

## **REPORT CONCERNING THE PRINCIPLES OF CORPORATE GOVERNANCE IN BANK MILLENNIUM IN 2010**

### **I. Statement regarding Principles of Corporate Governance applied in 2010**

Pursuant to the regulations of Giełda Papierów Wartościowych w Warszawie S.A. (WSE), each and every company listed on the WSE's primary market should observe the principles of the corporate governance as defined in the regulations adopted by the Warsaw Stock Exchange – especially in the document of the WSE Council entitled “Good Practices in Public Companies on WSE” (hereinafter called “Good Practices”). The Good Practices are a collection of recommendations and principles of conduct concerning in particular the authorities of the Bank and its shareholders. In 2010 several changes were introduced in this document but the primary rule: ‘comply or explain’ remains binding, which means that a company is obliged to transfer information about the exception to any rule in the form of current report. The content of the Good Practices is available on the WSE's official website in its corporate governance section at [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)

As a company listed on the Warsaw Stock Exchange, Bank Millennium has been striving to ensure the highest possible quality of its investor and corporate relations in compliance with the principles contained in the Good Practices to the highest extent.

Bank Millennium's commitment to apply good practices has already been noticed on the WSE. As of 1 February 2011 the Bank was selected to join the RESPECT Index - the first CEE index of socially responsible companies. The RESPECT Index comprises 16 companies listed on the Warsaw Stock Exchange, which operate in accordance with best management standards in corporate governance, information policy and investor relations as well as in environmental matters, social relations and labour.

## **II. Authorities of the Bank**

### **General Shareholders Meeting**

The General Shareholders Meeting (GSM) is the supreme authority of the Bank. The General Meeting acts under effective laws, comprising in particular the Commercial Companies Code as well as the Banking Law, Articles of Association of the Bank and the Bylaws. The text of the Articles of Association and the Bylaws of GSM is available on the Bank's website. The competencies of the General Meeting include in particular: review and approval of annual financial reports, adoption of resolutions on distribution of profit or covering losses as well as discharging Members of the Bank's authorities from performance of their duties, change of the Articles of Association (in accordance to the rules provided by Commercial Companies Code), including increase and reduction of share capital, issue of convertible bonds and bonds with priority rights as well as subscription warrants and cancellation of capital and funds as well as passing resolutions on their use, election and recall of Members of the Supervisory Board as well as determining their remuneration, dissolution of the Bank or its sale or merger, selection of liquidators, any and all decisions concerning claims for redress of damage caused when establishing the Bank or exercising management or supervision, as well as redemption of shares and defining the detailed terms and conditions of redemption.

As at 31 December 2010 the share capital of the Bank was composed of 1.213.116.777 shares of nominal value PLN 1 each whereas at 31 December 2009 this capital was composed of 849.181.744 shares. This increase is a consequence of the 3 to 7 shares rights issue in the total amount of 363.935.033 L-series shares with a single price of 2.90 PLN conducted in February 2010. On 28 February the Court registered the Bank's increased capital in the amount of 1.213.116.777 PLN. In effect of the issue, the Bank increased its own capital by more than 1 billion PLN thus strengthening solvency ratios to support implementation of the new business strategy for years 2010-2012.

Below please find the information according to the data held by the Bank on the shareholders in direct or indirect possession of significant blocks of shares with number of shares held by these entities, their share in the share capital and the total number of votes at the General Shareholders Meeting of the Bank. Since the Bank is publicly listed on WSE, it does not possess detailed data concerning the composition of shareholders as at 31 December 2010. Information presented below is based on financial reports of Polish Open Pension Funds (OFE) and other data available to the Bank.

1. Composition of the shareholders of the Bank as at 31 December 2010:

Shareholder	Number of shares	% share in share capital	Number of votes	% shares in votes at GSM
Banco Comercial Portugues S.A.	794 751 136	65,51	794 751 136	65,51
AVIVA OFE Aviva BZ WBK*	61 341 239	5,06	61 341 239	5,06
ING OFE **	60 538 299	4,99	60 538 299	4,99

\* on 18 January 2011 the shareholder informed the Bank that it had reduced its share in share capital below 5% level

\*\* on 8 February 2011 the shareholder informed the Bank that it had increased its share in share capital above 5% level

2. Composition of the shareholders of the Bank as at 31 December 2009:

Akcjonariusz	Ilość akcji	% udział w kapitale zakładowym	Ilość głosów	% udział w głosach na WZA
Banco Comercial Portugues S.A.	556 325 794	65,51	556 325 794	65,51
AVIVA OFE Aviva BZ WBK	69 568 623	8,19	69 568 623	8,19

As the majority shareholder, Banco Comercial Portugues S.A. ("BCP") exercises its shareholder's rights stipulated in the Commercial Companies Code and the Articles of Association. BCP has a corporate control over the Bank. Thanks to holding majority of vote at the General Shareholders Meeting, BCP may exert decisive impact upon the decisions about the most important corporate issues, such as amendments to the Articles of Association, issue of new shares of the Bank, reduction of the share capital of the Bank, issue of convertible bonds, payout of dividends and other actions that pursuant to the Commercial Companies Code require simple or qualified majority at the General Shareholders Meeting. BCP has also a sufficient number of votes to appoint all the Members of the Supervisory Board, which in turn appoints Members of the Management Board. Due to the above corporate rights, BCP is able to exercise significant control over the operations of the Bank.

In the context of the share issue conducted in 2010 by the Bank, BCP - pursuant to its intention announced on 17 November 2009 - exercised all the pre-emptive rights from its shares and did not make additional subscriptions. Consequently, after registration of capital, BCP's share remained unchanged and totals 65.51%.

Apart from this, the Bank is not aware of any agreements, which in the future may cause changes in proportions of the shares held by the current shareholders, and the Bank is not aware of any agreements concluded between the shareholders concerning their mutual co-operation.

The Bank's shareholders exercise their rights in the way and within the boundaries defined by effective laws, the Articles of Association of the Bank as well as the Bylaws of the General Shareholders Meeting. Each share of the Bank entitles to one vote, however registered founding shares in the outstanding number of 62,200 are preferential in that one share entitles to two votes at GSM. Registered founding shares constituted 0.0073% of share capital of the Bank as well as 0.0146% of the total number of votes at GSM as at 31 December 2010.

Subject to sale restrictions are founding shares in that their sale, with consent of at least three quarters of founders, to other founders results in no loss of their preferential status. The sale of registered founding shares in remaining cases results in loss of their preferential status. There are no restrictions on exercising voting rights under the Bank's shares and none of the holders of securities issued by the Bank has any special controlling rights with respect to the Bank.

On 22 April 2010 a General Shareholders Meeting was held in connection with end of the 2009 accounting year. The GSM approved 2009 financial reports, discharged the members of Management Board and Supervisory Board from their duties performed in 2009 and decided on the distribution of profit from 2009 accounting year, assigning the total of the Bank's net profit (unconsolidated level) from the accounting year ending 31 December 2009 in the amount of PLN 84,1 million for reserve capital.

## **Supervisory Board**

The Supervisory Board exercises permanent supervision over activity of the Bank. The Supervisory Board operates under legal regulations, the Articles of Association of the Bank, resolutions of the General Shareholders Meeting as well as the Bylaws available on the Bank's website. The competences of the Supervisory Board comprise, in particular, election and recall of the members of Management Board and settlement of their remuneration rules. The Supervising Board chooses also the external auditor of the Bank and Group. The term-of-office of the Supervisory Board is 3 years.

The meetings of the Supervisory Board are held at least once every quarter. The Supervisory Board adopts resolutions by a simple majority of votes with at least half of the Supervisory Board Members present. In case of a tie, the Chairman of the Supervisory Board has the deciding vote.

The Supervisory Board of the Bank is composed of at least five Members elected by the General Shareholders Meeting, of whom at least half, including the Chairman, are of Polish nationality.

In the reporting period following persons were Members of the Supervisory Board:

1. Maciej Bednarkiewicz - Chairman of the Supervisory Board,
2. Carlos Jorge Ramalho dos Santos Ferreira – Deputy Chairman of the Supervisory Board,
3. Ryszard Pospieszyński - Deputy Chairman of the Supervisory Board,
4. Marek Furtek – Secretary of the Supervisory Board,
5. Luis Maria Franca de Castro Pereira Coutinho – Member of the Supervisory Board,
6. Vitor Manuel Lopes Fernandes - Member of the Supervisory Board,
7. Andrzej Koźmiński - Member of the Supervisory Board,
8. Paulo José de Ribeiro Moita de Macedo – Member of the Supervisory Board
9. Nelson Ricardo Bessa Machado - Member of the Supervisory Board
10. Marek Rocki - Member of the Supervisory Board,
11. Dariusz Rosati - Member of the Supervisory Board,

The term-of-office of the current Supervisory Board ends on the day of holding the General Shareholders Meeting approving the Bank's financial report on 2011 accounting year. According to the Articles of Association, the Supervisory Board may establish standing or ad hoc committees for the purpose of performing specific activities. The standing committees of the Supervisory Board are (i) Audit Committee and (ii) Personnel Committee.

*Audit Committee*

The Audit Committee of the Supervisory Board was established in 2000 in compliance with the Act on auditors and their self-government, entities entitled to audit financial reports and on public supervision. The Audit Committee must consist of at least three Members and at least one of the Members of the Audit Committee must satisfy the independence requirements and have qualifications in accounting or financial review. The Audit Committee meets on a regular basis once every quarter and in extraordinary events. It is convened by the Chairman of the Supervisory Board on his own initiative or at the request of a Member of the Supervisory Board or a Member of the Management Board. The duties of the Audit Committee include, specifically: (i) constant monitoring of the activities of the Bank's auditors and issuing opinions regarding independence of the auditors and any other relations between the auditor and the Bank; (ii) constant monitoring of the systems of processes of financial reporting and risk management of the Bank; and (iii) evaluation and monitoring of internal procedures within the scope of accounting and auditing as well as other control systems, including acceptance and dealing with complaints or any other doubts related therewith.

In the reporting period the Audit Committee consisted of the following Members:

1. Dariusz Rosati,
2. Maciej Bednarkiewicz,
3. Luis Maria Franca de Castro Pereira Coutinho,
4. Paulo Jose de Ribeiro Moita de Macedo – until 22 April 2010,

5. Vitor Manuel Lopes Fernandes – as of 22 April 2010.

In the reporting period Dariusz Rosati was the Chairman of the Audit Committee. He satisfied the independence requirements and had qualifications in accounting or financial review in accordance with Art. 86, section 4 of the Act on Certified Auditors.

*Personnel Committee*

The Personnel Committee was established in 2000. The duties of the Personnel Committee include in particular: (i) evaluation of the candidates for Members of the Management Board; (ii) establishment of the terms of employment of the newly appointed Members of the Management Board; (iii) negotiation of changes to the terms of employment of the Members of the Management Board; (iv) determination of evaluation criteria for the Members of the Management Board and establishment of their annual bonuses; (v) establishment of the terms of employment of the Members of the Management Board.

In the reporting period the Personnel Committee consisted of the following Members:

1. Maciej Bednarkiewicz,
2. Carlos Jorge Ramalho dos Santos Ferreira,
3. Luis Maria Franca de Castro Pereira Coutinho,
4. Marek Furtek.

In execution of the effective Resolution of the General Meeting of Shareholders in the matter of determination of remuneration of Members of the Supervisory Board, the Personnel Committee of the Supervisory Board, by way of Resolution no. 2 dated 2 of June 2009 defined the levels of remuneration for participation in the work of the Supervisory Board as percentage of the average monthly salary in the enterprise sector treated as a base rate. The amount shall be paid for each meeting of the Supervisory Board at the end of the month.

For participation in the work of Standing Committees of the Supervisory Board (Personnel Committee and Audit Committee) their Members shall receive, in a month in which a given Committee meeting was held, amounts also defined as a percentage of the monthly salary in the enterprise sector.

Furthermore, the Chairman of the Supervisory Board, with respect to performance of individual supervision of legal issues of the Bank, the Secretary of the Supervisory Board, with respect of performance of individual supervision of execution of the Supervisory Board Resolutions and Recommendations and the Chairman of the Audit Committee with respect of performance of individual supervision in the area of Internal Audit are also entitled to receive specific monthly amounts linked with the base rate.

### **Remuneration paid to the Members of the Supervisory Board in 2010 (in thousand PLN)**

<b>No.</b>	<b>Name and Surname</b>	<b>Remuneration</b>	<b>Benefits</b>	<b>Total</b>
1.	Bednarkiewicz Maciej	440,8	0,0	440,8
2.	Carlos Jorge Ramalho dos Santos Ferreira	104,4	0,0	104,4
3.	Pospieszynski Ryszard	62,6	0,0	62,6
4.	Furtek Marek	313,2	0,0	313,2
5.	Luis Maria Franca de Castro Pereira Coutinho	139,2	0,0	139,2
6.	Vitor Manuel Lopes Fernandes	55,7	0,0	55,7
7.	Kozmiński Andrzej	55,7	0,0	55,7
8.	Paulo Jose de Ribeiro Moita de Macedo	102,1	0,0	102,1
9.	Nelson Ricardo Bessa Machado	55,7	0,0	55,7
10.	Rocki Marek	55,7	0,0	55,7
11.	Rosati Dariusz	252,9	0,0	252,9
	<b>Total:</b>	<b>1 637,9</b>	<b>0,0</b>	<b>1 637,9</b>

In 2010, the Members of the Supervisory Board did not receive remuneration or any additional benefits from subsidiaries of Bank Millennium.

### **Management Board of the Bank**

The Management Board is the executive authority of the Bank and manages the entirety of the Bank's operations. The Management Board operates pursuant to the Commercial Companies Code as well as other legal regulations, the Bank's Articles of Association, resolutions of the General Meeting and the Supervisory Board as well as provisions of the Bylaws of Management Board operations adopted by the Supervisory Board, which are available on the Bank's website. The competences of the Management Board include all matters that are not restricted to other authorities of the Bank.

The Management Board takes decisions in the form of resolutions. Resolutions of the Management Board are adopted by an absolute majority of votes of those present at the Management Board meeting, except for resolutions on the appointment of a registered proxy, which require the unanimous consent of the Members of the Management Board. In case of a tie, the Chairman of the Management Board has the deciding vote. Resolutions of the Management Board may be adopted if at least half of the Members of the Management Board participate in the meeting.

Representations of will on behalf of the Bank are made by: (i) the Chairman of the Management Board individually; (ii) two Members of the Management Board acting jointly or one Member of the Management Board acting jointly with a registered proxy or two registered proxies acting jointly; or (iii) attorneys-in-fact acting individually or jointly within the scope of the power of attorney granted thereto.

Mr Jerzy Andrzejewicz holds powers of joint proxy. Attorneys-in-fact operating independently within the limits of their authorisation may be appointed to perform actions of a specified type.

The Management Board is composed of a minimum of three Members, of whom at least half have Polish nationality. The Management Board is appointed by the Supervisory Board. The term-of-office of the Management Board is 3 years. A Member of the Bank's Management Board may be recalled by the Supervisory Board at any time.

In the beginning of the reporting period the Management Board of the Bank was composed as follows:

1. Bogusław Kott - Chairman of the Management Board,
2. Rui Manuel Teixeira – Deputy Chairman of the Management Board,
3. Fernando Bicho - Member of the Management Board,
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board,
5. Wojciech Haase - Member of the Management Board,
6. Joao Bras Jorge - Member of the Management Board,
7. Artur Klimczak – Member of the Management Board.

On 22 April 2010 the Supervisory Board during its meeting accepted a resignation of Mr Rui Manuel Teixeira from his function of the Deputy Chairman of the Management Board. The Supervisory Board decided to increase, from 7 to 8, a number of Members of the current Management Board whose term-of-office ends on the day of holding the General Shareholders Meeting approving the Bank's financial report on 2011 accounting year. Mr Joao Nuno Lima Bras Jorge, a Member of the Management Board, was appointed a Deputy Chairman of the Management Board and Mr Andrzej Gliński and Mr Antonio Pinto Junior were appointed Members of the Management Board.

Due to the above-mentioned changes the Management Board of the Bank as at 31 December 2010 was composed as follows:

1. Bogusław Kott - Chairman of the Management Board,
2. Joao Nuno Lima Bras Jorge – Deputy Chairman of the Management Board,
3. Fernando Bicho - Member of the Management Board,
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board,
5. Andrzej Gliński - Member of the Management Board
6. Wojciech Haase - Member of the Management Board,
7. Artur Klimczak – Member of the Management Board,
8. Antonio Pinto Junior - Member of the Management Board.

The establishment of the terms of contracts and remuneration of the Members of the Management Board falls within the competences of the Supervisory Board. The Personnel Committee of the Supervisory Board examines all matters related to the rules and level of remuneration of the Members of the Management Board. The remuneration of the Members of the Management Board consists of a fixed and a variable part. The fixed part is a basic remuneration (fixed amount) of each Member of the Management Board. The variable part can comprise of annual bonus (when it is granted, it is paid after the end of AGM approving the consolidated financial report).

Annual bonus depends on such factors as:

- § the Group's net income,
- § execution of assigned tasks within the supervised area,
- § individual evaluation of a Member of the Management Board by the Personnel Committee.

The total remuneration of all Members of the Management Board who performed their duties during 2010 was PLN 10 872,7 thousand. This amount includes remuneration and additional benefits. The Members of the Management Board were not paid bonuses for 2009 and the reserve amounting to PLN 6 177,9 thousand for the payout of 2010 bonuses has been created. In 2010 the Members of the Bank's Management Board did not receive remuneration or any additional benefits for performing their functions in subsidiaries.

**Remuneration, bonuses or benefits paid to the managing persons in 2010 (in thousand PLN)**

No.	Name and Surname	Remuneration	Benefits	Total
1.	Kott Bogusław	1 680,0	20,7	1 700,7
2.	Jorge Joao Bras	1 246,0	906,9	2 152,9
3.	Boniuk-Gorzelańczyk Julianna	1 080,0	6,9	1 086,9
4.	Haase Wojciech	1 080,0	3,8	1 083,8
5.	Bicho Fernando	1 080,0	47,2	1 127,2
6.	Klimczak Artur	1 080,0	0,3	1 080,3
7.	Pinto Junior Antonio*	747,0	491,0	1 238,0
8.	Gliński Andrzej*	747,0	2,6	749,6
9.	Teixeira Rui Manuel**	440,0	213,2	653,2
	<b>Total:</b>	<b>9 180,0</b>	<b>1 692,7</b>	<b>10 872,7</b>

\* since 22.04.2010, \*\* until 30.04.2010

### **III. Features of the internal control system with respect to the process of preparing financial reports**

The internal control system, introduced by the Management Board of the Bank as regards the process of preparing financial reports, was designed to be an effective instrument of risk control and supervision over proper flow of the process of data collection and processing, and presentation of data in the form of financial reports in keeping with valid relevant legal regulations.

In compliance with effective laws, the financial reports of the Bank (non-consolidated reports) and the Bank's Capital Group (consolidated reports) are subject to review (6-month period reports) and audit (annual reports) conducted by an independent entity entitled to audit the financial reports – the external auditor. The Supervising Board makes a final choice of the external auditor on the basis of the Audit Committee's recommendation. In order to provide the best quality of financial data published in quarterly reports, the Bank together with the external auditor have implemented cooperation procedures regarding constant consultation of all important issues regarding recognition of economic events in bank's accounts and financial reports. The external auditor is obliged to present key issues concerning financial reporting to the Audit Committee of the Supervising Board. In 2010, like in the previous years, the Bank's external auditor was KPMG Audyt Sp. z o.o. In January 2011 the Supervisory Board decided, that KPMG will be an external Auditor of the Bank also during 2011.

The Bank is subject to the consolidated financial statements of Bank Millennium BCP. Therefore, the accepted rule is that a change in the entity authorized to audit financial statements shall be made taking into account the recommendations of the corporate efforts to maintain the same external auditor at the level of the whole group, however, while maintaining the necessary conditions associated with the appropriate selection of an entity authorized to study. This is in accordance with Article. 89 of the Act of 7 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public supervision (Dz. U. z 2009 r. Nr 77, poz. 649).

The internal control system functioning in the Bank and composed of mechanisms of functional control (preventive, detection and corrective mechanisms) described in strict internal regulations of the Bank as well as systematised actions of a specialised independent unit of institutional control – the Internal Audit Department, to a significant extent protects the Bank against errors in financial reporting and delivers to the Bank's management information, which permits assessment of correctness, efficiency and security of operation of the process of preparing financial reports, aimed at the highest possible effectiveness of managing identified risks accompanying this process.

Results of operation of the internal control system are regularly presented and reviewed by the Audit Committee of the Supervisory Board of the Bank.

**Signatures of the Members of the Management Board:**

<i>Date</i>	<i>Name and surname</i>	<i>Position/Function</i>	<i>Signature</i>
25.02.2011	Bogusław Kott	Chairman of the Management Board	.....
25.02.2011	Joao Bras Jorge	Deputy Chairman of the Management Board	.....
25.02.2011	Fernando Bicho	Member of the Management Board	.....
25.02.2011	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	.....
25.02.2011	Andrzej Gliński	Member of the Management Board	.....
25.02.2011	Wojciech Haase	Member of the Management Board	.....
25.02.2011	Artur Klimczak	Member of the Management Board	.....
25.02.2011	Antonio Pinto Junior	Member of the Management Board	.....