

Corporate Governance

From a Two-Tier to a One-Tier System (*) - at a glance



- Simplification of governance structures and decision-making processes
- Information flows within the Boards and between the Boards and the corporate functions
- Role of the Shareholders' Meeting
- Board independence level
- Involvement of the entire Board in internal controls
- Minority shareholders' role

- Size of the Board
- Asymmetrical information
- Distance between the Management function and the Control function
- Maximum number of outside Board seats for directors



*Assuming that the new Articles of Association in relation to the adoption of the one-tier corporate governance model have been authorised by the competent authorities and approved at the Extraordinary Shareholders' Meeting scheduled for 26 February 2016.

The reasons behind the change

- The results of the self assessment carried out by the Supervisory Board and the Management Board had shown the following main areas for improvement:
 - Internal factors:
 - Long decision-making chain
 - Information asymmetries among the Boards and within the Boards themselves
 - Excessive distance between the Management function and the Strategic Supervision and Control function
 - External factors:
 - Amendments to the regulatory framework
 - Changes at supervisory level (with the transition of prudential supervision to the ECB)
 - Increasing weight of institutional investors in the shareholder base of Intesa Sanpaolo

The assessment of the opportunity to confirm or change the corporate governance model adopted by Intesa Sanpaolo in 2006 was entrusted to an ad hoc Committee set up within the Supervisory Board at the end of 2014. The Committee's task was to analyse the benefits and specific advantages expected to be derived from the various governance models in order to identify possible areas for improvement in the existing two-tier governance system or, alternatively, possible reasons that could lead Intesa Sanpaolo to decide on its replacement.

The Committee's work

The Committee* set itself the task of identifying the most appropriate governance system for Intesa Sanpaolo to ensure efficient management and effective controls, taking into account the medium and long-term strategic objectives, as well as the size and operational complexity of the Bank and the Group. The Committee carried out an assessment by:

- ❖ Analysing the results of the self assessment carried out by the two Boards.
- ❖ Engaging the CEO and the Management Board.
- ❖ Analysing, in depth, the applicable regulations as well as the different models available at national and European levels.
- ❖ Verifying the practical implementation of different models through direct testimonies and experiences from top managers of competing banks.
- ❖ Engaging institutional investors.
- ❖ Assessing the amendments introduced in the regulatory framework which have affected the functioning of the two-tier system.
- ❖ Engaging local and international regulatory bodies.

*Composed of the Chairman of the Supervisory Board, two Deputy Chairmen and five other Board members. Of the eight, five were independent.

The Committee's conclusions

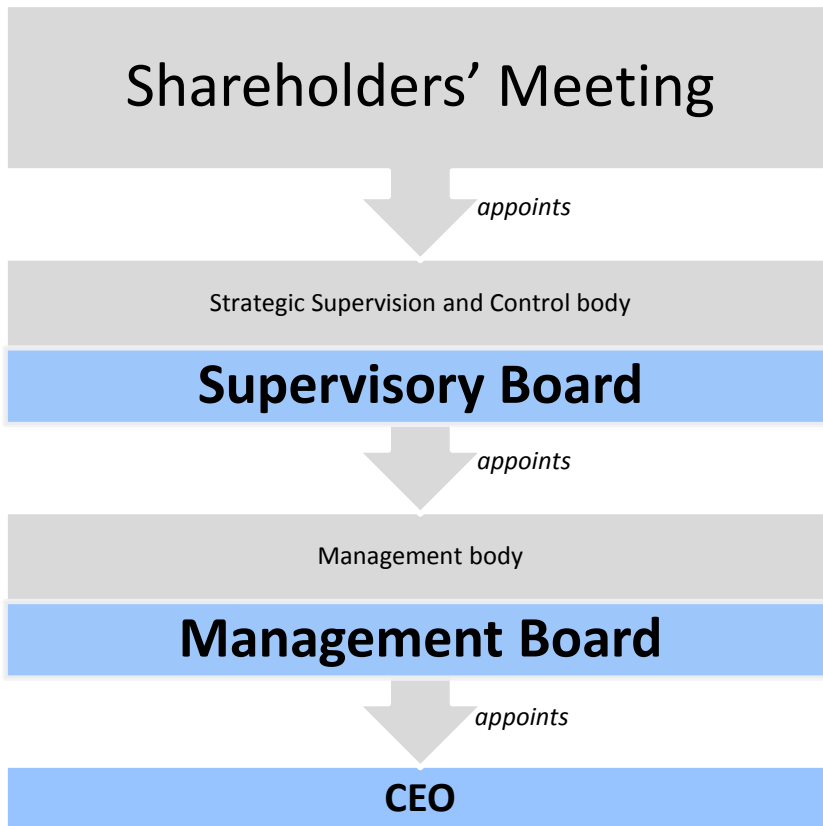
The one-tier governance model is considered to best replicate the positive, simultaneous exercise of strategic supervision and control in practice (which has proved its efficiency and effectiveness in the implementation of the two-tier system), and on the other hand, to eliminate inefficiencies emerging from the two Boards' self assessments.

The one-tier system reveals the following additional advantages:

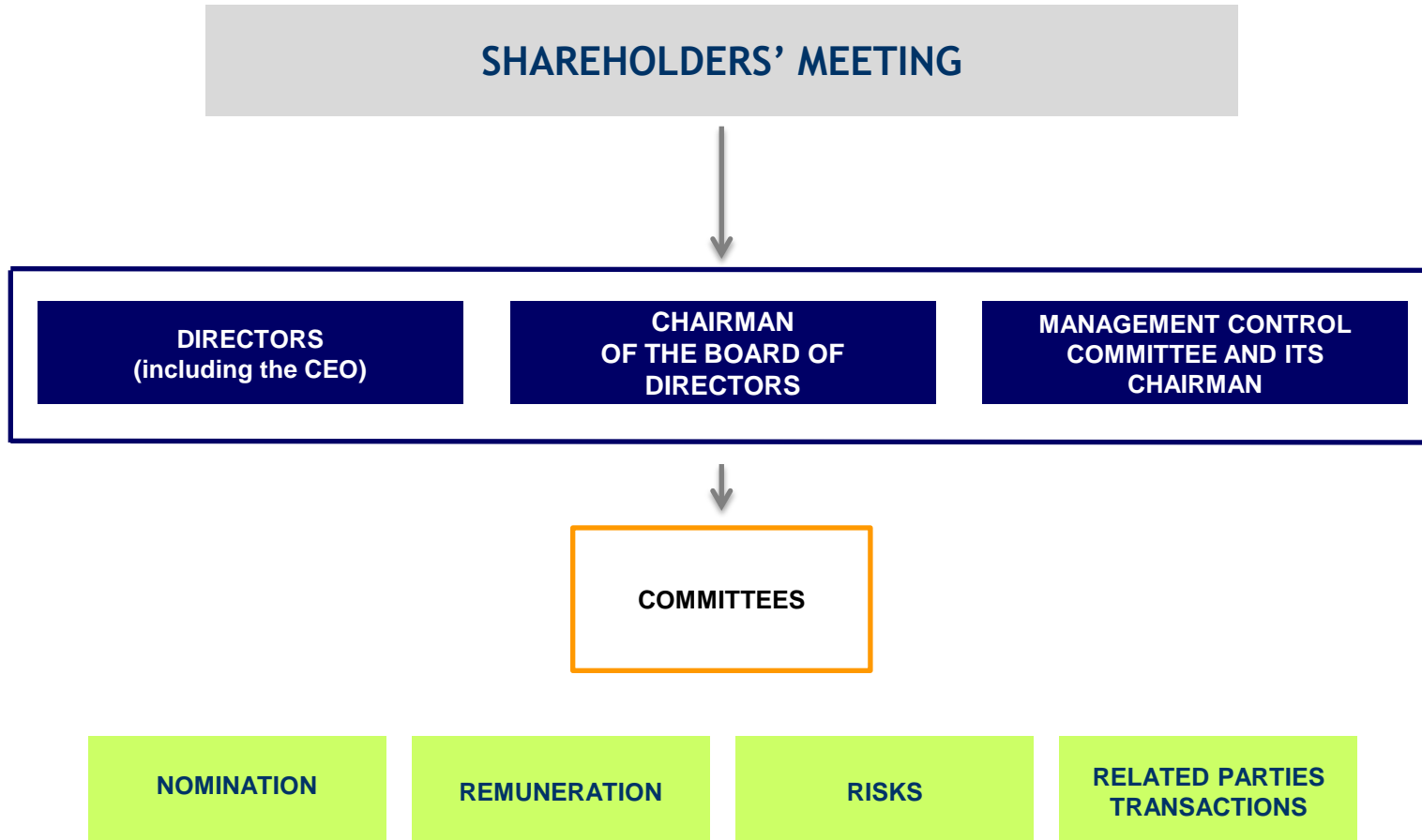
- ❖ Centralisation of the strategic supervision and management roles in a single body:
 - a more direct relationship between those in charge of determining the strategic direction (the Board in its plenary session) and those in charge of implementing it (i.e., the CEO);
 - immediacy in the flow of information, thus saving time and costs;
 - greater interaction and dialogue between those in charge of monitoring the consistency of management with strategic guidelines (the Board as a whole, but especially the non-executive Board members) and the person in charge of management (i.e., the CEO).

- ❖ Ensuring the effectiveness of the control function which remains centralised in a Committee (the Management Control Committee) established within the Board and, therefore, participating in strategic decisions.

From a Two-Tier to a One-Tier System



The One-Tier System



From a Two-Tier to a One-Tier System

Main features

INCREASING ROLE FOR THE SHAREHOLDERS' MEETING

- Appoint and remove the Board of Directors as well as the members of the Management Control Committee. The CEO is appointed by the Board of Directors from its members.
- Appoint and remove the Chairmen of the Board of Directors and of the Management Control Committee.
- Approve the financial statements.
- Approve the most significant transactions with related parties in case of negative votes from the Related Parties Transactions Committee.
- Approve the Group's remuneration policies with a binding vote.
- Approve the remuneration for non-executive directors (based on fixed compensation only).

INCREASING BOARD INDEPENDENCE

- At least 66.6% of the Board members shall satisfy independence requirements (current minimum is 48%).
- Stricter independence requirement imposing the obligation to include the conditions required by the Corporate Governance Code and the Consolidated Law on Finance (*TUF*) through the Articles of Associations.

INCREASING ROLE FOR MINORITIES

- The Chairman of the Management Control Committee is appointed from the candidates on the minority lists (the first candidate on the minority list that obtained the largest number of votes).
- Minority lists are entitled to appoint 25% of Board members.

DECREASING NUMBER OF DIRECTORS

- The Board of Directors will replace the Supervisory Board and the Management Board, and centralise the control functions within the **Management Control Committee**.
- The Articles of Association provide that the Board shall be composed of a maximum of 19 members (the current maximum number for the Supervisory Board and the Management Board is 32).

The One-Tier System

Main features

BOARD OF DIRECTORS AND NEW BALANCE OF POWERS

- Exercises the control, strategic supervision and management roles (except for powers delegated to the CEO).
- It is responsible for the granting and termination of powers of the Managing Director and CEO appointed from its members, who are appointed by the Shareholders' Meeting.
- Establishes the compensation of the CEO in line with the remuneration policies approved by the Shareholders' Meeting.

CHAIRMAN

- Promotes the dialogue among the directors and ensures the effectiveness of Board discussions, favouring a right balance of powers.
- The Chairman of the Board of Directors has a non-executive role and does not carry out management functions.

MANAGING DIRECTOR AND CEO

- Is the only executive director on the Board. No other director may have delegated powers or be a Company employee.
- Shall perform the day-to-day management function within the scope of the powers that the Board of Directors shall deem fit to delegate.
- Is supported by Managers in the day-to-day management functions:
 - ✓ through Management Committees, in the performance of the duties and powers conferred upon them by the Board of Directors as part of specific Regulations;
 - ✓ individually or jointly, in the performance of the powers that shall be granted to them by the Board of Directors upon the proposal of the Managing Director.

INTERNAL COMMITTEES

- The Board of Directors will establish a Nomination Committee, a Remuneration Committee, a Risks Committee and a Related Parties Transactions Committee which have assessment and advisory functions and support, each within its remit, the Board of Directors fully in its decisions. All Committee Chairmen are independent. The Related Parties Transactions Committee should be fully independent while the others should be composed of a majority of independent members.

The One-Tier System

The Management Control Committee - composition

- The Chairman and its members are appointed by the Shareholders' Meeting. The Chairman and one member are nominated among the minority lists' candidates.
- All members are independent and shall have proven experience of at least five years in the field of internal control
 - ✓ serving as a member of company bodies at entities with significant scale of financials as defined in the Articles of Association (e.g. entities that conduct banking or financial business with total assets of at least five billion euro);
 - ✓ lecturing at university level in economics or law;
 - ✓ serving as senior officers or carrying out executive duties at public administrations of at least regional importance or authorities whose responsibilities concern banking and finance.
- At least three members of the Management Control Committee shall be enrolled with the Register of Independent Auditors and have practiced as auditors for a period of at least three years.
- All members may not take up positions of an executive nature in other companies or more than two positions of non-executive nature in other large companies.
- The members of the Management Control Committee may not be members of other Committees appointed by the Board.

The One-Tier System

The Management Control Committee - duties

- Among its various duties, the Committee shall:
 - ✓ oversee the compliance with legal and regulatory provisions and the Articles of Association and on the principles of correct management;
 - ✓ supervise the adequacy, efficiency and functionality of the organisational structure of the company and the internal control system, as well as of the administration and accounting system;
 - ✓ ensure the effectiveness of all the structures and functions involved in the control system and the proper coordination thereof, promoting the corrective measures of any deficiencies and irregularities detected;
 - ✓ oversee the methods for the actual implementation of the corporate governance rules laid down by codes of conduct;
 - ✓ propose to the Shareholders' Meeting the auditing firm to which to assign the audits of accounts and the fee for its mandate, supervise its work, share with it the relevant data and information for the performance of the respective duties and carry out the duties assigned, pursuant to Article 19 of Legislative Decree 39/2010 to the internal control and audit committee;
 - ✓ promptly report to the supervisory authority and Consob on any management irregularities and breaches of the regulations;
 - ✓ report on the supervisory activities carried out, on any omissions and reprehensible facts detected by the Shareholders' Meeting called to approve the financial statements;
 - ✓ having notified the Chairman of the Board of Directors, call a Shareholders' Meeting, if, in the performance of its duties, it should detect reprehensible facts of significant severity and urgent measures need to be taken, or if it is necessary for the performance of its functions;
 - ✓ perform, in line with its control function, the additional duties assigned to it by the Board of Directors.
 - ✓ Its members are part of the Board of Directors and, therefore, resolve on all matters within the powers of this Board.

The One-Tier System

The nomination process

- ❖ The nomination process is based on a majority system with a premium to the most voted list (majority list). 25% of board seats are reserved for the candidates from the minority lists:
 - Five Directors are drawn from the minority lists in case of a Board composed of 18 or 19 members.
 - Four Directors are drawn from the minority lists in all other cases (Board composed of less than 18 members).
- ❖ The lists may be submitted by as many shareholders representing at least 0.5% of the share capital.
- ❖ A single vote applies for the Board of Directors and the Management Control Committee, on the basis of lists of candidates submitted in two separate sections.
- ❖ Lists with three or more candidates shall ensure a proper composition in line with the requirements of independence (2/3), gender balance (1/3) and audit expertise (at least one candidate on sections 1 and one out of two from section 2).
- ❖ Section 2 of the list for the appointment of the Management Control Committee shall include only independent candidates.

List	For	Against	Abstain
Section 1 Candidates to the Board of Directors	Section 2 Candidates to the Management Control Committee and to the Board of Directors		
1.....		1.....	
2.....		2.....	
3.....		3.....	
4.....		4.....	
5.....		5.....	
6.....			
7.....			
8.....			
9.....			
10.....			
11.....			
12.....			
13.....			
14.....			

The One-Tier System

The nomination process - examples

With a board composed of 19 members:

- ❖ 14 candidates will be drawn from the most voted list («**majority list**»), among which:
 - Three presented in Section 2 as members of the Management Control Committee.
 - The remaining 11 candidates drawn from Section 1 will take up the position of Board members.

- ❖ Five candidates will be appointed from other lists that have no connection to the majority list («**minority lists**»):
 - Two members are appointed from Section 2 of the second most-voted list (“**first minority list**”); the first elected member takes on the role of **Chairman of Management Control Committee**.
 - Three Board directors are drawn proportionately from Section 1 of all the minority lists (including the first minority list) provided that such lists, taken as a whole, have obtained at least 10% of the votes cast at the Shareholders’ Meeting.

The Shareholders’ Meeting elects the Chairman of the Board of Directors and the Deputy Chairpersons in a separate vote by relative majority.