Preferred Capital Limited

ABN 68 101 938 176

Annual Financial Report

For the year ended 30 June 2011

Not guaranteed by Commonwealth Bank of Australia

CommonwealthBank Group

Contents

Directors' Report

The Directors of Preferred Capital Limited (the 'Company') submit the following report for the year ended 30 June 2011.

Directors

The names of the Directors of the Company in office during the financial year ended 30 June 2011 and until the date of this report were:

G A Petersen
M J Venter
S P Kinsella
I M Saines

Corporate information

Preferred Capital Limited is a company limited by shares that is incorporated and domiciled in Australia.

Its immediate and ultimate parent entity is Commonwealth Bank of Australia (the 'Bank').

The registered office of Preferred Capital Limited is located at Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW 2000, Australia.

Principal activities

The Company's principal activity is to act as a special purpose vehicle for capital raising purposes as part of the Bank's capital management program. Capital was raised through the issue of Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III) under a prospectus dated 3 March 2006. The Company was subsequently admitted to the Official List of the Australian Securities Exchange (ASX) as an ASX Debt Listing on 7 April 2006 and PERLS III are quoted on the ASX. The gross proceeds of $1,166.46 million received by the Company through the issue of PERLS III have been invested in Convertible Notes issued by the Bank's New Zealand branch ('CBA New Zealand').

Review and results of operations

Revenue for the year of $53.68 million (2010: $41.21 million) is comprised primarily of interest income earned on the investment in Convertible Notes issued by CBA New Zealand.

The Company recorded a net profit after tax for the year ended 30 June 2011 of $5.28 million (2010: $1.67 million).

Financial position

At 30 June 2011 the Company held total assets of $1,179.51 million (2010: $1,178.26 million) and net assets of $1.59 million (2010: $1.18 million).

Dividends

PERLS III	2011 $'000	2010 $'000
PERLS III fully franked dividends paid on 6 July 2010 ($1.9261 per share) (6 July 2009: $1.4532 per share)	**11,234**	8,475
PERLS III fully franked dividends paid on 6 October 2010 ($2.0714 per share) (6 October 2009: $1.4715 per share)	**12,081**	8,582
PERLS III fully franked dividends paid on 6 January 2011 ($2.0749 per share) (6 January 2010: $1.6185 per share)	**12,101**	9,440
PERLS III fully franked dividends paid on 6 April 2011 ($2.0822 per share) (6 April 2010: $1.7882 per share)	**12,144**	10,429
	47,560	36,926

Ordinary shares		
Ordinary shares fully franked dividends paid on 6 July 2010 ($78,887.73 per share) (6 July 2009: $nil per share)	**947**	-
Ordinary shares fully franked dividends paid on 6 October 2010 ($105,592.25 per share) (6 October 2009: $nil per share)	**1,267**	-
Ordinary shares fully franked dividends paid on 6 January 2011 ($106,341.26 per share) (6 January 2010: $11,292.12 per share)	**1,276**	136
Ordinary shares fully franked dividends paid on 6 April 2011 ($114,918.57 per share) (6 April 2010: $53,671.63 per share)	**1,379**	644
	4,869	780

On 9 June 2011 the Directors resolved to pay a fully franked dividend of $12.10 million (2010: $11.23 million) in respect of PERLS III ($2.0750 per share) (2010: $1.9261 per share) to be payable on 6 July 2011. The dividends were paid on 6 July 2011. Payment of dividends was subject to certain conditions being met on the date prior to payment as set out in the PERLS III Terms of Issue. All necessary conditions were met and payment was made on 6 July 2011.

On 9 June 2011 the Directors resolved to pay a fully franked dividend of $1.32 million (2010: $0.95 million) to the Bank in respect of ordinary shares ($109,927.84 per share) (2010: $78,887.73 per share) to be payable on 6 July 2011. The dividend was paid on 6 July 2011. Payment of the dividend was subject to certain conditions being met on the date prior to payment as set out in the PERLS III Terms of Issue. All necessary conditions were met and payment was made on 6 July 2011.

Changes in the state of affairs

In the opinions of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the year under review not otherwise disclosed in this report or the financial report.

Environmental regulation

The Company's operations are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory Law.

Likely developments, expected results of operations and business strategy

The Company will continue to act as a vehicle for PERLS III. Expected results are that the Company will continue to earn interest on Convertible Notes, pay dividends on PERLS III in accordance with the PERLS III Terms of Issue and pay dividends on the ordinary shares provided there is a surplus after paying dividends on PERLS III. There is currently no intention to make any further issue of securities.

Directors' and officers' insurance

During or since the financial year the Commonwealth Bank of Australia (the 'Bank'), the ultimate parent entity, has paid an insurance premium in respect of a contract insuring all current and former directors, secretaries, officers or public officers of the Company and any related bodies corporate (as defined in the insurance policy) against wrongful acts committed or allegedly committed including, but not limited to, a liability for negligence or for reasonable costs and expenses incurred in defending proceedings, whether civil or criminal.

In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

Directors' and officers' indemnity

The Constitution of the Company provides for the Company to indemnify each officer on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses ('Liabilities') incurred by the officer as an officer of the Company. The officers of the Company to whom the indemnity presently applies are any person who is, or has been, a director or secretary or senior manager of the Company. The indemnity is enforceable without the officer having to first incur any expense or make any payment, is a continuing obligation and is enforceable by the officer even though the officer may have ceased to be an officer of the Company. The extent of indemnity also applies to Liabilities incurred by the officer of the Company both before and after the adoption of the Constitution.

The officers of the Company also have the benefit of an indemnity, in similar terms to the indemnity in the Constitution of the Company, under a deed poll executed by the Bank.

Remuneration of Directors

The Company does not pay remuneration to its Directors or secretaries and has no employees. The Directors of the Company have been determined to be the key management personnel (KMP) within the scope of AASB 124. The Directors are employees of the Bank and their role as KMP is incidental to their role as an employee of the Bank. All Directors' remuneration is borne by the ultimate parent entity and relates solely to other services performed with respect to their employment by Commonwealth Bank of Australia.

Equity holdings of Directors

Shareholdings

None of the Directors of Preferred Capital Limited hold any shares, options or other interests in the Company. Since the Directors are employees of the Bank, they participate in the Bank's employee shares plan and may otherwise hold shares in the Bank. Details of shares and other interests held by the Directors in the Bank are as follows:

Name	Class (1)	Balance 30 June 2010	Acquired/ Granted as Compensation(1)	Net Change Other(2)	Balance 30 June 2011
G A Petersen	Ordinary	48,271	-	2,829	51,100
	Reward Shares/Rights	76,151	31,690	-	107,841
	Deferred Shares	15,096	-	-	15,096
M J Venter	Ordinary	-	3,311	-	3,311
	Reward Shares/Rights	2,849	-	-	2,849
	Deferred Shares	13,449	4,865	(3,311)	15,003
I M Saines	Ordinary	14,919	-	(13,991)	928
	Reward Shares/Rights	89,997	36,650	-	126,647
	Deferred Shares	34,193	-	(12,653)	21,540
S P Kinsella	Ordinary	-	3,871	-	3,871
	Reward Shares/Rights	7,742	-	(3,871)	3,871
	Deferred Shares	3,288	4,194	-	7,482

(1) Reward Shares/Rights for G A Petersen and I M Saines represent shares granted under the Group Leadership Reward Plan (GLRP) which are subject to performance hurdles. Reward Shares for M J Venter were awarded under the Group Wide Retention Plan (GWRP). Reward shares for S P Kinsella were awarded under the EPP (Employee Participation Plan). Deferred Shares represent the deferred portion of STI received as shares restricted for three years.

(2) 'Net change other' incorporates changes resulting from purchases and sales during the year by Directors and vesting of Reward Shares and Deferred Shares (which became Ordinary shares).

Option holdings

None of the Directors hold any options over shares in the Bank. No Directors received any shares on the exercise of options during the year ended 30 June 2011 (2010: $nil). There were no unissued ordinary shares of the Bank under option to the Directors of the Company at the date of this report (2010: $nil).

Shares Vested during the year

Name	Reward Shares/ Rights and Deferred Shares
G A Petersen	30,986
M J Venter	3,311
S P Kinsella	3,871
I M Saines	12,653

Non-audit services
There were no non-audit services performed during the year by our auditor.

Events subsequent to the balance date
At the date of this report, the Directors of the Company are not aware of any matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Company, the results of those operations or the Company's state of affairs, in subsequent financial years.

Auditor's independence declaration
The Company's auditor, PricewaterhouseCoopers, has provided the Directors with a declaration of its independence, which is attached to the Directors' report.

Rounding of amounts
The amounts contained in the Directors' report and the Financial Report have been rounded to the nearest one thousand dollars unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission.

Signed in accordance with a resolution of Directors.

Michael John Venter
Director
Sydney, NSW

7 September 2011

Auditor's Independence Declaration

Auditor's Independence Declaration
As lead auditor for the audit of Preferred Capital Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Preferred Capital Limited during the period.

Stuart Scoular
Partner
PricewaterhouseCoopers

Sydney
7 September 2011

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Preferred Capital Limited

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Preferred Capital Limited
Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	**2011 $'000**	2010 $'000
Revenue from continuing operations	3	**53,681**	41,205
Expenses	3	**(48,383)**	(39,536)
Profit before income tax		**5,298**	1,669
Income tax expense	4	**(23)**	(2)
Net profit for the year after tax		**5,275**	1,667
Other comprehensive income		**-**	-
Total comprehensive income attributable to owners of Preferred Capital Limited		**5,275**	1,667

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Preferred Capital Limited
Statement of Financial Position

As at 30 June 2011

	Notes	**2011 $'000**	2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**364**	292
Receivables	6	**12,686**	11,510
Total current assets		**13,050**	11,802
Non-current assets			
Loans and other receivables	7	**1,166,456**	1,166,456
Total non-current assets		**1,166,456**	1,166,456
Total assets		**1,179,506**	1,178,258
LIABILITIES			
Current liabilities			
Payables	8	**11,437**	10,616
Income tax liabilities		**23**	2
Total current liabilities		**11,460**	10,618
Non-current liabilities			
Interest bearing liabilities	9	**1,166,456**	1,166,456
Total non-current liabilities		**1,166,456**	1,166,456
Total liabilities		**1,177,916**	1,177,074
Net assets		**1,590**	1,184
Shareholders' equity			
Share capital*	10	**-**	-
Retained profits	11	**1,590**	1,184
Total equity attributable to owners		**1,590**	1,184

* Share capital of $12 has been rounded to nil.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Preferred Capital Limited
Statement of Changes in Equity

For the year ended 30 June 2011

	Notes	Share Capital* $'000	Retained Earnings $'000	Total Shareholder's Equity $'000
Balance at 1 July 2009		-	**297**	**297**
Net profit for the year after tax		-	1,667	1,667
Other comprehensive income		-	-	-
Transactions with owners in their capacity as owners:				
Dividends paid	12	-	(780)	(780)
Balance at 30 June 2010		**-**	**1,184**	**1,184**
Net profit for the year after tax		**-**	**5,275**	**5,275**
Other comprehensive income		-	-	-
Transactions with owners in their capacity as owners:				
Dividends paid	**12**	**-**	**(4,869)**	**(4,869)**
Balance at 30 June 2011		**-**	**1,590**	**1,590**

* Share capital of $12 has been rounded to nil.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Preferred Capital Limited
Statement of Cash Flows

For the year ended 30 June 2011

	Notes	**2011 $'000**	2010 $'000
Cash flows from operating activities			
Interest income received		**52,505**	37,718
Interest expense paid		**(47,559)**	(36,927)
Other expenses paid		**(3)**	(3)
Income tax paid		**(2)**	(3)
Net cash flows from operating activities	18(b)	**4,941**	785
Cash flows from investing activities		**-**	-
Net cash flows from investing activities		**-**	-
Cash flows from financing activities			
Dividends paid		**(4,869)**	(780)
Net cash flows from financing activities		**(4,869)**	(780)
Net increase in cash and cash equivalents held		**72**	5
Cash and cash equivalents at the beginning of the year		**292**	287
Cash and cash equivalents at the end of the year	18(a)	**364**	292

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Preferred Capital Limited

Notes to the Financial Statements

For the year ended 30 June 2011

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Notes to the Financial Statements

For the year ended 30 June 2011

Note 1. Summary of significant accounting policies

General information

The general purpose Financial Report ('Financial Report') of Preferred Capital Limited (the 'Company') for the year ended 30 June 2011, was approved and authorised for issue by the Board of Directors on 7 September 2011. The Directors have the power to amend and re-issue the financial statements. These financial statements are the individual financial statements of the Company as an individual entity.

The Company is incorporated and domiciled in Australia. It is a company limited by shares. The address of its registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW 2000, Australia.

The ultimate parent entity is Commonwealth Bank of Australia (the 'Bank').

The Company's principal activity is to act as a special purpose vehicle for capital raising purposes as part of the Bank's capital management program. It was used to raise capital through the issue of Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III) under a prospectus dated 3 March 2006. The gross proceeds of $1.17 billion received by the Company through the issue of PERLS III have been invested in Convertible Notes issued by the Bank's New Zealand branch ('CBA New Zealand').

The functional and presentational currency of the Company has been determined to be Australian Dollars (AUD) as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Company.

The principal accounting policies adopted in the presentation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Bases of accounting

The Financial Statements for the year ended 30 June 2011 have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards ('AASs'), other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the Urgent Issues Group Interpretations.

The basis of the AASs are the International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). As a result of complying with AASs, the Financial Statements comply with IFRS and Interpretations as issued by the International Financial Reporting Interpretations Committee ('IFRIC').

The preparation of the Financial Statements in conformity with AASs requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements. Further information is included in Note 1(m) Critical Accounting Policies and Estimates. The use of available information and the application of judgement are inherent in the formation of estimates. Actual results could differ from these estimates.

(b) Basis of preparation

The Financial Statements are prepared on the basis of historical cost convention except for certain assets and liabilities which, as noted below, are at fair value.

During the year, the Company adopted the following revised accounting standards:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project. These amendments are of a technical or clarifying nature and do not have a significant impact on the Company.
- Revised AASB 107 Statement of Cash Flows which clarifies that only expenditure resulting in a recognised asset in the statement of financial position can be categorised as a cash flow from investing activities. The initial application of this revised standard has not significantly impacted the financial results of the Company.
- Revised AASB 101 Presentation of Financial Statements which clarifies how to classify the liability component of a convertible instrument. The initial application of this revised standard has not significantly impacted the financial results of the Company.

There were no other new standards, interpretations or amendments that were required to be adopted by the Company during the financial year commencing 1 July 2010.

The Company did not early adopt any standards, interpretations or amendments during the financial year commencing 1 July 2010.

The following standards and amendments will be applied for the financial year commencing 1 July 2011. They are not expected to significantly impact on the Company's financial results, or to result in significant changes to the Company's accounting policies:

- Revised AASB 124 Related Party Disclosures.
- AASB 2009-12 Amendments to Australian Accounting Standards.
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 and AASB 134, and Interpretation 13].
- AASB 2010-5 Amendments to Australian Accounting Standards, which makes editorial amendments to a number of standards.
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets.
- AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 1054 Additional Australian Disclosures.

AASB101 Presentation of Financial Statements has been amended. The amendment is effective for annual periods beginning on or after 1 July 2012, with early adoption permitted. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the Statement of Comprehensive Income.

The key changes include:

- Items are presented separately, in two groups in OCI, based on whether or not they may be recycled to profit or loss in the future.
- Where OCI items have been presented before tax, the amount of tax related to the two groups will need to be shown.

The following standard is not mandatory until accounting periods beginning on or after 1 January 2013 but early adoption is permitted:

- AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010). AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It replaces the corresponding requirements in AASB 139 Financial Instruments: Recognition and Measurement, and will introduce significant changes in the way the Company accounts for financial instruments. Key changes include:
  - Financial assets: will be classified as either at amortised cost, or at fair value through Income Statement, except for certain non-trading equity investments, which may be classified as at fair value through Other Comprehensive Income;
  - Financial liabilities: Gains and losses on own credit arising from financial liabilities designated as at fair value through Income Statement, will be excluded from the Income Statement and instead taken to Other Comprehensive Income.

  In addition, by January 2013 it is expected that IFRS 9 Financial Instruments will include new requirements for impairment, offsetting and hedge accounting. Key changes include:
  - Impairment: Both expected losses and incurred losses will be reflected in impairment allowances for loans and advances;
  - Hedge accounting: will be more closely aligned with financial risk management;
  - Offsetting: The conditions for offsetting financial assets and financial liabilities in the Statement of Financial Position will be clarified.
- AASB 13 Fair Value Measurement which is not expected to significantly impact on the Company.

The following standard is not mandatory until accounting periods beginning on or after 1 July 2013 but early adoption is permitted:

- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from

Reduced Disclosure Requirements. This is the first stage of revisions to the differential reporting framework in Australia, and introduces a two-tier differential reporting regime that applies to all entities that prepare General Purpose Financial Statements. AASB1053 identifies the types of entities that must apply full IFRS as adopted in Australia (Tier 1) in preparing General Purpose Financial Statements, including for-profit private sector entities that have public accountability. Other entities, including for-profit private sector entities that do not have public accountability and all not-for-profit private sector entities, must apply as a minimum the Reduced Reporting Requirements (Tier 2) in preparing General Purpose Financial Statements. On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare General Purpose Financial Statements. Preferred Capital Limited has public accountability as it is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

The following standard is not mandatory until accounting periods beginning on or after 1 July 2013, and early adoption is not permitted:

- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements. This standard amends AASB 124 Related Party Disclosures by removing the requirement to disclose information about individual key management personnel, only aggregate disclosures will be required. It is not expected to have any significant impact on the Company.

There are no other standards, amendments or interpretations available for early adoption at 1 July 2010 that will be applicable to the Company.

In addition to the above, the IASB plans to issue new standards on Leases, Insurance Contracts and Revenue recognition. The Company will consider the financial impacts of these new standards as they are finalised.

(c) Cash and cash equivalents

Cash and cash equivalents include cash at bank and money at short call with an original maturity of three months or less. They are brought to account at the face value or the gross value of outstanding balance.

(d) Revenue recognition

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The source of revenue is interest income and Top-up payments from the ultimate parent entity.

Interest income

Interest income is recognised on an accruals basis using the effective interest method.

Top-up payments

Where the Company does not receive sufficient funds from the Convertible Notes to cover payments required on PERLS III, the Bank has the right under the 'Top-up Deed', in its absolute discretion to make a Top-up payment to cover the shortfall. Top-up payments are recognised only when approved by the Bank.

(e) Financial instruments

Financial assets and financial liabilities which are not at fair value are carried at cost or amortised cost.

Under AASB 132 and AASB 139, financial instruments are required to be classified into certain categories which determine the accounting treatment of the item. The company has adopted the following categories:

- Loans and other receivables
- Liabilities at amortised cost
- Equity

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party and the risks and rewards have substantially been transferred.

(f) Loans and other receivables

Loans and other receivables are primarily financial assets with fixed and determinable payments that are not quoted on an active market and include Convertible Notes issued by CBA New Zealand. These amounts are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using the effective interest method.

(g) Provisions for impairment

Loans and other receivables

The Company assesses at each balance date whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and other receivables has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the expected future cash flows, discounted at the financial assets' original effective interest rate. Short-term balances are not discounted.

Loans and other receivables are presented net of provisions for impairment.

(h) Income tax

Income tax on the profit for the period comprises current and deferred tax.

Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Taxation of Financial Arrangements ('TOFA')

The new tax regime for financial instruments TOFA began to apply to the Company from 1 July 2010. The regime allows a closer alignment of the tax and accounting recognition and measurement of financial arrangements and their related flows. The Company does not have any financial arrangements that are subject to TOFA, and so it is not impacted by this change.

(i) Provisions

A provision is recognised in the Statement of Financial Position when the Company has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provision for dividend

A provision for dividend payable is recognised when dividends are determined in the period in which they are approved by the Company's Directors and all terms and conditions set out in the PERLS III Terms of Issue are met.

The dividends payable to PERLS III holders are expected to be primarily sourced from interest paid on Convertible Notes issued by CBA New Zealand.

(j) Interest bearing liabilities

Interest bearing liabilities include PERLS III issued by the Company. PERLS III are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using the effective interest method.

PERLS III may be exchanged for ordinary shares in the Bank, Bank PERLS III preference shares or a combination of Bank ordinary shares and cash after 6 April 2016, under certain circumstances as set out in the PERLS III Terms of Issue. PERLS III offers a non cumulative floating rate return. Dividends are reset quarterly commencing on 6 April 2006 and are payable quarterly in arrears.

(k) Payables and other liabilities

Payables and other liabilities include interest payable which is recognised on a time proportion basis using the effective interest rate method.

(l) Shareholders' equity

Ordinary share capital is the amount of paid up capital from the issue of ordinary shares and is classified as equity. Redeemable preference shares are classified as liabilities.

Retained profits are derived from revenue profits and are available for dividend.

(m) Critical accounting policies and estimates

These notes to the financial statements contain a summary of the Company's significant accounting policies. Certain of these policies are considered to be more important in the determination of the Company's financial position, since they may require management to make difficult, complex or subjective judgements, some of which may relate to matters that are inherently uncertain. During the year management have not been required to make any decisions of this nature.

(n) Rounding of amounts

The amounts contained in the Director's report and the Financial Report have been rounded to the nearest one thousand dollars unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission.

Note 2. Segment information

The Company operates predominantly in one geographical area, Australia, and operates predominantly in one business segment. The Company's primary activity is to invest funds raised from the issue of PERLS III in Convertible Notes issued by CBA New Zealand. The Company is domiciled in Australia.

Note 3. Revenue and expenses

	30 June 2011 $'000	30 June 2010 $'000
Revenue from continuing operations		
Interest income from ultimate parent entity	**79**	11
Interest income from CBA New Zealand convertible notes	**53,602**	40,962
Top-up payment from ultimate parent entity	**-**	232
Total revenue from continuing operations	**53,681**	41,205
Expenses		
Interest paid	**48,380**	39,533
Other operational expenses	**3**	3
Total expenses	**48,383**	39,536

Note 4. Income tax

	30 June 2011 $'000	30 June 2010 $'000
The major component of income tax expense is:		
Statement of Comprehensive Income		
Current income tax		
Current tax liability	**23**	2
Income tax expense reported in Statement of Comprehensive Income	**23**	2
Reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate:		
Profit from ordinary activities before income tax expense	**5,298**	1,669
Prima facie tax on profit from ordinary activities at 30% (2010: 30%)	**1,589**	501
Non-assessable interest income	**(16,080)**	(12,289)
Non-assessable Top-up Payment	**-**	(70)
Non-deductible interest expense	**14,514**	11,860
Dividend income from CBA New Zealand and attached franking credits	**22,469**	16,160
Franking credits	**(22,469)**	(16,160)
Total income tax expense	**23**	2
Franking credits available for the subsequent financial years based on a tax rate of 30% (2010: 30%)*	**122**	120

*The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for the payment of tax, franking debits on dividends paid and franking credits on dividends received.

The impact on the franking credit account of the franked dividend of $1.32 million (2010: $0.95 million) determined by the Directors before the financial statements were issued, but not recognised as distributions to equity holders in the reporting period, will be a decrease of the balance of the franking credit account by $565,000 (2010: $406,000).

Note 5. Current assets – Cash and cash equivalents

	30 June 2011 $'000	30 June 2010 $'000
Cash at bank with ultimate parent entity	**364**	292

Note 6. Current assets – Receivables

	30 June 2011 $'000	30 June 2010 $'000
Interest receivable from ultimate parent entity	**2**	1
Interest receivable from CBA New Zealand Convertible Notes	**12,684**	11,509
	12,686	11,510

Note 7. Non-current assets – Loans and other receivables

	30 June 2011 $'000	30 June 2010 $'000
Investment in CBA New Zealand Convertible Notes	**1,166,456**	1,166,456

Note 8. Current liabilities – Payables

	30 June 2011 $'000	30 June 2010 $'000
Interest payable to PERLS III investors	**11,437**	10,616

The payment of interest to PERLS III investors is subject to the existence of certain conditions on the date prior to payment as set out in the PERLS III Terms of Issue.

Note 9. Non-current liabilities – Interest bearing liabilities

	30 June 2011 $'000	30 June 2010 $'000
PERLS III issued to investors	**1,166,456**	1,166,456

PERLS III may be exchanged for ordinary shares in the Bank, Bank PERLS III Preference shares or a combination of Bank ordinary shares and cash after 6 April 2016 and, under certain circumstances as set out in the PERLS III Terms of Issue. PERLS III offers a non-cumulative floating rate return. Dividends are reset quarterly and are payable quarterly in arrears.

Note 10. Share capital

	30 June 2011 Shares	30 June 2010 Shares	**30 June 2011 $'000**	30 June 2010 $'000
Authorised, issued and paid up capital*	**12**	12	**-**	-

* 12 ordinary shares of $1 each rounded down to nil (2010: 12 ordinary shares of $1 each rounded down to nil).

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of share capital.

Note 11. Retained profits

	30 June 2011 $'000	30 June 2010 $'000
Retained profits at the beginning of the financial year	**1,184**	297
Net profit for the year	**5,275**	1,667
Dividends paid	**(4,869)**	(780)
Retained profits at the end of the financial year	**1,590**	1,184

Note 12. Dividends

		30 June 2011 $'000	30 June 2010 $'000
Ordinary shares fully franked dividends paid on 6 July 2010	($78,887.73 per share) (6 July 2009: $nil per share)	**947**	-
Ordinary shares fully franked dividends paid on 6 October 2010	($105,592.25 per share) (6 October 2009: $nil per share)	**1,267**	-
Ordinary shares fully franked dividends paid on 6 January 2011	($106,341.26 per share) (6 January 2010: $11,292.12 per share)	**1,276**	136
Ordinary shares fully franked dividends paid on 6 April 2011	($114,918.57 per share) (6 April 2010: $53,671.63 per share)	**1,379**	644
		4,869	780

Note 13. Financial risk management

Financial risk management is the process of identifying, assessing, reporting and taking action to mitigate risks. The objective is to achieve sustainable earnings and growth potential for investors. The Company may have an exposure to market, liquidity and credit risks. These risks are monitored and reported on a regular basis to key management personnel and ultimately the Board of Directors of the Company.

Market risk

Market risk is the risk that the future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and other prices.

The Company's primary source of income comes from interest payment from the investment in the Convertible Notes issued by CBA New Zealand branch. The Convertible Notes are an Australian Dollar denominated, unquoted debt instrument. Hence the Company is not exposed to foreign exchange rate or price risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows of financial instruments.

The interest on Convertible Notes and the dividend rate on PERLS III are calculated with reference to the 90 day Australian Bank Bill Swap Rate ('BBSW') and interest rate risk arising as a result of any movement in BBSW is generally passed on to the investors.

However if BBSW falls below 3.39%, the Company will not receive sufficient funds from the Convertible Notes to cover payments required on PERLS III. In such a situation, the interest rate risk is managed by requiring payments under the 'Top-up Deed' whereby the Bank will make a payment to meet any shortfall. The 'Top-up Deed' payment will only be activated if the Board of the Bank (or a committee of the Board of the Bank) declares or otherwise resolves to make the Top-up Payment and if none of the conditions described in the PERLS III Terms of Issue exist.

At 30 June 2011 if Australian Bank Bill Swap interest rates changed by +/- 1% (2010: +/- 1%) from the year end rates with all the other variables held constant, net profit and equity attributable to members of the Company would have been affected by $3.52 million gains/$3.48 million losses (2010: $5.61 million gains/$1.37 million losses).

Liquidity risk

Balance Sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due.

The Company raised its funding through the issuance of PERLS III. Dividends payable to PERLS III holders will be sourced from interest paid on the Convertible Notes issued by the Bank through its New Zealand branch. Dividends on PERLS III will only be paid if the Bank pays interest on the Convertible Notes in accordance with the Convertible Note Deed. Interest will only be paid if the Board of the Bank declares or otherwise resolves to pay the interest and if no Deferral Condition exists. The Company has an obligation to pay dividends to PERLS III holders only to the extent that the Bank pays interest on the Convertible Notes.

Maturity analysis of financial liabilities

2011	0-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Financial liabilities					
PERLS III	**-**	**-**	**-**	**1,166,456**	**1,166,456**
Payables and income tax liabilities	**11,437**	**23**	**-**	**-**	**11,460**
Total	**11,437**	**23**	**-**	**1,166,456**	**1,177,916**
2010					
Financial liabilities					
PERLS III	-	-	-	1,166,456	1,166,456
Payables and income tax liabilites	10,616	2	-	-	10,618
Total	10,616	2	-	1,166,456	1,177,074

Credit risk
Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations.

The Company's exposure to credit risk arises from the creditworthiness of the Bank. The Bank is a diversified financial services conglomerate with a credit rating of AA by Standard & Poor's and Aa2 by Moody's for long term debt.

The maximum credit risk the Company is exposed to at any given time is equal to the carrying value of assets in the Statement of Financial Position. The carrying value of total assets as at 30 June 2011 is $1,179.51 million (2010: $1,178.26 million).

This exposure to the credit worthiness of the Bank is passed to investors in PERLS III. The Company has no obligation to make payments under PERLS III if payment is not received on the Convertible Notes.

Concentration Risk
Concentration of credit risk arises when there is undue exposure to any single asset or counter party. The funds raised by the company are used to support the business activities of the Group. The company has assessed that there are no significant concentrations of credit risk.

Note 14. Disclosures about the fair value of financial instruments

These amounts represent estimates of the fair values of the Company's financial assets and financial liabilities at a point in time based on the following valuation methods and assumptions. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market prices are used to determine fair value, where an active market (such as a recognised stock exchange) exists, as it is the best evidence of the fair value of a financial instrument (Level 1 as per AASB7 Financial Instruments: Disclosures). For financial instruments where no market price is available, the fair values presented in the following table have been estimated using present value or other estimation and valuation techniques based on market conditions existing at reporting dates (Level 2 as per AASB7 Financial Instruments: Disclosures).

It is the Company's intent to hold its financial instruments to maturity and therefore it is not probable that the net fair values shown would be realised.

	Carrying value $'000 30 June 2011	**Fair value $'000 30 June 2011**	Carrying value $'000 30 June 2010	Fair value $'000 30 June 2010
Financial assets				
Cash and cash equivalents	**364**	**364**	292	292
Current assets - Receivables	**12,686**	**12,686**	11,510	11,510
Non-current assets - Loans and other receivables	**1,166,456**	**1,142,115**	1,166,456	1,008,586
Financial liabilities				
Payables and income tax liabilities	**11,460**	**11,460**	10,618	10,618
Interest bearing liabilities	**1,166,456**	**1,100,927**	1,166,456	966,768

Note 15. Remuneration of auditors

Fees for services rendered by the Company's auditor in relation to the statutory audit are borne by the ultimate parent entity.

Note 16. Directors and key management personnel

The Directors of the Company have been determined to be key management personnel (KMP) within the scope of AASB 124: Related Party Disclosures. The names of the persons who were Directors of Preferred Capital Limited at any time during the financial year were as follows:

G A Petersen

M J Venter

S P Kinsella

I M Saines

There were no changes to key management personnel after the reporting date and the date the financial report was authorised for issue.

Compensation of Directors and key management personnel

The Company does not pay remuneration to its Directors or secretaries and has no employees. The Directors are employees of the Bank and their role as KMP is incidental to their role as an employee of the Bank. All Directors' remuneration is borne by the ultimate parent entity and relates solely to other services performed with respect to their employment by Commonwealth Bank of Australia. None of the Directors of Preferred Capital Limited hold any shares, options or other interests in the Company.

Loans and other transactions

Any loans to Directors and KMP or their related parties are made by the ultimate parent entity, a provider of finance on terms and conditions that apply to similar transactions with other Directors and key management personnel of the parent entity.

There are no other transactions with Directors and KMP or their related parties.

Note 17. Related party transactions

Ultimate parent entity

The ultimate parent entity is Commonwealth Bank of Australia.

Transactions with related parties

The following transactions occurred with related parties:

	30 June 2011 $'000	30 June 2010 $'000
Interest revenue		
Interest income from ultimate parent entity	**79**	11
Interest income from CBA New Zealand	**53,602**	40,962
	53,681	40,973
Top-up payment from ultimate parent entity	**-**	232
Outstanding balances with related parties		
Investments		
Investment in CBA New Zealand Convertible Notes	**1,166,456**	1,166,456
Cash and cash equivalents		
Bank account with ultimate parent entity	**364**	292
	364	292
Receivables		
Interest receivable from CBA New Zealand	**12,684**	11,509
Interest receivable from ultimate parent entity	**2**	1
	12,686	11,510

All transactions with related parties in the Company were made on normal commercial terms and conditions at market rates, except that there are no fixed terms for the repayment of loans between the parties.

Note 18. Notes to the Statement of Cash Flows

a) Reconciliation of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash at bank and money at short call.

	30 June 2011 $'000	30 June 2010 $'000
Cash and cash equivalents at the end of year	**364**	292

b) Reconciliation of net profit after income tax to net cash inflow from operating activities

	30 June 2011 $'000	30 June 2010 $'000
Profit from ordinary activities after income tax	**5,275**	1,667
Changes in assets and liabilities		
(Increase) in receivables	**(1,176)**	(3,487)
Increase in payables	**821**	2,606
Increase/(Decrease) in income tax liabilities	**21**	(1)
Net cash inflow from operating activities	**4,941**	785

Note 19. Capital management

The Company's capital management objectives are to ensure sufficient capital resources to support the Company's business and operational requirements and safeguard the Company's ability to continue as a going concern. Periodic reviews of the entity's capital requirements are performed to ensure the Company is meeting its objectives.

The Company's capital is defined as 'equity' as shown in the Statement of Financial Position plus net debt and is not subject to any external capital requirements.

Note 20. Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 (2010: $nil). CBA New Zealand and the Company entered into an agreement under which, in consideration for the Company agreeing to subscribe for Convertible Notes, CBA New Zealand agrees to pay all of the Company's upfront costs and expenses in connection with the offer and the issue of PERLS III including, without limitation, all legal, accounting, share registry, listing, printing, advertising and other expenses.

Note 21. Events after reporting date

The Directors are not aware of any matter or circumstance that has occurred since the end of the year that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Directors' Declaration

30 June 2011

In accordance with a resolution of the Directors of Preferred Capital Limited (the 'Company'), the Directors declare that:

(a) the financial statements for the financial year ended 30 June 2011 in relation to the Company ('Financial Statements'), and the notes to the Financial Statements, are in accordance with the *Corporations Act 2001*, including:

(i) s 296 (which requires the financial report, including the Financial Statements and the notes to the Financial Statements, to comply with the accounting standards); and

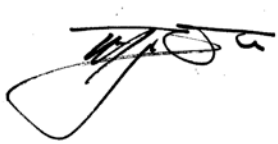
(ii) s 297 (which requires the Financial Statements, and the notes to the Financial Statements, to give a true and fair view of the financial position and performance of the Company);

(b) in compliance with the accounting standards, the notes to the Financial Statements include an explicit and unreserved statement of compliance with international financial reporting standards (see Note 1(a));

(c) in the opinion of the Directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(d) the Directors have been given the declarations required under s 295A of the *Corporations Act 2001,* in respect of the financial year ended 30 June 2011.

Signed in accordance with a resolution of the Directors.



Michael John Venter
Director

Sydney, NSW
7 September 2011

Independent auditor's report to the members of Preferred Capital Limited

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Report on the financial report

We have audited the accompanying financial report of Preferred Capital Limited (the 'Company'), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Auditor's opinion
In our opinion:

(a) the financial report of Preferred Capital Limited is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the Company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Matters relating to electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Preferred Capital Limited (the company) for the year ended 30 June 2011 included on Commonwealth Bank of Australia's web site. The company's directors are responsible for the integrity of the Commonwealth Bank of Australia's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm this information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Stuart Scoular
Partner
PricewaterhouseCoopers

Sydney
7 September 2011

Notes

Not guaranteed by Commonwealth Bank of Australia

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