

Preferred Capital Limited

ABN 68 101 938 176

Interim Financial Report

For the half year ended 31 December 2015

Commonwealth Bank Group



Not guaranteed by Commonwealth Bank of Australia

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Preferred Capital Limited
Directors' Report
For the half year ended 31 December 2015

The Directors of Preferred Capital Limited (the 'Company') submit the following report for the half year ended 31 December 2015.

Directors

The names of the Directors of the Company in office during the half year ended 31 December 2015 and until the date of this report (unless otherwise stated) were:

M J T Ford
S P Kinsella
C F Collingwood
P Ho

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'), ACN 123 123 124.

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 half year ended 31 December 2015 of \$13.19 million (31 December 2014: \$15.38 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 2.687% in the half year ended 31 December 2014, to 2.154% in the half year ended 31 December 2015.

When 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 \$2.17 million for the half year ended 31 December 2015 (31 December 2014: \$1.22 million).

Finance costs for the half year ended 31 December 2015 of \$13.18 million (31 December 2014: \$15.38 million) are 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 2.687% in the half year ended 31 December 2014, to 2.154% in the half year ended 31 December 2015.

The Company recorded a small net profit after tax for the half year ended 31 December 2015 of \$472 (31 December 2014: net loss after tax of \$5,000).

Financial position

At 31 December 2015 the Company held total assets of \$1,173.24 million (30 June 2015: \$1,172.97 million) and net assets of \$0.44 million (30 June 2015: \$0.44 million).

Preferred Capital Limited
Directors' Report
For the half year ended 31 December 2015
(continued)

Dividends

	31 December 2015 \$'000	31 December 2014 \$'000
PERLS III		
PERLS III fully franked dividends paid on 6 July 2015 (\$1.1029 per share) (7 July 2014: \$1.3060 per share)	6,432	7,617
PERLS III fully franked dividends paid on 6 October 2015 (\$1.1257 per share) (7 October 2014: \$1.3115 per share)	6,565	7,649
Total dividends - PERLS III	12,997	15,266

On 14 December 2015 the Directors resolved to pay a fully franked dividend of \$6.62 million (10 December 2014: \$7.65 million) in respect of PERLS III (\$1.1351 per share) (10 December 2014: \$1.3112 per share) to be payable on 6 January 2016. Payments 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 6 January 2016.

Likely developments, expected results of operations and business strategy

On 16 February 2016, the Bank announced an offer (the 'Reinvestment Offer') to existing holders of PERLS III to roll over their investment into a new security called CommBank PERLS VIII Capital Notes, to be issued by the Bank. On the Reinvestment Date, 30 March 2016, the Bank will buy back all PERLS III participating in the Reinvestment Offer for \$200 per PERLS III. The proceeds of the buy-back will automatically be applied to the subscription price for PERLS VIII. Existing investors who do not participate in the Reinvestment Offer will have their PERLS III exchanged by the Bank compulsorily acquiring them for \$200 per PERLS III in accordance with the PERLS III terms. All existing investors on the Record Date 29 March 2016 (both those participating in the Reinvestment Offer and those not) will receive a PERLS III distribution on 6 April 2016 for the period 6 January 2016 to 5 April 2016.

Once the exchange is completed on 6 April 2016, the PERLS III will be bought back from the Bank by Preferred Capital Limited using proceeds from the repayment of Convertible Notes. All existing PERLS III holders will therefore either receive an amount of PERLS VIII issued by the Bank equivalent to their existing investment (if they participate in the Reinvestment Offer), or cash repayment of their existing PERLS III investment. There will be no remaining PERLS III issued by the Company. Following this, the Company is expected to be dormant and to eventually be wound down and deregistered.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 3.

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.

Licia Ho-Audlan

Director
Sydney, NSW
15 March 2016



Auditor's Independence Declaration

As lead auditor for the review of Preferred Capital Limited for the half-year ended 31 December 2015, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink, appearing to read 'M. Laithwaite', written over a light blue horizontal line.

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Sydney
15 March 2016

Preferred Capital Limited
Statement of Comprehensive Income
For the half year ended 31 December 2015

		31 December 2015	31 December 2014
	Note	\$'000	\$'000
Revenue from continuing operations	3	13,186	15,376
Finance costs	3	(13,183)	(15,378)
Other expenses	3	(2)	(2)
Profit/(loss) before income tax		1	(4)
Income tax expense		(1)	(1)
Net profit/(loss) for the half year after tax		-	(5)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the half year, attributable to owners of Preferred Capital Limited		-	(5)

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

Preferred Capital Limited
Balance Sheet
As at 31 December 2015

	31 December 2015 \$'000	30 June 2015 \$'000
Assets		
Current assets		
Cash and cash equivalents	466	380
Loans and other receivables	1,172,776	1,172,590
Total current assets	1,173,242	1,172,970
Total assets	1,173,242	1,172,970
Liabilities		
Current liabilities		
Payables	6,348	6,076
Interest bearing liabilities	1,166,456	1,166,456
Total current liabilities	1,172,804	1,172,532
Total liabilities	1,172,804	1,172,532
Net assets	438	438
Equity		
Contributed equity*	-	-
Retained earnings	438	438
Total equity attributable to owners of Preferred Capital Limited	438	438

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

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

Preferred Capital Limited
Statement of Changes in Equity
For the half year ended 31 December 2015

	Contributed equity*	Retained earnings	Total equity
	\$'000	\$'000	\$'000
As at 1 July 2014	-	415	415
Total comprehensive income for the half year	-	(5)	(5)
As at 31 December 2014	-	410	410
As at 1 July 2015	-	438	438
Total comprehensive income for the half year	-	-	-
As at 31 December 2015	-	438	438

*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.

Preferred Capital Limited
Statement of Cash Flows
For the half year ended 31 December 2015

	31 December 2015 \$'000	31 December 2014 \$'000
Cash flows from operating activities		
Interest income received	10,835	14,037
Top-up payments received	2,165	1,235
Interest expense paid	(12,997)	(15,266)
Other expenses paid	(2)	(2)
Reimbursement from the Bank	86	-
Income tax paid	(1)	(2)
Net cash flows from operating activities	86	2
Cash flows from investing activities	-	-
Net cash flows from investing activities	-	-
Cash flows from financing activities	-	-
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	86	2
Cash and cash equivalents at the beginning of the half year	380	376
Cash and cash equivalents at the end of the half year	466	378

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 Interim Financial Report (the 'Financial Report') of Preferred Capital Limited (the 'Company') for the half year ended 31 December 2015, was approved and authorised for issue by the Board of Directors on 15 March 2016. The Directors have the power to amend and re-issue this report, which includes the Financial Statements for the Company for the half year ended 31 December 2015.

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 immediate and 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 principal accounting policies adopted in the presentation of these Interim Financial Statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated. These Interim Financial Statements are the individual financial statements of Preferred Capital Limited as an individual entity.

(a) Basis of accounting

The Financial Report for the half year ended 31 December 2015 has been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 Interim Financial Reporting which ensures compliance with IAS 34 Interim Financial Reporting. The Company is a for-profit entity for the purposes of preparing the Financial Statements.

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.

This Interim Financial Report does not include all notes of the type normally included in an Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Company as that given in the Annual Financial Report. As a result, this Interim Financial Report should be read in conjunction with the 30 June 2015 Annual Financial Report of the Company and any public announcements made in the period by the Company in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

For the purpose of this Interim Financial Report, the half year has been treated as a discrete reporting period.

The accounting policies and methods of computation adopted in the preparation of the Interim Financial Report are consistent with those adopted and disclosed in the Annual Financial Report for the year ended 30 June 2015.

Where necessary, comparative information has been restated to conform to changes in presentation in the current period.

New and amended standards adopted

No amendments to Australian Accounting Standards have been adopted during the period that have a material impact on the Company.

Note 1 Summary of significant accounting policies (continued)

Impact of standards issued but not yet applied by the Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 interim reporting periods and have not been early adopted by the Company. AASB 9 'Financial Instruments' amends the classification, measurement and impairment of financial instruments and general hedge accounting requirements. AASB 9 is not mandatory until 1 July 2018 for the Company, and the Company does not intend to early adopt the standard. AASB 15 'Revenue from Contracts with Customers' contains new requirements for the recognition of revenue and additional disclosures. AASB 15 is not mandatory until 1 July 2018.

These standards are not expected to have any significant impact on the Company.

(b) Going concern

As described in the Directors' Report and Note 6, PERLS III are expected to be repaid in full from repayment of the Convertible Notes, on the exchange date 6 April 2016. Following this, the Company is expected to be dormant and to eventually be wound down and deregistered. The timing of the eventual deregistration is not certain, and is subject to the completion of other requirements such as dealing with unclaimed monies. Accordingly, the Directors have continued to prepare the Financial Statements on a going concern basis.

Note 2 Segment information

The Company operates predominantly in one geographical area, Australia, and 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.

Note 3 Revenue and expenses

	31 December 2015	31 December 2014
	\$'000	\$'000
Revenue from continuing operations		
Interest income from ultimate parent entity	4	5
Interest income from CBA New Zealand convertible notes	11,012	14,149
Top-up payments from ultimate parent entity	2,170	1,222
Total revenue from continuing operations	13,186	15,376
Expenses		
Interest expense	13,183	15,378
Other operational expenses	2	2
Total expenses	13,185	15,380

Note 4 Fair value measurement of financial instruments

As described in 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 4 Fair value measurement of financial instruments (continued)

(a) Valuation (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 31 December 2015 are presented below:

	31 December 2015				
	Carrying amount	Fair Value			
	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial assets not measured at fair value on a recurring basis</i>					
Current assets - Cash and cash equivalents	466	466	-	-	466
Current assets - Loans and other receivables	1,172,776	-	1,167,313	-	1,167,313
Total financial assets	1,173,242	466	1,167,313	-	1,167,779
<i>Financial liabilities not measured at fair value on a recurring basis</i>					
Current liabilities - Interest bearing liabilities	1,166,456	1,160,624	-	-	1,160,624
Current liabilities - Payables and income tax	6,348	-	6,348	-	6,348
Total financial liabilities	1,172,804	1,160,624	6,348	-	1,166,972

Note 4 Fair value measurement of financial instruments (continued)

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

	30 June 2015				
	Carrying amount	Fair Value			
	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial assets not measured at fair value on a recurring basis</i>					
Current assets - Cash and cash equivalents	380	380	-	-	380
Current assets - Loans and other receivables	1,172,590	-	1,158,814	-	1,158,814
Total financial assets	1,172,970	380	1,158,814	-	1,159,194
<i>Financial liabilities not measured at fair value on a recurring basis</i>					
Current liabilities - interest bearing liabilities	1,166,456	1,149,543	-	-	1,149,543
Current liabilities - Payables and income tax	6,076	-	6,076	-	6,076
Total financial liabilities	1,172,532	1,149,543	6,076	-	1,155,619

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 from amounts disclosed above because of 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. However, there was no objective evidence that an impairment loss on loans and other receivables had been incurred for the half year ended 31 December 2015 (30 June 2015: \$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 31 December 2015.

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 5 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2015 (30 June 2015: \$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 6 Events after the balance sheet date

On 14 December 2015 the Directors resolved to pay a fully franked dividend of \$6.62 million (10 December 2014: \$7.65 million) in respect of PERLS III (\$1.1351 per share) (10 December 2014: \$1.3112 per share) to be payable on 6 January 2016. Payments 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 6 January 2016.

Note 6 Events after the balance sheet date (continued)

On 16 February 2016, the Bank announced an offer (the 'Reinvestment Offer') to existing holders of PERLS III to roll over their investment into a new security called CommBank PERLS VIII Capital Notes, to be issued by the Bank. On the Reinvestment Date, 30 March 2016, the Bank will buy back all PERLS III participating in the Reinvestment Offer for \$200 per PERLS III. The proceeds of the buy-back will automatically be applied to the subscription price for PERLS VIII. Existing investors who do not participate in the Reinvestment Offer will have their PERLS III exchanged by the Bank compulsorily acquiring them for \$200 per PERLS III in accordance with the PERLS III terms. All existing investors on the Record Date 29 March 2016 (both those participating in the Reinvestment Offer and those not) will receive a PERLS III distribution on 6 April 2016 for the period 6 January 2016 to 5 April 2016.

Once the exchange is completed on 6 April 2016, the PERLS III will be bought back from the Bank by Preferred Capital Limited using proceeds from the repayment of Convertible Notes. All existing PERLS III holders will therefore either receive an amount of PERLS VIII issued by the Bank equivalent to their existing investment (if they participate in the Reinvestment Offer), or cash repayment of their existing PERLS III investment. There will be no remaining PERLS III issued by the Company. Following this, the Company is expected to be dormant and to eventually be wound down and deregistered.

The Directors are not aware of any other matter or circumstance that has occurred since the end of the reporting period 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 periods.

Preferred Capital Limited
Directors' Declaration
For the half year ended 31 December 2015

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

- (a) The financial statements for the half year ended on 31 December 2015 and notes thereto, are in accordance with the Corporations Act 2001, including:
 - (i) section 304 (which requires the financial report, which includes the financial statements and the notes to the financial statements, to comply with the Accounting Standards and any further requirements in the Corporations Regulations 2001); and
 - (ii) section 305 (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); and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Director
Sydney, NSW
15 March 2016



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Preferred Capital Limited (the company), which comprises the balance sheet as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Preferred Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Preferred Capital Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'M. Laithwaite', written in a cursive style.

Marcus Laithwaite
Partner

Sydney
15 March 2016