

23 October 2023

Dear Shareholder

Please find attached the agenda for the upcoming Annual General Meeting. This is the opportunity for shareholders to meet with Directors and receive a report on the performance of the company over the previous 2022/2023 financial year. It has certainly been an outstanding year from a financial perspective.

If you would like to see a copy of the Annual Report prior to the meeting it is available online at our website. Alternatively, copies are available from either branch and will also be available at the meeting.

Formal notice of the meeting is attached.

I would also like to highlight that following an extensive review process your Board of Directors are presenting a share buyback proposal to the annual meeting.

We have been aware for some time of the fluctuating list of sellers of UYCEL shares and the associated low level of sale prices for shares. We are not comfortable having many Shareholders who have supported us in the past and our desire to support them in the future.

We are therefore presenting a buyback proposal that will enable us to buy back (and cancel) 453,720 shares. Attached is a briefing paper with further information to assist with understanding both the rationale and structure of the proposal.

The proposal is in line with requirements of the Australian Taxation Office, ASIC and the Bendigo and Adelaide Bank Limited. The proposal will require shareholder formal approval at the AGM.

I look forward to seeing you at the meeting.



Rodney McKail
Chair
Upper Yarra Community Enterprise Ltd

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Franchisee of Bendigo and Adelaide Bank Limited ABN 11 068 049 178 AFSL 237879



Upper Yarra Community Enterprise Limited
Shareholder Brief - Share Buyback Proposal 2023
PROPOSED SHARE BUY-BACK SCHEME

Over the last 18 months the Board of Upper Yarra Community Enterprise Limited (UYCEL) has been grappling with two issues critical to The Company's future.

The issues, which are related, are:

- The serious overhang of increasingly anxious sellers with few buyers in sight, and
- The need to maintain and if possible, enhance the investment return on our shares to attract the next generation of 'shareholders'.

CAPITAL STRUCTURE HISTORY

The current capital structure arises from 4 actions taken over the past 23 years. Firstly, the issue of 400,000 share fully paid to \$1 when the company was created (initially as Warburton Community Financial Services Limited).

Then a 2 for 1 bonus issue creating an additional 800,000 shares, but with no increase in paid capital.

The issue of a further 730,250 shares fully paid to \$1 to fund the establishment of the Yarra Junction and District Community Bank franchise.

Finally, the buy-back of 156,090 shares in 2017.

This leads to the current position of 1,774,160 shares on issue.

The high number of shares on issue limits the ability of the company to increase (per share) the value of annual dividends.

DISTRIBUTION LIMIT

The distribution limit – enshrined in the franchise agreement – broadly states that “no more than 20% of profits can be distributed to shareholders”. Noting that the method on how this figure can be calculated has varied over the years. UYCEL has consistently maintained the strategy of distributing 20% of profits calculated before any community payments, in line with the provisions of our original franchise agreement.

Therefore, we are proposing an equal access share buyback of 453,720 UYCEL shares.

In formulating the offer the Board has determined that:

- The offer should be available to all shareholders equally.
- A stated number maximum number of shares should be able to be bought back.
- The buyback price offer should be fair to all parties.

A share buyback is a relatively complicated process that requires approval from ASIC, Bendigo Bank and the shareholders. There are a number of steps to be taken, following ASIC rules, culminating in a shareholder vote at the AGM requiring a simple majority vote of shareholders.

The Board feels that this has a number of positive impacts.

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Advantages and Disadvantages of the Buyback Scheme

The advantages of the buy-back scheme for shareholders include:

- The total shareholdings of the Bank would go down from 1,774,160 to 1,320,440 shares. Thus, any future dividends paid will be shared across a lower base, leading to a potential higher return for each shareholder.
- Shareholders who participate in the buy-back can utilise the cash payment provided to improve or adjust their own personal financial situation or objectives.
- The offer price will allow shareholders to realise some or all of their investment in the Company at a value which the Board believes reflects the underlying value of their investment.
- The share register will be cleaned up, making administration easier.
- Since the total number of shareholders will be reduced, there is the opportunity for the company to undertake future buybacks.

The disadvantages of the buy-back scheme for shareholders include:

- The buyback scheme will reduce the cash reserves of the Company; however, the Board believes that there are ample cash reserves and other assets for the Company to continue operating successfully into the future throughout the terms and conditions of the Franchise Agreement. The Board has considered the impact of the share buy-back on the solvency of the company and have determined there is minimal risk that this transaction could lead to insolvency of the company.
- To the extent that shareholders participate in the selective share buyback scheme, their investment in the Company will be reduced.

Particulars of the selective share buyback

The Company currently has 498 shareholders and 1,774,160 ordinary shares on issue.

The Company proposes to buy back up to 453,720 of the shares on issue.

The share buyback scheme offer is being made available to all shareholders to buy back the same percentage of their ordinary shares.

Applications will be scaled back if they exceed 453,720 shares in aggregate, subject to a minimum remaining shareholding of 500 shares (in which case scaling back will not apply).

The offer price for each share will be **\$0.551**. This will be fully capital. The Company will pay all transaction costs associated with the selective share buyback scheme. No brokerage is payable on the sale of shares through the share buyback scheme.

The offer price was determined by the average capital per share approach as detailed in PLSA 2007/9 paragraph 62. This calculation was then reviewed by the Board of Directors to appropriately reflect the value of the shares.

The sale price of the limited number of shares which have been traded over the past 4 years has also been considered when determining the offer price.

The buyback price offer must be fair to all parties. To ensure equity and fairness in the buyback as proposed, a ruling will be requested from the Australian Tax Office (ATO). If there are any material changes attached to the approval when granted (we do not expect there will be) this matter will be referred back to the shareholders.

The buyback scheme will commence at 9am on 4 March 2024 and close at 5pm on 19 April 2024.

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Payments for shares bought back will be completed by 31 May 2024. Payment will be made by electronic funds transfer to the nominated bank account recorded on the Company's share registry.

The Company will use the existing excess cash reserves of the Company to fund the payments to shareholders who participate in the buyback scheme.

A Buyback of 453,720 shares at 55.1 cents each would require \$250,000 and will be funded from existing cash and investment reserves. 453,720 shares represents 25.57% of the total shares currently on issue.

Directors' Interests

Directors are eligible to participate in the share buyback scheme. Below is a list of current director interests:

Rodney McKail	1,000
Sally Ann Brennan	1,000
Elizabeth Fox	600
Neil Geoffrey Jorgensen	1,500
Garry Michael Lewis	0
Richard Harding Butler	6,000
Michael Norman Hibbert	3,000
Gordon Stewart Buller	40,650
Louise Anne Hogan	0
Total	53,750

Rodney McKail

Chair

**On behalf of Board of Directors of
Upper Yarra Community Enterprise Limited**

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