Baccus Investments Limited ABN 87 095 832 072; AFSL 220647

Kremnizer Mortgage Fund ARSN 101 518 067

Valuation Policy

Introduction

Purpose of Valuations

Valuations of property that forms the security for mortgage investments made by the *Kremnizer Mortgage Fund* ARSN 101 518 067 (**Fund**) are obtained by Baccus Investments Limited, as the responsible entity of the Fund (**Baccus**), at various times to determine the loan to valuation ratio (**LVR**) and the fair market value of the security property of Baccus if exercising enforcement rights.

Objective of the Policy

Robust and objective valuations are needed to ensure that a scheme's financial position is correctly stated. It is important for investor confidence that suitably qualified independent experts perform the valuations, and that the process is transparent. The development of and adherence to a formal valuation policy assists in addressing the risk that the valuations that schemes rely on are carried out on a variety of bases, with differing assumptions and instructions. These valuations are fundamental to determining how much the scheme may lend.

The objective of this valuation policy is to ensure that a consistent framework is applied by Baccus to security property valuations from which all stakeholders can reference and have confidence in the process.

Scope

The valuation policy applies to all properties that are provided by a borrower as security for a mortgage investment made through the Fund to a Mortgage Syndicate. It is part of the overall lending policy adopted by Baccus and must be read and applied in the context of the Constitution for the Fund, the Compliance Plan for the Fund, the *Corporations Act 2001* and ASIC policy, particularly the benchmark and disclosure principles requirements in ASIC Regulatory Guide 45: *Mortgage schemes: Improving disclosure for retail investors*. If inconsistencies or conflicting requirements arise, the Fund's Constitution and the Compliance Plan take precedence over this valuation policy.

Policy

Requirement for a valuation

The lending policy of Baccus for the Fund includes a requirement that all loans made by the Fund are secured by a first or by a second mortgage, to a maximum loan to valuation ratio or **LVR**, as described below.

It is central to the lending policy and the LVR requirements that a valuation of the security property is obtained. Accordingly, a valuation from a panel valuer is required in all cases. Valuations submitted by borrowers will not be accepted.

Basis of valuations

All valuations must be on an 'as is' value basis. In addition,

- for ***residential loans, vacant land and rural properties***, the value is defined as the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion;

- for ***commercial, industrial and retail properties***, the fundamental method of valuation is the capitalisation of net rentals supported by comparable sales.

The valuation report must contain a statement as to whether the valuation complies with all relevant industry standards and codes.

Loan to Valuation Ratios

It is the policy of Baccus that:

- the amount of the loan for a first Mortgage Investment will not exceed 80.0% of the valuation of the security property;

- in the case of a second mortgage, the amount of the loan must not, when aggregated with the amount secured under a prior or equal ranking mortgage, exceed 80.0% of the valuation.

The Syndicate SPDS will disclose the LVR applicable to the relevant Mortgage Investment.

Maintenance of Panel of Valuers

Baccus maintains a panel of valuers who are proven to be independent, experienced and qualified to perform valuations on property of the nature and in the location of that which is to be provided by a borrower as security for a loan made by the Fund.

Each panel valuer must:

- be properly qualified and have at least 3 years' experience in valuing properties for mortgage purposes;

- either be a member of an appropriate professional body in the jurisdiction in which the property is located or have at least 10 years' experience valuing properties for mortgage purposes in that jurisdiction;

- be licensed or registered (where required by State legislation) in the State in which the security property is located;

- supply a curriculum vitae or resumé of their experience and confirming their qualifications

- have professional indemnity insurance and provide a copy of a certificate of current insurance, as described further below. They must also produce details of any exclusions or prudent lender clauses in the policies

- be independent, including that they must have no pecuniary interest in the Fund or an asset of the Fund or a material personal interest in Baccus.

The professional indemnity insurance must extend to providing a valuation for the purpose of the loan made through the Fund, unless the Lending Committee waives this requirement and discloses that waiver in the relevant Syndicate SPDS, so that each Member of the Syndicate also agrees to waive this requirement, in writing, before the loan is made, by signing the application form that is attached to that Syndicate SPDS.

Upon providing this information the valuer is assessed by the Board as complying with these requirements and is offered a place on the panel of valuers.

A separate file of valuers is maintained by Baccus containing details of each individual valuer appointed to the panel and updated and maintained by adequately experienced staff.

At the expiration of the period of currency of the insurance, a current certificate of currency will be required for the valuer to remain on the panel.

Panel valuers are advised that all valuation reports must include confirmation of the details of their Professional Indemnity Insurance and its currency and that this assertion may be relied upon for this valuation.

The Compliance Manager of Baccus is responsible for maintaining the register and following up valuers for copies of their renewed PI insurance policies.

Rotation and diversity of Panel Valuers

It is the policy of Baccus that it will use reasonable endeavours to ensure that:

- no one valuer may give more than 3 consecutive valuations of the one security property;

- no one valuer may provide more than 50% of the current valuations relied upon by the Fund, by number or by value.

These policies recognise that it may not be possible at any particular time to achieve the preferred position as to diversity and rotation of valuers in light of the overriding requirements that the valuation meets the competency, independence, and professional indemnity insurance criteria adopted by Baccus, as well as the ability of the Manager to rely on the valuation as having been provided for the purpose of the loan.

Managing any conflict of interest

If a conflict of interest arises or a potential conflict identified in the course of an engagement of a valuer or its undertaking of a valuation, it will be managed in accordance with the procedures adopted by Baccus as documented in the Management of Conflict of Interest Policy that Baccus has adopted.

Instruction of Panel Valuers

Upon receipt of a mortgage proposal which satisfies the lending policy for the Fund an offer of finance is made to the borrowers subject to payment of the valuation fee and a valuation obtained from a Fund panel valuer. The valuation report must be made for mortgage purposes, confirm the value of the property and refer to a recommendation of the security as suitable security for mortgage purposes. In determining the value of the property it must be on an 'as-is' basis, and not valued on the basis of projected realisation, using accepted valuing industry practices and methodology. The valuation report must set out the valuation methodology used.

A panel valuer will be chosen based on the location of the property to be valued in relation to the area in which that valuer works, their availability and the number/value of the previous valuations undertaken by the valuer firm. The valuer should include a statement in their valuation report on whether the valuation complies with all relevant industry standards and codes.

In arriving at their opinion of value the panel valuer is instructed to address several issues in the letter of valuation instruction. All valuations from panel valuers must be under instructions from Baccus. Instructions in writing may be made by Baccus, or by a panel solicitor acting on behalf of Baccus.

Reliance on Valuation report

The valuation is valid for 3 months after the date of the report so all settlements must occur within 3 months of the valuation date so it can be relied upon. It is Baccus' policy to monitor this.

Requirement for an updated valuation

The vast majority of loans originated by the Fund are for a term of 12 months. A further valuation of the property must be obtained by the Manager before the loan is extended for a term of 6 months or more or the loan is rolled over for a term of 6 months or more. In addition, a further valuation of the property must be obtained if the Manager is enforcing the loan and has taken possession of the property and is about to commence the marketing campaign to sell the property.

It is not the current position that the mortgage security documents contain a provision that covenant that the borrower may be in default if the LVR falls below a stated level. If, in the future there were to be such a provision, the policy of Baccus is that a further independent valuation must be obtained within 2 months after the Board forms the view that there is a likelihood that a decrease in the value of the security property may have caused a material breach of the loan covenant (if a clause requiring a particular level of LVR is contained in the mortgage documents).

Monitoring and compliance

The Compliance Manager has the responsibility for monitoring the compliance of Baccus with this policy. The Compliance Manager must report to the Board of Baccus at least quarterly as to compliance and at such other times as may be necessary for the purpose of ensuring the continued accuracy of any information provided in updates of the ASIC Benchmark and Disclosure Principles Report issued for the purpose of RG 45.

Adoption and review of policy

This valuation policy was ratified by the Board of Baccus on 27 July 2018.

The policy is to be reviewed by the Compliance Manager not less than every 12 months. The Compliance Manager must consult with the members of the Lending Committee. The results of this review, together with the recommendations, if any, of the Compliance Manager and of any comments of the Lending Committee, will be tabled at the next meeting of the board held after the review is completed.