

Preferred Capital Limited

ABN 68 101 938 176

Annual Financial Report

For the year ended 30 June 2009

Not guaranteed by Commonwealth Bank of Australia

Commonwealth Bank Group



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Directors' Report

The Directors of Preferred Capital Limited (the 'Company') submit the following report for the year ended 30 June 2009.

Directors

The names of the Directors of the Company in office during the financial year ended 30 June 2009 and until the date of this report were:

G A Petersen

M J Venter

R M McEwan

S P Kinsella (Appointed 17 February 2009)

S I Grimshaw (Resigned 17 February 2009)

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 Level 7, 48 Martin Place, 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 Stock Exchange (ASX) as an ASX Debt Listing on 7 April 2006. PERLS III are quoted on the ASX. The gross proceeds of \$1,166.460 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 \$61.423 million (2008: \$79.188 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 2009 of \$7.736 million (2008: \$12.872 million).

Financial position

At 30 June 2009 the Company held total assets of \$1,174.766 million (2008: \$1,187.254 million) and net assets of \$0.297 million (2008: \$3.903 million). The decrease in net assets is a result of current year operations.

PERLS III have been assigned an independent credit rating of A+ by Standard & Poor's and Aa3 by Moody's, and are considered to be investment grade securities.

Directors' Report (continued)

Dividends

PERLS III	30 June 2009 \$'000	30 June 2008 \$'000
PERLS III fully franked dividends paid on 7 July 2008 (\$3.1006 per share) (2007: \$2.5183)	18,084	14,687
PERLS III fully franked dividends paid on 7 October 2008 (\$3.1088 per share) (2007: \$2.7011)	18,131	15,754
PERLS III fully franked dividends paid on 6 January 2009 (\$2.7766 per share) (2008: \$2.7772)	16,194	16,197
PERLS III fully franked dividends paid on 6 April 2009 (\$1.7410 per share) (2008: \$2.8499)	10,154	16,621
	62,563	63,259

Ordinary shares

Ordinary shares fully franked dividends paid on 7 July 2008 (\$323,547.25 per share) (2007: \$216,475.33)	3,883	2,598
Ordinary shares fully franked dividends paid on 7 October 2008 (\$321,718.20 per share) (2007: \$229,693.47)	3,861	2,756
Ordinary shares fully franked dividends paid on 6 January 2009 (\$256,049.12 per share) (2008: \$256,169.49)	3,072	3,074
Ordinary shares fully franked dividends paid on 6 April 2009 (\$43,847.30 per share) (2008: \$271,316.25)	526	3,256
	11,342	11,684

On 16 June 2009 the Directors resolved to pay a fully franked dividend of \$8.475 million (2008: \$18.084 million) in respect of PERLS III (\$1.4532 per share) (2008: \$3.1006 per share) to be payable on 6 July 2009. The dividends were paid on 6 July 2009. 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 2009.

On 7 September 2009 the Directors also resolved to pay a fully franked dividend of \$8.582 million in respect of PERLS III (\$1.4715 per share) to be payable on 6 October 2009.

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.

In July 2009 the Bank has commenced making payments to the company under the "Top-Up Deed". These payments will ensure that the Company has sufficient resources to continue making payments under PERLS III, despite a fall in income due to lower interest rates.

Directors' and officers' insurance

During or since the financial year, 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.

Directors' Report – Remuneration Report

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 2008	Acquired/ Granted as Compensation ⁽¹⁾	Net Change Other ⁽²⁾	Balance 30 June 2009
G A Petersen	Ordinary	13,365	-	22,879	36,244
	Reward Shares	45,280	-	(20,280)	25,000
	Deferred Shares	-	8,765	-	8,765
M J Venter	Ordinary	1,500	-	2,500	4,000
	Reward Shares	9,000	-	(4,000)	5,000
	Deferred Shares	3,311	5,641	-	8,952
R M McEwan	Ordinary	-	-	-	-
	Reward Shares	-	-	-	-
	Deferred Shares	-	11,951	-	11,951
S P Kinsella	Ordinary	-	-	-	-
	Reward Shares	-	-	-	-
	Deferred Shares	-	7,742	-	7,742
S I Grimshaw	Ordinary	29,999	-	-	29,999
	Reward Shares	67,640	-	(67,640)	-
	Deferred Shares	-	11,951	(11,951)	-

(1) Reward Shares represents shares granted under the Equity Reward Plan (ERP) and are subject to a performance hurdle. These shares fully vested on 14 July 2009. Deferred shares represents one third of the 2007/08 STI payment deferred into shares for three years, except for Mr Kinsella where deferred shares represents shares granted as part of his commencement arrangements.

(2) 'Net change other' incorporates changes resulting from purchases and sales during the year by Directors and vesting of Reward 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 2009.

Shares vested during the year

Name	Reward Shares Vested
G A Petersen	20,280
M J Venter	4,000
R M McEwan	-
S P Kinsella	-
S I Grimshaw	(35,140)

Directors' Report (continued)

Non-audit services

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

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

Our auditor, PricewaterhouseCoopers has provided us with a declaration of its independence, which is attached to the Directors' report.

Rounding of amounts

The amounts contained in the Director's report and the financial report are presented in Australian Dollars and all values have been rounded to the nearest one thousand dollars unless otherwise stated under the option available to the Company under Class Order 98/0100 (as amended by ASIC Class Order 04/667) issued by the Australian Securities and Investments Commission.

Signed in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read 'M. J. Venter', written over a horizontal line.

Michael John Venter

Director
Sydney, NSW

7 September 2009

Auditor's Independence Declaration



PricewaterhouseCoopers
ABN 52 780 433 757

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201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
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Auditor's Independence Declaration

As lead auditor for the audit of Preferred Capital Limited for the year ended 30 June 2009, 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.

A handwritten signature in black ink, appearing to read 'Stuart Scoular'.

Stuart Scoular
Partner
PricewaterhouseCoopers

7 September 2009
Sydney

Liability limited by a scheme approved under Professional Standards Legislation.

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Preferred Capital Limited

Income Statement

For the year ended 30 June 2009

	Notes	2009 \$'000	2008 \$'000
Revenue	3	61,423	79,188
Expenses	3	53,684	66,311
Profit before income tax		7,739	12,877
Income tax expense	4	3	5
Profit attributable to members of Preferred Capital Limited		7,736	12,872

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

Preferred Capital Limited

Balance Sheet

As at 30 June 2009

	Notes	2009 \$'000	2008 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	287	279
Receivables	6	8,023	20,519
Total current assets		8,310	20,798
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		1,174,766	1,187,254
LIABILITIES			
Current liabilities			
Payables	8	8,010	16,891
Income tax liabilities		3	4
Total current liabilities		8,013	16,895
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		1,174,469	1,183,351
Net assets		297	3,903
Shareholders' equity			
Share capital*	10	-	-
Retained profits	11	297	3,903
Total equity		297	3,903

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

The above Balance Sheet should be read in conjunction with the accompanying notes.

Preferred Capital Limited

Statement of Changes in Equity

For the year ended 30 June 2009

	Notes	2009 \$'000	2008 \$'000
Share capital			
Balance at the beginning and the end of the financial year*	10	–	–
Retained profit			
Retained profits at the beginning of the financial year		3,903	2,715
Profit for the year		7,736	12,872
Total recognised income and expense for the year		7,736	12,872
Dividends paid		(11,342)	(11,684)
Retained profits at the end of the financial year	11	297	3,903
Total equity at the end of the financial year		297	3,903

* 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

Cash Flow Statement

For the year ended 30 June 2009

	Notes	2009 \$'000	2008 \$'000
Cash flows from operating activities			
Interest income received		73,920	74,961
Interest expense paid		(62,563)	(63,260)
Other expenses paid		(3)	(3)
Income tax (paid)/refund		(4)	1
Net cash inflow from operating activities	18(b)	11,350	11,699
Cash flows from investing activities			
		–	–
Net cash flow from investing activities		–	–
Cash flows from financing activities			
Dividends paid		(11,342)	(11,684)
Net cash outflow from financing activities		(11,342)	(11,684)
Net increase in cash held		8	15
Cash and cash equivalents at the beginning of the year		279	264
Cash and cash equivalents at the end of the year	18(a)	287	279

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

Preferred Capital Limited

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Notes to the Financial Statements

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Note 1. Accounting policies

General information

The general purpose financial report ('financial report') of Preferred Capital Limited (the 'Company') for the year ended 30 June 2009, was approved and authorised for issue by the Board of Directors on 7 September 2009.

The Company is incorporated and domiciled in Australia. It is a company limited by shares. The address of its registered office is Level 7, 48 Martin Place, Sydney, NSW 2000, Australia. Its immediate and 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. Capital was raised through the issue of Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III) under a prospectus dated 3 March 2006. The gross proceeds of \$1,166.460 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').

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.

a) Bases of accounting

This financial report for the year ended 30 June 2009 has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board Urgent Issues Group interpretations and the requirements of the *Corporations Act* 2001.

The basis of the AIFRS standards are the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). As a result of complying with AIFRS, the Company's financial statements comply with IFRS, and interpretations as issued by the IASB.

The preparation of this annual financial report in conformity with AIFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Further information is included in Note 1(n) 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.

The following standards and amendments were early adopted during the financial year commencing 1 July 2007:

- AASB 8 Operating Segments Reporting and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (February 2007).

There were no new standards, interpretations or amendments which were required to be adopted by the Company during the financial year commencing 1 July 2008.

The following standards and amendments will be applied from the financial year commencing 1 July 2009;

- AASB 2007-6 Amendments to Australian Accounting Standards Arising from AASB 123 (June 2007) and Revised AASB 123 Borrowing Costs (June 2007) which removes the option to expense borrowing costs related to “qualifying assets”. AASB 2007-6 and the revised AASB 123 are applicable for annual reporting periods beginning on or after 1 January 2009. The initial application of AASB 2007-6 is not expected to materially impact the financial results of the Company;
- Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101. The initial application of

the revised AASB 101 and the revised AASB 2007-10 is not expected to materially impact the financial results of the Company;

- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5,7, 101,102,107,108,110,116,118,119,120,123, 127,128,129,131,132,134,136,138,139,140, 141,1023 & 1038]. It is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to materially impact the Company;
- AASB 2008-12 Amendments to Australian Accounting Standards – Reclassification of Financial Assets [AASB 7, AASB 139 and AASB 2008-10]. The amendment clarifies the application date of the amendments made by the IASB and issued in Australia in October 2008 as AASB 2008-10. It is not expected to materially impact the Company;
- Amendments to IFRS 7 Financial Instruments: Disclosures requires more granular disclosures around certain financial instruments. It is not expected to materially impact the Company; and
- AASB 2009-2 Improving disclosures about financial instruments: Disclosures requires the disclosure of valuation techniques used to determine the carrying values of financial instruments held at fair value in the Balance Sheet, with additional disclosures required for valuations with significant unobservable inputs. It is applicable for annual reporting period beginning on or after 1 January 2009 and is not expected to materially impact the Company.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

There are no other new standards, amendments or interpretations applicable to the Company at 1 July 2008.

There are no other standards, amendments or interpretations available for early adoption at 1 July 2009 that will be applicable to the Company.

c) Cash and cash equivalents

Cash and cash equivalents include cash at banks 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. Interest is taken to Income Statement using the effective interest method when earned.

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 asset's original effective interest rate. Short-term balances are not discounted.

Loans are presented net of provisions for loan impairment.

h) Income tax

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

Income tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet 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 balance sheet date which 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 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.

i) Provisions

A provision is recognised in the balance sheet 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 declared 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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 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 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 are classified as equity. Redeemable preference shares are classified as liabilities.

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

m) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these financial statements.

n) 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.

o) Rounding of Amounts

The amounts contained in the Director's report and the financial report are presented in Australian Dollars and all values have been rounded to the nearest one thousand dollars unless otherwise stated under the option available to the Company under class order 98/0100 (as amended by ASIC class order 04/667) 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 2009 \$'000	30 June 2008 \$'000
Revenue		
Interest income from ultimate parent entity	13	18
Interest income from CBA New Zealand Convertible Notes	61,174	79,170
Top-up payment from ultimate parent entity	236	–
Revenue from continuing operations	61,423	79,188
Expenses		
Finance costs	53,681	66,308
Other operational expenses	3	3
Total expenses	53,684	66,311

Note 4. Income tax

	30 June 2009 \$'000	30 June 2008 \$'000
The major component of income tax expense is:		
Income statement		
<i>Current income tax</i>		
Current tax liability	3	5
Income tax expense reported in Income Statement	3	5

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	30 June 2009 \$'000	30 June 2008 \$'000
Reconciliation between aggregate tax expense recognised in the Income Statement and tax expense calculated per the statutory income tax rate:		
Profit from ordinary activities before income tax expense	7,739	12,877
Prima facie tax on profit from ordinary activities at 30% (2008: 30%)	2,322	3,863
Non-assessable interest income	(18,352)	(23,750)
Non-assessable Top-up payment	(71)	–
Non-deductible interest expense	16,104	19,892
Total income tax expense	3	5

Note 5. Current assets – Cash and cash equivalents

	30 June 2009 \$'000	30 June 2008 \$'000
Cash at bank with ultimate parent entity	287	279

Note 6. Current assets – Receivables

	30 June 2009 \$'000	30 June 2008 \$'000
Interest receivable from ultimate parent entity	1	1
Interest receivable from CBA New Zealand Convertible Notes	7,786	20,518
Top-up payment receivable from ultimate parent entity	236	–
	8,023	20,519

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

	30 June 2009	30 June 2008
	\$'000	\$'000
Investment in CBA New Zealand Convertible Notes	1,166,456	1,166,456

Note 8. Current liabilities – Payables

	30 June 2009	30 June 2008
	\$'000	\$'000
Interest payable to PERLS III investors	8,010	16,891

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 2009	30 June 2008
	\$'000	\$'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 Term 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 2009	30 June 2008	30 June 2009	30 June 2008
	Shares	Shares	\$'000	\$'000
Issued and paid up capital*	12	12	–	–

* 12 ordinary shares of \$1 each rounded down to nil (2008: 12 ordinary shares of \$1 each rounded down to nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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.

Note 11. Retained profits

	30 June 2009	30 June 2008
	\$'000	\$'000
Retained profits at the beginning of the financial year	3,903	2,715
Net profit for the year	7,736	12,872
Dividends paid	(11,342)	(11,684)
Retained profits at the end of the financial year	297	3,903

Note 12. Dividends

		30 June 2009	30 June 2008
		\$'000	\$'000
Ordinary shares fully franked dividends paid on 7 October 2008	(\$321,718.20 per share) (2007: \$229,693.47)	3,861	2,756
Ordinary shares fully franked dividends paid on 6 January 2009	(\$256,049.12 per share) (2008: \$256,169.49)	3,072	3,074
Ordinary shares fully franked dividends paid on 6 April 2009	(\$43,847.30 per share) (2008: \$271,316.25)	526	3,256
Ordinary shares fully franked dividends paid on 6 July 2009	(\$ nil per share) (2008: \$323,547.25)	-	3,883
		7,459	12,969

Note 13. Risk management

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 risk. 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 cashflows 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, exercising its rights under the "Top-Up Deed", in its absolute discretion will make a payment to cover the 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 2009 if Australian Bank Bill Swap interest rates changed by +/- 1% (2008: +/- 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 \$ 5.188 million losses/ \$12.168 million losses (2008: gains of \$6.200 million /\$0.799 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 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 Convertible Note Deed. Interest will only be paid if the Board of the

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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.

A dividend on PERLS III may also not be paid if the Board of the Company does not resolve to pay the dividend or if the Corporations Act and any other law prohibits the Company paying the dividend (including, under current law, because there are insufficient profits legally available for payment of dividends).

Dividends on PERLS III are non-cumulative. Therefore, if a dividend is not paid in full for any dividend period, a PERLS III holder will not receive that dividend unless the Company, subject to Australian Prudential Regulation Authority ('APRA') approval, causes the dividend to be made up.

Maturity analysis of financial liabilities

2009	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
PERLS III	-	-	-	1,166,456	1,166,456
Payables	8,010	3	-	-	8,013
Total	8,010	3	-	1,166,456	1,174,469

2008

Financial liabilities					
PERLS III	-	-	-	1,166,456	1,166,456
Payables	16,891	4	-	-	16,895
Total	16,891	4	-	1,166,456	1,183,351

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 Aa1 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 balance sheet. Carrying value of total assets as at 30 June 2009 is \$1,174.766 million (2008: \$1,187.254 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.

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. 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 balance sheet dates.

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 in 2009.

	Carrying value \$'000 30 June 2009	Fair value \$'000 30 June 2009	Carrying value \$'000 30 June 2008	Fair value \$'000 30 June 2008
Financial assets				
Cash and cash equivalents	287	287	279	279
Current assets – Receivables	8,023	8,023	20,519	20,519
Non-current assets – Loans and other receivables	1,166,456	1,036,275	1,166,456	1,193,013
Financial liabilities				
Payables	8,013	8,013	16,895	16,895
Interest bearing liabilities	1,166,456	991,639	1,166,456	1,104,806

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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

R M McEwan

S P Kinsella

S I Grimshaw

There were no changes to KMP 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 KMP 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 2009 \$'000	30 June 2008 \$'000
Interest revenue		
Interest income from ultimate parent entity	13	18
Interest income from CBA New Zealand	61,174	79,170
	61,187	79,188
Top-up payment from ultimate parent entity	236	–
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	287	279
Receivables		
Interest receivable from CBA New Zealand	7,786	20,518
Interest receivable from ultimate parent entity	1	1
Top-up payment receivable from ultimate parent entity	236	–
	8,023	20,519

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

Note 18. Notes to the Cash Flow Statement

a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash at bank and money at short call.

	30 June 2009 \$'000	30 June 2008 \$'000
Cash and cash equivalents at the end of year	287	279

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

	30 June 2009 \$'000	30 June 2008 \$'000
Profit from ordinary activities after income tax	7,736	12,872
Changes in assets and liabilities		
Decrease/(increase) in receivables	12,496	(4,226)
(Decrease)/increase in payables	(8,881)	3,047
(Decrease)/increase in income tax liabilities	(1)	6
Net cash inflow from operating activities	11,350	11,699

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 Balance Sheet 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 2009 (2008: none). 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 balance sheet date

In July 2009, the Bank has commenced making payments to the Company under the "Top-Up Deed". These payments will ensure that the Company has sufficient resources to continue making payments under PERLS III, despite a fall in income due to lower interest rates

The Directors are not aware of any other 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 2009

In accordance with a resolution of the Directors of Preferred Capital Limited I declare that in the opinion of the Directors:

- (a) the financial statements and notes thereto are in accordance with the *Corporations Act 2001* and:
 - (i) give a true and fair view of the financial position of the entity as at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) comply with the Accounting Standards and any further requirements in the *Corporations Regulations 2001*.
- (b) 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
- (c) the Directors have been given the declarations required under Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2009.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'M. J. Venter', written over a horizontal line.

Michael John Venter
Director

7 September 2009
Sydney, NSW

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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are

reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report to the Members of Preferred Capital Limited (continued)

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

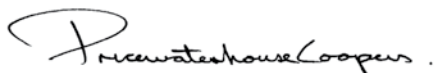
Independence

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 2009 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 financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

The logo for PricewaterhouseCoopers, featuring a stylized, cursive script of the company name.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Stuart Scoular'.

Stuart Scoular
Partner
PricewaterhouseCoopers

7 September 2009
Sydney

Notes

Notes

Not guaranteed by Commonwealth Bank of Australia