

Results Announcement for the full year ending 30 June 2014



Centuria Capital Limited
Presentation to Investors and Analysts



www.centuria.com.au

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Directory

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Year in Review



- **Statutory NPAT and EPS increased 24%**
- **Underlying NPAT and EPS increased 11%**
- **NTA per share increased 22%**
- **Final dividend of 1.5cps declared (2.75cps fully franked for year)**
- **Record result for Centuria Property Funds Division**
- **Centuria Life division launch of the Tax Astute Bond**
- **Continued progress towards strategic goals**

Group Strategy

Centuria is reinforcing its identity and market positioning as a Specialist Investment Manager in two core product sectors;

- **Property Funds Management**
- **Tax Effective Investment Bonds**

Centuria has clear strategies to develop its business in each of these product areas, and are re-stated in this brief.

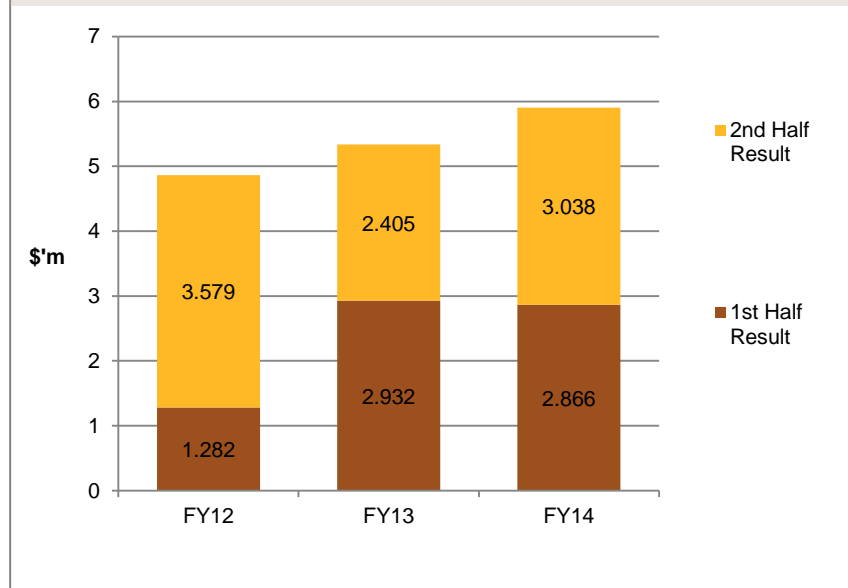
Centuria has undertaken a strategic review on its two non-core business units – the Reverse Mortgage and Insurance Agency businesses. We expect to make an announcement to the market regarding our plans for these businesses this calendar year.

A major strategic goal is to refine the Group's activities to its core businesses as opportunities arise to monetise non-core assets. Thus ensuring the Group has a simplified business model, reduced gearing and higher free cash to invest in core activities.

These initiatives will provide greater clarity of the Group's market positioning and identity from an investor perspective. In addition the strengthened balance sheet will drive a more focussed capital management strategy.

30 June 2014 – Results Overview

Underlying Net Profit After Tax (NPAT) (\$m)



Financial Summary

	2014	2013	Change
Statutory NPAT	\$9.1m	\$7.3m	23.7%
Statutory EPS	11.6c	9.4c	24.3%
Underlying NPAT	\$5.9m	\$5.3m	10.6%
Underlying EPS	7.6c	6.8c	11.1%
DPS (fully franked)	2.75	1.25c	120.0%
Net Assets	\$105m	\$95m	9.6%
Net Assets per Share	\$1.34	\$1.22	9.6%
NTA per Share	\$0.66	\$0.54	21.8%
Property Funds FUM⁽ⁱ⁾	\$922m	\$1,056m	(12.7%)
Centuria Life FUM	\$714m	\$710m	0.6%

⁽ⁱ⁾ Average property value increased to \$31.3m at 30 June 2014 (30 June 2013: \$22.4m)

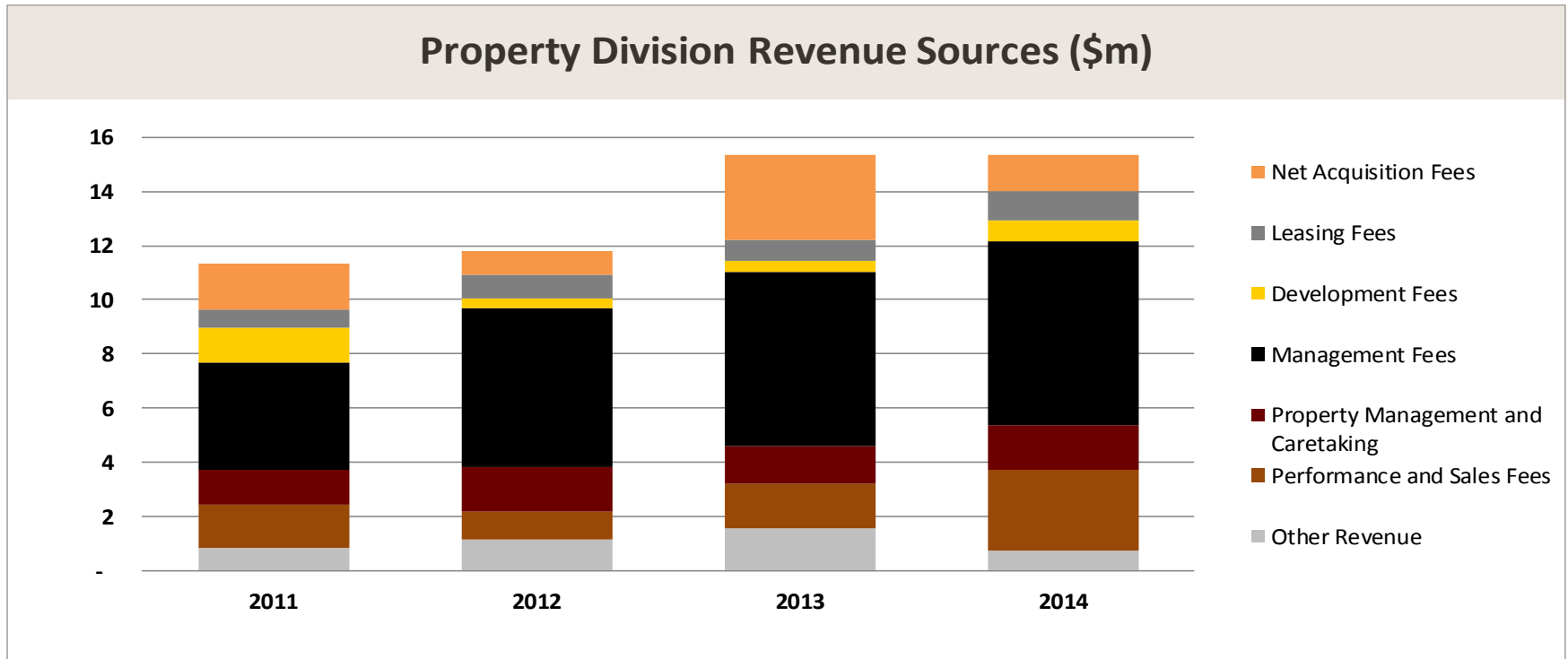
Underlying Results

Year Ended 30 June 2014	2014	2013	Commentary for major movements
Underlying profit/(loss) before tax by segment	\$'000	\$'000	
- Centuria Property Funds	5,043	3,850	17 assets sales across portfolio and largest property purchase recorded to date
- Centuria Life (excluding Friendly Society Benefit Funds)	6,430	7,025	
- Reverse Mortgage Book	2,897	3,293	Non cash accounting profit
- Insurance	1,090	967	
- Corporate	(4,946)	(5,223)	
- Other	68	336	
Underlying profit before tax by segment	10,582	10,248	
Finance costs (Corporate)	(1,040)	(1,218)	Driven by changes in base rates
Total underlying profit before tax	9,542	9,030	
Underlying tax expense	(3,638)	(3,693)	
Underlying NPAT	5,904	5,337	
Non-recurring, non-underlying adjustments			
- Unrealised gain on fair value of reverse mortgage swaps attributable to credit risk	5,007	-	New Fair Value accounting standard (AASB 13) has been applied prospectively from 1 July 2013
- Centuria Life seed capital investment	(511)	(772)	Movement in present value of investment to reflect expected repayment dates
- Mortgageport deferred consideration	38	163	Unwind of present value of consideration received in full in July 2014
- Tax benefits from non-core asset disposals	-	2,413	
- Tax impact of above non-recurring adjustments	(1,360)	197	
Reported Statutory NPAT	9,078	7,338	

Property Division

30 June 2014 – Property Division

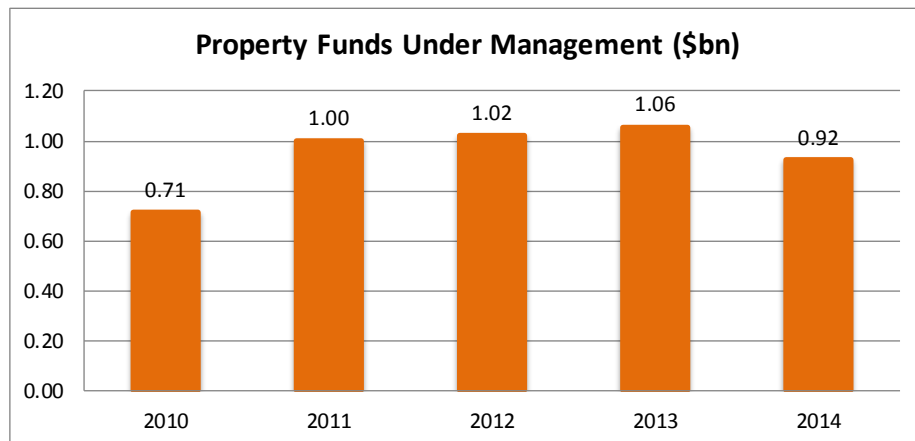
Revenue Sources



- Performance and sales fees increased to \$3.0m (up from \$1.7m in the prior year) including incentive fees of \$1.0m, offsetting the reduction in property acquisition fees year-on-year
- Annuity stream fund and property management fees up 5.5% over prior year

30 June 2014 – Property Division

Unlisted Property Funds



- \$100m direct property acquisition in FY14, Centuria's largest property purchase to date
- Singapore office introduces \$32m institutional investor
- Focus on larger assets with average property value up to \$31.3m (30 June 13 - \$22.4m)
- Larger transactions facilitated by combining retail and wholesale investors
- FUM affected by profit-taking in smaller assets in 2013/14 to be offset by larger acquisitions and significant performance fees

Business Profile of Funds

5,728

Number of Investors

21

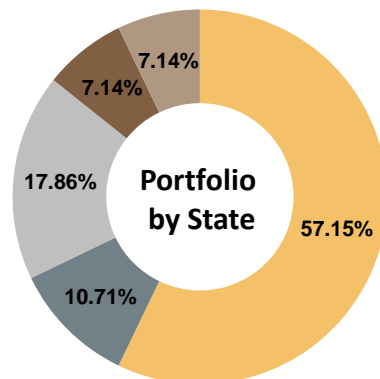
Number of Funds

4.4 years

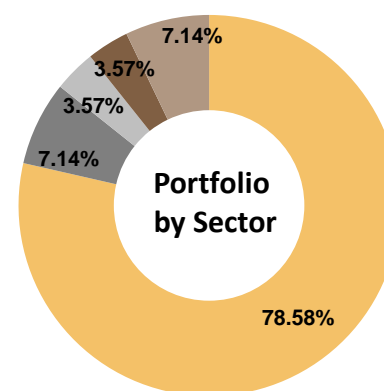
Portfolio Weighted Average Lease Expiry (income)

28

Number of Buildings



- New South Wales
- Victoria
- Queensland
- South Australia
- Australian Capital Territory



- Office
- Industrial
- Office/Warehouse
- Speciality Use
- Retail

Property Funds Management Division

Centuria's Property team is a market leader in asset selection, property upgrading, leasing and sale timing. We include two case studies of major commercial investments which have benefited from Centuria's sound selection and value-add skills.

During the 2013/14 year and to date, commercial property values have risen strongly as a result of modest interest rates, freely available debt and increased offshore competition for good assets. In this period Centuria has been making substantial profits for its investors and earning significant performance fees.

The Centuria property platform is resourced with talented staff to select and manage assets as well as a bespoke internet based investor registry system allowing investors easy access to fund information.

Across the mature assets in our managed portfolio there is capacity for the conversion of existing office assets to over 1,000 residential units. Centuria intends to utilise a modest proportion of its balance sheet for short terms to partner investors and share in development profits.



8 Central Avenue, Sydney

Centuria 8 Central Avenue Fund (established during the financial year)

Property Funds Management Division (continued)

Three Tiered Property Strategy:

Centuria's three-tiered property strategy will create a powerful property "engine" permitting a greater volume of transactions and increasing asset size capability.

Tier 1 - Unlisted funds

- \$150m - \$200m of new investment product targeted annually
- Specific focus on larger assets (last transaction \$100m)
- Development opportunities identified within Centuria portfolio creating additional downstream revenue (first 75 unit development scheduled to commence in Cremorne, Sydney)

Tier 2 - Asian Hub strategy

Centuria is committed to its Asian hub strategy and established its Singapore office in 2012 to distribute Centuria property funds to offshore institutional and mid-tier investors

During 2013/14 SEB Investment GmbH, the property funds management arm of major Nordic Bank SEB, invested \$32m in the Centuria 8 Central Avenue Fund

Tier 3 - Listed Funds

- Centuria is completing market soundings and expects to launch a multi-asset REIT during calendar 2014 provided market conditions continue to be favourable

Value Add Case Study One

– 175 Castlereagh Street, Sydney CBD



“Centuria acquired the property in April 2013 for \$56m. Over the last 16 months the Centuria team has added significant value to the asset and as predicted the Southern CBD precinct has improved in quality and desirability. Strategic acquisition plus hands on value add.”

- Refurbished lobby and vacant suites, carry out fit out works and space planning
- Split Level 9 into 3 suites, with the ability to further sub-divide into 4 in order to meet market demand. Constructed speculative fit out in one of these suites. This also enabled us to increase the rental rate.
 - Leased 145sqm straight away
 - Leased 160sqm (further sub-division to now create 4 suites)
 - Leased 286sqm
 - Leased the 201sqm speculative suite
- Refurbished the vacant area and lift lobby on Level 1, subdivided into 2 suites
 - Leased the fitted out suite straight away
 - Approx. 50% of the balance of the vacancy on Level 1 (243sqm), followed by the remaining suite (230sqm) leased within the next 6 months
- Retrofitted vacancy on Level 11

Vacancy at acquisition (April 2013): **17.1%**
Number of leasing deals since acquisition: **10**
Current vacancy: **0.0%**



Value Add Case Study Two

– 10 Spring Street, Sydney



“Property purchased in June 2013 for \$92m in prime Sydney CBD location but with persistent vacancy issues. Property acquired because of ability to add value through refurbishment and intensive leasing campaign by Centuria team. Fully leased in 12 months, significant added value in absolute prime Sydney CBD location.”

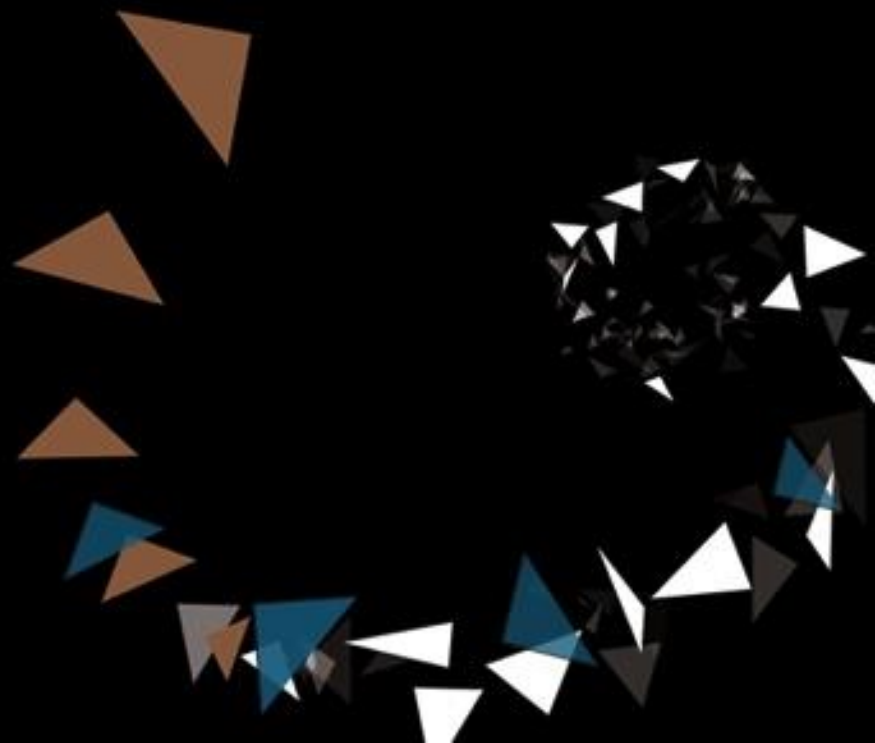
- Significant upgrade to lobby, retail area and lift cars
- Speculatively fitted 200sqm suite on Level 12 and leased at \$720psm (above underwriting)
- Leased Level 5 within 1 week of acquisition due to intensive leasing involvement for 3 months leading up to settlement
- Split 455sqm suite on Level 6 to 331sqm suite and 130sqm suite (gaining 5m of NLA)
- Full retail arcade refurbishment and intensive leasing campaign resulting in 5 new tenants

* 6 office, 5 retail.

Vacancy at acquisition (June 2013): **19.2%**
Number of leasing deals since acquisition: **11***
Current vacancy: **0.0%**



Centuria Life



30 June 2014 - Centuria Life

Outline of Investment Bonds

- Investment Bonds are technically insurance bonds or “friendly society “ bonds issued by APRA regulated Life Insurance company’s such as Centuria Life
- These bonds are long term savings and/or estate planning vehicles and enjoy a tax incentivised status provided investors invest for 10 years, after which they can withdraw their capital and interest tax free
- They are very flexible in that investors may withdraw all or part of their investment at any time, although this will affect the tax incentivised status of the investment
- Centuria has a range of bonds which offer underlying investments in differing asset classes including shares, fixed interest and diversified funds

Strategy for Investment Bond division

- Centuria intends to position its investment bonds as either complimentary to compulsory Superannuation or targeted savings vehicles for special purposes
- Successive rounds of Superannuation legislation changes have created some uncertainty and personal taxation marginal rates are budgeted to exceed 48% at present
- Arising from these conducive market conditions, Centuria intends to utilise third party distribution channels to to cost effectively distribute its products, introduce new contemporary products with the strategic aim of creating a consistent and perpetual cash flow

30 June 2014 - Centuria Life

New Products/Performance

- Launch of Centuria Credit Bond as part of the Centuria Tax Astute Series in August 2014
www.centuriataxastute.com.au
- This new bond series will ultimately cover a range of asset classes giving investors more choice and flexibility. This bond will be distributed through the Mason Stevens network as well as to Centuria clients
- Policyholder numbers steadily increasing throughout the year with 83,136 primary holders at 30 June 2014 (30 June 2013: 82,220)
- Whilst FUM relatively stable, further inflows targeted arising from new products

\$409_m

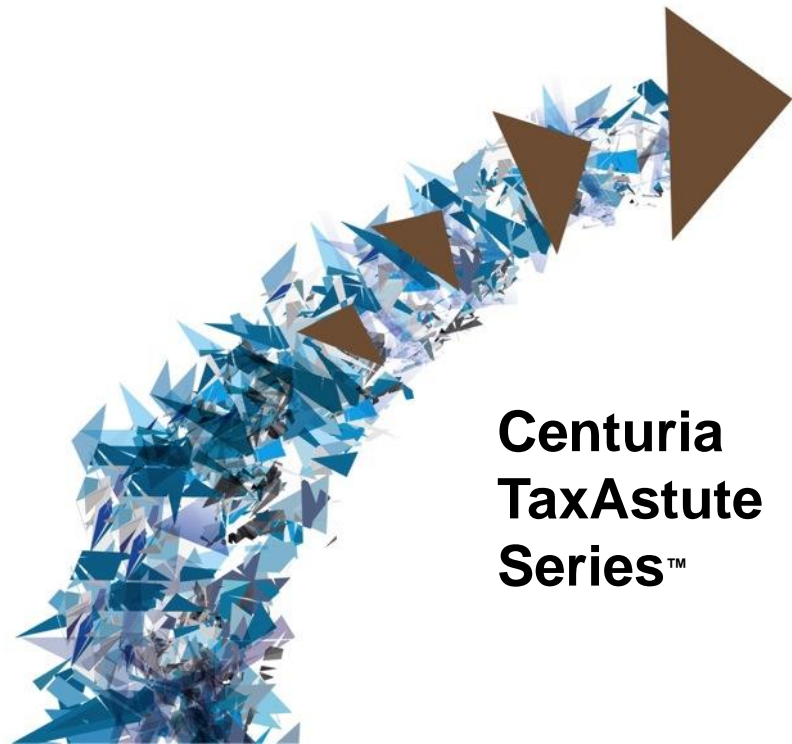
Total FUM of Centuria Life Bonds

\$305_m

Total FUM of Over Fifty
Guardian Friendly Society
Bonds

\$714_m (FY13 \$710m)

Total FUM



**Centuria
TaxAstute
Series™**

30 June 2014 – Non-core Assets

Reverse Mortgage Book Update

- Centuria is completing a strategic review of its Reverse Mortgage business
- Centuria stopped issuing new reverse mortgage loans in 2008
- That decision has been justified as the divisional profits increased notwithstanding that profits are non-cash and calculated from the accrued profit made as Centuria charges borrowers a margin over the cost of funds from its wholesale lender
- The steady improvement in global securitisation markets has seen the embedded value in long term, lowly geared residential mortgage assets such as the Centuria's improve both in value and marketability
- Value of book at 30 June 2014 \$157.2m (30 June 2013: \$172.7m) secured by \$602.5m of residential property (33.5% weighted average LVR)
- Non-recourse warehouse loan reduced to \$114.2m at 30 June 2014 (30 June 2013: \$135.3m)
- Mortgage assets exceeded liabilities by \$43m as at 30 June 2014 but the magnitude of the non-recourse debt associated with the mortgage book on Centuria's balance sheet is considered disproportionate to the Group's market capitalisation
- Loan facility maturity date extended to 31 August 2015

30 June 2014 – Non-core Assets - continued

Insurance Agency Division – Over Fifty Insurance

- Centuria operates a general insurance, home insurance and motor vehicle insurance agency branded “Over Fifty Insurance”
- The policies are underwritten by Allianz and the Over Fifty Insurance call centre is operated by Allianz.
- Centuria earns commission and agency fees on new and renewing insurance policies.
- Policyholder renewals continue to track at 90% for calendar year
- Divisional contribution to NPAT consistent at \$0.8m for the full year (2013: \$0.7m) but returns considered sub-scale
- The business is in the midst of a detailed strategic review by an external adviser and we expect to be in a position to release our plans for the business shortly

Outlook

Group Outlook

Key Deliverables

- Full year performance in line with expectations
- Underlying NPAT and EPS increase 11% over p.c.p.
- Property Group underlying profit before tax \$5.04m before tax up from \$3.85m p.c.p.
- Non-core assets in strategic review process with announcements expected shortly

Strategic Outlook

- Maintain focus on Centuria as a Specialist Investment Manager with emphasis on core divisions – Property and Investment Bonds
- Unlisted property division poised to make strong performance fees coupled with acquisition fees associated with larger purchases
- This division is scheduled to commence conservative investments in redevelopment opportunities in existing portfolio pipeline
- Listed property division planning to list stand-alone, multi-asset REIT on ASX this calendar year providing market conditions remain favourable - this will create a new income stream

Appendicies



General comment on statutory accounts reconciliation

- The “Statutory Accounts” show the consolidated corporate entities including the Benefit Funds which Centuria is required to consolidate under AIFRS
- The “Benefit Funds” reflect the stand alone assets of policyholders
- The “Statutory accounts excluding Benefit Funds” reflect the value and performance of Centuria shareholder funds

Appendix 1:

Income Statement for year ended 30 June 2014



	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
Centuria property funds revenue	15,364	-	15,364
Residential mortgages revenue	13,014	-	13,014
Centuria Life revenue	10,620	-	10,620
Net revenue from Benefit Funds	3,307	3,307	-
Insurance revenue	1,233	-	1,233
Other income	268	-	268
Total Revenue	43,806	3,307	40,499
Finance costs	(10,239)	-	(10,239)
Employee benefits expense	(10,888)	-	(10,888)
Administrative and other expenses	(10,303)	-	(10,303)
Unrealised gain arising from fair value movements of derivative financial instruments	5,007	-	5,007
Net Profit Before Tax	17,383	-	14,076
Income tax	(8,305)	(3,307)	(4,998)
Reported NPAT	9,078	-	9,078

Appendix 2:

Balance Sheet as at 30 June 2014



	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
Assets			
Cash and cash equivalents (Note 1)	13,115	-	13,115
Trade and other receivables (Note 2)	11,004	-	11,004
Financial assets at fair value through profit and loss	285	-	285
Financial assets - Reverse Mortgage Book (Note 3)	170,321	-	170,321
Prepayments	1,421	-	1,421
Investment in associates	668	-	668
Plant and equipment	1,031	-	1,031
Assets in respect of Benefit Funds	411,238	411,238	-
Deferred tax assets	3,838	-	3,838
Income tax receivable	1,399	-	1,399
Intangible assets	53,025	-	53,025
Total Assets	667,345	411,238	256,107

Note 1: Major balances include \$2.4 Corporate, \$3.2m Reverse Mortgage Book, and \$5.9m Centuria Life

Note 2: Major balances include \$1m Centuria Diversified Property Fund loan, \$1.8m receivable from Property Trust and \$4.6m including Seed Capital investment

Note 3: Reverse Mortgage Book at cost \$157.2, plus fair value adjustment of \$13.1m

Appendix 2:

Balance Sheet as at 30 June 2014 (continued)



	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
Liabilities			
Trade and other payables	8,086	-	8,086
Corporate debt	12,000	-	12,000
Derivative financial liabilities - Reverse Mortgage Book	14,967	-	14,967
Borrowings - Reverse Mortgage Book	114,236	-	114,236
Other liabilities	1,082	-	1,082
Liabilities in respect of Benefit Funds	411,238	411,238	-
Provisions	1,185	-	1,185
Total Liabilities	562,794	411,238	151,556
Net Assets	104,551	-	104,551
Equity			
Issued Capital	89,167	-	89,167
Cash flows hedge reserve	(38)	-	(38)
Share-based payments reserve	164	-	164
Profits Reserves	14,491	-	14,491
Retained earnings	767	-	767
Equity attributable to equity holders of the parent	104,551	-	104,551
Total Equity	104,551	-	104,551

Appendix 3:

Cash Flow Statement for year ended 30 June 2014



	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
Cash flows from operating activities			
Interest received	537	-	537
Management fees received ^(Note 1)	23,563	-	23,563
Rent, trust distributions and other income received ^(Note 2)	3,066	-	3,066
Benefit funds net payments	(27,327)	(27,327)	-
Payments to suppliers and employees	(19,349)	-	(19,349)
Income tax paid	(159)	-	(159)
Net cash flows used in operating activities	(19,669)	(27,327)	7,658
Cash flows from investing activities			
Benefit funds net receipts	50,960	50,960	-
Payments for plant and equipment	(784)	-	(784)
Net cash flows provided by investing activities	50,176	50,960	(784)

Note 1: Major balances include \$5.2m of Centuria Life management fees, and \$8.0m of Centuria Property Funds income **Note 2:** Major balances include \$0.6m insurance income, \$0.7m Centuria Property Funds leasing fee

Appendix 3:



Cash Flow Statement for year ended 30 June 2014 (continued)

	Statutory Accounts	Benefit Funds	Statutory Accounts excluding Benefit Funds
	\$'000	\$'000	\$'000
Cash flows from financing activities			
Proceeds from sale of treasury shares	533	-	533
Collections from mortgage holders – Reverse Mortgage Book	28,379	-	28,379
Repayment of borrowings – Reverse Mortgage Book	(21,062)	-	(21,062)
Net dividends and distributions paid	(977)	-	(977)
Interest paid on Reverse Mortgage Book loans	(8,666)	-	(8,666)
Financing costs paid – Corporate	(1,251)	-	(1,251)
Net cash flows used in financing activities	(3,044)	-	(3,044)
Net increase in cash and cash equivalent	27,463	-	27,463
Cash and cash equivalents at the beginning of the period	23,937	14,652	9,285
Cash and cash equivalents at the end of the period	51,400	38,285	13,115

Disclaimer

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