

## **CORPORATE GOVERNANCE REPORT FOR BANK MILLENNIUM IN 2007**

### **I. Corporate Governance principles applied in 2007**

In 2007 in the regulatory area, the Corporate Governance principles were dictated by the norms adopted by the Warsaw Stock Exchange (WSE) Council and stipulated in document – “Good practices in public companies 2005” hereinafter referred to as the “Good Practices”.

Bank Millennium S.A. fully observed the principles set up in the above document, with exception of the change in the position of the Bank during the year regarding the principles of five-year rotation of the entity, which exercises the function of the Auditor (principle no 42). The change as to observance of Principle no 42 resulted from the policy of the Banco Comercial Portugues Group (BCP) regarding the use of the same Auditor (KPMG) by the entities of the Group. According to this policy, the key partner of the Auditor - responsible for performing statutory review of financial statements - should be changed at least once every seven years as of the date of its appointment (such approach is in line with Directive 2006/43/EC of the European Parliament and Council of 17 May 2006). The Bank, as member of the BCP Group, supported the Group's policy and continuation of co-operation with the to-date KPMG's partner, in spite of the elapse of the five-year period stipulated in the content of Principle no 42.

According to the Bank, when selecting the Auditor, the deciding factor is the quality of the services offered and observance of the world audit standards by the auditor. KPMG guarantees high quality of services in all aspects. The Management Board of the Bank is deeply convinced that continuation of co-operation with KPMG did not impact the level of independence and professionalism of review of the Bank's financial statements.

Since 1<sup>st</sup> January 2008, i.e. as of the effective date of the “Corporate Governance” principles adopted by the WSE Council on 4<sup>th</sup> July 2007 (in the Resolution no 12/1170/2007 on “Good Practices for the Companies listed on the WSE”), the above-mentioned breach of the “Corporate Governance” principles ceased to exist.

## II. Authorities of the Bank

### ***General Meeting of Shareholders***

The General Meeting of Shareholders (GMS) is the supreme authority of the Bank. The General Meeting of Shareholders acts pursuant to the imperative laws, including in particular the Code of Commercial Companies, Articles of Association of the Bank and the Bylaws adopted by the GMS itself. The content of both Articles of Association of the Bank and the GMS Bylaws is available on the Bank's Website. The powers of the General Meeting of Shareholders include in particular review and approval of financial statements, adoption of resolutions on distribution of profit or coverage of losses and discharging members of the Bank's authorities from performance of their duties, change of Articles of Association including increase or decrease of initial capital, issue of convertible bonds and bonds with pre-emptive right and subscription warrants, creation and elimination of capital and funds as well as adoption of resolutions on their use, electing and recalling of members of the Supervisory Board and defining their remuneration, dissolution of the Bank or its sale or merger, selection of liquidators, all and any decisions concerning claims for redress of damage inflicted when establishing the Bank or exercising management or supervision as well as redemption of shares and defining the detailed terms of redemption.

According to the data held by the Bank, as at December 31 2007 the shareholder with at least 5% of the total number of votes at the GMS of Bank Millennium S.A. is:

<i>Shareholder</i>	<i>Number of shares</i>	<i>% share in initial capital</i>	<i>Number of votes</i>	<i>% share in votes at GMS</i>
Banco Comercial Portugues S.A.	556 325 794	65,51	556 325 794	65,51

The Bank has no knowledge about any agreements concluded between the shareholders and regarding mutual co-operation, or any agreements, which in the future may result in changes to the proportions of the shares held by the current shareholders.

The shareholders of the Bank exercise their corporate rights in a way and within the boundaries set forth in the imperative laws, Articles of Association of the Bank and the GMS Bylaws. Each ordinary share of the Bank gives right to one vote, whereas founders' registered shares in the current number of 62.200 are privileged, whereby one share entitles to two votes at the GMS. The founders' registered shares account for the total of 0,0073% of the initial capital of the Bank and 0,0146% of the total number of votes at the GMS.

The founders' shares are subject to sale restrictions in such way that their sale upon approval of at least three fourths of the founders to other founders does not result in losing their privileged

character. In all other cases sale of founders' registered shares results in losing their privileged character. There are no limitations in exercising voting rights from the shares of the Bank and none of the holders of the securities issued by the Bank has special control powers over the Bank.

On March 26 2007 the Ordinary General Meeting of Shareholders of the Bank was held following the end of the financial year 2006. The GMS approved financial statements of the Bank and the Capital Group of the Bank, as well as the activity reports of the Management Board and Supervisory Board for the above period. The GMS discharged every Member of the Management Board and every Member of the Bank's Supervisory Board from the performance of their duties. Pursuant to Art. 395 § 5 of the Code of Commercial Companies and § 8 section 2 item 8 and § 36 section 3 of the Articles of Association of the Bank, the General Meeting of Shareholders decided to cover with the General Risk Fund the effect of implementation of the International Accounting Standards into the Bank's solo financial statements in the total of 154.362.977,51 PLN, pursuant to Resolution No 7 of April 6 2006 adopted by the General Meeting of Shareholders, which was reflected in the Bank's financial statement as "Retained earnings – undistributed result". The General Meeting of Shareholders decided also on the distribution of profit for the financial year 2006 thus allocating the net profit of the Bank for the financial year ending on December 31 2006 in the total of 662.681.688,00 PLN to:

- a) Coverage of the outstanding part - in the total of 518.320.791,52 PLN – of the effect of implementation of the International Accounting Standards into the Bank's solo financial statements, pursuant to Resolution No 7 of April 6 2006 adopted by the General Meeting of Shareholders, which was reflected in the Bank's financial statement as "Retained earnings – undistributed result".
- b) Payout of shareholders' dividend – in the total of 144.360.896,48 PLN, which corresponded to 0,17 PLN per share.

### ***Supervisory Board***

The Supervisory Board exercises constant supervision over the operations of the Bank. The Supervisory Board acts pursuant to the law, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders and the Bylaws adopted by the Supervisory Board and available on the Bank's Website. The tenure of the Supervisory Board is 3 years.

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

In the reporting period the Supervisory Board was composed of the following persons:

1. Maciej Bednarkiewicz - Chairman of the Supervisory Board
2. Ryszard Pospieszyński – Vice Chairman and Secretary of the Supervisory Board
3. Christopher de Beck – Member of the Supervisory Board

4. Dimitrios Contominas - Member of the Supervisory Board
5. Pedro Maria Calainho Teixeira Duarte - Member of the Supervisory Board
6. Marek Furtek - Member of the Supervisory Board
7. Jorge Manuel Jardim Goncalves - Member of the Supervisory Board
8. Andrzej K. Koźmiński - Member of the Supervisory Board
9. Francisco José Queiroz de Barros de Lacerda - Member of the Supervisory Board
10. Vasco Maria Guimarães José de Mello - Member of the Supervisory Board
11. Paulo Jorge de Assunção Rodrigues Teixeira Pinto - Member of the Supervisory Board
12. Marek Rocki - Member of the Supervisory Board
13. Dariusz Rosati - Member of the Supervisory Board
14. Zbigniew Sobolewski – Member of the Supervisory Board

In the reporting period the following circumstances with impact on the composition of the Supervisory Board took place:

- As of August 31 2007 Mr Paulo Jorge de Assunção Rodrigues Teixeira Pinto presented his resignation as Member of the Supervisory Board.
- As of December 27 2007 Mr Vasco Maria Guimarães José de Mello presented his resignation as Member of the Supervisory Board.
- As of December 31 2007 Mr Jorge Manuel Jardim Goncalves presented his resignation as Member of the Supervisory Board.

The term of the current Supervisory Board expires as of the day of holding the General Meeting of Shareholders, which approves Bank's 2008 financial statement.

For collective performance of its specific activities the Supervisory Board established standing committees - Audit and Personnel Committees.

The Audit Committee - consisting of Maciej Bednarkiewicz, Dariusz Rosati and Francisco José Queiroz de Barros de Lacerda, who was replaced, as of 16.10.2007 r. by Christopher de Beck - constantly monitors systems and processes of Bank's financial reporting and risk management. In particular, the Audit Committee is responsible for exercising on behalf of the Supervisory Board control over functioning of the Bank's internal audit. Furthermore, this committee issues guidelines and recommends to the Supervisory Board selection of the auditing entity.

The Personnel Committee acting during reported period - consisting of Maciej Bednarkiewicz, Manuel Jardim Goncalves, Ryszard Pospieszyński - is specifically responsible for evaluation of the candidates for Members of the Management Board of the Bank and setting up terms of employment for the Members of the Management Board of the Bank.

Compensations and benefits paid out to the supervising persons in 2007

(in thousand PLN)

No		Compensations	Benefits	Total:
1	p. Maciej Bednarkiewicz	589,8	0	589,8
2	p. Ryszard Pospieszyński	318,5	0	318,5
3	p. Christopher De Beck	94,4	0	94,4
4	p. Dimitri Contominas	94,4	0	94,4
5	p. Pedro Maria Teixeira Duarte	94,4	0	94,4
6	p. Marek Furtek	94,4	0	94,4
7	p. Jorge Manuel Goncalves	188,8	0	188,8
8	p. Andrzej Koźmiński	94,4	0	94,4
9	p. Francisco De Lacerda	188,8	0	188,8
10	p. Vasco Maria Guimares Jose de Mello	94,4	0	94,4
11	p. Paulo Teixeira Pinto	70,2	0	70,2
12	p. Marek Rocki	94,4	0	94,4
13	p. Dariusz Rosati	188,8	0	188,8
14	p. Zbigniew Sobolewski	94,4	0	94,4
<b>Total:</b>		<b>2 300,1</b>	<b>0</b>	<b>2 300,1</b>

***Management Board***

The Management Board is the executive authority of the Bank and manages the whole operation of the Bank. The Management Board operates on the basis of the Code of Commercial Companies as well as other Acts and legal provisions, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders and the Supervisory Board as well as the provisions of the Management Board Operational Bylaws adopted by the Supervisory Board and available on the Bank's website. The powers of the Management Board cover all matters not reserved for other authorities of the Bank.

The Management Board is composed of at least 3 members, at least half of them are of Polish nationality. The Management Board is appointed by the Supervisory Board. The Management Board's tenure is 3 years. Member of the Management Board may be recalled by the Supervisory Board at any time.

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

1. Bogusław Kott - Chairman of the Management Board of the Bank
2. Luis Pereira Coutinho – Vice Chairman of the Management Board of the Bank
3. Fernando Bicho - Member of the Management Board
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board
5. Joao Bras Jorge - Member of the Management Board
6. Wojciech Haase - Member of the Management Board

7. Zbigniew Kudaś - Member of the Management Board

8. Wiesław Kalinowski - Member of the Management Board until April 18 2007, when he presented his resignation.

The tenure of the present Management Board ends on the day, on which the General Meeting of Shareholders approving the Bank's financial statements of 2008 financial year is held.

The following authorizations shall be given to make declarations of will regarding property rights and liabilities of the Bank, as well as to sign documents in the name of the Bank: Chairman of the Management Board – single-handedly, or two other Management Board Members jointly, or the Management Board Member with a proxy, or two proxies together. A proxy holding a joint power of attorney is Mr. Jerzy Andrzejewicz. For actions of a specified type attorneys-in-fact can be established, acting single-handedly within their authorization.

The Management Board performs its duties employing Committees appointed by the Management Board of the Bank pursuant to the resolutions that define the composition and competencies of the committees. The committees in particular include the Investment Banking Committee, Commercial Committee, Investment Committee, Capital Assets and Liabilities Committee, Credit Committee, NPL Committee, Personnel Committee, Process and Operational Risk Committee, IT Steering Committee, Risk Control Committee, "Crisis Council" Committee.

Compensation, awards or considerations paid or due to managing persons in 2007

(in thousand PLN)

No		Compensations and awards	Benefits	Total:
1.	p. Bogusław Kott	1 260,0	11,0	1 271,0
2.	p. Luis Coutinho	2 253,6	371,3	2 624,9
3.	p. Fernando Bicho	2 875,2	41,8	2 917,0
4.	p. Julianna Boniuk-Gorzelańczyk	2 955,2	4,7	2 959,9
5.	p. Joao Bras Jorge	1 995,2	480,1	2 475,3
6.	p. Wojciech Haase	2 715,2	4,1	2 719,3
7.	p. Zbigniew Kudaś	3 115,2	5,2	3 120,4
8.	p. Wiesław Kalinowski	2 545,2	2,5	2 547,7
<b>Total :</b>		<b>19 714,8</b>	<b>920,7</b>	<b>20 635,5</b>

*The reserve for 2007 bonus was set up in the total of 13 539 thousand PLN.*

*The total remuneration paid out or due, awards or benefits includes the gross value of remuneration paid out or due over the period between January - December 2007 and bonus for the year 2006 paid out in 2007 amounting to PLN 9 870 thousand*

Value of loans, advances and guarantees granted to managing and supervising persons

(as on 31 December 2007)

1. The managing persons have a total debt limit on credit cards and current accounts of PLN 845,0 thousand including unutilised limit in the amount of PLN 793,4 thousand.
2. There were no active guarantees granted to the managing persons.
3. Supervising persons have a total debt limit of PLN 155,0 thousand including unutilised limit on credit cards in the amount of PLN 145,8 thousand.

**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 constitute an effective instrument for controlling risk and supervising correctness of the process of collecting data, their processing and presentation in the form of financial reports pursuant to valid relevant legal regulations. The Bank's internal control system, built of: functional controls (preventive, detective and corrective) described in strict internal regulations of the Bank as well as structured actions of a specialised independent institutional control unit – the Internal Audit Department, largely protects the Bank from mistakes in financial reporting and provides the Bank's management with information permitting assessment of correctness, productivity and security of functioning of the process of preparing financial reports, aimed at having the highest possible effectiveness of management of identified risks accompanying this process.

In 2007 the additional Internal Control Project was done in the Bank, with involvement of an external advisor. In result of this project, recommendations were issued with the purpose of utilising opportunities for improvement of control of processes functioning in the Bank. Implementation of the issued recommendations is subject to ongoing monitoring and reporting to the Bank's management. Results of operation of the entire internal control system are regularly presented to and assessed by the Audit Committee of the Supervisory Board of the Bank.

**Management Board signatures:**

<i>Date</i>	<i>Name and Surname</i>	<i>Position/Function</i>	<i>Signature</i>
28.02.2008	Bogusław Kott	Chairman	.....
28.02.2008	Luis Pereira Coutinho	Deputy Chairman	.....
28.02.2008	Fernando Bicho	Board Member	.....
28.02.2008	Julianna Boniuk-Gorzelańczyk	Board Member	.....
28.02.2008	Wojciech Haase	Board Member	.....
28.02.2008	Joao Bras Jorge	Board Member	.....
28.02.2008	Zbigniew Kudaś	Board Member	.....