

SECTION 4 – RISKS OF OTHER COMPANIES

Risks of other companies are essentially concentrated in the companies Romulus Funding Corp. and Duomo Funding Plc, subsidiaries included within the scope of consolidation pursuant to IFRS 10, and 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, originally 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 2019, approximately 5.9 billion euro of the securities issued by Romulus, amounting to 6 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.

As already indicated for Banking Group risks, risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risk, as well as listed derivatives to optimise interest rate strategies.

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

As at 31 December 2019, the investment portfolio of Romulus included 6 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 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 2019 – in addition to loans to customers of 6 billion euro – this portfolio mainly consisted of amounts due from banks in the Intesa Sanpaolo Group of 0.1 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2019.

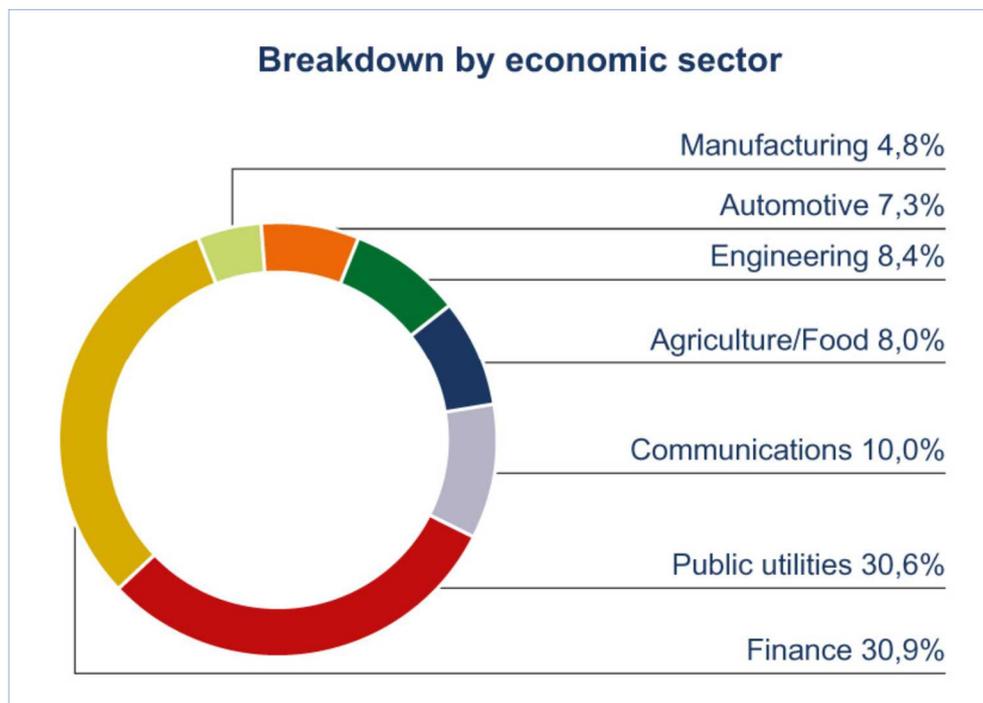
			Vehicle data		Liquidity lines	Guarantees given		Securities issued <small>(millions of euro)</small>			
			Total assets	Cumulated losses		nature	amount	amount	amount	Accounting classification	Valuation
ROMULUS CORP.	FUNDING	Asset backed commercial paper conduit	6,009	(1)	-		-	6,007	5,887	Fin.Ass. at amm.cost	Amortised cost
DUOMO FUNDING PLC		Asset backed commercial paper conduit	6,114	-	6,211		-	-	-		

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

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.7% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 62% accounted for by trade receivables and the remainder by consumer loans (12%), loans deriving from lease contracts (8%), inventory-backed loans (7%), factoring contracts (5%), mortgage loans (2%) and loans/lease contracts to pharmaceutical companies (4%). The eligible assets held by the vehicles are expressed in euro (98.4% of the total portfolio). The remainder is denominated primarily in British pounds (1.27%) and US dollars (0.26%).

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 97.11% 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.

Expectations for the real-estate sector 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.

It is noted that during the year, in line with forecasts, the main building of the Group was sold at values in line with the carrying amount.

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 2017 and 2018 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 683 million euro.

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

- owner-occupied properties: 36 million euro (registered office and place of business);
- real-estate development areas and projects: 612 million euro (Milano Santa Giulia);
- trading properties: 35 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.

AUTOSTRAD E LOMBARDE GROUP

The Autostrade Lombarde Group has identified both the risks linked to specific business factors and the financial risks. With regard to the management of financial risks, it has identified and defined the objectives and policies for managing them.

In the ordinary course of its business, the Group is potentially exposed to the following financial risks:

- "interest rate risk", mainly deriving from exposure to fluctuations in interest rates associated with the financial assets disbursed and financial liabilities assumed;
- "liquidity risk", deriving from the possible lack of sufficient financial resources to cover operating activities and the repayment of the liabilities assumed;
- "credit risk", consisting of both the risk of default by the counterparty and the risk associated with normal business dealings.

The abovementioned risks are analysed in detail below:

Interest rate risk

With regard to the risks associated with interest rate fluctuations, the Group's strategy is to contain them mainly by carefully monitoring interest rate changes, identifying the optimal combination of floating and fixed rates and also entering into specific hedging contracts.

With regard to the Group's financial debt as at 31 December 2019, it consists of bond loans and bank loans against which there are hedges on the change in interest rates for the floating rate component.

Liquidity risk

"Liquidity risk" represents the risk that available financial resources may be insufficient to cover maturing obligations. Despite the temporary reduction in revenues compared to the initial forecasts when the infrastructure went into operation, the Group believes that the measures adopted in the new rebalancing plan, approved with the Additional Deed no. 3 to the Standard Agreement, together with the generation of cash flows and the refinancing of the debt position, will ensure that the planned financial requirements are met.

Credit risk

To minimise “credit risk”, the Group pursues a policy of prudent use of liquidity and there are currently no critical positions with individual counterparties. With regard to trade receivables, the Group constantly monitors them and writes down positions that have been identified as partially or totally uncollectable.

With regard to the specific activity carried out by the subsidiary Società di Progetto Brebemi S.p.A., the following risks are also identified:

Legislative and regulatory risk

The Group provides a public service and operates in a regulated sector subject to legislative measures that may affect the setting of the tariffs applied to users and the imposition of unforeseen obligations and charges. The tariffs are subject to control and application by the Concession Grantor and the Ministry of Infrastructure and Transport and are updated annually, as provided for in the current Agreement. The Group constantly monitors possible new legislation, using both internal and external expertise.

Risks of revocation of the concession in the public interest

With regard to the risks connected with a possible revocation/nationalisation of the motorway concessions, if the concession agreement is terminated for reasons of public interest or due to breach by the Concession Grantor, it envisages appropriate safeguards for the Concession Holder. In particular, it is established that the Concession Holder will be entitled to a refund equal to: (i) the value of the works carried out plus ancillary costs, net of depreciation, (ii) the penalties and other costs incurred or to be incurred as a result of the termination and (iii) an indemnity, as compensation for loss of earnings, equal to 10 percent of the value of the works still to be carried out or of the part of the service to be managed valued on the basis of the business and financial plan.

Price risk

With regard to the Group’s main investment, the existing procurement and service agreements exclude the revision of prices, unless these are recognised by the Concession Grantor, because the agreements are structured with back-to-back commitments and rights deriving from the relationship between the Concession Grantor and the Concession Holder.

The above also applies for the higher construction and expropriation costs increased following the rebalancing of the Business and Financial Plan.

Market risk

In view of the nature of the business conducted, the main market risk is attributable to “traffic risk”, i.e. the risk that the traffic estimates underlying the agreed business and financial plan may be incorrect. This risk is covered by the contractual instruments that allow the Concession Holder to re-establish the business and financial balance when updating or revising the Business and Financial Plan.

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