the strategy and innovative solutions, as well as building a positive image of the Bank among the staff and in the society. The Supervisory Board wish to thank the Management Board and the employees of ING Bank Śląski S.A. for their effort and commitment to the Bank's growth.

Keeping in mind the Bank's financial results and overall performance, the Supervisory Board request that the General Meeting acknowledge the fulfilment of duties by the members of the Bank's bodies in 2017.

Report of the Supervisory Board Committees on Their Operations in 2017

In order to ensure support for the Supervisory Board in exercising their powers, the Supervisory Board established the Audit Committee, the Remuneration & Nomination Committee and the Risk Committee from among their members.

The Committees perform consulting and advisory functions by preparing recommendations for the Supervisory Board; the Committee chairmen give reports from the Committee work during the Supervisory Board meeting.

Audit Committee

The Audit Committee support the Supervisory Board with regard to monitoring the financial reporting, monitoring and supervising the internal- and external audit and the 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 compliance risk, relations between the Bank and related entities as well as between the Bank and the entity auditing Bank's financial statements. Apart from the topics that require recommendation for the Supervisory Board and that were listed in the section concerning the Supervisory Board meetings, the regular items on the Audit Committee agenda for 2017 included the following, among others: an update on the IFRS 9 project, the compliance risk quarterly report, and an update on related-party transactions.

The Audit Committee started 2017 in the following composition:

Antoni Reczek	Chairman (independent member)
Aleksander Galos	Member (independent member)
Ad Kas	Member
Małgorzata Kołakowska	Member

The following changes took place on the Audit Committee in 2017:

On 6 October 2017, the Supervisory Board recalled Mr Ad Kas from the Audit Committee. At the same time, the Supervisory Board appointed Mr Aleksander Kutela (independent member) and Mr Norman Tambach Committee members. Consequently, the majority of the Audit Committee members, including the Chairman, have the status of independent members. As required under the Statutory Auditors Act of 11 May 2017, at least two Committee members shall have the knowledge and experience in accounting or financial auditing – in the present case, Mr Antoni Reczek has the licence of the statutory auditor and Mr Norman Tambach has the licence of the chartered accountant.

As at the end of 2017, the composition of the Audit Committee was as follows:

Antoni Reczek	Chairman (independent member)
Małgorzata Kołakowska	Member
Aleksander Galos	Member (independent member)
Aleksander Kutela	Member (independent member)
Norman Tambach	Member

I. Number and frequency of the Audit Committee's meetings. Number of recommendations issued by the Committee

The Audit Committee supported the Supervisory Board in their tasks primarily during meetings by passing the relevant recommendations. During the meetings, the members of the Committee are joined by members of the Management Board, as well as the Bank Executive Director – Finance, Bank Executive Director – Credit Risk Policy, Modelling and Systems, Internal Audit Department Director, Compliance Department Director, Operational Risk Management Department Director, Accounting Department Director – Chief Accountant, Market Risk Management Department Director, IT Security Department Director and representatives of external auditors.

In keeping with the approved work calendar, between 01 January 2017 and 31 December 2017, the Audit Committee met five times at the following dates: 10 February, 2 March, 8 June, 6 October and 23 November. The Audit Committee issued 18 recommendations for the Supervisory Board (including two by way of circulation) and two letters of advice. All the meetings were quorate and held in line with the procedures so that binding recommendations could be issued; the attendance rate during the meetings was very high.

In line with the requirements of the Bylaw of the Audit Committee, on 23 November 2017 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.

In keeping with the EBA Guidelines concerning the proper remuneration policy referred to in Article 74 section 3 and Article 75 section 2 of Directive 2013/36/EU as well as disclosing information in accordance with Article 450 of EU Regulation No 575/2013 (Chapter 4, Title I, item 2.4.1 (50)), the majority of the Committee members, including its chairman, are independent members.

From 01 January 2017 to 31 December 2017, the Remuneration and Nomination Committee worked in the following composition:

Aleksander Kutela	Chairman (independent member)
Małgorzata Kołakowska	Member
Aleksander Galos	Member (Independent Member)

There were no changes on the Remuneration and Nomination Committee in 2017.

I. Number and frequency of the Remuneration and Nomination Committee's meetings. Number of recommendations issued by the Committee

The Remuneration and Nomination Committee met five times in 2017. The meetings of the Remuneration and Nomination Committee were held at the following dates: 10 February, 3 March, 8 June, 6 October and 23 November. The Committee issued 44 recommendations in total (including five by way of circulation) and two letters of advice for the Supervisory Board. Apart from the topics

that require recommendation for the Supervisory Board and that were listed in the section concerning the Supervisory Board meetings, the items on the Remuneration and Nomination Committee agenda for 2017 included the following, among others: the results of salary review on the basis of the Hay Group report and an update on the assumptions of the pay policy for 2018.

The CEO, the Bank Executive Director in charge of HR area and the HR Policy Centre Director join the Committee meetings on a regular basis. Furthermore, in accordance with EBA Guidelines (Chapter 4, Title I, item 2.4.3 (56)), Messrs Christopher Steane (who was a REMCO member in the past) and Norman Tambach attend the Remuneration and Nomination Committee meetings as representatives of the Risk Committee.

Risk Committee

The Risk Committee is to support the Supervisory Board in the oversight of the business risk management strategy implementation by the senior management staff.

From 01 January 2017 to 15 March 2017, the Risk Committee worked in the following composition:

Ad Kas	Chairman
Roland Boekhout	Member
Antoni Reczek	Member (independent member)
Christopher Steane	Member

The following changes took place on the Risk Committee in 2017:

On 15 March 2017, Mr Roland Boekhout tendered resignation from his capacity as Deputy Chairman of the Supervisory Board and member of the Risk Committee, with immediate effect, due to his appointment to the MBB of ING Group.

On 21 April 2017, the Supervisory Board appointed Mr Norman Tambach who has ties with ING Group as Member of the Committee.

As at the end of 2017, the composition of the Risk Committee was as follows:

Ad Kas	Chairman
Antoni Reczek	Member (independent member)
Christopher Steane	Member
Norman Tambach	Member

I. Number and frequency of the Risk Committee's meetings. Number of recommendations issued by the Committee

The Risk Committee met five times in 2017. The meetings of the Committee were held at the following dates: 10 February, 3 March, 8 June, 6 October and 23 November. The Committee issued 13 recommendations in total (including three by way of circulation). Apart from the topics that require recommendation for the Supervisory Board and that were listed in the section concerning the Supervisory Board meetings, the items on the Risk Committee agenda for 2017 included the following, among others: the risk report, the annual report of the Anti-Fraud Department (currently: Monitoring and Process Control Centre) and Report on actual loss limits utilisation.

During the meetings, the members of the Committee are joined by members of the Management Board, as well as the Bank Executive Director – Credit Risk Policy, Modelling and Systems, Bank Executive Director – Finance, Market Risk Management Department Director, Operational Risk Management Department Director, as well as the Internal Audit Department Director, Compliance Department Director, IT Security Department Director, Accounting Department Director – Chief Accountant, and representatives of external auditors. Furthermore, in accordance with EBA Guidelines (Chapter 4, Title I, item 2.4.3 (56)), Mr Aleksander Kutela attends the Risk Committee meetings as a representative of the Remuneration and Nomination Committee.