

6 December 2018

Ref No.: 1280273_1
Private and Confidential
Mr Naren Popat
Secretary
Dandenong Ranges Community Finance Limited
30 Main Street
UPWEY VIC 3158

Dear Naren

Valuation of Dandenong Ranges Community Finance Limited

Introduction

AFS & Associates Pty Ltd (AFS) has been requested by Mr Naren Popat to prepare a current valuation of Dandenong Ranges Community Finance Limited (herein referred to as 'Dandenong Ranges').

Purpose of report

The purpose of the report is to provide an indicative valuation of the company for the information of the board and shareholders of Dandenong Ranges. The report will not be quoted or referred to or utilised for any other purpose unless written consent has been provided by AFS.

Definition of market value

For the purpose of our opinion, market value is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length.

Summary opinion

In our opinion, the value of Dandenong Ranges is summarised as follows:

Business value	Low valuation \$	High valuation \$	Preferred \$
Future maintainable earnings	2,644,800	2,923,200	2,784,000
Discounted cash flows	3,050,000	3,446,000	3,238,000
Total value of all methods	5,694,800	6,369,200	6,022,000
Average value	2,847,400	3,184,600	3,011,000
<i>Value per share</i>	<i>1.28</i>	<i>1.43</i>	<i>1.36</i>

We have assessed the business value of Dandenong Ranges to be between **\$1.28** and **\$1.43** with a preferred midpoint of **\$1.36**. The opinion is based on economic, market and other conditions prevailing at the date of valuation. This opinion should be read in conjunction with the full text of this report which sets out our detailed findings.

Disclaimer

This report has been prepared at the request of Mr Naren Popat for the purpose indicated above and should not be used for any other purpose.

In completing this engagement, we have necessarily relied on information and material supplied by Mr Popat, the secretary of Dandenong Ranges Community Services Limited. Our report is issued on the understanding that you have drawn our attention to all matters which you are aware, which may have an impact on our report up to the date of signature.

We reserve the right to review any calculations included or referred to in this opinion, and, if we consider it necessary, to reserve our opinion in the light of any information existing at valuation date which becomes known to us after the date of this report.

We will not be responsible for any error in our report caused by, or arising out of, or in any way connected with any omission of information or any misrepresentation, misleading or deceptive information or materials supplied to us.

Sources of information

Appendix 1 to this report sets out details of information referred to and relied upon by AFS during the course of preparing this report and forming our opinion.

Please contact me if you have any questions.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Barnett', with a long horizontal flourish extending to the right.

Dennis Barnett
AFS & Associates Pty Ltd

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1. Background

The company owns and operates the Upwey, Belgrave and Cockatoo/Gembrook Community Bank[®] Branches of the Bendigo and Adelaide Bank Limited Community Bank[®] network. The company also operates Bendigo Bank Agencies in Emerald and Marysville.

Dandenong Ranges currently has 2,222,039 shares issued to 349 shareholders shares fully paid to \$1. The profile of these shareholders are:

Shareholder type	Number
Individual/joint holdings	322
Company	20
Superfund	7
Total	349

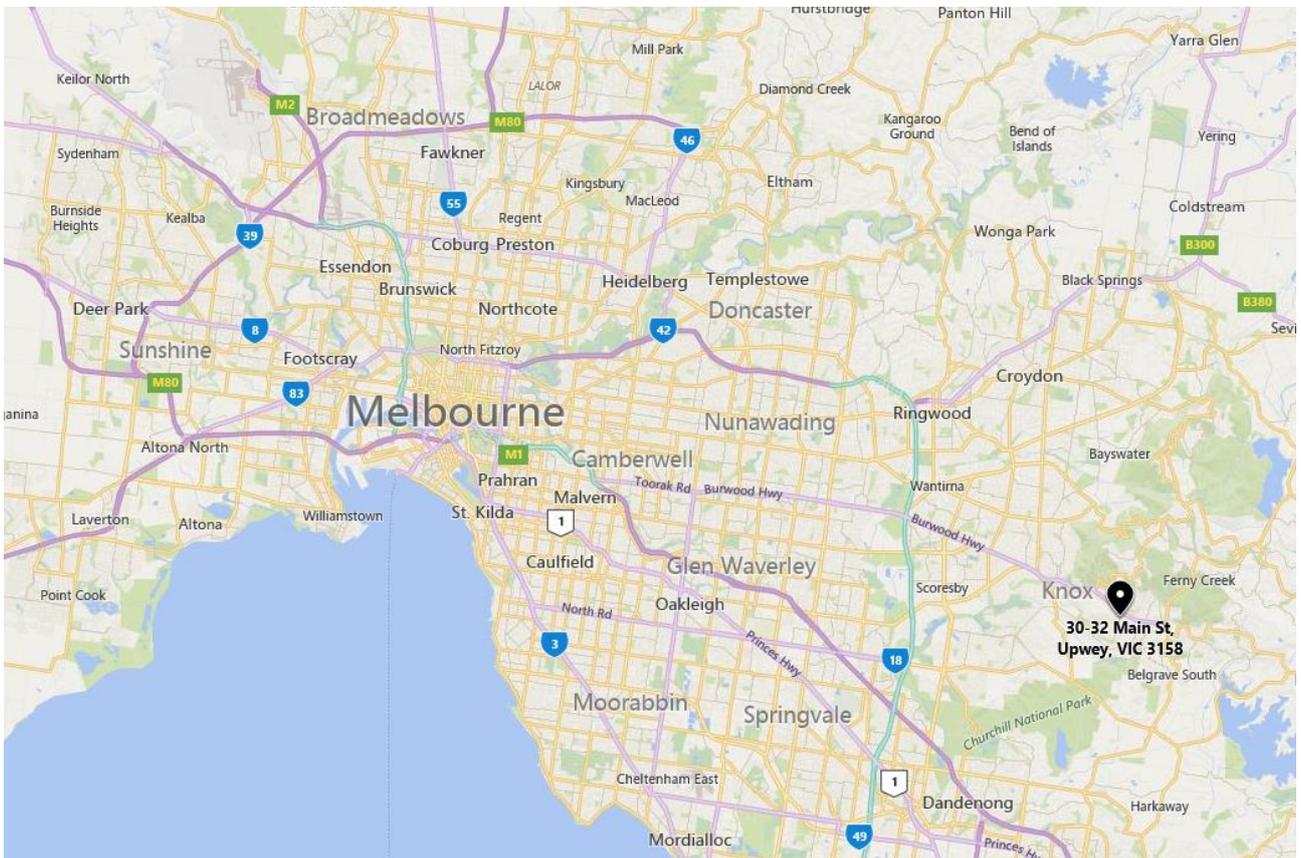
1.1 Upwey Community Bank[®] Branch

General

The Upwey Community Bank[®] Branch, located at 30-32 Main Street, Upwey, Victoria, opened on 19 October 1998.

Upwey is located approximately 32 kilometres east of Melbourne's Central Business District and at the 2016 census, had a population of 6,652 residents.

The location of the Upwey business is shown below:



Competition

There are no other bank branches in Upwey. However, there are a number of competitors located within 10 kilometres in the neighbouring towns/suburbs of Belgrave and Ferntree Gully. The Commonwealth Bank Branch in Belgrave is one of the closest physical branches and is approximately 2.5km away.

Operations

The business employs 8 staff.

Employment type	Employment role	Number of employees
Full time	Customer service officer	3
Full time	Senior customer service officer	1
Part time	Customer service supervisor	1
Part time	Customer relationship officer	1
Full time	Customer relationship officer	1
Full time	Branch manager	1

There are two additional staff employed by the company who are shared between the three branches the company operates. These positions are a full time manager and a part-time executive officer.

Lease details

The Upwey business premises from which the Community Bank[®] operates from is owned by the company.

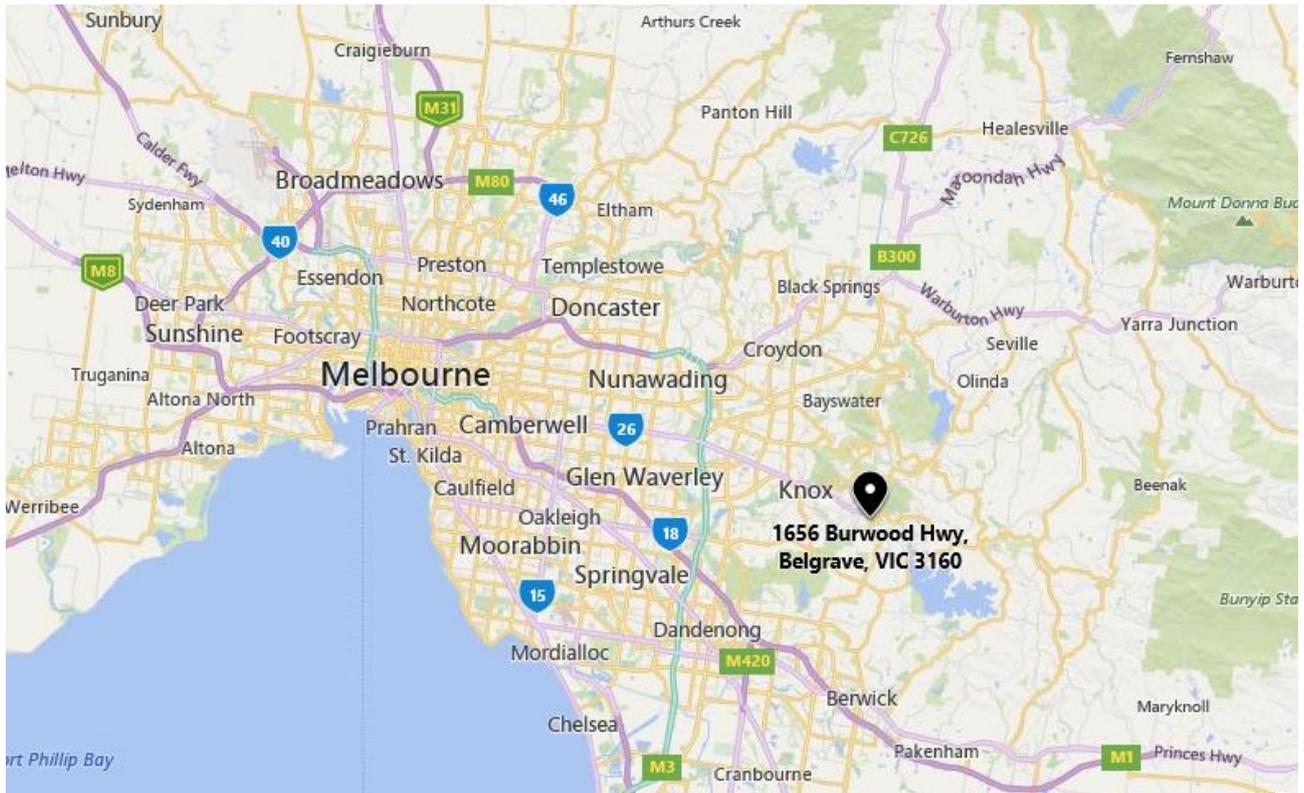
1.2 Belgrave Community Bank[®] Branch

General

The Belgrave Community Bank[®] Branch, located at 1656 Burwood Highway, Belgrave, Victoria, opened in 2005.

Belgrave is located approximately 35 kilometres east of Melbourne's Central Business District and at the 2016 census, had a population of 3,929 residents.

The location of the Belgrave business is shown below:



Competition

There is one competitor located close to the Belgrave Community Bank. The Commonwealth Bank is situated at 1679 Burwood Highway, Belgrave approximately 100 metres away.

Operations

The business employs 6 staff.

Employment type	Employment role	Number of employees
Part time	Customer service officer	2
Full time	Customer service officer	2
Full time	Customer relationship officer	1
Full time	Customer relationship manager	1

There are two additional staff employed by the company who are shared between the three branches the company operates. These positions are a full time manager and a part-time executive officer.

Lease details

The business premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease expires 26 May 2020 and is currently expected to be renewed.

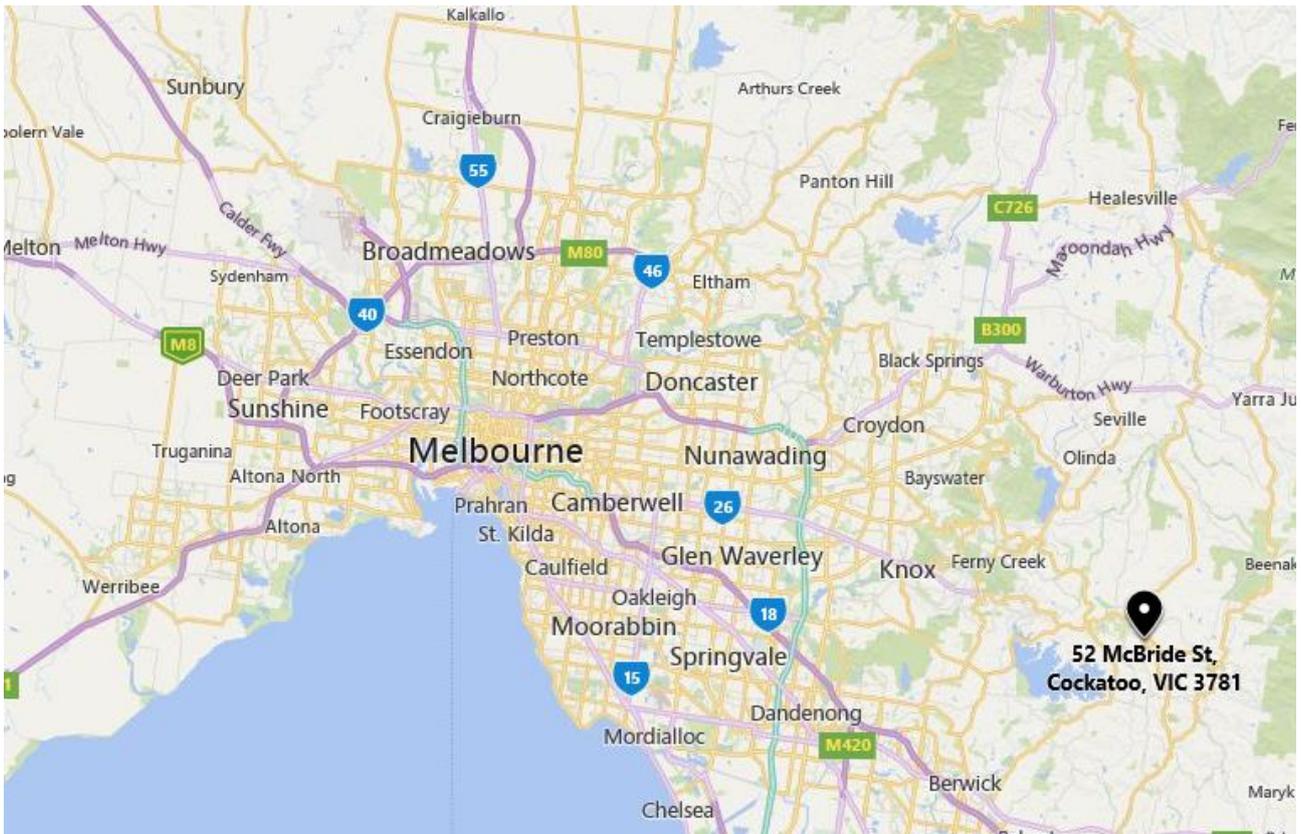
1.3 Cockatoo/Gembrook Community Bank® Branch

General

The Cockatoo/Gembrook Community Bank® Branch, located at 3/50 McBride Street, Cockatoo, Victoria, opened in 2005.

Cockatoo is located approximately 48 kilometres south-east of Melbourne’s Central Business District and at the 2016 census, had a population of 4,256 residents.

The location of the Cockatoo/Gembrook business is shown below:



Competition

There are no other bank branches in Cockatoo. However, there are a number of competitors located within 10 kilometres in the neighbouring towns of Emerald and Monbulk.

Operations

The business employs 4 staff.

Employment type	Employment role	Number of employees
Part time	Customer service officer	1
Full time	Customer service officer	2
Full time	Branch manager	1

There are two additional staff employed by the company who are shared between the three branches the company operates. These positions are a full time manager and a part-time executive officer.

Lease details

The business premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease expires 8 June 2020 and is currently expected to be renewed.

1.4 Level of competition

Given the continued technological disruption within the banking industry, the need for a physical branch to undertake transactions has diminished. Many transactions, including lending enquiries can now be done either over the telephone or online. We consider the level of competition for the Upwey, Belgrave and Cockatoo/Gembrook Community Bank[®] Branches to be high.

1.5 Industry information

IBISWorld reports that the banking industry is one the most competitive in Australia. Driving the increasing level of competition has been the decreasing barriers to entry, seeing non-traditional rivals compete on prices and forcing them to offer competitively priced products and services. Further driving this level of competition is the anticipated increase in regulation over the next five years, especially as a result of the Financial Services Royal Commission.

IBISWorld reports that industry revenue has decreased by an annualised 1.7% over the five years through 2017/2018 to \$146.0 billion. Industry revenue is forecast to grow at an annualised 2.7% over the five years through 2022/2023 to \$167.1 billion.

Further IBISWorld expects that intensifying competition threatens industry profitability, despite the ongoing market dominance of the four major banks (76.8%). Furthermore, higher capital adequacy requirements to unquestionably strong levels and a levy on deposit taking institutions with over \$100 billion in liabilities are anticipated to constrain profit margins, although customers will likely bear these costs.

The Reserve Bank of Australia monetary policy significantly affects industry revenue. Industry revenue is a function of the lending books of banks and the interest earned on loans. Surging residential property prices and the subsequent strong demand for housing loans have played a pivotal role in ensuring bank balance sheets have continued to grow over the past five years. However declining interest rates have offset the effect of strong mortgage growth on industry revenue.

IBISWorld identifies the key external drivers in the industry as:

- Cash rate
- Number of housing transfers
- Residential property yields
- Total capital expenditure
- Ratio of interest payments to disposable income.

IBISWorld identifies the key success factors in the industry as:

- Willingness to outsource when appropriate
- Control of distribution arrangements
- Access to the latest available and most efficient technologies
- Superior financial and debt management.

2. Financial information

2.1 Financial performance

The audited operating results for the three years ended 30 June 2018 are presented on the following pages.

Statement of financial performance

Table 2.1 Financial performance	Year ended 30 June 2016 \$	Year ended 30 June 2017 \$	Year ended 30 June 2018 \$
Income summary			
Gross margin	1,711,443	1,856,698	2,272,805
Upfront/trailer product commission	498,888	515,045	316,297
Fee income	348,066	321,944	299,171
Market development fund	142,500	83,541	82,500
Total income summary	2,700,897	2,777,228	2,970,773
Expenses summary			
Total general and administrative expense	700,771	493,453	507,062
Total IT costs	90,903	59,864	69,664
Depreciation and amortisation expense	92,505	79,452	86,650
Total occupancy costs	-	130,560	144,913
Total employment expenses	1,789,113	1,552,454	1,552,743
Total expenses	2,673,292	2,315,783	2,361,032
Operating profit/(loss)	27,605	461,445	609,741
Total other income			
Interest income	74,309	57,973	53,822
Sundry income	793	19,311	24,239
Total other expenses			
Interest expense	-	-	1
Sponsorships/donations	138,552	45,702	425,048
Tax expense	(61,278)	143,409	74,980
Net profit/(loss)	25,433	349,618	187,773
EBITDA	56,660	572,479	349,404
Abnormal: start Up costs, sponsorships and donations	138,552	45,702	425,048
EBITDAS (after adding back set up costs, sponsorships and donations)	195,212	618,181	774,452

Statement of financial position

Table 2.2 Financial position	Year ended 30 June 2016 \$	Year ended 30 June 2017 \$	Year ended 30 June 2018 \$
Assets			
Current assets	2,646,230	3,018,034	2,805,371
Non-current assets	861,591	786,346	722,274
Total assets	3,507,821	3,804,380	3,527,645
Liabilities			
Current liabilities	498,304	561,345	321,180
Non-current liabilities	13,900	8,902	6,763
Total liabilities	512,204	570,247	327,943
Net assets (liabilities)	2,995,617	3,234,133	3,199,702
Footing (on balance sheet)	313,246,000	348,691,000	386,326,000
Gross margin as % of footing	0.55%	0.53%	0.59%
Management results as % of footing	0.01%	0.10%	0.05%

3. Valuation methodology

3.1 Approach

There are a number of alternate valuation methodologies that are currently used to assess the value of an asset. Generally these methodologies assess value using an approach based on earnings capacity or net asset value. This practice results in the following five primary methodologies being commonly used:

- Capitalisation of future maintainable earnings ('FME')
- Discounting projected cash flows ('DCF')
- Capitalisation of future maintainable dividends
- Notional replacement of assets
- Industry specific methodologies
- Identical or comparable market transactions.

Fundamentally, the value of any asset is represented by the present value of the future cash flows it generates. Other valuation methods, including the FME methodology, are effectively surrogates for a cash flow valuation. Each of these valuation methodologies, or combinations of methodologies, has an application in different circumstances. Normally, the nature and characteristics of an asset will determine the most appropriate valuation method. However other factors, including the availability of reliable comparable information, also impacts on the selection of the most appropriate method.

3.2 Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings methodology involves capitalising the estimated future maintainable earnings at a multiple which reflects the risk and opportunities of the business and the stream of income it generates.

In utilising this methodology, it is necessary to determine the appropriate income stream to value, such as:

- Operating Profit After Income Tax ('PAT')
- Operating Profit Before Income Tax ('EBT')
- Earnings before interest and tax ('EBIT')
- Earnings before interest, tax, depreciation and amortisation ('EBITDA')
- Earnings before interest, tax, depreciation, amortisation and owners wages ('EBITDAO')
- Earnings before interest, tax, depreciation, amortisation, sponsorships and donations ('EBITDAS').

Most commonly businesses are valued by reference to EBIT or EBITDA as such results are not affected by differing interest and taxation expenses, and in the latter depreciation, which can vary from investor to investor as a result of factors which do not relate to the nature of the business. However for the Community Bank concept, EBITDAS provides a reasonable approach to provide comparative purposes for businesses that are not subject to the same restrictions outlined in the franchise agreement (Appendix 2).

The selection of multiple is undertaken by reviewing either listed guideline company data or mergers and acquisition data. For the purpose of valuing a small to medium sized business, the latter is generally most applicable.

In using the mergers and acquisition data, a review is undertaken of recent transactions of comparable businesses from which the implied earnings multiples are calculated. Multiples are then selected and applied to the subject entity to arrive at an indication of value. The multiples derived are based on an analysis of recent trades of entire companies and therefore reflect value for 100% of the business.

3.3 Discounting projected cash flows

The discounted cash flow methodology has regard to the expected future economic benefits discounted to present value. This is considered appropriate where a forecast of future cash flows can be made with a reasonable degree of certainty. This approach is particularly relevant to the valuation of a business in its early growth stage but is equally applicable to any business with expectations of significant growth or with volatility in cash flows.

In undertaking the discounted cash flow methodology regard is generally had to:

- The projected future cash flows
- An appropriate discount rate
- The perpetuity or terminal value, if any.

3.4 Capitalisation of future maintainable dividends

The capitalisation of future maintainable dividends methodology is used to determine the value of a minority interest in a business. Minority shareholdings can be valued by capitalising the forecast maintainable dividend stream that applies to the shares. The maintainable level of dividends can be estimated by assessing the expected level of future earnings and the dividend policy of the Company. Where a dividend policy is not in place, an estimate can be made based on a review of past dividends, assessing the working capital requirements of the business and reviewing the likely level of taxation liabilities in the business.

The appropriate capitalisation yield can be determined by reviewing the dividend yields of comparable companies.

3.5 Notional replacement of assets

The asset based approach determines the value of the business having regard to the market value of the underlying assets and liabilities thereof. This approach includes the following methodologies:

- Going concern method
- Orderly realisation method
- Liquidation method.

Under a going concern method, the value is derived by assessing the market value of every asset and liability on a going concern basis. This may include a premium to reflect the value of intangible assets not recorded on the balance sheet, if appropriate, to reflect market position, profitability and overall attractiveness of business. A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (eg. Real estate holding companies).

The orderly realisation method has regard to the amount that would be distributed to shareholders on the assumption that the entity would be liquidated with the funds realised from the sale of its assets, after payment of all liabilities including realisation costs and taxes, being distributed to shareholders.

The liquidation method is based on the same principles except that in the orderly realisation method, the assets are realised in an orderly manner, whereas, the liquidation method assumes that the assets are sold within a shorter time frame.

3.6 Industry specific methodologies

Depending on the industry in which the business operates, an industry specific approach may be appropriate in assessing value. Industry specific methodologies typically involve the application of a 'rule of thumb', which is accepted within the industry as an appropriate basis for benchmarking value.

Industry specific methodologies typically involve the application of a multiplier to an operating metric such as revenue, customer numbers or funds under management. The multiplier applied is determined with reference to common perception in the market, which is supported through empirical evidence from recently completed transactions.

An industry specific methodology is most appropriate as a cross-check of the value determined by applying one of the above methodologies as a primary methodology.

3.7 Identical or comparable market transactions

This methodology uses existing market data from other companies that operate within in the same industry to determine a value multiple.

There are limited instances when this approach is used as it requires:

- An adequate number of recent comparative transactions available to determine a value multiple
- Adequate data on the comparative transactions to allow appropriate analysis and adjustments.

3.8 Selection of approach and methodology

Based on the analysis above, the variability in valuation techniques that are particular to the Community Bank model we have considered two valuation methods.

Specifically we have considered the average of the capitalisation of FME methodology and discounting projected cash flows methodology as being reasonable to provide a fair and equitable valuation of the company.

4. Valuation of Dandenong Ranges

4.1 Capitalisation of future maintainable earnings

4.1.1 EBITDAS multiple

In considering an appropriate EBITDAS multiple to be applied to Dandenong Ranges, we have had regard to the following:

- The Government Guarantee Scheme
- Dandenong Ranges opened its first branch 20 years ago and will be considered in its maturity phase of its lifecycle
- Enterprise value of Bendigo Bank over EBITDA is 4.28.

For the purposes of this valuation we have assessed an appropriate EBITDA multiple ranging from between 3.8 to 4.2 times.

4.1.2 Assessment of Dandenong Ranges using future maintainable earnings

Table 2.1 sets out our assessment of adjusted historical EBITDAS of Dandenong for the three years ended 30 June 2018.

In assessing the FME, we have had regard to the following factors;

- Level of profitability to date
- Impact of abnormal items (i.e. non-recurring, excessive or non-business related)
- We have used a range for our risk rate to reflect the fact that the company's operations mirror those of a small listed bank operation, that hypothetically Bendigo and Adelaide Bank Limited would be able to purchase and step in and continue to run with little disruption if the sale was done on mutually acceptable terms; but also recognise the practical difficulties that would be faced by the company if it did try to sell the business to a third party
- We have also considered the risk associated with continuing lower interest rates in the industry and its ongoing impact upon income.
- Consistent application of existing accounting policies in future years
- Review of comparable listed financial institutions.

On the basis of the above, we consider the FME of Dandenong to be \$696,000.

The capitalisation multiple is determined by:

Details	Value
Capitalisation rate for smaller listed Banks	12.60
adjusted for pre-tax (30%)	8.82
adjusted for industry restrictions (40%)	5.25
adjusted for lack of marketability (20%)	4.20
adjusted for lack of marketability (30%)	3.80

4.1.3 Assessment of Dandenong Business Value using FME

Table 4.1 below sets out our assessment of the Business Value of Dandenong using the capitalisation of FME methodology.

Table 4.1 Dandenong Ranges Business Value	Low valuation \$	High valuation \$	Preferred \$
FME	696,000	696,000	696,000
EBITDAS multiple	3.8	4.2	4.0
Business value	2,644,800	2,923,200	2,784,000

4.2 Discounted projected cash flows

4.2.1 Discount rate

In considering an appropriate discount rate to be applied to Dandenong Ranges, we have considered the following:

- Within the banking industry, footings are a useful guide to provide some certainty around future cash flows
- Bendigo & Adelaide Bank Limited reserve the right to adjust the commission paid to Dandenong Ranges at any time by way of an adjustment to the Franchise Agreement
- The low interest environment has seen loans amortised at a much quicker rate than has previously been the case
- The expectation that as a result of the Financial Services Royal Commission, there will be a tightening of the lending guidelines which will impact upon the borrowing capacity of customers.

The discount rate has been determined:

Details	%
Long term Government bond rate (risk free)	2.73
Adjusted for risk	15.00
Adjusted for risk	20.00

Based on the above, we consider a discount rate of 15% - 20% is appropriate.

4.2.2 Assessment of Dandenong Ranges using discounted projected cash flows

In assessing DCF, we have determined:

- Footings of the business to be \$386,326,000 (as at 30 June 2018)
- Average commission from Footings of 0.25% is derived
- Net annual cash flow from footings is \$965,815
- Residual value of footing % at end of fifth year 50%.

4.2.3 Assessment of Dandenong Ranges Business Value using DCF

Table 4.1 below sets out our assessment of the Business Value of Dandenong Ranges using the DCF methodology.

Table 4.1 Dandenong Ranges Business value	Low valuation \$	High valuation \$	Preferred \$
Net annual cash flow	965,815	965,815	965,815
Residual value at end of 5 th year	482,908	482,908	482,908
Discount rate	20%	15%	17.5%
Business value	3,050,000	3,446,000	3,238,000

Appendix 1 - Sources of information

In forming our opinion, we have reviewed and relied upon the following information:

- Discussions and correspondence with Naren Popat
- Actual audited accounts for the year ended 30 June 2016
- Actual audited accounts for the year ended 30 June 2017
- Actual audited accounts for the year ended 30 June 2018
- Monthly performance reports
- Belgrave and Cockatoo/Gembrook Branch Leases
- IBIS World Reports
- Franchise agreement for Dandenong Ranges Community Services Limited
- Constitution of the company.

Appendix 2 - Restrictions

The conclusions reached in the report are based on the assumptions stated and on the information provided. We do not undertake responsibility in any way whatsoever to any person in respect of errors in this report arising from incorrect information provided.

We have neither audited nor otherwise verified the information supplied to us and, accordingly, we do not accept any responsibility for any errors that result from reliance on this information. This report is intended to be used only in connection for the information of the board. We do not accept any responsibility to any other person in respect of this report for any other purpose.

Risks

Potential investors must consider the risks of investing in the Community Bank[®] Company carefully before making an investment decision. The investment is not guaranteed by Bendigo & Adelaide Bank.

Particular investment risks arise due to the specific purpose for which the company has been established and the specific nature of the business conducted by the company, that is, to manage a Community Bank[®] branch of Bendigo & Adelaide Bank pursuant to the Franchise Agreement with Bendigo & Adelaide Bank.

An investment in the company is also affected by the business risks to which the company would be subject, which affect the success of the company and, accordingly, its ability to pay dividends and its ongoing operation. The following sections highlight some of the key risks associated with an investment, and thus, the company. There may also be other risks:

Investment risk - dividends

The directors have established a policy whereby profits will, as a general rule, be applied at the discretion of the directors in one or more of the following ways:

- In payment of dividends to shareholders (subject to the limit described below)
- Towards community or charitable projects as determined by the directors from time to time
- As working capital.

The timing and payment of dividends is dependent on many factors which affect future profits and the financial position of the company. Dividends are determined by the directors according to actual results, financial position, capital requirements, operating costs and economic conditions at the time. There is also an assessment by the directors of the needs of any worthwhile community or charitable projects.

Further, in recognition of the aims of the company to deliver social and economic benefits to the community (in addition to, if possible, a return to shareholders), the company has agreed that in any 12 month period, the aggregate of the profits or funds of the company distributed to shareholders (whether by way of dividends, bonus shares or otherwise) must not, except in the case of a winding up, exceed the Distribution Limit. The Distribution Limit is the greater of:

Profit method

Under this method, the retained earnings of the company are added to the current year profit of the company to provide a figure on which a maximum of 20% can be distributed to shareholders.

Rate of return method

Subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital over that 12 month period (as determined by Bendigo Bank in consultation with the company). The relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period (as determined by Bendigo Bank) plus 5%.

For the purposes of calculating the Distribution Limit, “profit” shall be determined by reference to all applicable accounting standards pursuant to the Corporations Act and would be calculated before:

- Any tax, including GST
- Eligible contributions to Bendigo Bank’s Community Enterprise™ Foundation (or any of its sub-funds or successor(s))
- Community contributions or donations made by the company that would have been eligible contributions to Bendigo Bank’s Community Enterprise™ Foundation (or any of its sub-funds or successor(s)).

Of course, the actual amounts distributed to shareholders may be less than the Distribution Limit.

Trading in shares

The company provides members of the community with the opportunity to contribute to maintaining the Dandenong Ranges Community Finance Limited Community Bank® Branches of Bendigo & Adelaide Bank. The community nature of the company is reflected in the provisions of its constitution relating to voting rights and limits on shareholding interests.

Because of the community based nature of the company, it is not envisaged that there would be significant trade in shares in the company. Accordingly, there may be limited opportunities for members to recoup their investment in the company by disposing of their shares.

It is not anticipated that an active market for trading of the shares will develop. For example, the restrictions on shareholding interests may limit those persons who are able to purchase shares in the company. If the market for the shares is not liquid, it is possible that the market price of the shares may not reflect the true underlying value of the company.

Further, the market price of the shares does fluctuate due to various factors, including general movements in the Australian equity market (which, in turn, is influenced by the international equity markets), investor perceptions, local and worldwide economic conditions, movements in interest rates and specific factors affecting the performance and financial position of the company and its business.

In addition, in the case of some companies listed on a stock market, it is possible that their share price may include a “control premium” to reflect the fact that a person may wish to acquire sufficient shares in the company to gain control of the company and, to do so, the acquirer would need to pay a premium above the underlying share price. It is unlikely that such a premium does present in the case of the shares (or will be paid by an acquirer), given the restrictions on share ownership in the constitution and the fact that a change of control of the company may trigger a termination of the Franchise Agreement.

While this risk applies to all investments in any securities on any stock market, it applies particularly so here given the community nature of the company (for example, the restriction on dividend payments), the limitations on share ownership, the restrictions on the business activities of the company and the likelihood of an illiquid market.

Business risks

Sole purpose company

The company is essentially a sole purpose company. Subject to the ability to offer and promote other products and services under agreements with Bendigo & Adelaide Group members that have been approved by Bendigo & Adelaide Bank, the company’s only business is to manage the Dandenong Ranges Community Bank® sites of Bendigo & Adelaide Bank.

Revenue and level of banking business

Although all transactions conducted through the Community Bank[®] branch are actually conducted with Bendigo & Adelaide Bank, the effect of the gross margin sharing arrangement is that the company bears the risk of generating sufficient income from the banking business to derive a profit.

In addition, part of the revenue earned by the company is based on commission and fee income on certain products and services, and the commission and fees payable to the company can be varied (in some cases, at the discretion of Bendigo & Adelaide Bank).

The ability of the company to generate new business is subject to factors beyond the control of the company. The level of banking business conducted through the Dandenong Ranges Community Bank[®] branches is affected by general economic conditions, in particular, the effect of interest rate movements on the interest rates offered by Bendigo & Adelaide Bank.

As part of the Community Bank[®] concept, the Dandenong Ranges Community Bank[®] branches were established, in part, given the current level of banking facilities available in the respective communities. It should be recognised that the company faces competition from other financial service providers (including, possibly, other branches and franchises of Bendigo & Adelaide Bank whether located in the Dandenong Ranges community or in nearby communities or from other providers that are able to deliver such services remotely (for example, through the internet or over the phone).

It is also possible that, in the future, other financial service outlets could seek to open in these communities, particularly if the Community Bank[®] branch continues with their success.

Branch operations

Like any small business, the branch manager and employees do have a key role in the success of the Dandenong Ranges Community Bank[®] branches. The Branch Manager and employees of the branch are responsible for promoting the branch, and providing a level of service and support that engenders ongoing relationships with customers. The ability of the branch manager to communicate effectively with representatives of Bendigo & Adelaide Bank, and represent the interests of the Community Bank[®] branch, is also critical to the continued smooth operation of the branch.

Security risks (e.g. armed robbery)

Although all cash deposits made through the existing Community Bank[®] branches are transferred to Bendigo & Adelaide Bank, the company does bear the risk of implementing procedures for handling and transferring such deposits. For example, the risk of robbery is inherent in the nature of the company's business of managing Community Bank[®] branch of Bendigo & Adelaide Bank.

Under the Franchise Agreement, the company is responsible for ensuring that at all times it has in place, to the satisfaction of Bendigo & Adelaide Bank, appropriate security and cash logistic controls. This may require the company to make modifications to the fit out of its Community Bank[®] branch premises or incur other security-related expenses.

Appendix 3 - Constitution

The rights attaching to shares and the prohibition on shareholding interest set out in the company's constitution are summarised below.

Rights attaching to shares

All shares issued are fully paid ordinary shares issued at \$1.00 each. Set out below is a summary of the principal rights attaching to the shares.

Voting rights

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the Company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the Dandenong Ranges Community Bank[®] have the same ability to influence the operation of the company.

Dividends

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The Franchise Agreement with Bendigo & Adelaide Bank contains a limit on the level of profits or funds that may be distributed to shareholders.

Transfer

Generally, ordinary shares are freely transferable. However, the directors have discretion to refuse to register a transfer of shares. The directors must refuse to register a transfer of shares if, to their knowledge, the registration would result in a person having, or if it would be to a person who has a prohibited shareholding interest.

Subject to the foregoing, shareholders may transfer shares by a proper transfer affected in accordance with the company's constitution and the Corporations Act.

Winding up

If the company is wound up, then subject to any special or preferential rights attaching to any class of shares, shareholders would be entitled to participate in any surplus assets of the company in proportion to the capital paid up on their shares when the winding up begins.

If the surplus assets available for distribution amongst shareholders are insufficient to repay the whole of the paid up capital, then those assets would be distributed in proportion to the capital paid up on shares when the winding up begins.

Notwithstanding the above, if the company is wound up, the liquidator has the discretion to divide among all or any of the shareholders in specie or in kind any part of the company's assets. The division of the company's assets may be carried out as the liquidator thinks fit, subject to the right of any shareholder prejudiced by the division to dissent. Any dissenting shareholder has ancillary rights as if the determination made by the liquidator were a special resolution passed under the corporations act relating to the transfer of the company's assets by a liquidator in a voluntary winding up (see, in particular, chapter 5 of the Corporations Act, especially Section 507).

Prohibited shareholding interest

The constitution prohibits a person from having a "prohibited shareholding interest". The ways in which a prohibited shareholding interest may arise are set out in the constitution and are summarised below.

A person who controls or owns 10% or more of the shares in the company has a prohibited shareholding interest.

Similarly to the voting rights, the purpose of this shareholding limit is to reflect the community based nature of the company, by ensuring that the board can prevent ownership of the company being concentrated in the hands of a small number of community members.

In summary, a person would be deemed to own the shares in the company in which the person has a relevant interest and the shares in which the person's associates have a relevant interest. (The terms 'relevant interest' and 'associate' have the same meaning as in the Corporations Act, subject to some modifications as set out in the company's constitution). Also, a person is deemed to control the votes that the person, and the person's associates, can cast or control the casting of on a resolution to elect a director of the company.

The effect of these definitions is that, for example, if the aggregate of the shares owned (legally or beneficially) by a person plus the shares owned (legally or beneficially) by members of the person's immediate family, equal or exceed 10% of the shares in the company, the person has a prohibited shareholding interest. Similarly, if the votes a person can control the casting of on a resolution to elect a director, plus the votes that members of the person's immediate family can control the casting of on such a resolution, equal or exceed 10% of the votes that could be cast by all shareholders on such a resolution, that person has a prohibited shareholding interest. A person's "immediate family" includes a person's spouse, de facto spouse, parent, son, daughter, brother or sister or a spouse or de facto spouse of any of the preceding persons.

In addition, in keeping with the community spirit and intent of the company, a person would also be deemed to have a prohibited shareholding interest if they have voting power in the company and, in the opinion of the directors, they do not have a close connection to the Dandenong community. For example, individuals who are residents of our community, and their close family members, would ordinarily be considered to have such a close connection. Similarly, a company whose registered office is in our community and that is owned and controlled by such individuals would ordinarily be considered to have such a close connection.

However, these are illustrative examples only. Ultimately the directors would need to assess in each case whether there is a close community connection.

Further, a person is also deemed to have a prohibited shareholding interest if after the transfer of shares to that person, the number of shareholders in the company would be less than the Base Number of shareholders.

This Base Number is 90% of the shareholders in the company after the issue of shares under the Prospectus. The purpose of this Base Number restriction, together with the requirement of a close community connection, is to seek to ensure that the company has broad based local ownership.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to those shares in the company in which the person and the person's associates have a relevant interest are suspended. However, where a person has a prohibited shareholding interest purely on the basis that they own or control 10% or more of the shares or votes in the company, the suspension only applies to those shares in which the person and the person's associates have a relevant interest in excess of 10% of the company.

The board has the power to request information from a person who has (or is suspected by the Board of having) a legal or beneficial interest in any shares in the company or any voting power in the company, for the purpose of determining whether a person has a prohibited shareholding interest. If the board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of shares the board considers necessary to remedy the breach.

If a person fails to comply with such a notice within a specified period (that must be between three and six months), the board is authorised to sell the specified shares on behalf of that person. The holder would be entitled to the consideration from the sale of the shares, less any expenses incurred by the board in selling or otherwise dealing with those shares.

Furthermore, the board must refuse to register a transfer of shares if, to their knowledge, it would result in a person having, or if it would be to a person who has a prohibited shareholding interest.

In the constitution, members acknowledge and recognise that the exercise of the powers given to the Board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

Appendix 4 - APES 225

In preparing this report we have had regard to the business valuation standard APES 225.

Qualifications

- Bachelor of Business
- Member of Chartered Accountants Australia and New Zealand ('CAANZ')
- Member of Business Valuations Special Interest Group of the CAANZ.

Professional experience

Mr Barnett is a Director of AFS & Associates Pty Ltd with more than 10 years business valuations experience, covering a wide variety of local and international private and publicly listed organisations, including:

- Experience in preparation of valuation reports for businesses for various purposes, including mergers and acquisitions, tax considerations, bank lending requirements or acquisition/disposal opportunities
- Experience with various due diligence assignments
- Experience of providing advice to a wide range of clients across a diverse range of industries in relation to numerous mergers, acquisitions and business divestments.

Appendix 5 - Disclaimer and indemnity

I hereby certify that we have inspected this businesses on the 30 June 2018 and have carried out the assessments above as at that date. Neither I, nor any member of AFS has any conflict of interest, direct or indirect or financial interest in relation to this business that has not been disclosed.

This report is confidential and has been prepared for the sole and exclusive use of Dandenong Ranges Community Services Limited for establishing a value for the information of the board and shareholders. Neither the whole nor part of this report or any reference thereto can be disclosed to any person without AFS's prior written approval. No third party is to rely on this report and no responsibility is accepted for any loss, damage or liability that directly or indirectly results from any reliance.

Taxation

Business Services

Community Banking

Audit

Share Registry

Your partners
in success



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