PKF Melbourne

Bunyip & District Community Enterprises Limited

Valuation Report

8 August 2022

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PKF

8 August 2022

The Directors
Bunyip & District Community Enterprises Limited
18 Main Street
Bunyip VIC 3815

Dear Directors

Re: Valuation of Bunyip & District Community Enterprises Limited revenue stream

1. Introduction

1.1. PKF Melbourne Corporate Pty Ltd ("**PKF Corporate**") have been engaged to provide an independent valuation report (the "**Report**") setting out the current value of the revenue stream generated by Bunyip & District Community Enterprises Limited ("**BCEL**") from loans, deposits and other financial products. BCEL operates the Community Bank Bunyip and District, which is a Bendigo Bank community bank branch located in regional Victoria.

1.2. We include in this report matters directly relevant to an understanding of the business of BCEL and key valuation judgements. The Report being prepared is a Valuation Engagement as defined by APES 225 – Valuation Services. Details of the types of valuations per APES 225 are set out in Appendix A of the Report.

1.3. The sources of information accessed in the course of the preparation of the Report are listed in Appendix B of the Report.

2. Summary opinions

2.1. We have been instructed to value the revenue stream generated by BCEL from its existing book of loans, deposits and other financial products. In Section 5 of this report, we have assessed the current value of the revenue stream to be between **$1,980,000** and **$2,310,000** using the net present value approach.

2.2. We have summarised our valuation opinion below based on two scenarios. The low scenario excludes fee income which relates to ATM fees, transaction fees, merchant fees, loan account fees and reward program fees whilst the high scenario includes this fee income on the basis that a hypothetical purchaser may attach value to this revenue. We note our comments in Section 6 of this report, that this value excludes any adjustment for surplus assets or net debt.

Table 1

BCEL Valuation Summary	Recurring Revenue $	Tax Rate %	Discount Rate %	Value $
Low scenario	735,000	25%	10%	2,200,000
			15%	1,980,000
High scenario	775,000	25%	10%	2,310,000
			15%	2,090,000

Source: PKF Corporate Analysis

2.3. For the purposes of this valuation, we have assumed that a hypothetical purchaser is an established financial services provider. Therefore, we have valued the BCEL revenue stream excluding additional operating expenses, as it is assumed that a hypothetical purchaser will be able to absorb the BCEL book into their operations without additional cost, and the purchaser is unlikely to keep BCEL's physical branch open as it is currently trading at an operating loss.

2.4. We have carried out a cross-check to this valuation at paragraph 5.21 of this report, which support this valuation range.

3. Background

About Bendigo Bank[1]

3.1. Bendigo and Adelaide Bank Limited ("**Bendigo Bank**") introduced a new banking model into Australia in the late 1990s with the introduction of Bendigo Community Bank branches. There are currently 324 Community Bank branches across Australia which provide banking and financial services.

3.2. The 324 Community Bank branches all share the same profit strategy of reinvesting back into their local Australian community. Since 1998, Community Bank partnerships have reinvested $272 million into various initiatives such as sport & recreation, health & wellbeing and education & research.

About Community Bank Bunyip & District

3.3. Community Bank Bunyip & District is a Bendigo Bank branch operated by BCEL. The branch is located at 18 Main St, Bunyip in regional Victoria. It operates in a special market called a low value market ("LVM") for trading of its shares[2]. The conditions of the LVM and the special characteristics of community banks are set out in Appendix D.

3.4. As per the Bendigo Bank's website[1], BCEL grants up to approximately 80% of its profit back to the Bunyip community through various grants and sponsorships. Since 2007, the branch has invested over $550,000 back into the community through initiatives such as installing Wi-Fi into the Bunyip Hall.

About the Bunyip District[3]

3.5. Bunyip is located in the council of the Shire of Cardinia in Gippsland, Victoria. In 2021, Bunyip had an estimated population of 2,743 people.

3.6. According to the 2016 census prepared by the Australian Bureau of Statistics, the median age of a Bunyip resident is 40 years old, with an average of 2.8 people per household. Based on our research, the only physical bank branch in Bunyip is operated by BCEL.

Income Statements

3.7. BCEL's summarised income statements for the financial years ended 30 June 2019 ("**FY19**"), 30 June 2020 ("**FY20**"), 30 June 2021 ("**FY21**"), 30 June 2022 ("**FY22**") and the forecast financial year ending 30 June 2023 ("**FY23F**") are presented in the table below. BCEL's detailed income statement is presented in Appendix E of the Report.

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[1] https://www.bendigobank.com.au/community/community-bank/, accessed 15 June 2022
[2] https://www.bendigobank.com.au/branch/vic/community-bank-bunyip-district/lvm-shares/, accessed 4 July 2022
[3] https://profile.id.com.au/cardinia/about?WebID=120, accessed 23 June 2022

Table 2

BCEL Summarised Income Statement	FY19 $	FY20 $	FY21 $	FY22 $	FY23F $
Revenue from ordinary activities	605,403	539,958	468,641	500,712	883,103
Other income (excl. finance income)	35,000	35,000	23,542	20,807	9,996
Operating expenses (excl. depreciation, amortisation and interest)	(606,618)	(510,601)	(479,837)	(463,462)	(478,800)
EBITDA	**33,785**	**64,357**	**12,346**	**58,057**	**414,299**
Finance income	3,825	3,445	1,044	361	600
Depreciation and amortisation	(23,030)	(36,339)	(35,313)	(37,395)	(38,900)
Finance costs	-	(16,186)	(10,482)	(12,969)	(9,300)
Net operating profit/(loss) before income tax	**14,580**	**15,277**	**(32,405)**	**8,055**	**366,699**

Source: Financial Statements and Management Financial Statements of BCEL

3.8. BCEL was profitable in FY19 and FY20. In FY21, it became loss-making largely due to lower revenue. Other income also reduced in FY21 compared to prior years, and finance costs were recorded from FY20 onwards as a result of the adoption of lease accounting standards. The rising interest rates in Australia resulted in higher revenue and profits for BCEL in FY22. BCEL is expected to continue this trend in FY23F.

Balance Sheet

3.9. BCEL's summarised balance sheet as at 30 June 2019, 30 June 2020, 30 June 2021 and 30 June 2022 are presented below. The detailed balance sheets are presented in Appendix F of this Report.

Table 3

BCEL Summarised Balance Sheet	30-Jun-19 $	30-Jun-20 $	30-Jun-21 $	30-Jun-22 $
Assets				
Current assets	280,151	281,027	269,456	305,762
Non-current assets	208,624	390,970	351,723	312,340
	488,775	**671,997**	**621,179**	**618,102**
Liabilities				
Current liabilities	28,072	43,970	59,479	44,273
Non-current liabilities	30,904	295,606	254,520	258,537
	58,976	**339,576**	**313,999**	**302,810**
Net assets	**429,799**	**332,421**	**307,180**	**315,292**

Source: Financial Statements and Management Financial Statements of BCEL

3.10. The balance sheet presents a positive net asset value, with a gradual decrease from 30 June 2019 to 30 June 2021. The increase in net assets as at 30 June 2022 is mainly attributable to a reduction in accounts payable and current tax liabilities. Assets and liabilities increased from 30 June 2020 onwards with the adoption of lease accounting standards.

Revenue Streams

3.11. BCEL generates revenue from multiple sources as described below:

- Margin income on deposits and loans;
- Commission income consisting of upfront commission on new products and trailing commission on existing products;
- Fee income including ATM fees, transaction fees, merchant fees, loan account fees and reward program fees;
- Other income, being market development fund provided by Bendigo Bank; and
- Finance income.

3.12. We have set out below a summary of revenue by source from FY19 to FY23F. The largest component of revenue for BCEL is margin income, contributing on average almost 80% of total revenue. Commission income and fee income are the next largest revenue sources, each contributing around 8% of total income on average from FY19 to FY23F.

Table 4

BCEL Revenue Streams	FY19 $	FY20 $	FY21 $	FY22 $	FY23F $
Margin income	518,143	458,960	390,124	407,530	799,630
Commission income	40,383	39,606	40,194	46,972	43,473
Fee income	46,877	41,392	38,323	46,211	40,000
Other revenue	35,000	35,000	23,542	20,807	9,996
Finance income	3,825	3,445	1,044	361	600
Total revenue	**644,228**	**578,403**	**493,227**	**521,880**	**893,699**

Source: Financial Statements and Management Financial Statements of BCEL, PKF Corporate Analysis

Performance Analysis

3.13. The total number of deposits and loan account accounts managed by BCEL as at 30 June 2019, 30 June 2020, 30 June 2021 and 30 June 2022 are presented below.

Table 5

End of Period Deposits/Loan Count	30-Jun-19	30-Jun-20	30-Jun-21	30-Jun-22
Deposits				
Total on balance sheet	3,437	3,578	3,819	3,853
Total off balance sheet	46	57	62	54
	3,483	3,635	3,881	3,907
Loans				
Total on balance sheet	352	348	347	332
Total off balance sheet	12	14	9	13
	364	362	356	345
Total Deposits & Loans	**3,847**	**3,997**	**4,237**	**4,252**

Source: BCEL Performance & Margin document, PKF Corporate Analysis

3.14. The end of period balances of deposits and loans held Bendigo Bank in relation to the BCEL book are presented in the table below as at 30 June 2019, 30 June 2020, 30 June 2021 and 30 June 2022 are presented below.

Table 6

Loans and Deposits End of Month Balance	30-Jun-19 $'000	30-Jun-20 $'000	30-Jun-21 $'000	30-Jun-22 $'000
Deposits				
On Balance Sheet	62,332	69,566	85,232	80,738
Off Balance Sheet	4,100	4,752	5,829	4,707
Total deposits	66,432	74,318	91,061	85,445
Loans				
On Balance Sheet	23,071	22,119	25,859	26,077
Off Balance Sheet	1,406	1,687	1,043	2,056
Total loans	24,477	23,806	26,902	28,133
Book of business	90,909	98,124	117,963	113,578

Source: BCEL Performance & Margin document, PKF Corporate Analysis

3.15. The total book of business comprising the loans and deposits has increased annually from FY19 to FY21, due to an increase in the number of deposits and loan accounts per Table 5 above. In FY22, the book of business declined slightly due to lower deposits.

3.16. We have also summarised BCEL's margin earned on deposits and loans in the table below for FY19, FY20, FY21 and FY22.

Table 7

Margin Analysis	FY19	FY20	FY21	FY22
Total Loans Outstanding	2.24%	2.18%	2.18%	1.70%
Total Retained Deposits	0.91%	0.57%	0.32%	0.91%

Source: BCEL Performance & Margin document, PKF Corporate Analysis

3.17. Margins on loans outstanding are significantly higher than margins on retained deposits, with the gap between margins increasing over the period FY19 to FY21. Over the period FY19 to FY22, despite the business increasing its loan and deposit books, revenue has decreased due to the lower margins generated on deposits and loans, as noted above.

4. Valuation premise and approach

4.1. We have been asked to provide an opinion as to the current value of the revenue stream generated by BCEL from its existing book of loans, deposits and other financial products.

4.2. We have reviewed the financial information of BCEL and have performed the valuation of BCEL on the basis set out below.

4.3. For the purpose of this report, we have defined value as *'the price that could be realised in an open market over a reasonable period of time given the current market conditions and level of information available at the valuation date, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length.'*

4.4. Based on the above definition of value, we have assumed that a hypothetical purchaser is an established financial services provider. Therefore, we value the BCEL revenue stream excluding additional operating expenses, as it is assumed that a hypothetical purchaser will be able to absorb the BCEL book into their operations without additional cost, and the purchaser is unlikely to keep BCEL's physical branch open as it is currently trading at an operating loss.

5. Valuation

5.1. In selecting appropriate valuation methodologies to determine the value of the revenue stream of BCEL, we have considered the applicability of a range of generally accepted valuation methodologies detailed in Appendix G of this report. We have considered the net present value of future cash flows to be the most appropriate valuation methodology, as the other valuation methodologies are generally applied to when valuing a business or shares of a company, not a revenue stream.

Net Present Value of Future Cash Flows

5.2. An analysis of the net present value of the future cash flows of an asset (or discounted cash flow technique) is based on the premise that the value of an asset is the net present value of its future cash flows.

5.3. The net present value of future cash flows is the preferable methodology from a theoretical point of view, as it measures the value of free future cash flows. The adoption of this methodology requires an estimate of free cash flows, including the following key inputs:

- The existing revenue stream;
- The expected life of the book of revenue;
- The run-off profile, being the pattern at which the business will reduce over time; and
- The tax rate to apply to free cash flows.

5.4. Once the future cash flows have been calculated, we prepare a net present value calculation by applying a relevant discount rate to the future cash flows.

Existing Revenue Stream

5.5. In assessing the free cash flows of the existing revenue stream, we have considered the recurring revenue based on analysis of the historical monthly revenue from July 2021 to June 2022 and the budgeted revenue for year ending 30 June 2023, as summarised in the table below. We have used these most recent observations rather than historical data as the most recent financial information is the most relevant indicator of future value:

Table 8

BCEL Recurring Revenue Analysis	FY22 $	FY23F $	Low scenario $	High scenario $
Gross Margin	407,530	799,630	700,000	700,000
Upfront Product Commission	11,604	12,000	-	-
Trailer Product Commission	35,367	31,473	35,000	35,000
Fee Income	46,211	40,000	-	40,000
Total	**500,712**	**883,103**	**735,000**	**775,000**

Source: BCEL, PKF Corporate Analysis

5.6. In assessing the value of the existing revenue stream, we note the following:

- We consider the FY23 forecast figures of BCEL relevant to our assessment of recurring margin revenue as the forecast takes into account anticipated changes in margin fee income in existing customers going forward;
- Upfront product commissions are received when new customers sign their contracts and as such, we have excluded these from our recurring revenue calculations;
- In a low scenario, we have excluded all fee income based on our understanding that these fees relate to ATM withdrawals, applications, EFTPOS, loans, merchant fees, credit cards and transaction account fees and a hypothetical purchaser will not keep the branch open. In a high scenario, we have assumed that fee income from the existing customer base will continue to be earned in future, even without a branch being open in the Bunyip township; and
- We have assumed that FY23 forecast has already taken into account any anticipated changes in commission structure and other fee income.

5.7. Based on the above analysis, we have assessed the recurring revenue to be in the range of **$735,000** and **$775,000.**

Expected Life of the Book

5.8. Since the specific details of the full customer book was not available, we have researched the average life of loans for comparable companies listed on the Australian Stock Exchange to estimate the expected life of BCEL's recurring revenue stream. We have summarised our results in the table below:

Table 9

Life of Loan Books		Average loan life (years)	
Company	Observation	Low	High
BNK FY21 annual report	Trailing commissions	4.5	4.5
Yellow Brick Road Holdings Limited FY21 annual report	Loan book valuation	4.2	4.2
Mortgage Choice FY20 annual report	Trailing commissions	4.0	4.0
Australian Finance Group FY22 half year report	Loan book valuation	3.5	4.9

Source: Annual reports

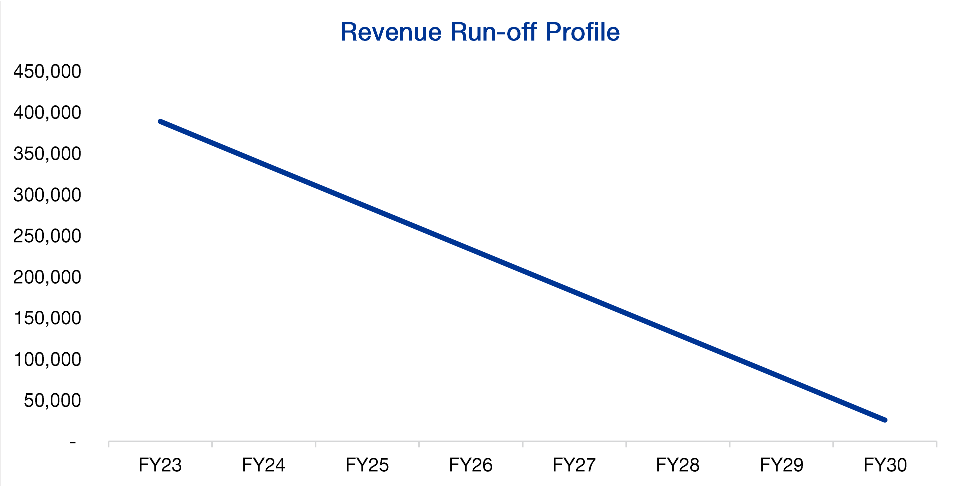
5.9. Based on the table above, the average life of loans ranged between three years and five years. As such, we have adopted a four-year average life of the loans for BCEL based on the above analysis.

Run-off Profile

5.10. The run-off profile represents the pattern in which the revenue will reduce over time as customers leave the bank or pay off their loans with their particular bank or financial institution. Typically, this analysis would consider issues such as age of customers, the type of loan, the date at which the loan or other business was written, the loan to value ratio, occupations of the customers, customer health and other risk factors.

5.11. However, we have not been provided detail regarding the specific customers in BCEL's book to assist in determining a run-off profile. Instead, we have assumed that customers will leave on a straight-line basis throughout the eight-year expected life of the book, which reflects the average loan life of four years. This results in an annual linear reduction of 12.5% in each year over the eight-year period. The below chart illustrates the run-off profile which plots the pre-tax revenue for each forecast year from FY23 to over the next eight years to FY30.

Figure 1



Source: PKF Corporate Analysis

5.12. The above run-off profile assumes that customers will leave on a regular basis over time in line with historical averages. Should the customer run-off pattern be different to that assumed above, this will impact the revenue earned each year and therefore the overall value of the stream. For instance, it is possible that some customers may leave soon after the book of business is purchased by another financial institution, as the change may be a catalyst for customers to reconsider their banking arrangements.

Discount Rate

5.13. Once we have forecast cash flows, to value these cash flows at a point in time, the cash flows need to be discounted to their net present value using an appropriate discount rate. This discount rate reflects the time value of money and the risks inherent in the cash flows.

5.14. The discount rate for loan books is calculated based on a combination of factors, including the risk-free rate, default risk spread, run off risk spread and model risk. Given that comparable companies conduct an analysis of discount rates to value future trailing commissions and loan books for financial reporting purposes, we have considered comparable company discount rate analysis in our discount rate selection, which we set out in Table 10 below.

Table 10

Discount Rate Company	Observation	Discount rate Low	 High
BNK FY21 annual report	Trailing commissions	1.5%	6.5%
Yellow Brick Road Holdings Limited FY21 annual report	Loan book valuation	4.3%	12.5%
Mortgage Choice FY20 annual report	Trailing commissions	4.4%	4.4%
Australian Finance Group FY22 half year report	Loan book valuation	4.0%	13.5%

Source: Annual reports

5.15. Based on the above research, the applicable discount rates for loan book revenue ranged from 1.5% to 13.5%. To determine an appropriate discount rate for BCEL, we have considered the following factors in comparison to the listed entities noted in the table above:

- the small size of BCEL's revenue stream compared to the listed entities;
- the specific regional area that the revenue stream relates to compared to the above listed entities. Listed entities have a more diverse customer base than BCEL;
- the population of the Bunyip township and its regional location; and
- the demographics of the local area.

5.16. Having regard to the above, we have adopted a discount rate ranging between **10%-15%** to apply to the future cash flows associated with BCEL's revenue stream from existing customers.

Tax Rate

5.17. BCEL has advised us that 80% of its profit before tax are contributed to the Bendigo Bank community enterprise foundation, which are then returned to the Bunyip community. The tax effect for BCEL is that 80% of the free cash flows (recurring revenues) are tax-free. We have thus applied the 25% company tax rate to 20% of free cash flows, to calculate the after-tax free cash flows. In preparing this calculation, we note that should a purchaser not be able to make the same tax arrangements and tax is applied to a greater proportion of the free cash flows, this will reduce the value of the recurring revenue.

Valuation

5.18. Based on our analysis above, we calculate a low and high scenario present value of future cash flows associated with BCEL's existing revenue from loans, deposits and other financial products using the following inputs:

Table 11

NPV of Future Cash Flows	Reference	Low	High
Existing revenue stream	5.7	735,000	775,000
Expected life of the book	5.9	4 years	4 years
Run-off profile	5.11	Straight line for 8 years	Straight line for 8 years
Post-tax discount rate	5.16	10%-15%	10%-15%
Tax rate to apply to future cash flows	5.17	25%	25%

Source: PKF Corporate Analysis

5.19. Based on the inputs above, we have summarised our valuation calculations in the table below and we have set out our detailed calculations in Appendix H:

Table 12

BCEL Valuation Summary	Recurring Revenue $	Tax Rate %	Discount Rate %	Value $
Low scenario	735,000	25%	10%	2,200,000
			15%	1,980,000
High scenario	775,000	25%	10%	2,310,000
			15%	2,090,000

Source: PKF Corporate Analysis

5.20. The valuation results represent the maximum value of the existing book since it assumes that the hypothetical acquirer will not incur additional operating expense and will not keep BCEL's physical branch.

Cross-check

5.21. As a cross-check to our above assessed value of the revenue stream of BCEL, we have compared the enterprise value to loan book ratio of comparable companies to our valuation. We have summarised our results in the table below.

Table 13

Cross-check Summary Company Name	Loan book Value[1] $m	Enterprise Value (EV)[2] $m	Implied EV/loan book Multiple
BNK Banking Corporation Limited	2,540.0	192.9	0.08x
Australian Finance Group Limited	12,200.0	4,524.2	0.37x
Auswide Bank Ltd	3,748.0	586.5	0.16x
BCEL - Low scenario[3]	*28.1*	*2.1*	*0.08x*
BCEL - High scenario[3]	*28.1*	*2.2*	*0.08x*

Source: Annual reports, S&P Capital IQ, PKF Corporate Analysis

[1] loan book value was based on the half year results as at 31 December 2021.

[2] Enterprise value = Market Capitalisation of each comparable company as at 30 June 2022 – Cash + Debt + Preferred Equity + Minority Interest.

[3] loan book value of BCEL is as at 30 June 2022 and the average assessed value of the revenue stream under each scenario is assumed to be the enterprise value.

5.22. Based on the above analysis, the implied enterprise value to loan book ratio for the comparable companies is between 0.08x and 0.37x, which is higher than the implied enterprise value to loan book of BCEL based on our valuation conclusion. We have also cross-checked the net interest margin of the comparable companies in Table 13 which averaged 1.75% and compared it to BCEL's margin which was 1.09%.

5.23. The cross-check indicates that the value of the BCEL loan book as well as their margins are lower in comparison to listed entity observations. We consider this reasonable as BCEL's net interest margin and loan book is smaller in size and is less diverse than listed entities. Our cross check is also impacted by the assumption that 80% of BCEL's profit before tax are contributed to the Bendigo Bank community enterprise foundation and therefore only 20% of the free cash flows are taxed. Notwithstanding we are of the opinion that this cross-check provides appropriate support for our valuation as the despite the factors listed the BCEL EV/Loan book ratio appears reasonable when compared to the lower end of the comparable ratios listed within table 13.

6. Valuation Conclusion

6.1. Based on the analysis in this section, we have estimated the maximum value of BCEL's revenue stream from its existing book of business to be in the range of **$1,980,000** and **$2,310,000** based on the net present value of future cash flows approach and recurring revenue of between **$735,000** and **$775,000** per annum. This outcome is supported by the results of the cross-check analysis.

6.2. We note that our conclusion is an opinion of the value of the revenue stream generated by BCEL from its book of loans, deposits and other financial products in isolation. If the entire business of BCEL were to be valued, other than the value of the revenue stream noted above, the valuation would also have to take into account BCEL's other assets and liabilities, such as the c. $246,000 in cash on hand per BCEL's 30 June 2022 balance sheet.

We would be pleased to discuss the contents of the Report with you at your convenience. Please do not hesitate to contact the undersigned or Dennis Lee.

Yours faithfully

PKF Melbourne Corporate Pty Ltd

Steven Perri
Director

Appendices

Appendix A

APES 225 Valuation Services

Under Accounting Professional and Ethical Standard 225 Valuation Services, which binds all professional accountants in Australia, there are three types of valuations. These are described below, in increasing order of sophistication and complexity.

- “Calculation Engagement”: means a valuation where the valuer and the client agree on valuation approach, valuation methods and valuation procedures that the valuer will apply. A calculation engagement generally does not include all of the valuation procedures required for a “Valuation Engagement” or a “Limited Scope Valuation Engagement”. Accordingly, the valuation opinions expressed under this type of valuation may be different had the valuer undertaken a “Valuation Engagement” or “Limited Scope Valuation Engagement” in accordance with APES 225.
- “Limited Scope Valuation Engagement”: means a valuation where the scope of work is limited and/or restricted and where the valuer has not been able to perform all of the appropriate valuation procedures or was not free to apply all of the valuation approaches and valuation methods which the valuer would consider appropriate. Accordingly, the valuation opinions expressed under this type of valuation may be different had the valuer undertaken a “Valuation Engagement” in accordance with APES 225.
- “Valuation Engagement”: means a valuation where the valuer is free to employ the valuation approaches, methods and procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the valuation available to the valuer at the time. This type of valuation provides the highest level of confidence for the valuation opinion provided.

In a report produced under the first two types of valuation engagement as described above, the valuer is required to state that the result may have been different if a Valuation Engagement had been performed.

Appendix B

Sources of information

The key documents and sources we have relied upon in preparing the Report are set out below.

- Audited financial statements of BCEL for the financial years ended 30 June 2019, 2020 and 2021;
- Monthly profit and loss for the period 1 July 2021 to 30 June 2022;
- Monthly balance sheets for the months ended March 2022 to June 2022;
- BCEL FY23 budget model;
- BCEL performance and margin reports for FY19 to FY22; and
- Information and research data from publicly accessible sources.

Appendix C

Declarations and Qualifications

1. Declarations

The Report has been prepared at the request of Bunyip & District Community Enterprises Limited and the opinions in the Report are not intended for general circulation or publication, nor are they to be reproduced or used for any other purpose other than that outlined in Section 1 of the Report without our express written permission. We do not assume any responsibility or liability for losses occasioned to any party as a result of the circulation, publication, reproduction or use of the Report contrary to the provisions of this paragraph.

In the preparation of the Report, we have relied upon information concerning BCEL provided to us, which we believe, on reasonable grounds, to be reliable and not misleading. The Report is based upon the financial information submitted to us. The procedures that we performed and the enquiries that we made in the course of the preparation of the Report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

To the extent that the Report relies on prospective information, actual results may be different from the prospective information referred to in the Report since the occurrence of anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective information will be achieved.

The statements and opinions included in this report are given in good faith and in the belief that such statements are not false and misleading.

We reserve the right to review all calculations included or referred to in the Report and, if we consider it necessary, to review the Report in the light of any information existing at the date of the Report which subsequently becomes known to us.

The Report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board Limited professional standard APES 225 – Valuation Services.

2. Qualifications

Mr Steven Perri, a Partner of PKF Corporate, prepared this report with the assistance of Ms Tanuja Bonavalee. Mr Perri has been responsible for preparation of expert reports involving business valuation and is involved in the provision of advice in respect of valuations for tax, corporate and corporate advisory purposes.

Mr Steven Perri is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist).

At the date of this report, none of PKF Corporate, Mr Steven Perri nor Ms Tanuja Bonavalee have any interest in the outcome, content or future use of this report, nor any relationship with Bunyip & District Community Enterprises Limited, its executives or Shareholders and any of their associated entities. Fees for this report are not contingent on the conclusion, content or future use of this report.

Appendix D

LVM conditions and special characteristics of community banks

1. **LVM conditions**[4]

- BCEL does not hold a licence to operate a financial market and is not subject to market obligations, in particular the obligation to ensure that the market is fair, transparent and orderly;
- The market is covered by an exemption under section 791C of the Corporations Act; and
- BCEL does not provide a settlement service for trading in the market.

2. **Special characteristics of community banks**

- 'One shareholder one vote' constitutions rather than 'one share one vote'.
- Shareholder limit of 10% of issued capital for individuals and related entities.
- There is a limit on profits that can be distributed to shareholders, including through dividends. By way of overview, the limit is higher of 20% of the profits of the company otherwise available for distribution to shareholders in the financial year (after adding back community contributions during the year).
- the weighted average interest rate on 90-day bank bills during the year plus 5%, multiplied by the value of the share capital on issue at the end of the financial year.
- Persons who do not possess a 'close connection' with the community served by Bunyip & District Community Enterprises Limited can be prohibited from acquiring shares in the Company.
- Share transfers which result in the number of shareholders in Bunyip & District Community Enterprises Limited falling below a fixed 'Base Number' will be prohibited.
- These restrictions are intended to embed the community nature of Bunyip & District Community Enterprises Limited.

[4] https://www.bendigobank.com.au/branch/vic/community-bank-bunyip-district/lvm-shares/, accessed 4 July 2022

Appendix E

Detailed Income Statement

BCEL Detailed Income Statement	FY19 $	FY20 $	FY21 $	FY22 $	FY23F $
Income					
Revenue from ordinary activities	605,403	539,958	468,641	500,712	883,103
Other income					
Other revenue	35,000	35,000	23,542	20,807	9,996
Finance income	3,825	3,445	1,044	361	600
	38,825	**38,445**	**24,586**	**21,168**	**10,596**
Total Income	**644,228**	**578,403**	**493,227**	**521,880**	**893,699**
Expenses					
Employee benefits expense	348,639	343,015	350,241	350,446	356,550
Charitable donations, sponsorship, adertising and promotion	97,717	33,934	22,425	-	-
Occupancy and associated costs	49,318	25,580	23,588	24,633	29,200
Systems costs	20,578	19,601	18,583	17,518	18,100
Depreciation and amortistion cost	23,030	36,339	35,313	37,395	38,900
Finance costs	-	16,186	10,482	12,969	9,300
General administration expense	90,366	88,471	65,000	70,801	74,950
Motor vehicle expenses	-	-	-	64	-
Total Expenses	**629,648**	**563,126**	**525,632**	**513,826**	**527,000**
Net operating profit/(loss) before income tax	**14,580**	**15,277**	**(32,405)**	**8,055**	**366,699**
Income tax expense	4,009	6,063	(7,164)	2,119	-
Net operating profit/(loss) after income tax	**10,571**	**9,214**	**(25,241)**	**5,935**	**366,699**

Source: Financial Statements and Management Financial Statements of BCEL

Appendix F

Detailed Balance Sheet

BCEL Detailed Balance Sheet	30-Jun-19 $	30-Jun-20 $	30-Jun-21 $	30-Jun-22 $
Current assets				
Cash and cash equivalents	255,449	244,026	236,302	246,388
Trade and other receivables	19,244	35,353	23,783	59,374
Current tax asset	5,458	1,648	9,371	-
	280,151	**281,027**	**269,456**	**305,762**
Non-current assets				
Property, plant and equipment	168,277	161,118	153,106	137,152
Intangible assets	39,667	26,445	13,219	34,672
Right of use assets	-	171,995	154,568	140,516
Deferred tax asset	680	31,412	30,830	-
	208,624	**390,970**	**351,723**	**312,340**
Total assets	**488,775**	**671,997**	**621,179**	**618,102**
Current liabilities				
Trade and other payables	28,072	30,117	40,464	30,277
Current tax liabilties	-	13,853	19,015	7,061
Payroll liabilties	-	-	-	6,935
	28,072	**43,970**	**59,479**	**44,273**
Non-current liabilities				
Trade and other payables	30,904	15,452	-	-
Lease liabilties	-	262,842	232,152	278,300
Provisions	-	17,312	22,368	24,085
Unexpired Interest	-	-	-	(43,848)
	30,904	**295,606**	**254,520**	**258,537**
Total liabilities	**58,976**	**339,576**	**313,999**	**302,810**
Net assets	**429,799**	**332,421**	**307,180**	**315,292**
Equity				
Issued capital	656,044	656,044	656,044	656,044
Accumulated losses	(226,245)	(323,623)	(348,864)	(340,752)
Total Equity	**429,799**	**332,421**	**307,180**	**315,292**

Source: Financial Statements and Management Financial Statements of BCEL

Valuation methodologies

Share price history

The share price history valuation methodology values a company based on the past trading in its shares.

Capitalisation of future maintainable earnings

Capitalisation of earnings is a method commonly used for valuing manufacturing and service companies and, in our experience, is the method most widely used by purchasers of such businesses. This method involves capitalising the earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits.

There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax. Another common method is to use Earnings Before Interest and Tax (EBIT) or Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). One advantage of using EBIT or EBITDA is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

Net present value of future cash flows

An analysis of the net present value of the projected cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure, the costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.

Asset Based Methods

This methodology is based on the realisable value of an entity's identifiable net assets. Asset based valuation methodologies include:

(a) Net assets

The net asset valuation methodology involves deriving the value of an entity or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses that periodically revalue their assets to market. The net assets on a going concern basis method estimates the market values of the net assets of an entity but does not take account of realisation costs.

(b) Orderly realisation of assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to equity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

(c) Liquidation of assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

Comparable market transactions

Industry specific methods estimate market values using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of an asset than other valuation methods because they may not account for company specific factors.

Alternative acquirer

This methodology considers the value that an alternative bidder may be prepared to pay to acquire the business, asset or company.

Discounted Cash Flow Calculation

DCF valuation - Low scenario - 10% Discount rate

$		Calc	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Year counter		A		0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50
Run-off rate (%)		B		94%	81%	69%	56%	44%	31%	19%	6%
Recurring revenues		C = 735,000 x B	735,000	689,063	597,188	505,313	413,438	321,563	229,688	137,813	45,938
less 80% tax-free community foundation contributions		D = -C x 80%		(551,250)	(477,750)	(404,250)	(330,750)	(257,250)	(183,750)	(110,250)	(36,750)
Tax on recurring revenue (after contributions)	25%	E = (C + D) x Tax rate		(34,453)	(29,859)	(25,266)	(20,672)	(16,078)	(11,484)	(6,891)	(2,297)
Estimated Free Cash Flows		F = C - E		654,609	567,328	480,047	392,766	305,484	218,203	130,922	43,641
Discount rate	10.0%	G = 1/(1+Discount rate)^A		0.95	0.87	0.79	0.72	0.65	0.59	0.54	0.49
Present value of cash flows		F x G		624,146	491,751	378,270	281,358	198,940	129,182	70,463	21,352
Discounted net present value				2,200,000							

DCF valuation - Low scenario - 15% Discount rate

$			FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Year counter	1.00	A		0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50
Run-off rate (%)		B		94%	81%	69%	56%	44%	31%	19%	6%
Recurring revenues		C = 735,000 x B	735,000	689,063	597,188	505,313	413,438	321,563	229,688	137,813	45,938
less 80% tax-free community foundation contributions		D = -C x 80%		(551,250)	(477,750)	(404,250)	(330,750)	(257,250)	(183,750)	(110,250)	(36,750)
Tax on recurring revenue	25%	E = (C + D) x Tax rate		(34,453)	(29,859)	(25,266)	(20,672)	(16,078)	(11,484)	(6,891)	(2,297)
Estimated Free Cash Flows		F = C - E		654,609	567,328	480,047	392,766	305,484	218,203	130,922	43,641
Discount rate	15.0%	G = 1/(1+Discount rate)^A		0.93	0.81	0.71	0.61	0.53	0.46	0.40	0.35
Present value of cash flows		F x G		610,426	460,031	338,485	240,819	162,873	101,163	52,781	15,299
Discounted net present value				1,980,000							

Source: Financial Statements and Management Financial Statements of BCEL, PKF Corporate Analysis

DCF valuation - High scenario - 10% Discount rate

$			FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Year counter		A		0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50
Run-off rate (%)		B		94%	81%	69%	56%	44%	31%	19%	6%
Recurring revenues		C = 775,000 x B	775,000	726,563	629,688	532,813	435,938	339,063	242,188	145,313	48,438
less 80% tax-free community foundation contributions		D = -C x 80%		(581,250)	(503,750)	(426,250)	(348,750)	(271,250)	(193,750)	(116,250)	(38,750)
Tax on recurring revenue	25%	E = (C + D) x Tax rate		(36,328)	(31,484)	(26,641)	(21,797)	(16,953)	(12,109)	(7,266)	(2,422)
Estimated Free Cash Flows		F = C - E		690,234	598,203	506,172	414,141	322,109	230,078	138,047	46,016
Discount rate	10.0%	G = 1/(1+Discount rate)^A		0.95	0.87	0.79	0.72	0.65	0.59	0.54	0.49
Present value of cash flows		F x G		658,113	518,513	398,856	296,670	209,767	136,212	74,297	22,514

Discounted net present value	2,310,000

DCF valuation - High scenario - 15% Discount rate

$			FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Year counter	1.00	A		0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50
Run-off rate (%)		B		94%	81%	69%	56%	44%	31%	19%	6%
Recurring revenues		C = 775,000 x B	775,000	726,563	629,688	532,813	435,938	339,063	242,188	145,313	48,438
less 80% tax-free community foundation contributions		D = -C x 80%		(581,250)	(503,750)	(426,250)	(348,750)	(271,250)	(193,750)	(116,250)	(38,750)
Tax on recurring revenue	25%	E = (C + D) x Tax rate		(36,328)	(31,484)	(26,641)	(21,797)	(16,953)	(12,109)	(7,266)	(2,422)
Estimated Free Cash Flows		F = C - E		690,234	598,203	506,172	414,141	322,109	230,078	138,047	46,016
Discount rate	15.0%	G = 1/(1+Discount rate)^A		0.93	0.81	0.71	0.61	0.53	0.46	0.40	0.35
Present value of cash flows		F x G		643,647	485,067	356,906	253,925	171,737	106,669	55,653	16,131

Discounted net present value	2,090,000

Source: Financial Statements and Management Financial Statements of BCEL, PKF Corporate Analysis