



**CENTURIA CAPITAL LIMITED
AND CONTROLLED ENTITIES**

A.B.N. 22 095 454 336

**INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2015**

Directors' Report

For the six months ended 31 December 2015

The directors of Centuria Capital Limited (the "Company") present the interim financial report of the Company and its controlled entities (the "Group") for the six months ended 31 December 2015.

In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The names of the directors of the Company in office during or since the end of the six months are:

Name	Particulars	Appointment Date
R. W. Dobson	Non-Executive Director and Chairman	28 November 2007
P. J. Done	Non-Executive Director	28 November 2007
J. R. Slater	Non-Executive Director	22 May 2013
J. E. McBain	Executive Director and Chief Executive Officer	10 July 2006
J. C. Huljich	Executive Director	28 November 2007
N. R. Collishaw	Executive Director	27 August 2013

The above named directors held office during the entire six months and up to the date of this report.

Company secretaries

Mr James Lonie was appointed Company Secretary on 14 August 2015. James is a partner in the Sydney office of Holding Redlich solicitors and has extensive financial services experience.

Mr Matthew Coy, former Chief Financial Officer, was appointed Company Secretary in October 2009 and resigned effective 14 August 2015.

Principal activities

The principal activities of the Group during the six months were the marketing and management of investment products, including friendly society investment bonds and property investment funds.

Changes in state of affairs

There was no significant change in the state of affairs of the Group during the half-year.

Directors' Report

For the six months ended 31 December 2015

Operating and Financial Review

The Group recorded a statutory net profit after tax for the six months ended 31 December 2015 (1H16) of \$5.668 million (six months ended 31 December 2014 (1H15): \$7.604 million). Statutory net profit after tax has been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards, which comply with International Financial Reporting Standards.

The statutory net profit after tax includes a number of items that are non-recurring in nature, the table below provides a reconciliation from Statutory Profit to Underlying Profit.

Reconciliation of Statutory Profit to Underlying Profit		
	1H16	1H15
	\$ million	\$ million
Statutory Profit after tax	5.668	7.604
Less non-recurring items:		
Unrealised gain on fair value movements in derivatives	2.597	1.126
Impairment charges in relation to seed capital valuations	(0.598)	(3.137)
Accounting gains on sales of non-core assets	-	5.194
Tax impact of above non-recurring adjustments	(0.779)	(0.955)
Underlying Profit after tax	4.448	5.376

Underlying profit after tax is reported to give information to shareholders that provides a greater understanding of the performance of the Group.

Operational highlights for the respective divisions within the Group for the period were as follows:

Property Funds Management

Profit before tax for 1H16 was \$7.6 million, up 11.8% compared with 1H15 driven by the timing of performance fee recognition and a 25% increase in funds under management since 30 June 2015.

Investment Bonds

Statutory profit before tax for 1H16 was \$3.3 million, compared with a loss before tax of (\$1.0) million in 1H15. The statutory profit before tax includes \$1.7 million (1H15 (\$1.1) million) in relation to the Benefit Funds. Adjusting for this and the seed capital impairment charges, the underlying profit before tax was \$2.2 million (1H15: \$3.3 million).

Reverse Mortgages

The contribution of the reverse mortgage portfolio was impacted by the sale of a substantial portion of the variable rate reverse mortgage portfolio in October 2014.

Directors' Report

For the six months ended 31 December 2015

Dividends

An interim dividend of 2.25 cents per share franked to 100% was declared by the directors on 18 February 2016 in respect of the six months ended 31 December 2015.

Subsequent events

(a) Issue of Performance Rights

On 1 February 2016, the Company issued 1,877,642 Performance Rights under the Centuria Capital Limited Executive Incentive Plan.

Each Performance Right is an entitlement to one ordinary share in the company, subject to satisfaction, or waiver, of the relevant performance condition. The Performance conditions are measured over 3 years from 1 July 2015 to 30 June 2018 and are based on EPS and Key Strategic Goal measures.

The issuance of Performance Rights to Executive Directors was approved at the Company's Annual General Meeting on 25 November 2015.

(b) Sale of Macquarie Park properties

On 28 January 2016, investors in the Centuria Opportunity Fund No 2 fund approved the sale of the properties at 80 Waterloo Road and 16 Byfield Street in Sydney's Macquarie Park for \$101 million. Performance fees of approximately \$9.6 million before tax associated with this sale will be recognised in the second half of this financial year subject to sale completion.

Except for the matters above, no other matter or circumstance has arisen in the interval between 31 December 2015 and the date hereof that has significantly affected or may significantly affect:

- (i) the Group's operations in the current and future financial years; or
- (ii) the results of those operations in current and future financial years; or
- (iii) the Group's state of affairs in current or future financial years.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the six months ended 31 December 2015.

Rounding of amounts to the nearest thousand dollars

The Company is an entity of a kind referred to in ASIC Class Order 98/100, related to the "rounding off" of amounts in the Directors' Report and Interim Financial Report. Amounts in the Directors' Report and Interim Financial Report have been rounded off, in accordance with that Class Order, to the nearest thousand dollars, unless otherwise indicated.

Directors' Report

For the six months ended 31 December 2015

This report is signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a long horizontal stroke.

R.W. Dobson
Chairman

A handwritten signature in black ink, appearing to be 'P.J. Done' in a cursive style.

P.J. Done
Director
Chairman - Audit, Risk Management &
Compliance Committee

Sydney
18 February 2016



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Centuria Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Nigel Virgo

Partner

Sydney

18 February 2016

Condensed consolidated statement of comprehensive income

For the six months ended 31 December 2015

	Note	Six months ended	
		31-Dec-15 \$'000	31-Dec-14 \$'000
Revenue	4(a)	19,586	22,332
Gains on sales of non-core assets	4(b)	-	5,194
		<u>19,586</u>	<u>27,526</u>
Revenue attributable to Benefit Funds	4(c)	14,542	11,402
Total income		34,128	38,928
Finance costs	5	(1,042)	(2,322)
Employee benefits expense		(6,216)	(5,892)
Administration fees		(1,262)	(1,178)
Consulting and professional fees		(1,138)	(1,129)
Other expenses		(3,086)	(2,818)
Impairment of related party receivable		(759)	(4,009)
Unrealised gain arising from fair value movements of derivative financial instruments	10(a)	2,597	1,126
Expenses attributable to Benefit Funds	6	(12,759)	(12,543)
Profit before tax		10,463	10,163
Income tax expense relating to shareholders		(3,013)	(3,700)
Income tax benefit/(expense) relating to Benefit Funds		(1,782)	1,141
Total income tax expense		(4,795)	(2,559)
Profit for the period		5,668	7,604
Other comprehensive income:			
Gain on cash flow hedges taken to equity		-	54
Income tax expense relating to components of other comprehensive income		-	(16)
Other comprehensive income for the year (net of tax)		-	38
Total comprehensive income for the period		5,668	7,642
Profit attributable to:			
Owners of the Company		5,684	7,604
Non-controlling interests		(16)	-
		<u>5,668</u>	<u>7,604</u>
Total comprehensive income attributable to:			
Owners of the Company		5,684	7,642
Non-controlling interests		(16)	-
		<u>5,668</u>	<u>7,642</u>
Earnings per share			
From continuing operations:			
Basic (cents per share)		7.39	9.76
Diluted (cents per share)		7.38	9.64

The consolidated financial statements include the financial results of the Benefit Funds of Centuria Life Limited (refer to Note 1).

The notes on pages 10 to 22 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of financial position**As at 31 December 2015**

	Note	As at	
		31-Dec-15 \$'000	30-Jun-15 \$'000
ASSETS			
Cash and cash equivalents	7	29,015	25,487
Trade and other receivables		19,138	8,619
Assets classified as held for sale		-	1,040
Financial assets at fair value through profit and loss	8	5,265	5,456
Properties held for development		28,081	23,011
Other financial assets	8	45,530	43,754
Prepayments		470	797
Plant and equipment		1,022	1,134
Deferred tax assets		793	819
Income tax receivable		-	1,804
Intangible assets		53,025	53,025
Assets in respect of Benefit Funds	11	378,526	386,401
TOTAL ASSETS		560,865	551,347
LIABILITIES			
Trade and other payables		5,810	6,343
Borrowings	9	34,385	20,912
Income tax payable		1,272	-
Derivative financial liabilities	10(a)	17,244	17,576
Provisions		1,043	1,264
Liabilities in respect of Benefit Funds	11	378,526	386,401
TOTAL LIABILITIES		438,280	432,496
NET ASSETS		122,585	118,851
EQUITY			
Contributed equity		88,057	88,112
Profits reserves		23,557	19,982
Share-based payment reserve		1,014	784
Equity attributable to equity holders of the Company		112,628	108,878
Non-controlling interests		9,957	9,973
TOTAL EQUITY		122,585	118,851

The consolidated financial statements include the financial results of the Benefit Funds of Centuria Life Limited (refer to Note 1).

The notes on pages 10 to 22 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2015

	Contributed equity	Profits reserve	Cash flow hedge reserve	Share- based payment reserve	Attributable to equity holders of the parent	Non- controlling interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014	89,167	14,151	(38)	164	103,444	-	103,444
Profit for the six months	-	7,604	-	-	7,604	-	7,604
Other comprehensive income for the period	-	-	38	-	38	-	38
Total comprehensive income for the period	-	7,604	38	-	7,642	-	7,642
Share-based payment	-	-	-	117	117	-	117
Employee share scheme	283	-	-	-	283	-	283
Dividends paid	-	(1,172)	-	-	(1,172)	-	(1,172)
Balance at 31 December 2014	89,450	20,583	-	281	110,314	-	110,314
Balance at 1 July 2015	88,112	19,982	-	784	108,878	9,973	118,851
Profit for the six months	-	5,684	-	-	5,684	(16)	5,668
Total comprehensive income for the period	-	5,684	-	-	5,684	(16)	5,668
Share-based payment	-	-	-	230	230	-	230
Employee share scheme	57	-	-	-	57	-	57
Dividends paid	-	(2,109)	-	-	(2,109)	-	(2,109)
Share buy-back / shares cancelled	(112)	-	-	-	(112)	-	(112)
Balance at 31 December 2015	88,057	23,557	-	1,014	112,628	9,957	122,585

The consolidated financial statements include the financial results of the Benefit Funds of Centuria Life Limited (refer to Note 1).

The notes on pages 10 to 22 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of cash flows

For the six months ended 31 December 2015

	Six months ended	
	31-Dec-15	31-Dec-14
	\$'000	\$'000
Cash flows from operating activities		
Interest received	374	426
Management fees received	15,623	14,413
Trust distributions and other income received	618	1,809
Benefit Funds net cash used in operating activities	(9,341)	(18,781)
Payments to suppliers and employees	(11,003)	(11,943)
Payments for property held for development	(4,591)	-
Income tax (paid)/received	(662)	(1,438)
Net cash used in operating activities	(8,982)	(15,514)
Cash flows from investing activities		
Benefit Funds net cash provided by investing activities	4,735	64,070
Payments for plant and equipment	(59)	(42)
Acquisition of investments in managed funds	1,040	(16,640)
Net proceeds from sale of insurance subsidiary	(77)	4,873
Net cash provided by investing activities	5,639	52,261
Cash flows from financing activities		
Collections from reverse mortgage holders	1,243	10,505
Repayment of borrowings (reverse mortgages)	(1,065)	(6,867)
Interest paid on reverse mortgage borrowings	(558)	(3,301)
Proceeds from partial sale of reverse mortgage loan portfolio	-	126,566
Repayment of borrowings on sale of reverse mortgages loan portfolio	-	(94,864)
Proceeds from / (repayment of) borrowings (corporate)	10,400	(12,000)
Loans to related entities	(9,025)	-
Payment for share redemptions	(112)	-
Proceeds from borrowings (development)	4,366	-
Dividends paid	(2,109)	(1,172)
Other finance costs paid	(874)	(429)
Net cash provided by financing activities	2,266	18,438
Net (decrease) / increase in cash and cash equivalents	(1,077)	55,185
Cash and cash equivalents at the beginning of the financial year	41,325	51,400
Cash and cash equivalents at 31 December	40,248	106,585
Cash attributable to shareholders	29,015	23,011
Cash attributable to benefit funds	11,233	83,574
	40,248	106,585

The consolidated financial statements include the financial results of the Benefit Funds of Centuria Life Limited (refer to Note 1).

The notes on pages 10 to 22 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements For the six months ended 31 December 2015

1. General information

Centuria Capital Limited (the “Company”) is a public company listed on the Australian Stock Exchange (trading under the symbol CNI), incorporated and operating in Australia. These condensed consolidated interim financial statements (“interim financial statements”) as at and for the six months ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Company is required by AASB 10 *Consolidated Financial Statements* to recognise the assets, liabilities, income, expenses and equity of the Benefit Funds of its subsidiary, Centuria Life Limited (the “Benefit Funds”).

The Company is a for-profit entity and its principal activities are the marketing and management of investment products, including friendly society investment bonds and property investment funds.

2. Basis of preparation

(a) Statement of compliance

These interim financial statements have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by the Company during the period in accordance with the continuous disclosure obligations of the Australian Securities Exchange.

These interim financial statements were authorised for issue by the Company’s Board of Directors on 18 February 2016.

(b) Significant accounting policies

The accounting policies adopted in these interim financial statements are consistent with those applied in the previous financial year. When the presentation or classification of items in the interim financial statements has been amended, comparative amounts are also reclassified, unless it is impractical.

The Group has not elected to adopt any new Australian Accounting Standards that have been issued but are not yet effective.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

(c) Use of judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated financial statements as at and for the year ended 30 June 2015.

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

3. Operating Segments

The Group currently has four reportable segments, reduced from five reportable segments following the sale of the Insurance Agency during the previous financial year. These reportable segments are the divisions used to report to the Group's CEO and Board for the purpose of resource allocation and assessment of performance.

The operations of the reportable segments are:

- Property Funds Management: management of listed and unlisted property funds through Centuria Property Funds Limited and Centuria Strategic Property Limited.
- Investment Bonds: management of the Benefit Funds of Centuria Life Limited and management of the Guardian Over Fifty Friendly Society Limited. The Benefit Funds include a range of financial products, including single and multi-premium investments.
- Reverse Mortgages: management of a reverse mortgage lending portfolio.
- Insurance (prior year only): general, home and contents, motor vehicle and travel insurance agency.
- Corporate: includes returns from investment activities.

The accounting policies of reportable segments are the same as the Group's accounting policies.

Following is an analysis of the Group's revenue and results by reportable segment.

Six months ended 31 December 2015	Property Funds Management	Investment Bonds ⁽ⁱ⁾	Reverse Mortgages ⁽ⁱⁱ⁾	Corporate	Group
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Interest, dividends and distribution revenue	57	90	1,159	443	1,749
Management, performance, sale and other fees	12,848	4,867	-	-	17,715
Commissions, other income and gains	53	29	12	28	122
Total revenue from benefit funds	-	14,542	-	-	14,542
Total segment revenue	12,958	19,528	1,171	471	34,128
Segment profit/(loss) before tax	7,608	3,313	2,468	(3,084)	10,305
Income tax (expense)/benefit	(2,226)	(2,596)	(740)	925	(4,637)
Segment profit/(loss) after tax	5,382	717	1,728	(2,159)	5,668
Additional segment information					
Finance costs	-	161	(953)	(250)	(1,042)
Employee benefits expense	(3,855)	(774)	(87)	(1,501)	(6,216)
Impairment of related party receivable	-	(759)	-	-	(759)

⁽ⁱ⁾ The Investment Bonds segment profit before tax includes \$1.7 million in relation to the Benefit Funds which is fully offset in income tax expense. The segment profit was impacted by the impairment of the seed capital invested in the Income Accumulation Fund (one of the Benefit Funds). The net impact was \$0.6 million.

⁽ⁱⁱ⁾ The segment profit of Reverse Mortgages includes an unrealised gain of \$2.6 million (\$1.8 million after tax) in relation to the fair value movements of derivative financial instruments.

CENTURIA CAPITAL LIMITED AND CONTROLLED ENTITIES

Notes to the condensed consolidated interim financial statements
For the six months ended 31 December 2015

Six months ended 31 December 2014	Property Funds Management	Investment Bonds ⁽ⁱ⁾	Reverse Mortgages ⁽ⁱⁱ⁾	Insurance ⁽ⁱⁱⁱ⁾	Corporate ⁽ⁱⁱⁱ⁾	Group
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Interest, dividends and distribution revenue	29	134	4,032	-	257	4,452
Management, performance, sale and other fees	12,288	4,950	-	-	-	17,238
Commissions, other income and gains	242	29	392	287	4,886	5,836
Total revenue from benefit funds	-	11,402	-	-	-	11,402
Total segment revenue	12,559	16,515	4,424	287	5,143	38,928
Segment profit/(loss) before tax	6,772	(1,010)	2,114	244	2,043	10,163
Income tax (expense)/benefit	(2,036)	829	(634)	(73)	(645)	(2,559)
Segment profit/(loss) after tax	4,736	(181)	1,480	171	1,398	7,604
Additional segment information						
Finance costs	(244)	(137)	(1,222)	-	(719)	(2,322)
Employee benefits expense	(3,925)	(374)	(158)	-	(1,435)	(5,892)
Impairment of related party receivable	-	(4,009)	-	-	-	(4,009)

(i) Loss after tax for the division of \$0.181 million was significantly impacted by the impairment of the seed capital invested in the Income Accumulation Fund (one of the Benefit Funds). The impact was \$2.196 million.

(ii) The Reverse Mortgages segment result was impacted by the portfolio sale in October 2014 (refer to Note 4(b)).

(iii) The Insurance segment result was impacted by the sale of the Over Fifty Insurance Pty Ltd in October 2014 (refer to Note 4(b)). The Corporate segment result includes the gain on sale of the subsidiary.

4. Revenue

(a) Group revenue (excluding Benefit Funds)

	Six months ended	
	31-Dec-15	31-Dec-14
	\$'000	\$'000
Management fees from property funds	4,800	4,921
Sales fees from property funds	1,138	2,027
Incentive fees from property funds	6,000	4,439
Acquisition fees from property funds	910	901
Management fees from Benefit Funds	4,867	4,950
Interest revenue - from reverse mortgages	1,149	3,993
Interest revenue - from other sources	372	426
Distribution revenue	228	33
Commission received	-	287
Other income	122	355
	19,586	22,332

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

(b) Gains on sale of non-core assets

	Six months ended	
	31-Dec-15	31-Dec-14
	\$'000	\$'000
Gain on sale of Over Fifty Insurance Pty Ltd	-	4,873
Gain on sale of reverse mortgage loan portfolio	-	321
	-	5,194

In October 2014, the Company announced:

- the sale of its subsidiary, Over Fifty Insurance Pty Ltd for \$5.2 million; and
- the sale of a large portion of its reverse mortgage portfolio, releasing \$31.7 million cash to the Group (before transaction costs and taxation). The Group sold its variable rate reverse mortgages with a balance of \$124.4 million and retained a \$27.0 million portfolio of fixed rate reverse mortgages.

Both of these capital transactions were part of Centuria's long-stated strategic objectives to monetise non-core assets and promote greater clarity of Centuria's market positioning as a specialist investment manager.

(c) Benefit Funds revenue

<u>Income</u>	Six months ended	
	31-Dec-15	31-Dec-14
	\$'000	\$'000
Interest and dividends	8,489	5,629
Realised gains	561	604
Unrealised gains	2,608	2,719
Applications from capital guaranteed funds	2,884	2,450
	14,542	11,402

5. Finance costs

	Six months ended	
	31-Dec-15	31-Dec-14
	\$'000	\$'000
Corporate working capital facility	229	426
Reverse mortgage facility	953	2,765
Unwinding of discount on non-current related party receivable	(161)	(872)
Other finance costs	21	3
Gain on derivatives in fair value hedges	(1,810)	(4,781)
Loss on financial assets in fair value hedges	1,810	4,781
	1,042	2,322

6. Benefit Fund expenses

	Six months ended	
	31-Dec-15	31-Dec-14
	\$'000	\$'000
Redemptions from capital guaranteed funds	25,889	21,144
Management fee expense	3,720	3,940
Bad debts - mortgage loans	216	2,350
Net movement in policyholder liabilities	(17,066)	(14,891)
	12,759	12,543

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

7. Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	As at	
	31-Dec-15 \$'000	30-Jun-15 \$'000
Cash and cash equivalents	40,248	41,325
Attributable to shareholders	29,015	25,487
Attributable to Benefit Fund policyholders	11,233	15,838
	<u>40,248</u>	<u>41,325</u>

Under AASB 107 *Statement of Cash Flows*, the income, expenses, assets and liabilities of the Benefit Funds of Centuria Life Limited are included in the Group's statement of comprehensive income and statement of financial position and statement of cash flows. As a result, the Benefit Funds' cash is included in the Group's assets with a corresponding amount included in liabilities. The shareholders of the Group have no rights over the cash held in the Benefit Funds.

Included in cash and cash equivalents attributable to shareholders is \$10.1 million (30 June 2015: \$9.6 million) relating to amounts held by Centuria Life Limited and Senex Warehouse Trust No.1 which is not readily available for use by the Group.

8. Financial assets

	As at	
	31-Dec-15 \$'000	30-Jun-15 \$'000
Financial assets at fair value through profit and loss		
Unit trusts (non-current asset)	22	26
Unit trusts (related party) (non-current asset)	5,243	5,430
	<u>5,265</u>	<u>5,456</u>
Other financial assets		
Reverse Mortgages at amortised cost ⁽ⁱ⁾	26,458	26,552
Reverse Mortgages (fair value) ⁽ⁱ⁾	19,072	17,202
	<u>45,530</u>	<u>43,754</u>

⁽ⁱ⁾ Whilst some mortgages are likely to be repaid during the next 12 months, Centuria does not control the repayment date and accordingly all amounts are treated as non-current.

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

9. Borrowings

	As at	
	31-Dec-15 \$'000	30-Jun-15 \$'000
Reverse mortgage bill facilities and notes - secured (current)	10,238	11,303
Corporate working capital facility (non-current)	10,400	-
Development facility - secured (non-current)	13,747	9,609
	<u>34,385</u>	<u>20,912</u>

(a) Terms and conditions

The terms and conditions relating to the above facilities are set out below.

(i) Reverse mortgage bill facilities and notes – secured

At reporting date, the Group has \$10.2 million (30 June 2015: \$11.3 million) non-recourse notes on issue to the ANZ, secured over the remaining reverse mortgages held in Senex Warehouse Trust No.1 (a subsidiary of the Group) currently due to mature on 30 September 2016.

The facility limit is \$18.0 million (30 June 2015: \$18.0 million) and is reassessed every 6 months with a view to reducing the facility in line with the reduction in the reverse mortgage book. Under the facility agreement, surplus funds (being mortgages repaid (including interest) less taxes, administration expenses and any hedge payments) are required to be applied against the facility each month.

	As at	
	31-Dec-15 \$'000	30-Jun-15 \$'000
Reverse mortgage bill facilities and notes (secured)	18,000	18,000
Amount used at reporting date	10,238	11,303
Amount unused at reporting date	<u>7,762</u>	<u>6,697</u>

(ii) Corporate working capital facility

The Company has a revolving cash advance facility with National Australia Bank. The facility limit is \$12.0 million, maturing 28 February 2017.

	As at	
	31-Dec-15 \$'000	30-Jun-15 \$'000
Corporate working capital facility	12,000	12,000
Amount used at reporting date	10,400	-
Amount unused at reporting date	<u>1,600</u>	<u>12,000</u>

(iii) Development facility - secured

Centuria Belmont Road Management Pty Limited has entered into a facility agreement with Commonwealth Bank of Australia. The facility is \$38.7 million across three tranches, maturing 31 May 2017. The facility is recourse only to the underlying property assets of the Belmont Road Development Fund.

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

10. Financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

The table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1, 2 and 3 in the period.

Whilst the consolidated results include the assets and liabilities of the Benefit Funds of Centuria Life Limited, these are not included in the table below.

	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
31 December 2015				
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	29,015	29,015
Trade and other receivables	Amortised cost	Not applicable	19,138	19,138
Financial assets at fair value through profit and loss	Fair value	Level 1	5,265	5,265
Reverse mortgages (cost)	Amortised cost	Not applicable	26,458	26,458
Reverse mortgages (fair value)	Fair value	Level 3	19,072	19,072
			98,948	98,948
Financial liabilities				
Trade and other payables	Amortised cost	Not applicable	5,810	5,810
Borrowings	Amortised cost	Not applicable	34,385	34,385
Fixed-for-life interest rate swaps	Fair value	Level 3	17,244	17,244
			57,439	57,439
30 June 2015				
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	25,487	25,487
Trade and other receivables	Amortised cost	Not applicable	8,619	8,619
Assets classified as held for sale	Fair value	Level 2	1,040	1,040
Financial assets at fair value through profit and loss	Fair value	Level 1	5,456	5,456
Reverse mortgages (cost)	Amortised cost	Not applicable	26,552	26,552
Reverse mortgages (fair value)	Fair value	Level 3	17,202	17,202
			84,356	84,356
Financial liabilities				
Trade and other payables	Amortised cost	Not applicable	4,345	4,345
Borrowings	Amortised cost	Not applicable	20,912	20,912
Fixed-for-life interest rate swaps	Fair value	Level 3	17,576	17,576
			42,833	42,833

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

10. Financial instruments (continued)

The Group determines Level 2 fair values for financial assets and liabilities without an active market based on broker quotes.

Level 2 fair values for simple over-the-counter derivatives are also based on broker quotes. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and counterparty where appropriate.

Set out below is a reconciliation of Level 3 fair value movements of financial assets and liabilities.

The Level 3 financial asset held by the Group is the fair value of the residential mortgage receivables attributable to interest rate risk. The Level 3 financial liability held by the Group is the fixed-for-life interest rate swaps. These items are designated in a fair value hedging relationship, with the fair value movements on the swaps, offset by the fair value movements in the mortgage receivables (refer to Note 5). However, as the Group has only designated the fair value movements attributable to interest rate risk in the hedging relationship, any other fair value movements impact the profit and loss directly, such as credit risk movements. Items such as credit risk, cannot be designed in a hedging relationship.

(a) Reconciliation of Level 3 fair value measurements of financial assets and liabilities

	Reverse mortgages fair value \$'000	Fixed-for-life interest rate swaps \$'000	Total \$'000
Six months ended 31 December 2015			
Balance at 1 July 2015	17,202	(17,576)	(374)
Total gains in profit or loss:			
Accrued interest	60	(455)	(395)
Attributable to interest rate risk	1,810	(1,810)	-
Attributable to credit risk		2,597	2,597
Balance at 31 December 2015	19,072	(17,244)	1,828
	Reverse mortgages fair value \$'000	Fixed-for-life interest rate swaps \$'000	Total \$'000
Six months ended 31 December 2014			
Balance at 1 July 2014	13,130	(14,075)	(945)
Total gains in profit or loss:			
Accrued interest		(141)	(141)
Attributable to interest rate risk	4,918	(4,918)	-
Attributable to credit risk	-	1,126	1,126
Balance at 31 December 2014	18,048	(18,008)	40

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

10. Financial instruments (continued)

(b) Significant assumptions used in determining fair value of financial assets and liabilities

The fair value of the 50 year residential mortgage loans and 50 years swaps are calculated using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument and not based on available observable market data due to the illiquid nature of the instruments. Use is made of discounted cash flow analysis using the applicable yield curve out to 15 years, with the yield curve at 15 years employed as the best proxy for subsequent rates due to non-observable market data.

Mortality rates for males and females have been assumed to be consistent with 2013 Life Tables. Mortality improvements of 3% p.a. are assumed starting at age 70. The improvement factor tapers down to 1% p.a. at age 90 and then zero at age 100. Joint life mortality is calculated based on last death for loans with joint borrowers. 50% of residential mortgage loan portfolio consists of joint lives.

11. Assets and liabilities in respect of Benefit Funds

	As at	
	31-Dec-15	30-Jun-15
	\$'000	\$'000
Assets relating to Benefit Fund policyholders are as follows:		
Cash	11,233	15,838
Trade and other receivables	58	11,184
Financial assets at fair value	365,988	357,381
Income tax receivable	1,247	1,998
	378,526	386,401
Liabilities relating to Benefit Fund policyholders are as follows:		
Trade and other payables	13	-
Policyholders' funds ⁽ⁱ⁾	374,264	382,914
Deferred tax liabilities	4,249	3,487
Total liabilities	378,526	386,401

⁽ⁱ⁾ Included within policyholders' funds at 31 December 2015 is \$29.3 million (30 June 2015: \$25.2 million) of reserves of which \$6.2 million (30 June 2015: \$6.2 million) is seed capital repayable to Centuria Life Limited. This seed capital receivable by Centuria Life Limited has been impaired and discounted to present value. The carrying value in the books of Centuria Life Limited (and therefore the Group) at 31 December 2015 is \$2.5 million (30 June 2015: \$3.1 million).

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

12. Related party transactions

(a) Transactions with related parties

As a matter of Board policy, all transactions with directors and director-related entities are conducted on arms-length commercial or employment terms.

During the half-year, the following transactions occurred between the Company and key management personnel:

- Henry Davis York, a related party of Mr. R. Dobson, was paid \$13,175 (1H15: \$738,311) for legal consulting fees.
- Mr. J. R. Slater (personally) and Riviera Capital Pty Ltd, a related party of Mr. Slater, were paid a total of \$67,039 (1H15: 64,000) for consultancy services.

Management fees are charged to related parties in accordance with the respective trust deeds and management agreements.

	Six months ended	
	31-Dec-15	31-Dec-14
	\$'000	\$'000
Centuria Life Limited Benefit Funds	3,770	3,940
Over Fifty Guardian Friendly Society Limited	1,097	1,010
Property Trusts managed by Centuria	12,848	12,288
	17,715	17,238

Terms and conditions of transactions with related parties

Investments in property trusts and Benefit Funds held by certain directors and director-related entities are made on the same terms and conditions as all other persons. Directors and director-related entities receive the same returns on these investments as all other investors and policyholders.

The Company and its related parties entered into transactions, which are insignificant in amount, with directors and their director-related entities which are made in arm's length transactions at normal market prices and on normal commercial terms.

The Group pays some expenses on behalf of related entities and receives a reimbursement for these payments.

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

12. Related party transactions (continued)

(b) Related party balances

The following balances were outstanding at the end of the financial period between the Group and its other related parties:

(i) Trade and other receivables

	As at	
	31-Dec-15 \$'000	30-Jun-15 \$'000
Monthly management fees owing from Benefit Funds	1,217	630
Monthly management fees owing from Property Trusts	2,332	673
Acquisition fee, loan receivable and cost recoveries owing from Centuria 8 Central Avenue Fund No. 2	-	3,534
Receivable from 203 Pacific Highway Fund	2,159	
Receivable from Over Fifty Guardian Friendly Society Limited	171	191
Receivable from Centuria ATP Fund	10,400	-
Distribution receivable from Centuria Metropolitan REIT	110	106
Present value of \$5.8m seed capital investment in Centuria Income Accumulation Fund	2,181	2,779
Short-term loan receivable from Property Trust	-	101
Present value of \$0.37m seed capital investment in Centuria Capital Guaranteed Bond Fund	370	370
	18,940	8,384

(ii) Financial assets carried at fair value through profit or loss

	31 Dec 2015			30 June 2015		
	Fair value \$'000	Units held	Ownership %	Fair value \$'000	Units held	Ownership %
Financial assets held by the Group						
Centuria Opportunity Fund 2	108	141,531	0.69%	146	141,531	0.69%
Centuria Metropolitan REIT	5,078	2,590,837	2.17%	5,231	2,539,382	2.13%
Centuria Diversified Direct Property Fund	-	-	0.00%	-	3,765	0.01%
Centuria Australian Property and Mortgage Bond Fund	1	395	0.03%	1	395	0.03%
Centuria Australian Shares Bond	22	10,000	0.22%	20	10,000	0.22%
Centuria Balanced Bond	16	9,000	0.14%	15	9,000	0.13%
Centuria High Growth Bond	18	10,000	0.27%	17	10,000	0.28%
	<u>5,243</u>			<u>5,430</u>		
Financial assets held by the Benefit Funds						
Centuria Australian Property and Mortgage Bond						
Centuria 8 Australia Avenue Fund	1,313	1,458,635	7.69%	1,307	1,458,635	7.69%
Centuria Balanced Bond						
Centuria Metropolitan REIT	700	357,143	0.30%	736	357,143	0.30%
Centuria Growth Bond Fund						
Centuria Metropolitan REIT	9,289	4,739,200	3.97%	9,763	4,739,200	3.98%
Centuria High Growth Bond Fund						
Centuria Metropolitan REIT	293	150,000	0.13%	-	-	-

Notes to the condensed consolidated interim financial statements

For the six months ended 31 December 2015

12. Related party transactions (continued)

(iii) Assets classified as held for sale

During the previous reporting period, the Company acquired 100% of the Acquisition Units in Centuria 2 Wentworth Street Fund ("the Fund") to seed the Fund and enable the acquisition of the underlying property.

As at 30 June 2015, the Company held 1,040,018 Acquisition Units which were valued at \$1,040,018.

All Acquisition Units in the Fund (except for 18 units to be retained) were redeemed on 1 July 2015.

13. Dividends

	Six months ended			
	31-Dec-15		31-Dec-14	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Recognised amounts				
Final dividend:				
Fully franked to 100%	2.75	2,109	1.50	1,172
	<u>2.75</u>	<u>2,109</u>	<u>1.50</u>	<u>1,172</u>

⁽ⁱ⁾ The Company declared a final dividend in respect of the year ended 30 June 2015 of 2.75 cents fully franked to 100%. The final dividend had a record date of 28 August 2015 and was paid on 18 September 2015.

Notes to the condensed consolidated interim financial statements
For the six months ended 31 December 2015

14. Subsequent events

(a) Issue of Performance Rights

On 1 February 2016, the Company issued 1,877,642 Performance Rights under the Centuria Capital Limited Executive Incentive Plan.

Each Performance Right is an entitlement to one ordinary share in the company, subject to satisfaction, or waiver, of the relevant performance condition. The Performance conditions are measured over 3 years from 1 July 2015 to 30 June 2018 and are based on EPS and Key Strategic Goal measures.

The issuance of Performance Rights to Executive Directors was approved at the Company's Annual General Meeting on 25 November 2015.

(b) Interim Dividend

On 18 February 2016, the Company declared a dividend of 2.25 cents per share franked to 100%. The dividend is expected to be paid on 18 March 2016.

(c) Sale of Macquarie Park properties

On 28 January 2016, investors in the Centuria Opportunity Fund No 2 fund approved the sale of the properties at 80 Waterloo Road and 16 Byfield Street in Sydney's Macquarie Park for \$101 million. Performance fees of approximately \$9.6 million before tax associated with this sale will be recognised in the second half of this financial year subject to sale completion.

Except for the matters above, no other matter or circumstance has arisen in the interval between 31 December 2015 and the date hereof that has significantly affected or may significantly affect:

- (i) the Group's operations in the current and future financial years; or
- (ii) the results of those operations in current and future financial years; or
- (iii) the Group's state of affairs in current or future financial years.

Directors' Declaration

For the six months ended 31 December 2015

In the directors' opinion:

- (a) the condensed consolidated interim financial statements and notes that are set out on pages 5 to 20 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the six months ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

For and on behalf of the Board



R.W. Dobson
Chairman

Sydney
18 February 2016



P.J. Done
Director
Chairman - Audit, Risk Management & Compliance
Committee



Independent auditor's review report to the members of Centuria Capital Limited

We have reviewed the accompanying interim financial report of Centuria Capital Limited (the Company), which comprises the condensed consolidated statement of financial position as at 31 December 2015, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Centuria Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

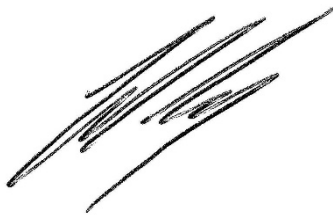
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Centuria Capital Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



KPMG



Nigel Virgo

Partner

Sydney

18 February 2016