

2012 Annual General Meeting

Chairman & Chief Executive Addresses

Centuria Capital Limited

2012 Annual General Meeting

Chairman's Address



Roger Dobson

Chairman
LLB (Hons) LL.M

Well, once again I would like to welcome shareholders to the 2012 Centuria Capital Limited Annual General Meeting, including those shareholders attending by video-link in our Sydney office. We really do appreciate you attending this meeting and showing an interest in Centuria.

Over the past 12 months, our main focus has been threefold: first, continuing to resolve the few remaining legacy issues in the business. Second, keeping our costs or expenses in check, and third, achieving growth. John McBain will say more about these things shortly and I do not wish to steal his thunder. However, there are a couple of things I would like to say.

As I stated in this year's Annual Report, our assessment is that current economic conditions are likely to endure for some time.

What does this mean for us? It means a few things. For example, interest rates are likely to get lower and stay low for some time, making bank deposits less attractive to investors. Bank debt will continue to be relatively hard to get and expensive relative to pre-GFC times. Regulatory reform and associated uncertainty, including with the taxation treatment of superannuation, will continue and equity markets are likely to remain fairly volatile.

Let's look at these in the context of our key strategies for 2013. Those strategies are aiming at delivering growth, particularly in our property funds and friendly society businesses.

We think that some of the market conditions which I have just referred to will be helpful in terms of achieving our growth targets. For example, they will make products which we offer, and propose to offer through our friendly society, more attractive. They will also contribute to the renewed increase in investors' interest in real property.

I do not propose to provide any forecast around our expected earnings for the current financial year. However, our plan is to improve significantly on the 2012 financial year results. In this regard, our Property Funds Management business has started the financial year very well, having entered into a contract to purchase a property in Cannon Hill, Brisbane and being well-progressed in relation to the acquisition of a second property.

So, despite the somewhat uncertain economic times, we believe that your Company continues to be well-placed for sustainable and profitable growth. We have relatively low corporate debt, good strategies in place to achieve growth and an engaged team of people who are able to execute that strategy. With all of that, we look forward to the 2013 financial year and are confident it will be a successful year for the Centuria Capital Group.

Finally, I would like to thank my fellow directors, the senior executive team and all of our staff for all of their hard work during the last year and I now wish to hand the microphone over to our Chief Executive Officer, John McBain.

Centuria Capital Limited

2012 Annual General Meeting

Chief Executive's Address



John McBain

Chief Executive Officer
Dip. Urban Valuation

Good morning everybody,

Let me add my own welcome to that of our Chairman for your attendance today and to also welcome shareholders joining by video-link from Sydney.

Today I want to review our performance for the financial year to June 2012 but just as importantly, set out what we have learned from operating in the current unstable market conditions and how this has influenced our strategies for the year ahead. In addition our Chief Financial Officer, Matthew Coy, will give an overview of our results.

I recently looked over the CEO overview I prepared for our 2008 annual report. At that time I wrote that many of the company reports I read used the serious problems experienced in world investment markets in 2008 as a means of deflecting attention from poor performance and in essence that didn't sit well with us.

In 2008, very few of us would have forecast the financial crisis would have continued until 2012 and when one considers the present state of European and US financial markets, even an optimist would conclude that we are in the middle of a long haul over what is likely to be the next three to five years to get global financial conditions and credit markets in particular back to levels approaching pre-2007 conditions.

The key take-outs since my 2008 statements are;

1. Many of our competitors simply don't exist now.
2. We believe financial markets will be stressed for some time to come and we believe that, whilst difficult, Centuria can find strategies to generate recurring profits in these financial conditions.
3. While we need to adjust settings to allow for an extended difficult financial period, this should be a consideration – not a preoccupation.

This is an important mind-set for our board and executive team and we can assure you that we are working diligently to continually adjust strategies and settings to try and make the prevailing financial conditions work for the company. In other words, simply surviving where others have failed is not in itself meritorious. We need to continue to strive for growth and new opportunities and learn what works in conditions that are new to all of us.

As at June 2012, funds under management throughout the group totalled \$1.9 billion, remaining steady compared to the previous financial period. Managed property funds comprised just over \$1.0 billion of this total, life company assets represented \$712 million with the balance being residential reverse mortgages.

Property funds management is a core business of the group. During the 2012 financial period one of our main strategies was to supplement the normal organic growth of property funds under management by the acquisition of other distressed or available managed property funds. During the period we made a number of bids totalling \$3.9 billion but in all cases were out bid despite the prevailing financial conditions. Accordingly, we have adjusted our strategy to concentrate on increasing the level of property assets acquired organically and the creation of larger property funds.

Pleasingly, this shift in focus is already proving to be successful with terms agreed in respect of new acquisitions totalling around \$80 million for the first half of the 2012/13 period compared with \$58 million in the 2012 year. Property funds management will be a key profit driver in the 2013 year in terms of both upfront fees and building increased annuity income. Underlying earnings from property funds during 2012 were \$3.5 million. This result was lower than the 2011 year due solely to the lower amount of property assets acquired. As I have previously stated, this issue has been addressed and we expect a strong performance from this business unit. I will refer to this later.

Underlying earnings from the operation of the Centuria Life and Guardian Friendly Societies came in at \$7.7 million for the period. Whilst this result was lower than anticipated, it takes into account the one-off impact of more accurate allocation of costs and revenues to the division. Earnings from this business unit are steady and predictable and it continues to be a profitable, core business for the group.

Our investment in residential reverse mortgages continues to build shareholder value. Whilst we are not issuing new mortgages the loan book continues to repay its associated debt faster than the reduction in the book value each year. In other words, not only does it pay the interest to our wholesale funder, but there is continued excess cashflow which is used to reduce our loan principal, thereby increasing our equity.

As at June 2012 we held residential mortgages totalling \$182 million which are funded by loans totalling \$152 million from our wholesale funder. Shareholder equity increased to \$33 million during the period, the loans represent only a 19% loan to value ratio compared to the security properties and there were no portfolio loan losses during the period.

Finally, our Over Fifty Insurance division underlying earnings increased slightly compared to 2011 at \$1.0 million and finished the period with over 25,000 policy holders.

During the period we undertook a structural review of operations which resulted in a 15% reduction in headcount and the relocation of the Melbourne office to more efficient, less costly space in a Centuria Property Fund building. This showed through in an almost \$2 million reduction in corporate costs during the period and we expect to demonstrate further efficiencies in the 2012/13 year.

As a group 2012 was a frustrating year during which I have never seen our executive team and board work harder. Aggravatingly, underlying profit was lower than the previous period principally due to insufficient property acquisitions and an overhead structure aligned to the previous corporate acquisition strategy. We all firmly believe this strategy was correct given the distressed nature of the market but have now reacted quickly to increase traditional organic property acquisitions and reduce costs. Accordingly, neither staff in general nor any member of the senior management team were

allocated performance rights or cash bonuses in respect of the 2012 period thus demonstrating the alignment of interests we believe should exist with shareholders.

In terms of lessons learnt, what we believe works well in the present conditions is an expansion of our traditional activities. As I explained earlier, we are already acquiring property assets at double the rate experienced last year and we have opened a Singapore office with a small staff to funnel Asian and European equity into our Australian property funds. Strong interest is being shown and should negotiations presently underway conclude successfully, I hope to be able to report to you shortly of our first successful offshore equity placement through this office.

We continue to strive to build a new retirement savings product for distribution by our Life Company and we are in the final stages of developing the Centuria Private Bond platform which is currently undergoing market evaluation with initial feedback being surprisingly strong. We look forward to updating you regarding this shortly.

In relation to capital management, you will be aware that we diverted the final dividend to a buy back and cancellation of unmarketable share parcels which will concentrate ownership within the share register, permit small holders to exit without brokerage fees if they so choose and reduce registry administration costs. We believe at the present share price this is in the best interest of shareholders.

Finally I wish to thank our board and in particular our non-executive directors for their support during the year and to congratulate our staff for sticking to the task in turbulent conditions. As our Chairman has indicated, we plan to improve significantly on our 2012 results and pleasingly, our performance to date bears this out.

Thank you for your attendance and your support and I look forward to questions at the appropriate time and meeting as many of you as I can.

Centuria Capital Limited

Annual General Meeting 2012

2012 Financial Year Highlights

Earnings*

- **Underlying FY12 - NPAT \$4.9 million** (FY11: \$6.4 million)
- **Underlying Earnings per share 6.1c** (FY11: 8.2c)
- **Statutory FY12 - NPAT \$2.0 million** (FY11: loss \$2.9 million)
- **Statutory Earnings per share 2.5c** (FY11: loss 3.7c)

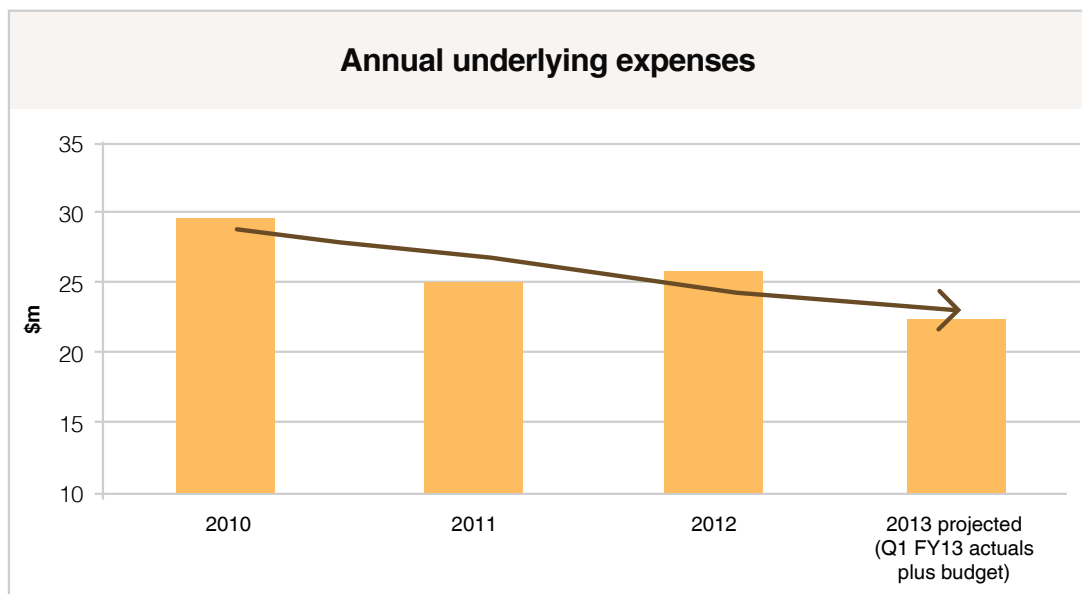
Dividend / Capital Management

- **Interim Dividend - 1.25c per share fully franked** (FY11: 2.5c franked to 30%)
- **Final Dividend - allocated \$1.6 million (equivalent 2.0c per share) to acquisition of unmarketable parcels.**

* Underlying Earnings comprises Centuria Capital Group and excludes Centuria Life Benefit Funds

Continued Reductions in the Group's Expense Base

- Concerted effort to reduce the Group cost-base with FY13 expenses continuing the trend



The above graph:

- Includes:
 - Staff costs
 - Operational, Marketing, Admin costs
 - Working Capital finance costs
 - Consulting and Professional fees
- Excludes:
 - Residential Mortgage division interest expenses
 - Non-underlying expenses

Centuria Capital Limited

Capital Management Remains a Focus

- **Unmarketable Parcel Buy-back to be completed December 2012**
 - Expected to be accretive to Earnings per Share
- **Continued low level of corporate gearing (excluding non-recourse debt)**



- **Strong level of cash reserves maintained**
- **Extension of corporate debt facility to 31 December 2013 with favourable terms**