

## 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.

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 2023, the assets of Romulus included 6.89 billion euro in loans to the vehicle Duomo.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 6.89 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 2023 this portfolio mainly consisted of securities of 9.79 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2023.

	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.	6,887	(1)	-	-	-	6,886	6,878	Fin.Ass. at amm. cost	Amortised cost
DUOMO FUNDING PLC	9,793	-	10,166	-	-	-	-		

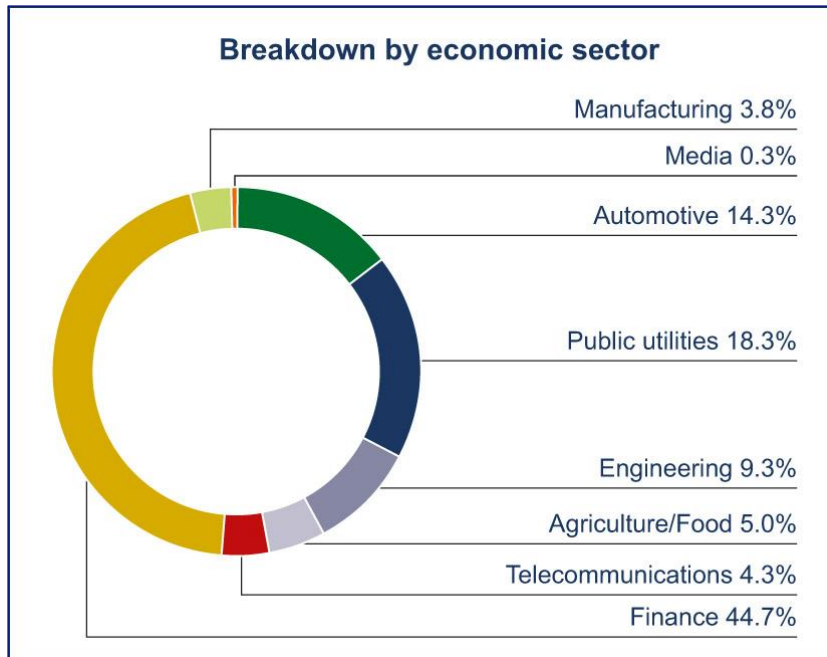
(1) Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.

(2) These are Fully Supporting Liquidity Facilities issued by the Parent Company Intesa Sanpaolo, of which 10,166 million euro is committed out of an amount granted of 15,000 million euro.

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

The portfolio risk of the two vehicles is approximately 45.24% accounted for by trade receivables and the remainder by consumer loans (20.32%), loans deriving from lease contracts (1.69%), factoring contracts (2.24%), mortgage loans (0.07%), loans to SMEs (18.27%), loans/lease contracts to pharmaceutical companies (0.2%), auto loans and leases (11.68%), and VAT credits (0.31%). The eligible assets held by the vehicles are mainly expressed in euro (96.27% of the total portfolio). The remainder is broken down into British pounds (3.32%), US dollars (0.09%), Polish zloty (0.001%), Australian dollars (0.01%) and Mexican pesos (0.021%).

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



With regard to the rating breakdown of the loan portfolio, 98% does not have a rating and the remaining 2% is rated above "A".

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 93% of the debtors are located in Italy.

## RISANAMENTO GROUP

### Qualitative and quantitative information

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

In Italy, a phase of substantial stagnation began at the end of 2022, which may also continue in 2024, leaving the annual growth in line with that of 2023 at 0.7%. This has been due to the energy and inflationary shock since the end of 2022, compounded by monetary tightening and less generous construction bonuses. However, several significant recovery factors may materialise during 2024, including the recovery of household real disposable income and the acceleration of expenditure flows funded by the NRRP.

These trends should overcome the obstacles posed by the increase in interest rates and the reduction in construction bonuses from the second half of 2024, establishing a foundation for stronger GDP growth from 2025 onwards.

On the consumption side, spending on services will be affected by the absence of the boost from the use of surplus savings and the post-pandemic normalisation of lifestyles, while spending on durable goods will be impacted by the increase in interest rates.

Investment slowed down sharply already in 2023, due to the rise in interest rates and the squeeze on construction bonuses, and these factors may continue to weigh on the first half of 2024. A recovery is expected in 2025, mainly driven by the acceleration of infrastructure work funded by the NRRP. The construction sector is particularly affected not only by the increase in interest rates and less generous construction bonuses, but also by the fact that material costs are still at historically high levels.

The general situation illustrated above inevitably reflects on the real estate sector, whose expectations are conditioned by economic growth, as well as the difficult credit access conditions. 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.

With regard to the assets held by the Risanamento Group, as part of the agreements with LendLease, a leading international operator in the infrastructure sector, and the lending banks for the development of the Milano Santa Giulia real estate initiative, in 2023 a complex transaction was structured, aimed at enabling the following, as part of a plan to ensure the economic and financial equilibrium of the Risanamento Group pursuant to Article 56 of the Insolvency Code: (i) the obtainment by the Risanamento Group of the financial resources necessary to fulfil its commitments made to the public authorities and third parties in relation to the completion of both the reclamation of the area and the execution of the Olympic infrastructure works under the Variant Agreement; and (ii) the transfer of the Milano Santa Giulia area at values in line with its book value to an alternative investment fund through the subscription of its units by the lending banks or their assignees and the concurrent novation to the aforementioned fund of the financial debt due to the lending banks (or their assignees) from the Risanamento Group and the payment to Risanamento, under particular terms and conditions, of the additional amount with respect to the values referred to above.

The Termsheet containing the main terms and conditions of the transaction was signed by the parties on 22 March 2023. During the second quarter, following the fulfilment of the usual conditions precedent for this type of transaction, the final contracts were drawn up and signed by the parties on 29 June 2023. The closing then took place on 30 June 2023.

Following the completion of the transaction, the Risanamento Group sold the Group's main asset (Milano Santa Giulia) to a third party, while remaining obligated to complete the environmental restoration work on the site and to carry out the infrastructure work.

The Risanamento Group's management policy is aimed at minimising the effects of the various phases of the cycle through investments in development projects with high quality standards, flexibility and efficient management.

The main risks specifically relating to real estate managed by the Risanamento Group are represented below.

#### **Risks related to failure to comply with the business plan**

This risk relates to all potential events that could jeopardise the achievement of the Risanamento Group's business plan objectives in accordance with their timing and content.

The Risanamento Group has implemented a system of continuous monitoring of the status of which implementation of the business plan, which provides Management the necessary information to take consequent corrective actions.

In relation to the Risanamento Group's development objectives, the business plan is currently strictly linked to (i) the obligations arising from the agreements signed as part of the transaction structured during the year for the performance of the restoration and infrastructure construction activities and (ii) the value maximisation of the real estate initiatives in the portfolio. Therefore, this risk stems from multiple factors, including the uncertainties related to the progress of the initiatives (which mainly focus on environmental, infrastructural and construction interventions) and the consequent difficulties related to the realisation partnerships for the value maximisation and financing of the initiatives.

The potential risk also stems from the mismatch between the timing of the development targets set in the plan and the opportunities permitted by urban planning laws.

The Risanamento Group has established a relationship of continuous dialogue and engagement with the public authorities. Moreover, the Risanamento Group is supported by highly regarded professionals selected through a structured process that ensures the selection of individuals with proven technical expertise in urban planning consistent with the targets set compatible.

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

The execution of real-estate initiatives, as well as the performance of the contractual commitments made (completion of the environmental restoration work and performance of the infrastructure work for the Milano Santa Giulia development initiative), entail risks associated with planning, environmental problems, construction, 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 Risanamento 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 Risanamento 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 Risanamento 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.

The total carrying amount of the Risanamento Group's real-estate portfolio in Intesa Sanpaolo's consolidated financial statements is 107 million euro.

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

- owner-occupied properties: 8 million euro (registered office and place of business - located in the Milano Santa Giulia area);
- real estate development areas and projects: 59 million euro (residual bare ownership on the Milano Santa Giulia initiative);
- other trading and development 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.