

Bayswater Community Financial Services Limited

Dear Shareholders,

The Final Report for Project Horizon was released on 13 February 2015. Co-sponsored by Bendigo Bank and the **Community® Bank** Strategic Advisory Board, Project Horizon seeks to set a shared vision and strategy for the **Community Bank®** model into the future.

The Final Report is the culmination of extensive discussions between Bendigo Bank and directors, staff and shareholders, and sets out the final recommendations approved by the Project Steering Committee, the **Community Bank®** Strategic Advisory Board and Bendigo Bank. The report includes the following changes to the current financial model, which will take effect on 1 July 2016:

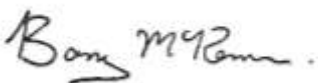
- Margin share on core banking products will be 50/50, to be calculated under a funds transfer pricing (FTP) based model
- Term deposits over 90 days and fixed rate home loans will become margin rather than commission products
- Market Development Fund (MDF) payments will be adjusted to provide greater support to new and less profitable sites, and less to established profitable sites. MDF payments will also be adjusted to support collaborative marketing
- Transitional arrangements will be made by Bendigo Bank for those **Community Bank®** companies adversely affected by these changes to the financial model, for a maximum period of 3 years

Over the next few months Bendigo Bank will be giving **Community Bank®** company boards information about the detail of these changes for their individual **Community Bank®** company, and discussing this with them.

In addition, Bendigo Bank proposes to agree to accept annual payment of franchise renewal fees instead of an upfront payment for the full term for less established and less profitable sites where certain criteria are met. Bendigo Bank proposes to do this as payments become due i.e. in advance of the 2016 start date for the other changes. A wider review of the franchise renewal fees to examine variation based on the value of the market opportunity assigned to each **Community Bank®** branch is also proposed.

At this stage the board of Bayswater Community Financial Services Limited does not have enough information to work out the likely impact of these changes on the company. However as more information becomes available the Company will make a further announcement if it assesses the likely impact is material.

Yours sincerely,



Barry McKenna
Chairman
Bayswater Community Financial Services Board

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