PREFERRED CAPITAL LIMITED

ABN 68 101 938 176

Annual Financial Report

For the year ended 30 June 2013

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 2013.

Directors

The names of the Directors of the Company in office during the financial year ended 30 June 2013 and until the date of this report were:

G A Petersen
M J T Ford
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 $35.25 million (2012: $50.64 million) is comprised primarily of interest income earned on the investment in Convertible Notes issued by CBA New Zealand. Interest on the Convertible Notes is calculated with reference to the 90 day Australian Bank Bill Swap Rate ('BBSW'), less a fixed margin of 0.28%. The decrease in interest income is attributable to a fall in the average BBSW, from 4.595% in the 2012 financial year, to 3.213% in the 2013 financial year.

If the BBSW falls below 3.39%, the Company will not receive sufficient funds from the Convertible Notes to cover payments required on PERLS III. In this situation, the Bank may make a Top-up payment to cover the shortfall. The Bank has the right under the 'Top-up Deed', in its absolute discretion, to make a Top-up payment. The 'Top-up Deed' payments resulted in the Company recognising income amounting to $0.79m for the year ending 30 June 2013 (2012: $nil).

Finance costs for the year of $34.98 million (2012: $46.32 million) comprised primarily of the interest expense on PERLS III. Interest incurred on PERLS III is calculated with reference to BBSW, plus an initial margin of 1.05% multiplied by (1 - Tax Rate). The decrease in finance costs is attributable to a fall in the average BBSW, from 4.595% in the 2012 financial year, to 3.213% in the 2013 financial year.

The Company recorded a net profit after tax for the year ended 30 June 2013 of $0.27m (2012: $4.31 million).

Financial position

At 30 June 2013 the Company held total assets of $1,174.59 million (2012: $1,177.26 million) and net assets of $0.39 million (2012: $1.05 million). The significant movements in the Statement of Financial Position are summarised below.

Receivables primarily represent the interest receivable on the Convertible Notes. The decrease in interest receivable is attributable to the decrease in the BBSW from 4.262% (6 July 2012 interest receivable) to 3.068% (8 July 2013 interest receivable).

Payables primarily represent the interest payable on PERLS III. The decrease in the interest payable is attributable to the decrease in the BBSW from 4.262% (6 July 2012 interest payable) to 3.068% (8 July 2013 interest payable).

Dividends

PERLS III	**2013 $'000**	2012 $'000
PERLS III fully franked dividends paid on 6 July 2012 ($1.7725 per share) (6 July 2011: $2.0750 per share)	**10,338**	12,102
PERLS III fully franked dividends paid on 8 October 2012 ($1.6759 per share) (6 October 2011: $2.1278 per share)	**9,774**	12,410
PERLS III fully franked dividends paid on 7 January 2013 ($1.4788 per share) (6 January 2012: $2.0267 per share)	**8,625**	11,820
PERLS III fully franked dividends paid on 8 April 2013 ($1.4136 per share) (10 April 2012: $2.0023 per share)	**8,245**	11,678
Total dividends - PERLS III	**36,982**	48,010

Ordinary shares		
Ordinary shares fully franked dividends paid on 6 July 2012 ($61,056.93 per share) (6 July 2011: $109,927.84 per share)	**733**	1,319
Ordinary shares fully franked dividends paid on 8 October 2012 ($16,161.14 per share) (6 October 2011: $117,381.98 per share)	**194**	1,409
Ordinary shares fully franked dividends paid on 7 January 2013 ($nil per share) (6 January 2012: $96,274.85 per share)	**-**	1,155
Ordinary shares fully franked dividends paid on 8 April 2013 ($nil per share) (10 April 2012: $80,574.03 per share)	**-**	967
Total dividends - Ordinary shares	**927**	4,850

On 6 June 2013 the Directors resolved to pay a fully franked dividend of $8.38 million (2012: $10.34 million) in respect of PERLS III ($1.4375 per share) (2012: $1.7725 per share) to be payable on 8 July 2013. Payment of dividends were 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 8 July 2013.

Changes in the state of affairs
In the opinion 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 the financial year, the Bank, as ultimate parent entity, has paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the directors, secretaries, officers and certain employees of the Bank and related bodies corporate as defined in the insurance policy, which includes the Company. The insurance is appropriate pursuant to Section 199B of the *Corporations Act 2001*. 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 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 the Bank.

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 2012	Acquired/ Granted as Compensation(1)	Net Change Other(2)	Balance 30 June 2013
G A Petersen	Ordinary	80,126	-	23,426	103,552
	Reward Shares/Rights	143,025	36,980	(32,636)	147,369
	Deferred Shares	6,331	-	(6,331)	-
I M Saines	Ordinary	23,659	-	44,052	67,711
	Reward Shares/Rights	166,471	41,858	(38,570)	169,759
	Deferred Shares	7,597	-	(7,597)	-
S P Kinsella	Ordinary	5,946	-	3,850	9,796
	Reward Shares/Rights	-	-	-	-
	Deferred Shares	12,015	3,693	(3,288)	12,420
M J T Ford	Ordinary	-	-	-	-
	Reward Shares/Rights	-	-	-	-
	Deferred Shares	10,926	4,112	(2,549)	12,489

(1) Reward Shares/Rights for Grahame Petersen and Ian Saines represent shares granted under the Group Leadership Reward Plan (GLRP) which are subject to performance hurdles. 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 (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 2013 (2012: $nil). There were no unissued ordinary shares of the Bank under option to the Directors of the Company at the date of this report (2012: $nil).

Shares Vested during the year

Name	Reward Shares/ Rights and Deferred Shares
G A Petersen	34,888
I M Saines	41,346
S P Kinsella	3,288
M J T Ford	2,549

Non-audit services

There were no non-audit services performed during the year by the Company's auditor.

Matters subsequent to the end of the financial year

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 Ford
Director

Sydney, NSW
9 September 2013

Auditor's Independence Declaration

As lead auditor for the audit of Preferred Capital Limited for the year ended 30 June 2013, 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
9 September 2013

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Preferred Capital Limited
Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	**2013 $'000**	2012 $'000
Revenue from continuing operations	3	**35,251**	50,635
Finance costs	3	**(34,977)**	(46,317)
Other expenses	3	**(3)**	(3)
Profit before income tax		**271**	4,315
Income tax expense	4	**(4)**	(6)
Net profit for the year after tax		**267**	4,309
Other comprehensive income		**-**	-
Total comprehensive income for the year, attributable to owners of Preferred Capital Limited		**267**	4,309

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 2013

	Note	**2013 $'000**	2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**368**	364
Receivables	6	**7,761**	10,436
Total current assets		**8,129**	10,800
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		**1,174,585**	1,177,256
LIABILITIES			
Current liabilities			
Payables	8	**7,739**	9,745
Income tax liabilities		**1**	6
Total current liabilities		**7,740**	9,751
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		**1,174,196**	1,176,207
Net assets		**389**	1,049
EQUITY			
Share capital*	10	**-**	-
Retained earnings	11	**389**	1,049
Total equity attributable to owners of Preferred Capital Limited		**389**	1,049

* 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 2013

	Note	Share Capital* $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2011		-	**1,590**	**1,590**
Total comprehensive income for the year		-	4,309	4,309
Transactions with owners in their capacity as owners:				
Dividends paid	12	-	(4,850)	(4,850)
Balance at 30 June 2012		**-**	**1,049**	**1,049**
Balance at 1 July 2012		**-**	**1,049**	**1,049**
Total comprehensive income for the year		-	267	267
Transactions with owners in their capacity as owners:				
Dividends paid	12	-	(927)	(927)
Balance at 30 June 2013		**-**	**389**	**389**

* 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 2013

	Note	**2013 $'000**	2012 $'000
Cash flows from operating activities			
Interest income received		**37,420**	52,885
Top-up payments received		**506**	-
Interest expense paid		**(36,982)**	(48,010)
Other expenses paid		**(3)**	(2)
Income tax paid		**(10)**	(23)
Net cash flows from operating activities	17(b)	**931**	4,850
Cash flows from investing activities		**-**	-
Net cash flows from investing activities		**-**	-
Cash flows from financing activities			
Dividends paid		**(927)**	(4,850)
Net cash flows from financing activities		**(927)**	(4,850)
Net increase in cash and cash equivalents		**4**	-
Cash and cash equivalents at the beginning of the year		**364**	364
Cash and cash equivalents at the end of the year	17(a)	**368**	364

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 2013

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Notes to the Financial Statements

For the year ended 30 June 2013

Note 1. Summary of significant accounting policies

General information

This general purpose Financial Report (the 'Financial Report') of Preferred Capital Limited (the 'Company') for the year ended 30 June 2013, was approved and authorised for issue by the Board of Directors on 9 September 2013. The Directors have the power to amend and re-issue the Financial Statements.

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') ACN 123 123 124.

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 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.

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. These Financial Statements are the individual financial statements of Preferred Capital Limited as an individual entity.

(a) Basis of accounting

The Financial Statements for the year ended 30 June 2013 have been prepared in accordance with the requirements of the *Corporations Act 2001*, and Australian Accounting Standards and Interpretations ('AAS') issued by the Australian Accounting Standards Board ('AASB'). The Company is a for-profit entity for the purposes of preparing the Financial Statements.

Compliance with IFRS

The Financial Statements of the Company also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and interpretations as issued by the IFRS Interpretations Committee ('IFRIC').

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 1(m).

(b) Basis of preparation

Historical cost convention

The Financial Statements are prepared on the basis of historical cost convention.

New and amended standards adopted by the Company

During the year, the Company adopted the following revised accounting standard. There was no significant impact on the Company's financial results, or significant changes to the Company's accounting policies, resulting from the adoption of this standard:

- AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income effective 1 July 2012 now require the Statement of Comprehensive Income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

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 2012.

Early adoption of standards

The Company did not early adopt any standards, interpretations or amendments during the financial year commencing 1 July 2012.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below. This does not include consequential amendments made to other standards as a result of the release of a revised or new standard (eg AASB 2012-1 or AASB 2012-7) and editorial amendments made by AASB 2012-10 and 2012-11.

- AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective for reporting periods beginning on or after 1 January 2015).

  AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

The Company has not yet decided when to adopt AASB 9. It is not yet possible to determine the potential financial impact to the Company from this standard, however it is not expected to significantly change the way the Company accounts for financial instruments.

- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective for reporting periods beginning on or after 1 January 2013). AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. It is not expected to significantly impact the Company.
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for reporting periods beginning on or after 1 January 2013) principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This standard is not expected to significantly impact the Company.
- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (effective for reporting periods beginning on or after 1 January 2014) adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. This standard is not expected to significantly impact the Company.
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle (effective for reporting periods beginning on or after 1 January 2013) makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following:

- repeat application of AASB 1 is permitted (AASB 1);
- clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements);
- AASB 132 – clarifies the treatment of income tax relating to distributions and transaction costs; and
- AASB 134 – clarifies the disclosure requirements for segment assets and liabilities in interim financial statements.

This standard is not expected to significantly impact the Company.

- AASB 2012-9 Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039 (effective for reporting periods beginning on or after 1 January 2013). In December 2012, the AASB decided to withdraw Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia. The Board felt that the guidance was no longer considered necessary given the issue is not unique to Australia. Further, the withdrawal was in line with its policy on only issuing a domestic interpretation of an IFRS in rare and exceptional circumstances.

  At the same time, the AASB issued an Agenda Decision which notes that substantive enactment of a tax Bill would not occur until any significant uncertainty about the outcome of a tax Bill has been removed. In Australia, the Board noted that it would be rare that this would be the case before a non-linked tax Bill has passed through both Houses of Parliament. This standard is not expected to significantly impact the Company.

- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective for reporting periods beginning on or after 1 July 2013 with early adoption permitted). AASB 1053 introduces a revised two-tier differential reporting regime:
  - Tier 1 are the Australian Accounting Standards as currently applied;
  - Tier 2 is the reduced disclosure regime which retains the recognition and measurement requirements of Australian Accounting Standards but with reduced disclosure requirements.

  For-profit private sector entities that are publicly accountable and all Federal, state, territory and local governments must report under Tier 1.

  For-profit private sector entities that are not publicly accountable, not-for-profit entities in the private sector and public sector entities other than those mentioned above can adopt the Tier 2 requirements (unless the relevant regulator requires compliance with Tier 1).

  AASB 2011-6 and AASB 2012-11 extend the relief for intermediate parent entities from consolidation, equity accounting and proportionate consolidation to parent entities that report under Tier 2, where the parent higher up the group is reporting either under Tier 1 or Tier 2.

The reporting entity concept is not affected by these standards.

The Company has a debt listing on the Australian Securities Exchange and is therefore publicly accountable and must report under Tier 1. Therefore no change is expected on adoption.

- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective for reporting periods beginning on or after 1 July 2013, with early adoption not permitted). 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.

In addition to the above, the International Accounting Standards Board (IASB) has a major project under way on Revenue Recognition. A standard on Revenue Recognition is expected later in 2013. The Company will consider the financial impacts of the standard when it is 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 are carried at 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

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.

Top-up payments are treated as frankable dividends for income tax purposes. The Company is assessed on Top-up payments, grossed up for franking credits. A tax offset for the franking credits is subsequently received, resulting in no income tax expense being recognised on Top-up payments.

(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.

(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 at the Company's discretion 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. Interest rates are reset quarterly commencing on 6 April 2006 and payments are made quarterly in arrears.

Interest expense

The dividends on PERLS III are treated as interest for accounting purposes. Interest expense is recognised in the Statement of Comprehensive Income using the effective interest method.

(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) Shareholder's 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 (PERLS III) are classified as liabilities – refer to Note 1 (j) for more information.

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.

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

	2013 $'000	2012 $'000
Revenue from continuing operations		
Interest income from ultimate parent entity	**17**	24
Interest income from CBA New Zealand convertible notes	**34,453**	50,611
Top-up payments from ultimate parent entity	**781**	-
Total revenue from continuing operations	**35,251**	50,635
Expenses		
Interest expense	**34,977**	46,317
Other operational expenses	**3**	3
Total expenses	**34,980**	46,320

Note 4. Income tax expense

	2013 $'000	2012 $'000
The major component of income tax expense is:		
Current income tax		
Current tax expense	**4**	6
Income tax expense reported in Statement of Comprehensive Income	**4**	6

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	**271**	4,315
Prima facie tax on profit from ordinary activities at 30% (2012: 30%)	**81**	1,294
Non-assessable interest income	**(10,336)**	(15,183)
Non-assessable Top-up payment	**(234)**	–
Non-deductible interest expense	**10,493**	13,895
Dividend income from CBA New Zealand and attached franking credits	**16,246**	22,654
Franking credits	**(16,246)**	(22,654)
Total income tax expense	**4**	6
Franking credits available for subsequent financial years based on a tax rate of 30% (2012: 30%)*	**155**	145

*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.

Note 5. Current assets – Cash and cash equivalents

	2013 $'000	2012 $'000
Cash at bank with ultimate parent entity	**368**	364

Note 6. Current assets – Receivables

	2013 $'000	2012 $'000
Interest receivable from ultimate parent entity	**1**	2
Interest receivable from CBA New Zealand Convertible Notes	**7,485**	10,434
Top-up payment receivable from ultimate parent entity	**275**	–
Total current assets - Receivables	**7,761**	10,436

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

	2013 $'000	2012 $'000
Investment in CBA New Zealand Convertible Notes	**1,166,456**	1,166,456

Note 8. Current liabilities – Payables

	2013 $'000	2012 $'000
Accrued expenses for Securitisation Advisory Services fees	**1**	1
Interest payable to PERLS III investors	**7,738**	9,744
Total current liabilities - Payables	**7,739**	9,745

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

	2013 $'000	2012 $'000
PERLS III issued to investors	**1,166,456**	1,166,456

PERLS III are preference shares which may be exchanged for Commonwealth Bank of Australia ('CBA') ordinary shares or $200 cash each (or a combination of both) on 6 April 2016. PERLS III offers a non-cumulative floating rate return. Interest rates are reset quarterly and payments are made quarterly in arrears.

If the Company does not elect to exchange PERLS III, the margin on the distributions payable on PERLS III will increase by 1.00% per annum. PERLS III will automatically be exchanged for CBA preference shares no later than 10 Business Days prior to 6 April 2046 (the 'Conversion Date'). PERLS III may convert to CBA ordinary shares or CBA PERLS III preference shares on the occurrence of certain events, some of which are outside the control of the Company prior to the Conversion Date. PERLS III are listed on the ASX and are subject to New South Wales law. They qualify as Additional Tier One Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by the Australian Prudential Regulation Authority.

Note 10. Share capital

	2013 Shares	2012 Shares	**2013 $'000**	2012 $'000
Authorised, issued and paid up capital*	**12**	12	**-**	-

*12 ordinary shares of $1 each rounded down to nil (2012: 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 earnings

	2013 $'000	2012 $'000
Retained earnings at the beginning of the financial year	**1,049**	1,590
Net profit for the year	**267**	4,309
Dividends paid	**(927)**	(4,850)
Retained earnings at the end of the financial year	**389**	1,049

Note 12. Dividends

	2013 $'000	2012 $'000
Ordinary shares fully franked dividends paid on 6 July 2012 ($61,056.93 per share) (6 July 2011: $109,927.84 per share)	**733**	1,319
Ordinary shares fully franked dividends paid on 8 October 2012 ($16,161.14 per share) (6 October 2011: $117,381.98 per share)	**194**	1,409
Ordinary shares fully franked dividends paid on 7 January 2013 ($nil per share) (6 January 2012: $96,274.85 per share)	**-**	1,155
Ordinary shares fully franked dividends paid on 8 April 2013 ($nil per share) (10 April 2012: $80,574.03 per share)	**-**	967
Total dividends - Ordinary shares	**927**	4,850

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 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 received 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 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 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. The BBSW fell below 3.39% during the year, with the interest rate risk being managed by Top-up payments made by the Bank under the 'Top-up Deed'.

At 30 June 2013, if Australian Bank Bill Swap interest rates changed by +/- 1% (2012: +/- 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 $2.13 million gains/$4.87 million losses (2012: $2.28 million gains/$4.74 million losses). The Company will only incur losses in the event that the Board of the Bank (or a committee of the Board of the Bank), in its absolute discretion, does not resolve to make a Top-up payment under the 'Top-up Deed'.

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 received 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 the Convertible Note Deed. Interest will only be received 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 make payments to PERLS III holders only to the extent that the Bank pays interest on the Convertible Notes.

Maturity analysis of financial liabilities

2013	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	**7,739**	**1**	**-**	**-**	**7,740**
Total	**7,739**	**1**	**-**	**1,166,456**	**1,174,196**
2012					
Financial liabilities					
PERLS III	-	-	-	1,166,456	1,166,456
Payables and income tax liabilities	9,745	6	-	-	9,751
Total	9,745	6	-	1,166,456	1,176,207

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 2013 is $1,174.59 million (2012: $1,177.26 million).

This exposure to the creditworthiness 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 counterparty. The funds raised by the Company are used to support the business activities of the Commonwealth Bank of Australia Group (the 'Group'). The Company has assessed that there are no significant concentrations of credit risk outside of the Group's entities.

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 AASB 7 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 AASB 7 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 2013	**Fair value $'000 2013**	Carrying value $'000 2012	Fair value $'000 2012
Financial assets				
Cash and cash equivalents	**368**	**368**	364	364
Current assets - Receivables	**7,761**	**7,761**	10,436	10,436
Non-current assets - Loans and other receivables	**1,166,456**	**1,087,153**	1,166,456	1,057,462
Financial liabilities				
Payables and income tax liabilities	**7,740**	**7,740**	9,751	9,751
Interest bearing liabilities	**1,166,456**	**1,092,115**	1,166,456	1,056,509

Note 14. Remuneration of auditor

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

Note 15. 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 are as follows:

G A Petersen
M J T Ford
S P Kinsella
I M Saines

There were no changes to key management personnel after the reporting date and up to 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 roles as KMP are incidental to their roles as employees 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 16. 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:

	2013 $'000	2012 $'000
Interest revenue		
Interest income from ultimate parent entity	**17**	24
Interest income from CBA New Zealand	**34,453**	50,611
Total interest revenue	**34,470**	50,635
Top-up payment		
Top-up payment received from ultimate parent entity	**781**	-
Expenses		
Other operational expenses - Securitisation Advisory Services fees	**3**	3
Outstanding balances with related parties		
Loans and other receivables		
Investment in CBA New Zealand Convertible Notes	**1,166,456**	1,166,456
Cash and cash equivalents		
Bank account with ultimate parent entity	**368**	364
Receivables		
Interest receivable from CBA New Zealand	**7,485**	10,434
Interest receivable from ultimate parent entity	**1**	2
Top-up payment receivable from ultimate parent entity	**275**	-
Total receivables	**7,761**	10,436
Payables		
Accrued expenses for Securitisation Advisory Services fees	**1**	1

All transactions with related parties in the Company were made on normal commercial terms and conditions at market rates.

Note 17. 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.

	2013 $'000	2012 $'000
Cash and cash equivalents at the end of the year	**368**	364

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

Profit from ordinary activities after income tax	**267**	4,309
Changes in assets and liabilities		
Decrease/(Increase) in receivables	**2,675**	2,250
(Decrease)/Increase in payables	**(2,006)**	(1,692)
(Decrease)/Increase in income tax liabilities	**(5)**	(17)
Net cash flows from operating activities	**931**	4,850

Note 18. Capital management

The Company's capital management objectives are to ensure sufficient capital resource 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 Company'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 19. Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2013 (2012: $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 20. 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 2013

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 2013 in relation to the Company, 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

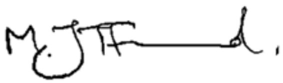
(ii) s 297 (which requires the Financial Statements, and the notes to the Financial Statements, to give a true and fair view of the financial position and performance of the Company);

(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 2013.

Signed in accordance with a resolution of the Directors.



Michael Ford
Director
Sydney, NSW

9 September 2013

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

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 2013, 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(a), 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. Those 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.

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

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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.

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

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 2013 and of its 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*.

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

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SScoular

Stuart Scoular
Partner

Sydney
9 September 2013

Notes

Commonwealth Bank Group

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