

## SECTION 4 – RISKS OF OTHER COMPANIES

The risks of other companies are essentially concentrated:

- in the companies Romulus Funding Corp. and Duomo Funding Plc., included on the scope of consolidation pursuant to IFRS 10;
- in the Risanamento Group companies, consolidated for accounting purposes starting in 2015, but not subject to management and coordination.

### THE VEHICLES ROMULUS FUNDING CORPORATION AND DUOMO FUNDING PLC

#### Qualitative and quantitative information

These two special-purpose vehicles are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers.

As at 31 December 2020, approximately 4.1 billion euro of the securities issued by Romulus, amounting to 4.3 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo.

The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks.

Companies are not generally permitted to take foreign-exchange positions.

As at 31 December 2020, the assets of Romulus included 4.3 billion euro in loans to the vehicle Duomo.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 4.1 billion euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.

With regard to the portfolio of the vehicle Duomo, at the end of 2020 this portfolio mainly consisted of loans to customers of 5.6 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2020.

	Vehicle data		Liquidity lines (2)	Guarantees given		Securities issued	of which: held by the Group		
	Total assets	Cumulated losses		nature	amount	amount	amount	Accounting classification	Valuation
ROMULUS FUNDING CORP.	4,269	(1)	-	-	-	4,268	4,084	Fin.Ass. at Am. cost	Amortised cost
DUOMO FUNDING PLC	5,654	-	5,776	-	-	-	-		

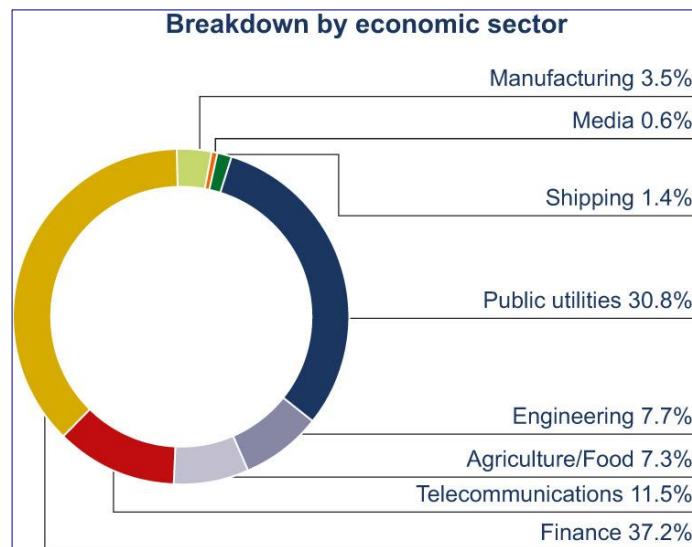
(1) Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.

(2) These are Fully Supporting Liquidity Facilities issued by the Parent Company Intesa Sanpaolo, of which 5,768 million euro is committed out of an amount granted of 8,451 million euro.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 1% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 64.3% accounted for by trade receivables and the remainder by consumer loans (18.3%), loans deriving from lease contracts (5.7%), factoring contracts (4.5%), mortgage loans (1.3%), loans to SMEs (1.3%) and loans/lease contracts to pharmaceutical companies (4.6%). The eligible assets held by the vehicles are mainly expressed in euro (94.7% of the total portfolio). The remainder is broken down into British pounds (1.5%), US dollars (1.5%), Australian dollars (1.8%) and Mexican pesos (0.4%).

The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, 100% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 94% of the debtors are located in Italy.

## RISANAMENTO GROUP

With regard to the risks of other companies, mention should also be made of the potential effects of the unfavourable real-estate market situation on the Risanamento Group, in consideration of the specific nature of that Group's business.

It is important to note that the real estate market suffered significant effects linked to the spread of the COVID-19 pandemic.

With reference to this specific point, it is important to consider that the assets owned by the Risanamento Group are largely areas to be used for medium/long-term development operations. Specifically, for Milano Santa Giulia S.p.A. (which holds the main asset of the Group) the recent publication of the Variant to the Implementation Plan is an important step in the preliminary authorisation process, and brings the start of the actual realisation phase closer, also considering the deadline of the 2026 Winter Olympics, which, as known, should use the new arena.

Though it is currently not possible to forecast the future evolution of the pandemic, the phase of completion of the urban planning process and the constructions of the works makes it possible to believe that Santa Giulia may debut on the market at different, and hopefully better, conditions than current ones.

Moreover, below we set out the considerations made in measuring real estate assets to take account of the uncertainties correlated with the unforeseeable methods and timing of the future evolution of the pandemic:

- the current scenario has generated doubts regarding future scenarios, and no one can yet forecast with sufficient certainty the impacts of the health emergency on global economies and real estate markets. For this reason, the measurement of real estate assets was carried out under conditions of significant uncertainty;
- due to that uncertainty, which renders the transactions actually concluded in the last few months insignificant and low in number, it was decided not to conduct additional market surveys to support the measurement, both because the Milano Santa Giulia operation will build a new urban district (whose prices will be different and significantly higher than those in the surrounding area), and because the current dynamics in the real estate market, highly impacted by the health emergency, do not actually represent the scenario that the (medium/long-term) real estate offerings of Milano Santa Giulia will deal with once the development is completed;
- given the above, in any event, it was decided to incorporate prudential elements into the estimation parameters used for the measurement to consider the previously mentioned uncertainty. Following that measurement, the main asset of the group (Milano Santa Giulia) saw a decrease in fair value of around 15 million euro, equal to approximately 2% compared to the market values observed in the previous year, though remaining still higher than the book value.

The general situation illustrated above inevitably reflects on the real estate sector, whose expectations are conditioned by economic growth, difficult credit access conditions and the high unemployment rate. The situation of the real estate sector thus continues to appear uncertain and complex, just as the macroeconomic context of reference. Indeed, the expected performance of the real-estate market in the coming months is linked to the development of the complex economic scenario.

The real-estate market is subject to the cyclical performance of rent values and property prices. The length of such cycles varies, but normally spans multiple years. The macro-economic factors with the greatest influence on property values and cyclical performance are as follows:

- interest rate performance;
- market liquidity and access to remunerative alternative investments;
- economic growth.

The Risanamento Group's management policy is aimed at minimising the effects of the various phases of the cycle through long-term contracts with tenants of high standing, low vacancy rates to avoid the risk of having to locate new tenants in periods of limited demand for lease space, and investments in development projects with high quality standards. The main risks specifically relating to real estate managed by the Risanamento Group are represented below.

#### **Inability to sell / valuation of assets not in line with the Risanamento Group's strategic projections**

This risk relates to all potential events that may influence the achievement of the sales and lease targets for the Risanamento Group's assets. At present, the ability to identify potential commercial tenants that meet the Company's expected needs and requirements is often subject to factors and circumstances beyond the Company's control. The consequences for operations could translate into a decrease in purchasing transactions and an increase in vacant properties.

The Risanamento Group manages this risk through constant monitoring of commercial activities and observance of strategic objectives that allow it to assess and implement sales actions with a full awareness of the established strategic objectives.

#### **Risks associated with project execution**

The execution of real-estate initiatives presents risks associated with planning activity, environmental problems, building activity, and the length and potential exposure of the initiative to the cyclical nature of the real-estate market.

This latter aspect is inherent in larger, long-term projects that are inevitably affected by the cyclical nature of the real-estate sector due to the need to combine administrative formalities with innovative design quality, harnessed to stimulate demand from the market.

The potential risk in question also translates into the possibility that i) errors in or critical aspects of a design may compromise the objectives of the timeliness and proper execution of the works, and ii) the works may not be completed according to the agreed terms and conditions for reasons attributable to the contractor.

In reference to point i), the Group has implemented a structured contractor selection process aimed at identifying professionals with a track record of strong technical expertise. In addition, the Group enters into contracts that include warranty and indemnification clauses. The Group monitors the design process through constant discussions with counterparties about all related activities and verification of periodic quality status and project compliance.

In reference to point ii), the Group adopts structured supplier selection processes to select contractors that meet requirements of integrity, suitability, technical and professional qualification and operational and organisational adequacy in addition to being financially solid. Contractors are constantly monitored in order to ensure constant access to information useful in assessing the situation and taking the appropriate corrective measures in a timely manner. In addition, the contracts contain warranty clauses benefiting the principal.

Subject to the risks indicated above, the observation, already made in the previous years' Annual Reports, still applies, regarding the signing of an important agreement with a leading international operator for the implementation in partnership of the Milano Santa Giulia real estate project, which represents the Group's main asset.

Although it is currently conditional upon the approval of the modification of the Master Plan for the Milano Santa Giulia Project, this agreement is of considerable importance for the Risanamento Group because it (i) confirms the soundness and feasibility of the project and (ii) can generate benefits and synergies both during the development and marketing phases.

The total carrying amount of the Risanamento Group's real-estate portfolio in Intesa Sanpaolo's consolidated financial statements is 692 million euro.

In further detail, the portfolio may be broken down as follows:

- owner-occupied properties: 39 million euro (registered office and place of business);
- real-estate development areas and projects: 613 million euro (Milano Santa Giulia);
- trading properties: 40 million euro.

As mentioned above, Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.