Preferred Capital Limited

ABN 68 101 938 176

Annual Financial Report

For the year ended 30 June 2014

Contents

The Directors of Preferred Capital Limited (the 'Company') submit the following report together with the general purpose financial statements for the year ended 30 June 2014.

Directors

The names of the Directors of the Company in office during the financial year ended 30 June 2014 and until the date of this report, unless otherwise stated below, were:

M J T Ford	
S P Kinsella	
G A Petersen	
M Taylor	(appointed 13 March 2014)
I M Saines	(resigned 12 December 2013)

Corporate information

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

Its 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 $30.54 million (2013: $35.25 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 3.213% in the 2013 financial year, to 2.678% in the 2014 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 $2.46 million for the year ending 30 June 2014 (2013: $0.79 million).

Finance costs for the year of $30.51 million (2013: $34.98 million) were 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 3.213% in the 2013 financial year, to 2.678% in the 2014 financial year.

The Company recorded a net profit after tax for the year ended 30 June 2014 of $0.03 million (2013: $0.27 million).

Financial position

At 30 June 2014 the Company held total assets of $1,173.99 million (2013: $1,174.59 million) and net assets of $0.42 million (2013: $0.39 million). The significant movements in the Balance Sheet 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 3.068% (8 April 2013 BBSW, which was used to calculate the interest receivable on 8 July 2013) to 2.692% (7 April 2014 BBSW, which was used to calculate the interest receivable on 7 July 2014).

Payables primarily consist of the interest payable on PERLS III. The decrease in the interest payable is attributable to the decrease in the BBSW from 3.068% (8 April 2013 BBSW, which was used to calculate the interest payable on 8 July 2013) to 2.692% (7 April 2014 BBSW, which was used to calculate the interest payable on 7 July 2014).

Dividends

	2014	2013
	$'000	$'000
PERLS III		
PERLS III fully franked dividends paid on 8 July 2013: $1.4375 per share) (6 July 2012: $1.7725 per share)	**8,384**	10,338
PERLS III fully franked dividends paid on 8 October 2013: $1.3727 per share (8 October 2012: $1.6759 per share)	**8,006**	9,774
PERLS III fully franked dividends paid on 6 January 2014: $1.2456 per share (7 January 2013: $1.4788 per share)	**7,265**	8,625
PERLS III fully franked dividends paid on 7 April 2014: $1.2821 per share (8 April 2013: $1.4136 per share)	**7,478**	8,245
Total dividends - PERLS III	**31,133**	36,982
Ordinary shares		
Ordinary shares fully franked dividends paid on 8 July 2013 ($nil per share) (6 July 2012: $61,056.93 per share)	**-**	733
Ordinary shares fully franked dividends paid on 8 October 2013 ($nil per share) (8 October 2012: $16,161.14 per share)	**-**	194
Total dividends - Ordinary shares	**-**	927

On 12 June 2014, the Directors resolved to pay a fully franked dividend of $7.62 million (2013: $8.38 million) in respect of PERLS III ($1.3060 per share) (2013: $1.4375 per share) to be payable on 7 July 2014. 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 7 July 2014.

Significant 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 financial year not otherwise disclosed in this report or the financial statements.

Environmental regulation

The Company's operations are not subject to any particular or significant environmental regulations under Australian 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, 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:

(a) every person who is or has been a Director, Secretary or executive officer of the Company out of the property of the Company against any liability (other than for legal costs and expenses) incurred by that person in his or her capacity as a Director, Secretary or executive officer of the Company except:

i) a liability owed to the Company or a related body corporate; or

ii) a liability for which indemnity is prohibited by or not permitted under the Corporations Act 2001 from time to time;

(b) every person who is or has been a Director, Secretary or executive officer of the Company out of the property of the Company against legal costs and expenses incurred in defending an action for a liability incurred by the person in his or her capacity as Director, Secretary or executive officer of the Company except in the circumstances prohibited by or not permitted under the Corporations Act 2001 from time to time.

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

Remuneration of Directors

The Company does not pay remuneration to its Directors or secretaries and has no employees. The Directors of the Company have been determined to be the key management personnel ('KMP') within the scope of AASB 124. The Directors are employees of the Bank and their role as KMP is incidental to their role as an employee of the Bank. All Directors' remuneration is borne by the ultimate parent entity and relates solely to other services performed with respect to their employment by 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	Balance 30-Jun-13	Acquired/ Granted as Compensation	Net Change Other [1]	Balance 30-Jun-14
M J T Ford	Ordinary	-	-	-	-
	Reward Shares/Rights	-	-	-	-
	Deferred Shares [3]	12,489	-	(4,036)	8,453
	Deferred Rights [4]	-	3,050	-	3,050
S P Kinsella	Ordinary	9,796	381	3,194	13,371
	Reward Shares/Rights	-	-	-	-
	Deferred Shares [3]	12,420	-	(4,194)	8,226
	Deferred Rights [4]	-	2,876	-	2,876
G A Petersen	Ordinary	103,552	-	(43,167)	60,385
	Reward Shares/Rights [2]	147,369	28,733	(43,515)	132,587
	Deferred Shares	-	-	-	-
	Deferred Rights [4]	-	-	-	-
M K Taylor (appointed 13 March 2014)	Ordinary	-	-	-	-
	Reward Shares/Rights	-	-	-	-
	Deferred Shares [3]	-	-	-	-
	Deferred Rights [4]	-	-	-	-
I M Saines (resigned 12 December 2013)	Ordinary	67,711	-	(67,711)	-
	Reward Shares/Rights [2]	169,759	-	(169,759)	-
	Deferred Shares	-	-	-	-
	Deferred Rights [4]	-	-	-	-

[1] 'Net change other' incorporates changes resulting from purchases and sales during the year by Directors and vesting of Reward Shares/Rights (which became Fully Paid Ordinary shares).
[2] Reward Shares/Rights for Grahame Petersen and Ian Saines represent shares granted under the Group Leadership Reward Plan (GLRP). These are the reward shares/rights granted in relation to their previous Long Term Incentive awards which are subject to performance hurdles.
[3] Deferred Shares represent the deferred portion of Short Term Incentive (STI) received as shares granted under the Employee Share Plan (ESP) restricted for three years. When the ESP shares vest and are released from the trust, they are classed as fully paid ordinary shares.
[4] Deferred Rights granted under the Group Rights Plan (GRP) was introduced in FY2014. Participants receive a right which entitles them to a share or cash equivalent at the discretion of the CBA Board, subject to satisfaction of the applicable vesting conditions.

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 2014 (2013: $nil). There were no unissued ordinary shares of the Bank under option to the Directors of the Company at the date of this report (2013: $nil).

Shares Vested during the year

Name	Reward Shares/Rights and Deferred Shares
M J T Ford	4,036
S P Kinsella	4,194
G A Petersen	38,076
M K Taylor	-
I M Saines	44,999

Non-audit services

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

Events subsequent to the Balance Sheet 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, which are not already reflected in this report.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

Rounding of amounts

The amounts contained in the Directors' Report and the financial statements 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.

Steve Kinsella
Director
Sydney, NSW
8 September 2014

Auditor’s Independence Declaration

As lead auditor for the audit of Preferred Capital Limited for the year ended 30 June 2014, 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.

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
8 September 2014

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Preferred Capital Limited
Statement of Comprehensive Income
for the year ended 30 June 2014

	Note	**2014** **$'000**	2013 $'000
Revenue from continuing operations	3	**30,540**	35,251
Finance costs	3	**(30,508)**	(34,977)
Other expenses	3	**(3)**	(3)
Profit before income tax		**29**	271
Income tax expense	4	**(3)**	(4)
Profit for the period		**26**	267
Other comprehensive income		**-**	**-**
Total comprehensive income for the year, attributable to owners of Preferred Capital Limited		**26**	267

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

	Note	2014 $'000	2013 $'000
Assets			
Current assets			
Cash and cash equivalents	5	**376**	368
Loans and other receivables	6	**7,155**	7,761
Total current assets		**7,531**	8,129
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		**1,173,987**	1,174,585
Liabilities			
Current liabilities			
Payables and other liabilities	8	**7,115**	7,739
Income tax liabilities		**1**	1
Total current liabilities		**7,116**	7,740
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		**1,173,572**	1,174,196
Net assets		**415**	389
Equity			
Contributed equity*	10	**-**	-
Retained earnings	11	**415**	389
Total equity attributable to owners of Preferred Capital Limited		**415**	389

*Contributed equity of $12 has been rounded to nil.

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

	Note	Contributed Equity* $'000	Retained Earnings $'000	Total Equity $'000
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
Balance at 1 July 2013		**-**	**389**	**389**
Total comprehensive income for the year		**-**	**26**	**26**
Transactions with owners in their capacity as owners:				
Dividends paid	12	**-**	**-**	**-**
Balance at 30 June 2014		**-**	**415**	**415**

*Contributed equity of $12 has been rounded to nil.

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

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Interest income received		**29,017**	37,420
Top-up payments received		**2,129**	506
Interest expense paid		**(31,132)**	(36,982)
Other expenses paid		**(3)**	(3)
Income tax paid		**(3)**	(10)
Net cash inflows from operating activities	5(b)	**8**	931
Cash flows from investing activities		**-**	-
Net cash flows from investing activities		**-**	-
Cash flows from financing activities			
Dividends paid		**-**	(927)
Net cash outflows from financing activities		**-**	(927)
Net increase in cash and cash equivalents		**8**	4
Cash and cash equivalents at the beginning of the year		**368**	364
Cash and cash equivalents at the end of the year	5(a)	**376**	368

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

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 2014, was approved and authorised for issue by the Board of Directors on 8 September 2014. The Directors have the power to amend and re-issue this report, which includes the Financial Statements for the Company for the year ended 30 June 2014.

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 $1,166.46 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').

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 financial statements of Preferred Capital Limited as an individual entity.

(a) Basis of accounting

The Financial Statements for the year ended 30 June 2014 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').

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.

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 standards. 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 these standards:

Note 1 Summary of significant accounting policies (continued)

- AASB 13 Fair Value Measurement (effective for reporting periods beginning on or after 1 January 2013) provides guidance on how to measure fair value and aims to enhance fair value disclosures. It does not change the determination of when an entity is required to use fair value to measure an asset or liability.

  The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). It also provides guidance on how fair value should be measured. Entities will need to review their fair value measurements (Note 13 Financial risk management) and determine whether any of the techniques used may have to change as a result of the new guidance.

  The Company is required to disclose the fair value of financial instruments that are subsequently measured at amortised cost as per the AASB 7 Financial Instruments: Disclosures. In accordance with the AASB 13, for each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, the Company must disclose:

  - the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety, and
  - for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique and the inputs used in the fair value measurement. If the Company has changed the valuation technique, it must disclose that change and the reasons for making it.

- 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. The amendment introduces more extensive disclosures which focus on quantitative and qualitative information about recognised financial instruments that are offset in the Balance Sheet, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are currently offset on the Balance Sheet. This standard does not 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 Amendments to AASB 136 arising from Reduced Disclosure Requirements and AASB 2012-11 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments 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.

- 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). The individual KMP disclosure requirements have been removed from AASB 124, and are now provided in the remuneration report under revised Corporations Regulation 2M.3.03.

  Notes to the Financial Statements must now provide aggregate information about transactions with KMPs and loans made to KMPs (Note 14 Directors and key management personnel).

Note 1 Summary of significant accounting policies (continued)

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 2013.

Early adoption of standards
The Company did not early adopt any standards, interpretations or amendments during the financial year commencing 1 July 2013.

New accounting standards and interpretations effective after 1 July 2013
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 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.

- 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 2017).

  AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2017 but is available for early adoption.

  Financial assets shall be classified as subsequently measured at either amortised cost or fair value on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A financial asset shall be measured at fair value unless it is measured at amortised cost.

  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 2012-3 Offsetting financial instruments (effective for reporting periods commencing on or after 1 January 2014). The amendments do not change the current offsetting rules in AASB 132, but they clarify that the right of set-off must be available today (ie not contingent on a future event) and must be legally enforceable in the normal course of business as well as in the event of default, insolvency or bankruptcy. This standard does not significantly impact the Company.

(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 recognised at the face value or the gross value of the 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.

Note 1 Summary of significant accounting policies (continued)

(e) Financial assets and liabilities

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 (Note 1 (f))
- Financial liabilities at amortised cost (Note 1 (j))

Derecognition of financial assets and liabilities

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

The derecognition of a financial liability takes place when, and only when, it is extinguished, which is when the obligation specified in the contract is discharged or cancelled or expires.

(f) Loans and other receivables

Loans and other receivables are 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.

Top-up payment receivables are recognised only when approved by the Bank.

(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 asset's 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 and other receivables are presented net of provisions for impairment.

(h) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Income tax is recognised in the Statement of Comprehensive Income, 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 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.

Note 1 Summary of significant accounting policies (continued)

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 Company 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 Balance Sheet when the Company has a present obligation (legal or constructive) 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 measured at amortised cost using the effective interest method.

PERLS III have no effective maturity date. However, 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 expense 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.

Securitisation Advisory Services fees are payable as per the Services Deed and relate to accounting services.

(l) Contributed 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.

Note 1 Summary of significant accounting policies (continued)

(m) Critical accounting policies and estimates

These Notes to the Financial Statements contain a summary of the Company's significant accounting policies. A number 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 significant, 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

	2014	2013
	$'000	$'000
Revenue from continuing operations		
Interest income from ultimate parent entity	**14**	17
Interest income from CBA New Zealand convertible notes	**28,069**	34,453
Top-up payments from ultimate parent entity	**2,457**	781
Total revenue from continuing operations	**30,540**	35,251
Expenses		
Interest expense	**30,508**	34,977
Other operational expenses - Securitisation Advisory Services fees	**3**	3
Total expenses	**30,511**	34,980

Note 4 Income tax expense

	2014	2013
	$'000	$'000
Income tax expense is attributable to:		
Profit from continuing operations	**3**	4
Aggregate income tax expense	**3**	4
Reconciliation of income tax expense to prima facie tax payable:		
Profit from continuing operations before income tax	**29**	271
Tax at the Australian tax rate of 30% (2013: 30%)	**9**	81
Tax effect amounts which are not deductible (taxable) in calculating taxable income:		
Non-assessable interest income	**(8,421)**	(10,336)
Non-assessable Top-up payment	**(737)**	(234)
Non-deductible interest expense	**9,152**	10,493
Dividend income from CBA New Zealand, Top-up payment from CBA and attached franking credits	**13,346**	16,246
Franking credits	**(13,346)**	(16,246)
Total income tax expense	**3**	4
Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%)*	**158**	155

*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

(a) Reconciliation to cash and cash equivalents

	2014	2013
	$'000	$'000
Cash and cash equivalents at the end of the year	**376**	368
(b) Reconciliation of profit after income tax to net cash inflow from operating activities		
Profit for the year attributable to the owners of the Company	**26**	267
Changes in assets and liabilities		
Decrease in receivables	**606**	2,675
Decrease in payables	**(624)**	(2,006)
Decrease in income tax liabilities	**-**	(5)
Net cash inflow from operating activities	**8**	931

Note 6 Current assets – Loans and other receivables

	2014	2013
	$'000	$'000
Interest receivable from ultimate parent entity	**1**	1
Interest receivable from CBA New Zealand Convertible Notes	**6,551**	7,485
Top-up payment receivable from ultimate parent entity	**603**	275
Total current assets - Loans and other receivables	**7,155**	7,761

Note 7 Non-current assets – Loans and other receivables

	2014	2013
	$'000	$'000
Investment in CBA New Zealand Convertible Notes	**1,166,456**	1,166,456

Note 8 Current liabilities – Payables and other liabilities

	2014	2013
	$'000	$'000
Accrued expenses for Securitisation Advisory Services fees	**1**	1
Interest payable to PERLS III investors	**7,114**	7,738
Total current liabilities - Payables and other liabilities	**7,115**	7,739

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

	2014	2013
	$'000	$'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.

Note 9 Non-current liabilities – Interest bearing liabilities (continued)

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 Contributed equity

	2014	2013	**2014**	2013
	Shares	Shares	**$'000**	$'000
Authorised, issued and paid up capital *	**12**	12	**-**	-

* 12 ordinary shares of $1 each rounded down to nil (2013: 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.

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 Balance Sheet plus net debt and is not subject to any external capital requirements.

Note 11 Retained earnings

	2014	2013
	$'000	$'000
Balance at the beginning of the financial year	**389**	1,049
Profit for the year attributable to the owners of the Company	**26**	267
Dividends paid	**-**	(927)
Balance at the end of the financial year	**415**	389

Note 12 Dividends

	2014	2013
	$'000	$'000
Ordinary shares fully franked dividends paid on 8 July 2013 ($nil per share) (6 July 2012: $61,056.93 per share)	**-**	733
Ordinary shares fully franked dividends paid on 8 October 2013 ($nil per share) (8 October 2012: $16,161.14 per share)	**-**	194
Total dividends - Ordinary shares	**-**	927

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 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 2014, if Australian Bank Bill Swap interest rates changed by +/- 1% (2013: +/- 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 $1.05 million gains/$5.95 million losses (2013: $2.13 million gains/$4.87 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

Liquidity risk is the risk that the Company will be 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.

Note 13 Financial risk management (continued)

Liquidity risk (continued)

Maturity analysis of financial liabilities

2014	**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	**7,115**	**1**	**-**	**-**	**7,116**
Total	**7,115**	**1**	**-**	**1,166,456**	**1,173,572**

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

***** Refer to Note 1(j) for further details in relation to the step-up date on 6 April 2016.

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 Balance Sheet. The carrying value of total assets as at 30 June 2014 is $1,173.99 million (2013: $1,174.59 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.

Fair values

According to AASB 13 'Fair Value Measurement', fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at measurement date.

(a) Valuation

The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are reasonable assumptions based on market conditions.

Note 13 Financial risk management (continued)

Fair values (continued)

The Company utilises valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available.

Under AASB 13 all financial assets and liabilities disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

Quoted Prices in Active Markets – Level 1

This category includes assets and liabilities for which the valuation is determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation Technique Using Observable Inputs – Level 2

This category includes assets and liabilities that have been valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis and other market accepted valuation models.

Valuation Technique Using Significant Unobservable Inputs – Level 3

This category includes assets and liabilities the valuation of which incorporates significant inputs that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility.

b) Fair Value Information for Financial Assets and Liabilities not measured at Fair Value

The estimated fair values and fair value hierarchy of the Company's financial instruments not measured at fair value as at 30 June 2014 are presented below:

					2014		2013
	Carrying value		**Fair value**			**Carrying value**	**Fair value**
	Total $'000	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**	**Total $'000**	**Total $'000**
Financial assets not measured at fair value on a recurring basis							
Current assets - Cash and cash equivalents	**376**	**376**	**-**	**-**	**376**	368	368
Current assets - Loans and other receivables	**7,155**	**-**	**7,155**	**-**	**7,155**	7,761	7,761
Non-current assets - Loans and other receivables	**1,166,456**	**-**	**1,144,264**	**-**	**1,144,264**	1,166,456	1,087,153
Total financial assets	**1,173,987**	**376**	**1,151,419**	**-**	**1,151,795**	1,174,585	1,095,282
Financial liabilities not measured at fair value on a recurring basis							
Current liabilities - Payables and income tax liabilities	**7,116**	**-**	**7,116**	**-**	**7,116**	7,740	7,740
Non-current liabilities - Interest bearing liabilities	**1,166,456**	**1,139,919**	**-**	**-**	**1,139,919**	1,166,456	1,092,115
Total financial liabilities	**1,173,572**	**1,139,919**	**7,116**	**-**	**1,147,035**	1,174,196	1,099,855

Note 13 Financial risk management (continued)

Fair values (continued)

The fair values disclosed above represent estimates at which these instruments could be exchanged in a current transaction between willing parties. Realised amounts may differ to amounts disclosed above because the lack of an available trading market except for cash and cash equivalents and PERLS III.

The fair value estimates disclosed above have been derived as follows:

Loans and other receivables

The carrying value of loans and other receivables is presented net of provisions for impairment as per Note 1 (g). However, there was no objective evidence that an impairment loss on loans and other receivables had been incurred for the year ended 30 June 2014 (2013: $nil).

For the Convertible Notes, the fair value is calculated using a discounted cash flow model with reference to the BBSW and using the trading margin implied by the trading price of PERLS III as at 30 June 2014.

Interest bearing liabilities

For PERLS III, the fair value is calculated using quoted market prices.

Other Financial Assets and Liabilities

For all other financial assets, including the Top-up payment receivable, and other financial liabilities, fair value approximates carrying value due to their short term nature and frequent repricing.

Note 14 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:

M J T Ford
S P Kinsella
G A Petersen
M Taylor (appointed 13 March 2014)
I M Saines (resigned 12 December 2013)

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 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 to key management personnel

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 ultimate parent entity. There were no loans to Directors and KMP or their related parties for the year ended 30 June 2014 (2013:$nil).

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

Note 15 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:

	2014	2013
	$'000	$'000
Interest revenue		
Interest income from ultimate parent entity	**14**	17
Interest income from CBA New Zealand	**28,069**	34,453
Total interest revenue	**28,083**	34,470
Top-up payment received from ultimate parent entity	**2,457**	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	**376**	368
Receivables		
Interest receivable from CBA New Zealand	**6,551**	7,485
Interest receivable from ultimate parent entity	**1**	1
Top-up payment receivable from ultimate parent entity	**603**	275
Total receivables	**7,155**	7,761
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.

Key Management Personnel

Disclosures relating to Key Management Personnel are set out in Note 14.

Note 16 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2014 (2013: $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 17 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 18 Events after the Balance Sheet date

The Directors of the Company are not aware of any other 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 state of affairs of the Company, which are not already reflected in this report.

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 2014 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 2014.

Signed in accordance with a resolution of the Directors.

Steve Kinsella
Director
Sydney, NSW
8 September 2014

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 balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 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:

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(i) giving a true and fair view of the company's financial position as at 30 June 2014 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.

PricewaterhouseCoopers

Marcus Laithwaite
Partner

Sydney
8 September 2014

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Commonwealth Bank Group