

# Treasurer's report (amended)

For year ending 30 June 2014

## Business performance summary

The prolonged tight economic conditions and continued trend of consumer debt reduction in a low interest rate environment has seen the company post a moderate, but healthy result for the financial year 2014.

These features, combined with a low demand for consumer debt, have led to across the board rate and fee discounting by our larger competitors. In spite of this, the company's new business activity and writings has been very strong, pointing to an underlying strength, which can be capitalised on when conditions are more favourable.

To highlight this, the company grew its business footings by a healthy \$28.7 million despite the heavy reduction in debt by its lending customer base and the stiff competition for deposit products.

Detracting from this growth has been the decline in margins earned on deposits and loans as a result of the low interest environment. On a positive note, this slide stabilised in the second half of the financial year 2014. This together with tight control over expenses and a concerted effort to raise the level of income earned from fees and income has allowed the company to post a healthy profit before tax and sponsorship of \$473,471.

## Key financial data:

Key Financial Data	2014	2013	variance	
Footings (\$m)	436.6	407.9	28.7	7.0%
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>%</b>
Income	3,983.8	4,062.3	-78.5	-1.9%
Employment	2,089.4	1,966.9	122.5	6.2%
Expenses	3,510.3	3,464.7	45.6	1.3%
Operating profit (before sponsorship and tax)	473.5	597.6	-124.1	-20.8%
Sponsorship	172.4	294.9	-122.5	-41.5%
Profit after tax	208.4	206.0	2.4	1.2%
Cash	825.3	678.3	147.0	21.7%
Net assets	2,230.4	2,143.5	86.9	4.1%
Retained earnings	174.5	87.7	86.8	99.0%
Return on equity before sponsorship and tax	21.2%	27.9%	-6.7%	-24.01%
Return on equity after tax	9.3%	9.6%	-0.3%	-3.1%
Cost to income ratio	88.1%	85.3%	-2.8%	-3.3%

## Key observations are as follows:

- Total expenses rose by only \$45,600 or 1.3%.

- Employment costs rose by \$122,500 or 6.2% largely CPI driven, but was well within budget.
- All other expense categories were lower than previous year's level and/or well within budget.
- Profit after tax rose by \$2,400 to \$208,400 and the company's cash position improved by \$147,000.
- The company's retained earnings increased by \$86,800, 99%.
- Kinglake Branch recorded a profit of \$20,900, a turn-around of \$74,800 on the previous financial year.

#### **Financial year 2015**

Looking forward, the company's objective is to counter lower profit margins and lift long term profitability by:

- Continuing to maximise sales growth from well-targeted sponsorship spending and marketing.
- Leveraging off a more experienced, well trained and optimally employed sales team, and
- Making structural changes to permanently reduce occupancy costs.

#### **Financial year 2014 dividend**

The Board of Directors has declared a dividend of 3 cents per share payable in October 2014. Total cost of the dividend is \$121,557.00. VCFS policy requires that the Finance Committee provides Directors with assurances that all governance requirements for a dividend to be declared have been met.

The three governance requirements which have been met are:

- The Company Constitution
- Corporate Law
- The Franchise Agreement

The Board considers that it is prudent to hold the dividend at its present level of 3 cents per share so as to maintain a balance between its three key objectives and responsibilities as determined in 2014:

- Maintaining financial stability by increasing long term Retained Earnings within the company by \$86,800.
- Maintaining a significant contribution to the community by way of sponsorship spending of \$172,300, and
- Paying a shareholder return of \$121,557.



Stephen Bennett  
Treasurer