

## **Finbond Group Limited**

(Registration number: 2001/015761/06)

Share code: FGL ISIN: ZAE000138095

("Finbond" or "the Company" or "the Group")

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### **ACQUISITION OF UP TO 35% of FINANCIERA CONTIGO - MEXICO**

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#### **1. Introduction**

Finbond shareholders are advised that Finbond has agreed terms with Cege Capital S.A.P.I. de C.V. SOFOM E.N.R ("Financiera Contigo") ("Contigo") that sets forth the terms and conditions pursuant to which Finbond will acquire up to 35% of the equity interests issued by Financiera Contigo.

Financiera Contigo provides financial services and products throughout the Mexican territory. With more than 10 years of experience in the group-based micro-finance sector, Financiera Contigo, that has a similar business model to Grameen Bank in India, mainly focuses on group lending and currently serves more than 200 000 families through their different brands and products. Since its foundation in 2010, Financiera Contigo offers financial services mostly to women entrepreneurs with limited access to traditional banking services, supporting self-employment and consequently improving their quality of life.

Financiera Contigo has a presence in 27 of the 32 states in Mexico and more than 170 branches, which has allowed it to offer its products and services to approximately 200,000 clients through its different brands and products.

Mexico's gross domestic product ("GDP") for 2019 was \$1,200 billion compared to South Africa's GDP of \$386 billion. South Africa has a GDP per capita of \$13 500, while in Mexico the GDP per capita is \$19,900. In South Africa, 28.1% of adults are unemployed, while in Mexico the unemployment rate is 3.6%. Mexico's land surface totals approximately 1,964,375 sq. km compared with South Africa's 1,219,090 sq. km. The population of Mexico is approximately 128.6 million people (72.2 million more than South Africa).

#### **2. Nature of Finbond Business and Rationale for the Contigo Transaction**

Finbond is a leading South-African, North American and Latin American financial services institution that specialises in the design and delivery of unique value and solution-based credit products tailored to borrower requirements rather than institutionalised policies and practices.

Finbond is a credit provider with both fintech and brick and mortar operations. Finbond conducts its business through administrative hubs located in Chicago, La Quinta, Phoenix, CutOff, Merrillville, Memphis, Toronto, Sliema, Pretoria, Somerset West and a total of 629 stores (366 in South Africa, 256 in North America and seven in Latin America).

Finbond North America's branches are located in 17 states of the United States of America namely: Arizona, California, Illinois, Idaho, Wisconsin, Missouri, South Carolina, Tennessee, Louisiana, Mississippi, Alabama, Oklahoma, Michigan, Florida, Nevada, Utah and Indiana. In addition to the US States, Finbond also has a presence of 14 stores in Ontario, Canada and seven in Panama.

The rationale for the Contigo Transaction includes:

- Mexican Peso based earnings enhancing growth.

- Product diversification to include group-lending.
- Expanding Finbond's North American store network to 27 Mexican states.
- Increasing Finbond's store network to 439 locations in North America.
- Partnering with Mexican based owner managers with a proven track record of success and extensive experience in the Mexican financial services market.
- Further diversification of country and political risk.

### **3. The Financiera Contigo Transaction**

#### **3.1. Nature of business**

Financiera Contigo is based in Mexico City and was founded in 2010. Contigo has 2,500 employees, more than 170 branches and operates in 27 out of the 31 Mexican states.

Contigo ("with you" in Spanish) seeks to change the lives of financially underserved women by providing group-based micro-loans and unique personal support systems to help them grow a business venture. Financiera Contigo's communal loans are issued to groups of eight to 30 women at competitive interest rates to fund businesses such as local handmade fashion products, food stands and pharmaceutical delivery services. Financiera Contigo employs loan advisors that meet with their groups weekly, which elevates group self-esteem, heightens team accountability and cultivates a lasting sense of community around a centralized endeavor. Financiera Contigo also offers an affordable life and health insurance package to accentuate its core message of "people before profits".

Financiera Contigo grants loans in an agile and timely manner, through simple and personalised procedures based on a relationship of trust. Lending products include group loans and micro loans, all focused on lending to women. Recently, Financiera Contigo began to include men to credit groups, helping to expand and diversify its portfolio.

Financiera Contigo's typical client profile:

- Women entrepreneurs
- Eight or more per group
- Between 18 and 79 years of age on the date of the loan application
- Mexican citizenship
- Must have an existing small business or start a new one

Financiera Contigo's typical product characteristics:

- Term: 16 to 20 weeks
- Amount: MXN5,000 to MXN80,000
- Global monthly rate: 2.50% to 9.00%
- Initial guarantee: 0%, 5% or 10%
- Additional services: Life insurance

Financiera Contigo's Products:

- Contigo Créditos Grupales (Group Loans)
- Contigo Créditos Individuales (Individual Loans)

- Contigo Micro Seguro (Micro Insurance)

In response to strong market demand and success in all Mexican states where Financiera Contigo was operating, management made a strategic decision in late 2018 to implement a growth strategy covering the following:

- Expansion into three new states (over 18 months,
- Opening 48 new branches over the same period,
- Employing an additional 700 employees, of which 372 were women,
- Investing in all requisite infrastructure both at branch level and to equip the new staff with the requisite technology to operate in an increasingly digital environment,
- Investing heavily in staff training to maintain its high quality of customer service, and
- Diversified the offering to position Financiera Contigo as a multi-product business.

In 2019 Financiera Contigo added individual loans to its offering of products and services.

Some recent financial indicators include:

- Annualised EBITDA based on April 2021 results of US\$ 14.6 million.
- Annualised NPAT based on April 2021 results of US\$ 9.8 million.
- Total Assets as at 31 December 2020 was US\$ 93 million.
- The net asset value attributable to the assets, as per the audited annual financial statements for the year ended 31 December 2020 was US\$ 15.7 million and the net profit after tax for the same period was US\$ 1.5 million. The audited annual financial statements for the year ended 31 December 2020 was prepared in accordance with Mexican FRS.

### **3.2. Current Shareholding**

The current shareholding structure of Contigo is as follows:

- 39.5% - Microfin CEGE S.A. de C.V. and Controladora RRL S.A.P.I. de C.V., founding shareholder group.
- 38.0%- Credito Real, S.A.B. de C.V., SOFOM, E.N.R., a publicly traded financial institution on the Mexican Stock Exchange.
- 22.5% Credex, a Mexican based micro finance institution.

### **3.3. Salient terms**

Subject to the fulfilment of the conditions precedent (condiciones suspensivas) set out in 3.4 below the terms of the Contigo Transaction would be as follows:

- The purchase consideration payable by Finbond would be **\$18 750 000** for 25% of the existing shares in Financiera Contigo by way of a sale of equity interests (100% of Contigo is valued at \$75 000 000).
- Finbond would have an option to acquire a further 10% of Financiera Contigo's shares to increase its shareholding up to 35% by 31 August 2021 by way of an offer for subscription and/or sale.
- 100% of the purchase consideration set out above would be payable in cash on the closing date of the transaction.

- The anticipated effective date of the transaction would be 1 August 2021.

### **3.4. Conditions precedent (Condiciones suspensivas)**

The Contigo Transaction remains subject to *inter alia* the following conditions precedent (condiciones suspensivas), to be fulfilled by no later than 31 July 2021:

- Negotiation and execution of a definitive agreement,
- Negotiation and execution of an operating agreement,
- Finbond's Board and Investment Committee approval,
- Contigo's Board and shareholder approval, and
- Finalisation of a satisfactory due diligence investigation by Finbond.

### **4. Funding of the acquisition**

Finbond intends to fund the Contigo Transaction from surplus cash on hand.

### **5. Categorisation of the Contigo Transaction**

The Contigo Transaction is categorised as a Category 2 transaction in terms of the JSE Limited Listings Requirements and is therefore not subject to Finbond shareholder approval.

### **6. Withdrawal of Cautionary Announcement**

Shareholders are referred to the Cautionary Announcement released on SENS on 11 May 2021 and are advised that all the details of the transaction are published in this announcement. The cautionary is withdrawn and shareholders are no longer required to exercise caution when dealing in the Company's securities.

Pretoria  
24 May 2021

Sponsor and Corporate Adviser:  
Grindrod Bank Limited