



MEDIOBANCA



PRESS RELEASE

Mediobanca continues process of redeploying capital to specialized, highly profitable businesses

Compass¹, Italian market leader in consumer credit by positioning and profitability, signed an agreement to acquire a 19.9%² stake in leading Indonesian independent consumer credit operator BFI Finance ('BFI')

For Compass and MB the deal represents a significant value option. The domestic consumer credit business is now complemented by operations in Indonesia as a second market with great potential distinguished by its strong "growth", high margins and low risk profile (Ratings: Fitch BBB; S&P BBB-; Moody's Baa2)

BFI is the ideal option for Compass to enter the Indonesian market. A leading independent player in consumer credit, BFI boasts outstanding profitability levels and growth rates.

The BFI platform is very solid and highly scalable, with a high-quality, long-tenured management team, extensive and effective distribution, profitable products and strong risk management capabilities

Entry to the Indonesian market will follow a gradual approach: the investment, which will be equity-accounted in the consolidated financial statements, will be accretive immediately

(FY18: Compass net profit up 4%, MB Group net profit up 2%), and entails limited capital absorption (-30 bps CET1)

The deal is expected to close by year-end 2018

¹ Compass is 100%-owned by Mediobanca S.p.A. and is consolidated as part of the Consumer Banking division.

² Percentage calculated based on voting shares (excluding treasury shares, equal to 6.3% of the company's share capital).



Milan, 3 August 2018 - Compass Banca S.p.A. ("Compass"), 100%-owned by Mediobanca S.p.A. ("Mediobanca"), has announced it has reached an **agreement to acquire 19.9% of PT BFI Finance Indonesia Tbk ("BFI Finance")** from the Trinugraha consortium which currently owns 45.7% of the share capital.³ Upon closing, Compass will become one of the largest shareholders in the company. **A further 11%³ will be acquired by StarFinance, a SPV gathering certain Italian private investors.** The deal is expected to close by once the relevant authorizations⁴ have been received by year-end 2018.

With this deal the Mediobanca Group is continuing the process of **redeploying capital to specialized, high-growth and highly-profitable banking businesses**, supporting Compass's impressive growth story in increasing its value to the Mediobanca Group as a whole.

With new loans of more than €7bn and a loan book of €12bn, Compass is one of the top three players on the Italian market, with a market share of 12%. It has an **established client base** (over 2 million customers), **extensive and diversified distribution** (171 branches, 7,500 third-party bank branches, 14,000 post offices, and various agreements with retail distribution and agents), and a **value-driven management approach** (risk analysis and valuation capability at the lending stage coupled with monitoring throughout the entire duration of the loan). **In the last decade Compass has tripled its revenues (now €1bn) and loan book (to €12.5bn), and achieved record levels in terms of net profit (€315m in the year ended 30 June 2018, up 10x in the decade) and return on allocated capital (ROAC 30%).**

The acquisition of 19.9% of BFI Finance represents a further growth option to complete the already impressive growth story achieved on the Italian domestic market.

The **investment today is financial in nature.** In due course, **the possibility will be assessed of transforming it into a industrial project, by increasing the stake in BFI Finance.** In the meantime **Compass will look for opportunities to contribute its consumer credit sector expertise to the growth of BFI Finance** (credit assessment and recovery, product innovation, track record in negotiating commercial agreements).

*"Taking a stake in BFI Finance represents a further step in the Mediobanca Group's path to growth, said **Alberto Nagel**, Chief Executive Officer of Mediobanca. The deal is consistent with the strategy unveiled in our 2016-19 plan, which includes targeted acquisitions to increase volumes and margins in various of the specialized banking activities on which our business model is based. The work done in these years has positioned Compass stably as one of the leading consumer credit players in Italy, and a significant contributor to the increase in Group revenues. BFI is the ideal option with which to continue this growth story and develop synergies, based on the expertise which Compass has acquired in more than 60 years of operating in this business".*

Indonesia: market with high growth expected and low risk profile (country ratings: Fitch BBB; S&P BBB-; Moody's Baa2), selected for investment following indepth analysis of the South East Asia market

The BFI deal forms part of the Group's broader strategy to leverage potential growth opportunities in consumer banking markets. Following indepth analysis of the reference sector in South East Asia, in particular the countries showing high growth rates (notably India,

³ Percentage calculated based on voting shares (excluding treasury shares, equal to 6.3% of the company's share capital).

⁴ The transaction requires previous authorization from the ECB pursuant to art. 53(1)(c) of the Italian Banking Law and Part III, Chapter I, Section V of Bank of Italy's Circular no. 285/2013.



Indonesia, the Philippines and Vietnam), the Indonesian market emerged as one of the most promising.

Indonesia is an attractive market, for its population size (250 million inhabitants), stable macro-economic system, estimated GDP growth rates among the highest in the Asia-Pacific region for the 2018-21 period (5.5% per annum on average estimated by the IMF), and a weighted annual average increase of 9% in non-food consumption for the 2012-17 period. This is reflecting in the ratings assigned to the country by all the leading international ratings agencies: Fitch BBB (stable); S&P BBB- (stable); and Moody's Baa2 (stable).

The Indonesian financial sector also shows appealing margins, with risks under control in a constantly improving institutional scenario. The consumer credit market is still in the early stages of a growth phase: 45% of the population does not yet have access to traditional financial services; consumer credit, where BFI Finance is well positioned, penetration is low compared to other countries in the Asia-Pacific area (13.4% of 2016 GDP, compared with an average of 40.7% in the other countries in the same region in the same period), despite the ongoing increase in the number of cars and motor vehicles owned among the Indonesian population.

BFI Finance: one of the leading independent consumer credit players in Indonesia, with a track record of success in terms of growth rates, profitability and capital solidity

BFI Finance, set up in 1982 and listed on the Jakarta stock market since 1990 with a market capitalization of approx. €600m, is one of the leading independent multifinancial companies in Indonesia, with a market share by total loans of some 3% (in a market which is still highly fragmented) and an extensive distribution network: over 350 outlets in Jakarta and the nation's other main locations, in turn split between 220 branches and over 130 kiosks; it also has major partnership agreements in force with car dealers and independent agents, and telemarketing systems in place as well.

BFI Finance's business is concentrated on the financing of cars and motor vehicles. The loan book at end-2017 amounted to IDR 15.3tn (€0.9bn), some 75% of which consists of 4W vehicle finance loans, 9% of finance to acquire 2W vehicles, 14% leasing and 2% other receivables.

At end-FY 2017 BFI Finance's results reflected:

- ◆ Total net revenues of IDR 3.1tn (equal to approx. €185m)
- ◆ Net profit of IDR 1.2tn (approx. €70m);
- ◆ Total assets of IDR 16.5tn (approx. €1bn), chiefly consisting of customer loans, with NPLs very low in relative terms (approx. 1%, with a calendar provisioning mechanism which brings the NPLs coverage to 100% within 270 days);
- ◆ Total funding of IDR 11.6tn (approx. €0.7bn), diversified by source (60% from interbank loans and 40% from bonds placed on the market). Fitch has assigned BFI a national long-term rating of AA- (idn) with stable outlook.

BFI Finance has posted ongoing growth in loans and profits over recent years, generating a weighted average annual increase in the 2013-17 five-year period of 20.7% in loans and advances to customers (from IDR 7.2tn to IDR 15.3tn) and of 23.6% in profits (from IDR 509m to IDR 1,188bn). The Company is currently amongst the most profitable multi-finance institution in



Indonesia, with a ROAA of 8.2% and a ROAE of 25.9% at end-FY 2017, roughly double the performance of its reference sector. The cost/income at the same date stood at 43.1%.

Major potential synergies in terms of expertise between Compass and BFI

Compass will look for opportunities to contribute its expertise in the consumer credit sector to the growth of BFI Finance, as follows:

- ◆ Credit assessment system based on data analytics and extensive use of credit bureaux which are developing increasingly in Indonesia;
- ◆ Industrial management of credit recovery processes driven by behavioural scoring;
- ◆ Use of CRM and product innovation capability to increase cross-selling over a medium term horizon;
- ◆ Track record in negotiating commercial agreements and partnerships in distribution with third-party operators in the banking or other sectors.

Deal structure and impact on Mediobanca and Compass

The stake, at present limited to 19.9% of BFI Finance's share capital, will be acquired by Compass and will be booked to the accounts as a significant investment using the equity method. BFI Finance's results will therefore be recorded pro-rata in the Mediobanca Group consolidated financial statements and in the Consumer Banking division.

The deal will be accretive immediately, as follows (based on current exchange rates):⁵

- Consumer division: for FY 2017-18 net revenues will rise by approx. 2% (from €996m to €1,010m); and net profit will rise by around 4% (from €315m to €328m);
- Mediobanca Group: net revenues will increase by approx. 1% (from €2,419m to €2,433m); and net profit will rise by around 2% (from €864m to €876m).

The impact on the Mediobanca Group's capital ratios will be approx. 30 bps.

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⁵ Current exchange rate: IDR/EUR: 16,974.