

**Report of the ING Bank Śląski S.A. Supervisory Board
on Their Operations for 2018**

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 ING Bank Śląski S.A. Supervisory Board herewith submit to the Ordinary General Meeting the *Report of the ING Bank Śląski S.A. Supervisory Board on Their Operations for 2018*.

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

The ING Bank Śląski S.A. Supervisory Board 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 ING Bank Śląski S.A. Charter, Supervisory Board Members shall be appointed for the joint term of office which shall commence as of the appointment date and shall last for the full four consecutive financial years. The current term of office started on 10 April 2014 and will expire as at the day on which the General Meeting approve the financial statements for 2018.

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 2018:

On 9 March 2018, Mr Christopher Steane tendered his resignation from the capacity as the Supervisory Board Member, effective as of the date of the General Meeting approving the 2017 financial statements, due to planned retirement. The resignation of Mr Christopher Steane entailed a change to the composition of the Risk Committee which he was the member of.

On 5 April 2018, the General Meeting appointed Mr Michał Szczurek as the Supervisory Board Member. The newly appointed member is related to ING Group. In the past, he sat on the ING Bank Śląski S.A. Management Board.

As at 31.12.2018, the Supervisory Board worked in the following composition:

| | | |
|------------------------------|---|---------------------------------------|
| Antoni F. Reczek | - | Chairman (Independent Member) |
| Małgorzata Kołakowska | - | Deputy Chair, |
| Aleksander Galos | - | Secretary (independent member) |
| Ad Kas | - | Member |
| Aleksander Kutela | - | Member (independent member) |
| Michał Szczurek | - | Member |
| Norman Tambach | - | Member |

Pursuant to Chapter III (1) of 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 Supervisory Board Remuneration and Nomination Committee together with a third party, EY Doradztwo Podatkowe Krupa Sp.k., conducted an individual assessment of the candidate for the Supervisory Board member and a collective assessment of the Supervisory Board and concluded that the competences of the individual members of the Supervisory Board were complementary and allowed for ensuring adequate level of collective performance of supervision duties in respect of all the business areas of the Bank. The relevant recommendation of the Recommendation Remuneration and Nomination Committee was published on the Bank's website before the date of the General Meeting.

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 the *Supervisory Board Bylaw* 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 F. 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 Michał Szczurek 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 5 April 2018, that is on the day of the Ordinary General Meeting of Bank, the independent members re-submitted such statements. Therefore, the Board confirmed that there were neither ties nor circumstances which would impact satisfaction of independence criteria by the Board members. 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.

Pursuant to the self-assessment of the Supervisory Board in H1 2018, 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. At the same time, the Supervisory Board are of the opinion that the diversified composition of the Supervisory Board and the fact that members stem from various circles and demonstrate diverse skills, practical experience and expertise ensures efficient oversight and warrants due performance of



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duties and responsibilities entrusted thereto.

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 meetings. Number of resolutions passed 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 2018 and 31 December 2018, the Supervisory Board met five times at the following dates: 9 March, 5 April, 27 June, 20 September and 23 November. In total, the Supervisory Body adopted 95 resolutions, including 16 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 2018 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 business. The Chairman of the Supervisory Board (who also chairs the Audit Committee) held regular meetings with the Bank CFO to discuss the Bank's financial statements prior to their publication.

Additionally, independent members of the Supervisory Board attended internal training sessions held by the Bank, e.g.: risk management workshops, internal audit workshops and workshops on ICAAP/ILAAP. Members of the Supervisory Board also participated in a lecture on the current macroeconomic situation.

V. Agenda of the Supervisory Board Meetings

Throughout 2018, the Supervisory Board exercised ongoing oversight over the Company operations and kept watch over the Company 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 2018 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 Strategy for 2018-2021 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 2017, Reports of the ING Bank Śląski S.A. Management Board on Bank's Operations in 2017 and review of the Bank Management Board motion regarding distribution of the profit earned by the Bank in 2017,
- the report on the results of review of the annual consolidated financial statements of the ING Bank Śląski S.A. Group for 2017 and the Bank Management Board's Report on the Operations of the ING Bank Śląski S.A. Group for 2017,
- 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 2017 ING Bank Śląski S.A. ICAAP Report,
- approval of an amendment to the *Dividend Policy of the Bank*,
- the Management Board's update on related-party agreements,
- consent to establishing a mortgage bank under the name of ING Bank Hipoteczny S.A.

2) Internal audit at the Bank, including:

- Report on the status of the 2017 audit plan delivery and the status and changes in due dates of audit issue closure,
- Report on Audit Strategy Memorandum 2017 delivery including internal control system and risk management system assessment,
- Report on the results of quality assurance and improvement process within internal audit function for 2017,
- 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 2018 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 2018 audit plan delivery and the status and changes in due dates of audit issue closure,
- approval of the *Policy – Audit Charter*,

- approval of the Audit Strategy Memorandum (ASM) including long-term planning for the years 2019-2021 and the Annual Audit Plan for 2019,
 - approval of the Report on the review of the headcount level and structure, job description and remuneration for the Internal Audit Department.
- 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 parameters for 2018,
 - adoption of the Non-financial Risk Appetite Statement of the Bank for 2018 (as amended), and oversight of its implementation,
 - approval of the ING Bank Śląski S.A. ILAAP Review Report for 2017,
 - approval of amendments to the *Policy – Internal Control System at ING Bank Śląski S.A.*,
 - adequacy and effectiveness of the internal control system at the Bank in 2017,
 - approval of amendments to the *Risk Models and Valuation Models Management Policy at ING Bank Śląski S.A.*,
 - approval of the Annual Plan of Tasks of the Compliance Department for 2018 and quarterly compliance risk reports,
 - approval of the Report on the review of the headcount level and structure, job description and remuneration for the Compliance Department.
 - approval of amendments to the *General Principles of Credit, Market and Operational Risk Management and Limitation at ING Bank Śląski S.A.*,
 - approval of amendments to the *ING Bank Śląski S.A. Operational Risk Management Policy*,
- 4) Relations with the external auditor, including:
- selecting the entity authorised to audit the financial statements of ING Bank Śląski S.A.
 - approving the scope of services provided by KPMG in 2018
- 5) Monitoring and supervising the HR and payroll area at the Bank, including:
- the assessment of the 2017 performance of the members of the Bank Management Board and setting KPIs for 2018,
 - approval of 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.*,
 - approval of the *Diversity Policy for ING Bank Śląski S.A. Management Board and Supervisory Board Members*,
 - approval of the *Policy of Selection, Appointment, Re-Appointment and Succession Planning for ING Bank Śląski S.A. Management Board and Supervisory Board Members*,
 - approval of the *Induction and Training Policy for ING Bank Śląski S.A. Management Board and Supervisory Board Members*,
 - 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 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 the amendments to the *Executive Remuneration Bylaw for Members of the Management Board of ING Bank Śląski S.A.*,
 - approval of amendments to the *List of qualitative and quantitative criteria and the additional*

criteria qualifying staff members to be included in the 2019 List of Identified Staff of ING Bank Śląski S.A.

- approval of the Report on the review of the pay policy towards the employees and the Director of the Internal Audit Department and towards the employees and the Director of the Compliance Department,
 - approval of changes on the Risk Committee,
 - approval of the remuneration packages of people holding control functions at the Bank,
 - appointment of a new Bank Management Board Member –Mr Lorenzo Tassan-Bassut.
- 6) Implementation of the recommendations issued by the Polish Financial Supervision Authority:
- review of the Schedule of works regarding the implementation of post-inspection recommendations of the Polish Financial Supervision Authority,
 - annual report on data quality in 2017,
 - update on the status of the Bank's preparations to fulfil the GDPR requirements,
 - bancassurance policy implementation under Recommendation U,
 - report on the Bank Clients' complaints and client voice.

VI. Self-assessment of the Supervisory Board's Work in 2018

In 2018, the Supervisory Board assisted and advised the Management Board on all the matters pertaining to the Bank and its business. The Supervisory Board monitored the implementation of the Bank's strategy on an ongoing basis.

The Supervisory Board confirm that they have exercised regular and ongoing supervision over the Bank's business throughout 2018 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 2018 to have been effective and in keeping with the best market standards.

Members of the Supervisory Board performed their responsibilities in an honest and reliable manner, making independent judgements in order to ensure effective assessment and verification of decisions taken and carried out in connection with day-to-day Bank management.

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 would like to thank the Management Board for successful implementation of the strategy in 2018. The Supervisory Board would like to express their appreciation for the innovative approach to client experience, care about employees and proactive approach of the Management Board, and thus of the entire Bank, to important social matters.

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



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2018.

Report of the Supervisory Board Committees on Their Operations in 2018

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 2018 included the following, among others: the compliance risk quarterly report and an update on related-party transactions.

There were no changes in the Committee in 2018. The Committee worked in the following composition:

| | | |
|------------------------------|---|--------------------------------------|
| Antoni F. Reczek | - | Chairman (Independent Member) |
| Małgorzata Kołakowska | - | Member |
| Aleksander Galos | - | Member (independent member) |
| Aleksander Kutela | - | Member (independent member) |
| Norman Tambach | - | Member |

As required under the Statutory Auditors Act of 11 May 2017, the Committee members have the knowledge and experience in accounting or financial auditing, with Mr Antoni Reczek having the licence of the statutory auditor and Mr Norman Tambach having the licence of the chartered accountant.

I. Number and frequency of the Audit Committee's meetings. Number of recommendations passed 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 Committee members are joined by members of the Management Board as well as the Internal Audit Department Director, the Compliance Department Director and the Operational Risk Management Department Director.

In keeping with the approved work calendar, between 01 January 2018 and 31 December 2017, the Audit Committee met four times at the following dates: 9 March, 27 June, 20 September and 22 November. The Audit Committee issued 21 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 22 November 2018 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 2018 to 31 December 2018, 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 in the Committee in 2018.

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

The Remuneration and Nomination Committee met four times in 2018. The meetings of the Remuneration and Nomination Committee were held at the following dates: 9 March, 27 June, 20 September and 22 November. The Committee issued 36 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 2018 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 2019. The Committee also assessed suitability of a new Supervisory Board Member and Management Board Member, as well as made collective assessments of Supervisory Board and Management Board in the composition including new members.

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.

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 2018 to 31 December 2018, the Risk Committee worked in the following composition:

| | | |
|---------------------------|---|------------------------------------|
| Ad Kas | - | Chairman |
| Antoni F. Reczek | - | Member (independent member) |
| Christopher Steane | - | Member |
| Norman Tambach | - | Member |

The following changes took place on the Risk Committee in 2018:

On 9 March 2018, Mr Christopher Steane tendered his resignation from the capacity as the Supervisory Board Member, and thus from the capacity of the Risk Committee Member, effective as of the date of the General Meeting approving the 2017 financial statements, due to planned retirement.

On 5 April 2018, the Supervisory Board appointed Mr Michał Szczurek who has ties with ING Group as Member of the Committee. Furthermore, since the EBA Guidelines require that the majority of the Committee members, the Chairman included, be independent members, the Chairman of the Risk Committee had to be changed. Further, the Supervisory Board recalled Mr Norman Tambach from the capacity of the Committee Member and appointed Mr Aleksander Kutela in his place.

Hence, since 5 April 2018, the composition of the Risk Committee was as follows:

| | | |
|--------------------------|---|--------------------------------------|
| Aleksander Galos | - | Chairman (independent member) |
| Ad Kas | - | Member |
| Aleksander Kutela | - | Member (independent member) |
| Antoni F. Reczek | - | Member (independent member) |
| Michał Szczurek | - | Member |

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

The Risk Committee met four times in 2018. The meetings of the Committee were held at the following dates: 9 March, 27 June, 20 September and 22 November. The Committee issued 25 recommendations in total (including eleven 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 2018 included the following, among others: the risk report and the report of actions taken in the anti-fraud area.

During the meetings, the members of the Committee are joined by members of the Management Board, as well as the Bank Executive Director - Risk Policy, Modelling and Reporting, Market Risk Management Department Director, Operational Risk Management Department Director, as well as the Internal Audit Department Director, Compliance Department Director and representatives of external auditors.