Bank of Sydney Ltd
ABN 44 093 488 629
Annual Financial Report
For the year ended
31 December 2019

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Bank of Sydney Ltd
Directors' report
For the year ended 31 December 2019

The Directors present their report together with the financial report of the Bank of Sydney Ltd ('the Bank' and 'the Consolidated Entity'), for the year ended 31 December 2019 and the audit report thereon.

Directors
The Directors of the Consolidated Entity at any time during or since the end of the financial year are:

Dr Nicholas Pappas AM
Chairman and Non-Executive Independent Director
Appointed 26 March 2001

Dr. Nicholas Pappas is a Sydney lawyer in private practice. In addition to his role as Board Chairman, he serves on the Bank's Audit & Remuneration Committees. He is Chairman of South Sydney District Rugby League Football Club Limited ('the Rabbitohs'), and South Sydney Members Rugby League Club Limited. He also serves on the Boards of the Steve Waugh Foundation – Australia, the Hellenic Club Limited and Melbourne's Hellenic Museum. Dr. Pappas is the Honorary Secretary of the Greek Orthodox Archdiocesan Council and a Trustee of the Greek Orthodox Archdiocese of Australia Consolidated Trust. He was appointed to the General Division of the Order of Australia (AM) in 2013 for services to the Arts, Rugby League & the Greek-Australian community.

Mr Greg Gav
Non-Executive Independent Director
Appointed 31 March 2005

Mr Gav is a member of the Board Risk Management Committee. He is a Sydney Based property developer and entrepreneur. He is a Director of Mars Property Group.

Mr Nikolas T Hatzistergos
Non-Executive Independent Director
Appointed 28 August 2006

Mr. Hatzistergos is the Chairman of the Board Audit Committee. He is also Managing Director of William Buck (NSW) Pty Ltd and Chairman of William Buck Limited. He is President of the Hellenic Club Limited and a Director at St Basil's Homes. He is a Director of the Management Board and Member of the Governing Council of Praxity (AISBL). He is also a Director and Chairman of the Audit and Finance Committee for South Sydney District Rugby League Football Club Limited.

Hon Steve Bracks AC
Non-Executive Independent Director
Appointed 18 May 2011

The Hon Steve Bracks AC was Premier of Victoria for eight years. He now advises several leading Australian finance and service sector corporations. Mr. Bracks also holds two major honorary positions: as an Adviser to the Prime Minister of Timor-Leste and Honorary Chair of The Union Education Foundation. He is Chairman of the superannuation fund Cbus; Chairman of Maurice Blackburn Lawyers; Chairman of the Melbourne Cricket Ground (MCG) Trust; and Chairman of Victory Offices. He is also a member of the Australian Republican Movement's Republican Advisory Panel (RAP); and, the West of Melbourne Economic Development Alliance (WoMEDA).

Mr Fouad Chaker
Non-Executive Director
Appointed 28 February 2011

Mr Chaker holds the position of Chief Banking Officer at Bank of Beirut s.a.l.

Mr. Roger Dagher
Non-Executive Director
Appointed 7 July 2016

Mr Dagher is a member of the Board Risk Management Committee, Board Remuneration Committee and Board Audit Committee. He also holds the position of Group Chief Financial Officer at Bank of Beirut s.a.l.

Mr. Ben Edney
Non-Executive Director
Appointed 15 March 2017

Mr. Ben Edney is Chairman of the Board Risk Management Committee. Mr. Edney is an accomplished finance industry expert with 30 years domestic and international experience with National Australia Bank and KPMG in advisory, risk and restructuring. In addition to his directorship with Bank of Sydney, Mr. Edney is also chairman of Nimble Money Limited as well as Williams Holdings Limited in New Zealand and Managing Director of Lempriere Capital.

Directors' Meetings
The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors during the financial year were:

	Board Operations		Board Audit Committee		Board Risk Management Committee		Board Remuneration Committee	
Directors	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended
N.G. Pappas AM	6	6	6	5	-	-	1	1
N.T. Hatzistergos	6	4	6	5	-	-	1	1
G.Gav	6	4	-	-	6	2	-	-
H.S. Bracks AC	6	3	-	-	-	-	-	-
F. Chaker	6	6	-	-	-	-	-	-
B. Edney	6	6	-	-	6	6	-	-
R. Dagher	6	5	6	6	6	6	1	1
H. El-Bikai*	-	-	-	-	-	-	-	-

* Mr El-Bikai ceased being an alternate director in March 2019.

Prior approval from the Chairman was received for all directors regarding their apologies at Board and Board Committee Meetings.

Company Secretary

Mrs Chrystalla Vougamalis
Mrs. Vougamalis was appointed as Company Secretary in May 2011, she also holds the position of Chief Customer Officer and has worked in various roles throughout the Bank since 2006 including Risk Management and Credit. She holds a Bachelor's degree in Business from the University of Technology Sydney and holds a diploma in Applied Corporate Governance from the Governance Institute of Australia. She is an Associate of the Governance Institute of Australia and a registered Justice of the Peace.

Principal Activities
Principal activities of the Consolidated Entity are the provision of general banking services.

Results
The net profit of the Consolidated Entity was $3,940k (2018: profit of $11,219k). The result included reversal of provisions for impairment losses for Loans and Advances of $141k (2018: $3,799k reversal). At 31 December 2019, the Consolidated Entity's net loan portfolio was $2,062m (2018: $1,758m) and its customer deposits were $2,443m (2018: $1,957m). This represents an increase of 17% in loans and an increase of 25% in deposits when compared to the balances as at 31 December 2018.

Dividends
No dividends have been paid or declared since the start of the financial year.

The Directors do not recommend payment of a dividend in respect of the financial year ended 31 December 2019 (2018: Nil).

State Of Affairs
No significant changes in the state of affairs of the Consolidated Entity occurred during the financial year.

Subsequent Events
On 30 January 2020, the spread of COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organisation ("WHO"). Subsequently, on 11 March 2020, WHO characterised COVID-19 as a pandemic affecting countries worldwide.

The Bank is monitoring the impacts on its lending portfolios and acknowledges that provisions may be higher as a result of COVID-19. This is expected to be partially compensated by the impact of recently announced financial benefits extended by Governments and regulators across Australia. The situation remains fluid and the Bank expects there will be a range of outcomes that will emerge over the coming months. The Bank will continue to monitor the impact of COVID-19 and assess the overall impact on the Consolidated Entity.

As at the date of these financial statements the Directors of the Consolidated Entity have considered the financial effects of COVID-19 on the Consolidated Entity's financial statements and consider the Bank a going concern. Although the Bank has taken steps to mitigate the impacts on the Consolidated Entity, it is still in the process of quantifying the overall impacts.

The Consolidated Entity continues to be fully operational and has policies in place to minimise the potential risk of business interruption.

No other events have occurred subsequent to 31 December 2019 that require disclosure or adjustment to these financial statements.

Likely Developments
The Directors believe on reasonable grounds that inclusions in this report of further information regarding likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, this information has not been disclosed in this report.

Auditor's Independence Declaration
The auditor's independence declaration is set out on page 7 of the annual financial report.

Indemnification and Insurance of Officers and Auditors

The Consolidated Entity has agreed to indemnify the Directors and certain senior executives, against all liabilities to another person (other than the Consolidated Entity or a related body corporate) that may arise from their position with the Consolidated Entity, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Consolidated Entity will meet the full amount of any such liabilities, including costs and expenses.

No indemnities were paid to current or former officers or auditors during or since the end of the year.

Rounding Off

The Consolidated Entity is of a kind referred to in ASIC 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in the financial report and Director's report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with the resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors:

Nicholas Pappas
Chairman

Nikolas Hatzistergos
Director

Sydney, 22 April 2020

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Bank of Sydney Ltd
219-223 Castlereagh Street
Sydney NSW 2000

24 April 2020

Dear Board Members

Bank of Sydney Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Bank of Sydney Ltd and its subsidiary (the "Consolidated Entity").

As lead audit partner for the audit of the financial statements of Bank of Sydney Ltd and its subsidiary for the financial year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. Jones

Rebecca Jones
Partner
Chartered Accountants

Bank of Sydney Ltd
Consolidated Statement of Profit and Loss
For the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Interest income	2	85,808	83,054
Interest expense	3	(46,556)	(41,517)
Net interest income		39,252	41,537
Non-interest income	4	8,908	7,976
Net operating income		48,160	49,513
Operating expenses	5	(42,602)	(37,231)
Reversal of/(Provision for) impairment losses on financial assets measured at amortised cost	11	141	3,799
Profit before income tax		5,699	16,081
Income tax expense	6	(1,759)	(4,862)
Profit for the year		3,940	11,219
Attributable to:			
Equity holders of the Consolidated Entity		**3,940**	**11,219**
Profit for the year		**3,940**	**11,219**

The Consolidated Statement of Profit and Loss is to be read in conjunction with the notes to and forming part of the financial report set out on pages 13 to 71.

Bank of Sydney Ltd
Consolidated Statement of Profit and Loss
and Other Comprehensive Income
For the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Profit for the year		**3,940**	**11,219**
Cash flow hedges:			
Effective portion of changes in fair value		(1,924)	(1,128)
Net amount transferred to statement of profit and loss		-	31
Other comprehensive income for the period, net of income tax	26	(1,924)	(1,097)
Total comprehensive income for the year		**2,016**	**10,122**
Attributable to:			
Equity holders of the Consolidated Entity		2,016	10,122
Total comprehensive income for the year		**2,016**	**10,122**

The Consolidated Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial report set out on pages 13 to 71.

Bank of Sydney Ltd
Consolidated Statement of Financial Position
For the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash and liquid assets	7	146,850	57,618
Due from other financial institutions	8	69,815	78,949
Investment at amortised cost	9	419,701	388,042
Loans and advances	10(a)	2,062,485	1,757,844
Derivative financial assets	20	3,223	85
Intangible assets	12	8,729	7,990
Property, plant and equipment	13	41,311	3,711
Investment Property	14	25,189	-
Deferred tax assets	15	3,596	2,850
Other assets	16	7,721	5,343
Total assets		**2,788,620**	**2,302,432**
Liabilities			
Due to other financial institutions	17	4,683	48,147
Securities sold and under repurchase agreements	18	-	-
Deposits	19	2,442,996	1,956,601
Derivative financial liabilities	20	3,861	5,168
Provisions	21	3,472	2,958
Lease liabilities	22	11,875	-
Other liabilities	23	15,249	4,910
Total liabilities		**2,482,136**	**2,017,784**
Net assets		**306,484**	**284,648**
Equity			
Contributed equity	24	230,000	210,000
Retained profits	25	72,981	70,105
Reserves	26	3,503	4,543
Total equity		**306,484**	**284,648**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial report set out on pages 13 to 71.

Bank of Sydney Ltd
Consolidated Statement of Cash Flows
For the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Interest and commission receipts		95,453	89,298
Interest payments		(47,002)	(39,629)
Cash payments to employees and suppliers		(35,456)	(34,470)
Bad debts recovered		20	-
Income Tax Paid		(1,680)	(5,305)
		11,335	9,894
(Increase) / decrease in operating assets			
Loans and advances		(304,399)	(284,214)
Derivative Assets		(3,376)	3,695
Other assets		(2,378)	(2,422)
Increase / (decrease) in operating liabilities			
Due to other financial institutions		(43,412)	41,850
Deposits		486,789	221,985
Derivative liabilities		(4,056)	5,084
Other liabilities		8,921	(1,776)
Net cash (used in) / provided by operating activities	35(b)	**149,424**	**(5,904)**
Cash flows from investing activities			
Payments for intangible assets		(2,276)	(3,610)
Payments for property, plant & equipment		(29,855)	(1,597)
Payments for investment property		(25,651)	-
Purchase of investments at amortised cost		(137,682)	(135,628)
Proceeds from investments at amortised cost		105,380	209,810
Net cash provided by investing activities		**(90,084)**	**68,975**
Cash flows from financing activities			
Repayments of lease liabilities		735	-
Securities bought under repurchase agreement		-	(85,068)
Proceeds from issue of shares		20,000	10,000
Net cash provided by financing activities		**20,735**	**(75,068)**
Net increase / (decrease) in cash held		**80,075**	**(11,997)**
Cash at the beginning of the financial year		136,621	148,618
Cash at the end of the financial year	35(a)	**216,696**	**136,621**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial report set out on pages 13 to 71.

Bank of Sydney Ltd
Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

	Note	Contributed Equity	General reserve for credit	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 31 December 2018		**210,000**	**5,725**	**(1,182)**	**70,105**	**284,648**
Opening balance adjustments	25				(180)	
Balance at 1 January 2019		**210,000**	**5,725**	**(1,182)**	**69,925**	**284,468**
Profit and loss		-	-	-	3,940	**3,940**
Transfers from general reserve to retained earnings	26	-	884	-	(884)	-
Other comprehensive income, net of income tax						
Effective portion of changes in fair value		-	-	(1,924)	-	**(1,924)**
Net amount transferred to profit and loss		-	-	-	-	-
Total other comprehensive income		**-**	**-**	**(1,924)**	**-**	**(1,924)**
Total comprehensive income for the year		**-**	**884**	**(1,924)**	**3,056**	**2,016**
Issue of share capital	24	20,000				**20,000**
Balance at 31 December 2019		**230,000**	**6,609**	**(3,106)**	**72,981**	**306,484**

	Note	Contributed Equity	General reserve for credit	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2018		**200,000**	**7,773**	**(85)**	**56,838**	**264,526**
Profit and loss		-	-	-	11,219	11,219
Transfers from retained earnings to general reserve	26	-	(2,048)	-	2,048	-
Other comprehensive income, net of income tax						
Net amount transferred to profit and loss		-	-	(1,128)	-	(1,128)
Effective portion of changes in fair value		-	-	31	-	31
Total other comprehensive income		**-**	**-**	**(1,097)**	**-**	**(1,097)**
Total comprehensive income for the year		**-**	**(2,048)**	**(1,097)**	**13,267**	**10,122**
Issue of share capital	24	10,000				**10,000**
Balance at 31 December 2018		**210,000**	**5,725**	**(1,182)**	**70,105**	**284,648**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 13 to 71.

1 Summary of significant accounting policies

(a) General information

Bank of Sydney Ltd ('the Company') is a Company domiciled in Australia. Its registered address is Level 4, 219-223 Castlereagh Street, Sydney, New South Wales.

The Company established a Residential Mortgage Backed Securitisation Trust with its legal name as 'BHB Residential Securities Trust 1' ('the Trust'). The Company acts as subscriber, manager and seller of the Trust. Perpetual Corporate Trust Limited is the Trustee. The Trust is a 100% owned subsidiary of the Company since inception. Please referto Note 38 for further details.

The principal activities of the Company and its subsidiary ('the Consolidated Entity') are disclosed in the Director's report.

The financial report was authorised for issue by the Directors on 22 April 2020.

The significant accounting policies which have been adopted in the preparation of this financial report are:

(b) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Banking Act 1959 and Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. For the purposes of preparing the consolidated financial statements, the Consolidated Entity is a for-profit entity. The Consolidated Entity's financial report complies with the International Financial Reporting Standards ('IFRSs') and the interpretations adopted by the International Accounting Standards Board.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been prepared in accordance with the historical cost convention, except for derivative financial instruments, which are stated at their fair value.

The financial report is presented in Australian dollars.

1 (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit and loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Consolidated Entity. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

For the purpose of preparing the consolidated financial statements, the Consolidated Entity is a for-profit entity.

(d) Interest

Interest income and expense for all interest bearing financial instruments, as well as directly attributable fees, are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit and loss using the effective interest rate ('EIR') method.

The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses
(ECLs)).

The Consolidated Entity enters into foreign exchange swaps ('FX Swaps') primarily to minimise its foreign currency risk. An FX swap consists of a spot and a forward foreign exchange impact which offset each other with a net cash outflow or inflow as forward points. The forward points expense or income in its economic substance are regarded as interest in nature, and recognised as "interest expense" or "interest income" in the consolidated statement of profit and loss.

(e) Fees and commission income

The Consolidated entity has applied the following five-step recognition and measurement model for revenue recognition:

1. Identify the contract with a customer;
2. Identify the separate performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

<u>Annual fees</u>
Annual fees are charged to recover administrative costs related to credit cards. These are recognised over time when the performance obligations are met.

<u>Line fees</u>
Line fees are charged for providing access to borrowing facilities for certain loan products. These are recognised over time when the performance obligations are met.

1 Summary of significant accounting policies (continued)

(e) Fees and commission income (continued)

<u>Other fees and commissions</u>
Other fees and commissions are recognised at a point in time when the performance obligation associated with the fee is performed.

(f) Net foreign exchange gain/loss

Net foreign exchange gain/loss includes realised gains or losses on sales or purchases of foreign currency as well as unrealised gain or losses from revaluation of the Consolidated Entity's net foreign currency exposure.

(g) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Consolidated Entity in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

(h) Due from other financial institutions

Due from other financial institutions comprise at call deposits and cash held with other banks and are carried at amortised cost. Interest on receivables due from other financial institutions is recognised on an EIR basis, as described in Note 1(d).

(i) Financial instruments

The Consolidated Entity is a financial institution that offers an extensive range of financial instruments.

Financial assets

(i) Amortised cost

Business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest.

The Consolidated Entity includes cash, loans and advances to customers, financial assets due from financial institutions in this category.

AASB 9 (December 2014) replaces the classification and measurement model in AASB 9 (December 2010) with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest.

Loans and advances are initially recorded at fair value plus any transaction costs directly attributable to the acquisition or issue of the loan and are subsequently measured at amortised cost less impairment using the EIR method.

1 Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

Financial assets (continued)

(ii) Fair value through other comprehensive income ("FVTOCI")

Business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest.

The Consolidated Entity does not hold any financial assets in this category.

(iii) Fair value through profit or loss ("FVTPL")
Where financial assets are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. The Consolidated Entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The Consolidated Entity includes derivatives that are designated in a hedging relationship in this category. Please refer to Note 1(l) for more information.

Financial liabilities
The Consolidated Entity classifies all its non-derivative financial liabilities as measured at amortised cost. These financial liabilities are initially recorded at fair value plus any directly attributable transaction costs using the EIR method.

Derivative financial liabilities are measured at FVTPL.

Securities sold and under repurchase agreements are classified as financial liabilities measured at amortised cost. These financial instruments are not derecognised from the balance sheet as the risks and rewards of ownership remain with the Consolidated Entity.

(j) Securitisation Cost
Costs incurred during and directly attributable to the establishment of the Trust, as described in Note 1(a), are capitalised as an asset on the balance sheet and recognised in the profit and loss on a straight line basis over the life of the Trust.

(k) Impairment
Non-financial assets
The carrying amounts of the Consolidated Entity's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is written down to the lower amount. The write down is recognised in the consolidated statement of profit and loss in the reporting period in which it occurs.

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Financial assets
Collective impairment provision
The Consolidated Entity uses an Expected Credit Loss ('ECL') impairment model to determine its collective provision. The ECL model is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised.

i. Measurement and recognition of ECL

The ECL is calculated as outlined below:

ECL = Exposure at Default * Probability of Default * Loss Given Default

Exposure at Default ('EAD')

EAD represents the estimated outstanding amount of credit exposure at the time of the default.

Probability of Default ('PD')

PD represents the probability that a counterparty defaults. PD is determined using a roll rate model approach to estimate the % of exposures expected to roll to a loss/default state. The roll rates are calculated using internal historical past due data. The Consolidated Entity calculates independent PD rates for the following categories of loans and advances to customers:
- Retail;
- Commercial non-property; and
- Commercial property.

The Consolidated Entity determines PD rates for treasury assets and trade exposures using historical external data in the absence of meaningful internal default loss history.

Loss Given Default (LGD)
LGD is an estimate of the loss arising on default. The Consolidated Entity applies different LGD rates depending on the financial asset as well as the product.

For customer loans and advances the Consolidated Entity has used the Loan-to-Value Ratio ('LVR') as an indicator for potential loss in the event of default.

ii. 3 Stage approach

In accordance with AASB 9 (December 2014), the Consolidated Entity calculates a collective provision which reflects the ECL based on a 3 stage approach. The stage which the financial asset is in determines whether the ECL is calculated using a 12 month or Lifetime ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

12 month ECL represents the portion of the Lifetime ECL that is expected to result from default events on a financial instruments that are likely within 12 months after the reporting date.

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Collective impairment provision (continued)

Financial assets migrate between the 3 stages based whether there has been a Significant Increase in Credit Risk (“SICR”) since initial recognition. In making this assessment the Consolidated Entity considers the following reasonable and supportable quantitative and qualitative criteria: days past due, internal customer rating, hardship exposures and restructured facility.

The Consolidated Entity groups its exposures by the following products: ‘customer loans and advances’ and ‘treasury assets and trade exposures with bank counterparties’. The table below outlines the criteria under which customer loans and advances migrate to stage 2.

Stage 2	Number of Days Past Due	Customer Rating 1	Hardship Flag	Restructure Flag
Retail Products	=>30 days <90 days	=>6 <9	✓	✓
Business Loans	=>30 days <90 days	=>6 <9	✓	✓
Commercial Property	=>30 days <90 days	=>6 <9	✓	✓
Commercial Construction	=>30 days <90 days	=>6 <9	✓	✓

1: The Consolidated Entity uses an internal customer rating process which grades customers from 1-10.

The table below outlines the criteria under which customer loans and advances migrate to stage 3.

Stage 3	Number of Days Past Due	Customer Rating 1
Retail Products	=>90 days	=>9
Business Loans	=>90 days	=>9
Commercial Property	=>90 days	=>9
Commercial Construction	=>90 days	=>9

Treasury assets and trade exposures with bank counterparties migrate from Stage 1 to Stage 2 when the counterparty is downgraded by 2 or more notches in credit rating using independent rating agencies. There is no collective provisioning for any financial asset in this group in stage 3 as there will be a specific provision applied in the event that the financial asset is past due.

The following table outlines how the Consolidated Entity measures ECL based on the 3 stage approach:

	Customer loans and advances	Treasury assets and trade exposures with Bank counterparties
Stage 1:	12 Month ECL	
Stage 2:	Lifetime ECL	
Stage 3:	Lifetime ECL	N/A

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Collective impairment provision (continued)

If the Consolidated Entity has measured the loss allowance for a financial instrument that is measured at amortised cost at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Consolidated Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Consolidated Entity recognises an impairment gain or loss in the statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

iii. Macro-economic overlay

The Consolidated Entity applies a macro-economic overlay to adjust the ECL for the impacts of macro-economic factors. The basis of the calculations takes into consideration key macro-economic factors, being medium & long-term debt, domestic credit growth and budget balance. These are used to determine three scenarios: Base case, Good Case and Bad Case. Relative weightings are then applied to each scenario to determine the final macro-economic adjusted ECL.

Specific provision

Specific provisions are considered for all customer loans and advances that are past 90 days overdue and where a loss is anticipated. For all treasury assets and trade exposures with bank counterparties specific provisions are raised when the external rating of the counterparty drops to 'junk'. A specific provision is raised for any estimated shortfall between the Consolidated Entity's exposure and the net realisable value of the financial asset.

Write offs

The Consolidated Entity writes off a financial asset where there is information indicating that there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Consolidated Entity's recovery procedures. Any recoveries made are recognised in the statement of profit and loss.

(l) Derivative instruments

The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are carried at fair value. For derivatives that are not designated in a cash-flow hedge relationship, the gain or loss on re-measurement of fair value is recognised immediately in profit or loss through the consolidated statement of profit and loss.

The fair value of interest rate swaps at the end of the reporting period are determined by calculating the present fair value of estimated future cash flows using applicable yield curves derived from quoted interest rates and the credit risk of the parties to the contract.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss. The Consolidated Entity hedges against interest rate fluctuations associated with its floating rate deposit liabilities. This objective is achieved by entering into interest rate swaps whereby the Consolidated Entity receives floating interest and pays fixed interest. The hedging instrument in this case is the interest rate swap and the hedge item is the floating rate deposits.

1 Summary of significant accounting policies (continued)

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in cash flow hedge reserve to the extent that the hedge is effective. If the hedge is ineffective, changes in fair value are recognised in the statement of profit and loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is terminated, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in cash flow hedge reserve remains there until the forecast transaction occurs. Refer to Note 26 for cash flow hedge reserve movement.

The Consolidated Entity adopted AASB 9 (December 2014) requirements on 1 January 2018. This requires the Consolidated Entity to ensure that hedge accounting relationships are aligned with its risk management objective and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness.

(m) Securities lent and repurchase agreements

Repurchased transactions, where the Consolidated Entity sells securities under an agreement to repurchase, are conducted on a collateralised basis. The securities subject to the lending are not derecognised from the balance sheet, as the risks and rewards of ownership remain with the bank. Securities sold, but subject to repurchase agreements, are disclosed as part of financial liabilities.

Fees and interest relating to securities lending and repurchase agreements are recognised as interest expenses in the income statement, using the EIR method, over the expected life of the agreements.

(n) Intangible assets

Computer software

Software acquired by the Consolidated Entity is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Consolidated Entity is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over the useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Both purchased and internally generated software has a finite useful life and are amortised using the straight-line method, at a rate applicable to the expected useful life of the asset, not exceeding 10 years.

The amortisation rates used are as follows:

2019	2018
10% to 20%	10% to 20%

Amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Amortisation expenses and any impairment charges are recognised in the income statement.

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

Items of Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Useful lives

All assets, apart from land, have limited useful lives and are depreciated from date of acquisition, or, for internally constructed assets, from the time it is completed and ready for use through the statement of profit and loss using the straight-line method over their estimated useful lives.

Depreciation rates and methods are reviewed annually to ensure they appropriately reflect residual values and estimated useful lives. When changes are made, adjustments are reflected prospectively in current and future periods only. The depreciation rates used for each class of asset are as follows:

	2019	2018
Property, plant and equipment		
Land and buildings*	2.50%	N/A
Leasehold improvements	10%	10%
Property, plant and equipment	10% - 33%	10% - 33%
Furniture and fittings	10% - 33%	10% - 33%
Computer hardware	20% - 25%	20% - 25%
Motor vehicle	13%	13%

* Land is an indefinite life asset and is not depreciated.

(p) Investment Property

Investment property is stated at cost less accumulated depreciation and impairment losses. An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in profit or loss.

Investment property is depreciated from its date of acquisition through the statement of profit and loss using the straight-line method over its estimated useful life.

The depreciation rate and method is reviewed annually to ensure it reflects the residual value and estimated useful life. Adjustments are made prospectively where there are changes. The depreciation rate used for investment property is:

	2019	2018
Investment Property - Building	2.50%	N/A

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

1 Summary of significant accounting policies (continued)

(q) Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Tax consolidation

The Company and its wholly-owned Australian resident entity "BHB Residential Securities Trust 1" have formed a tax-consolidated group with effect from 1 January 2015 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Bank of Sydney Limited. The Trust is the only other member of the tax-consolidated group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Entities within the tax consolidated group entered into a tax sharing deed, under the terms of which, the consolidated group allocates an income tax liability by reference to the income tax liability it would have incurred if it were not a member of the consolidated group. Where a contributing member is itself a trust, the deed provides for a reduction in the member's Notional Income Tax Amount to the extent it would not be assessed to the trustee under sections 99 or 99A of the Tax Act. This should have the effect of allocating a nil amount to the Trust if the Head Company is beneficially presently entitled to all of the income of the Trust.

(s) Leases

For more details on the Consolidated Entity's adoption of AASB 16, refer to Note 1(aa)(i).

<u>Lessee accounting</u>

The Consolidated Entity assesses whether a contract is or contains a lease, at inception of the contract. The Consolidated Entity recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Consolidated Entity recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Consolidated Entity uses its incremental borrowing rate. The incremental borrowing rate was determined with consideration to:
• An appropriate reference rate; and
• A financial spread adjustment to account for lease term and the Consolidated Entity's credit spread.

Lease payments included in the measurement of the lease liability comprise:
• Fixed lease payments (including in-substance fixed payments), less any lease incentives; and
• Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

1 Summary of significant accounting policies (continued)

(s) Leases (continued)

Lessee accounting (continued)

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Consolidated Entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- The lease term has in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate in which cases the lease liability is remeasured by discounting the revised leased payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Consolidated Entity did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Refer to Note 1(k) for the Consolidated Entity's accounting policy for impairment.

Whenever the Consolidated Entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. These costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Consolidated Entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

For details regarding the Consolidated Entity's right of use assets, refer to Note 13.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

Lessor accounting

The Consolidated Entity enters into lease agreements as a lessor with respect to its investment property.

Leases for which the Consolidated Entity is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Consolidated Entity’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Consolidated Entity’s net investment outstanding in respect of the leases.

1 Summary of significant accounting policies (continued)

(s) Leases (continued)

Lessor accounting (continued)

When a contract includes lease and non-lease components, the Consolidated Entity applies AASB 15 *Revenue from Contracts from Customers* to allocate the consideration under the contract to each component.

(t) Deposits

Deposits comprise current deposits, savings deposits and term deposits. Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost. Interest is recognised in the consolidated statement of profit and loss using the EIR method described in Note 1(d).

(u) Employee entitlements

(i) Wages, salaries, annual leave and sick leave

The provision for employee entitlements to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the balance sheet date, calculated at undiscounted amounts based on expected wage and salary rates including related on-costs.

(ii) Long service leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to the balance sheet date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at the balance sheet date which most closely match the terms of maturity of the related liabilities.

(iii) Superannuation plan

The Consolidated Entity contributes to a defined contribution superannuation plan. Contributions are expensed as they are incurred.

(v) Financial guarantees and letters of credit

Financial guarantees are contracts that require the Consolidated Entity to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can take the form of guarantees or letters of credit.

After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of:
(i) the amount of the loss allowance determined in accordance with Note k (impairment) or
(ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15.

(w) Derecognition of financial assets

The Consolidated Entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Consolidated Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Consolidated Entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Consolidated Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Consolidated Entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

1 Summary of significant accounting policies (continued)

(w) Derecognition of financial assets (continued)

Residential Mortgages subject to securitisation arrangements between the Company and the BHB Residential Securities Trust (the 'Trust') are recognised by the Company in its separate financial information (refer to Note 37) and are presented as 'Loans and advances - Held by Trust subject to securitisation'. These are also included in the Consolidated Entity's balance sheet.

(x) Provisions

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

(y) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The following are the critical judgements and estimates that the Directors have made in the process of applying the Consolidated Entity's accounting policies and that have the most significant effect on the amounts recognised in the annual financial report.

Fair value of financial instruments

As described in Note 29, the Consolidated Entity uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Note 29 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed disclosure of carrying amounts and estimated fair value of financial assets and liabilities.

The Directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Impairment

Non-Financial assets

As described in Note 1(k), determining whether an individual non-financial assets is impaired requires identification of an objective indication of impairment as well as estimation of the value of the recoverable amount.

The calculation of recoverable amount requires the Consolidated Entity to estimate the expected future cash flows, future credit losses and suitable discount rate in order to calculate present value.

1 Summary of significant accounting policies (continued)

(y) Use of estimates and judgements (continued)

Financial assets

Management estimates and judgements are applied when

Assessing the Consolidated Entity's business model

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest ("SPPI") and the business model test. The Consolidated Entity determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Consolidated Entity monitors financial assets measured at amortised cost to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Consolidated Entity’s continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Calculating impairment provisions for financial assets

Note 1(k) outlines the Consolidated Entity’s approach to collective provisioning and the following components are the key estimates and judgements made in relation to the measurement of the collective impairment provision:

• SICR: Judgement is used in determining what criteria to assess in the assessment of what constitutes a SICR as outlined in Note 1(k) as well as the underlying assessment of the individual financial asset. These criteria are assessed at each reporting date.

• Establishing groups of assets with similar risk characteristics as outlined in Note 1(i) and 1(k) and 27(b).

The Consolidated Entity monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they remain relevant.

• Establishing the number and relative weightings of forward-looking scenarios to determine the macro-economic overlay as outlined in Note 1(k).

The macro-economic overlay methodology, inputs and assumptions are reviewed each period.

• PDs and LGDs, as outlined in Note 1(k), are key estimates impacting the measurement of the ECL.

The provisioning methodology, including PD and LGD assumptions, data, expectations and output is reviewed each

(z) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the consolidated statement of profit and loss in the period in which the exchange rates change.

(aa) Application of new and revised standards

In the current year, the Consolidated Entity has applied a number of amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January , and therefore relevant for the current year end, including:

(i) AASB 16 *Leases*

On 1 January 2019, AASB 16 *Leases* became mandatorily effective. AASB 16 amends the accounting for leases and replaces AASB 117 *Leases*. Under AASB 16, lessees are required to bring all identified leases on balance sheet by recognising a right of use asset along with an associated lease liability. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting remains largely unchanged.

Impact of the new definition of a lease

The Consolidated Entity has made use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and IFRIC 4 will continue to be applied to leases entered into or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for period of time in exchange for consideration.

On 1 January 2019, the Consolidated Entity has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under AASB 117 and related interpretations.

Transition

The Consolidated Entity leases several buildings that were previously classified as operating leases under AASB 117. The average lease term is 5.5 years. The Consolidated Enmity has the option to extend some of the leases for an additional period of time after the end of the non-cancellable period, and, where it has been determined to be reasonably certain, these have been accounted for in determining the minimum lease payments. The Consolidated Entity's obligations are secured by the lessors' title to the leased assets for such leases and bank guarantee held.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 3.79%. The Consolidated Entity has applied the approach of measuring the right of use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

(aa) Application of new and revised standards (continued)

(i) AASB 16 *Leases* (continued)

The Consolidated Entity used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

• Excluded initial direct costs from measuring the right of use asset at the date of initial application; and
• Used hindsight when determining the lease term if the contract contained options to extend or terminate the lease.

Below is the financial impact on transition to AASB 16 as at 1 January 2019:

	Under AASB 117	Under AASB 16	Financial Impact
Financial Disclosure			
Right of use asset	$nil	11,827	**11,827**
Prepaid lease	255	98	**(157)**
Deferred lease liability	(364)	(13)	**351**
Lease liability	$nil	(12,021)	**(12,021)**
Total	**(109)**	**(109)**	**-**

As at 31 December 2018, the Consolidated Entity disclosed minimum lease commitments (undiscounted) totalling $5,059 thousand. The main difference between this commitment amount and the lease liability recognised on transition is the requirement under AASB 16 to include lease payments under extension options where it is reasonably certain that the option will be exercised by the Consolidated Entity.

(ii) Other Standards

The following accounting standards and pronouncements were also mandatorily adopted for the financial year.

• Interpretation 23 *Uncertainty over Income Tax Treatments;* and
• AASB 2017-4 *Amendments to Australian Accounting Standards - Uncertainty over Income Tax Treatments.*

These did not have a material impact on adoption.

(ab) Standards and Interpretations issued not yet adopted

Other Standards

The following amended standards and interpretations that are issued but not yet effective are not expected to have a significant impact on the Consolidated Entity's consolidated financial statements:

• AASB 2018-6 *Amendments to Australian Accounting Standards - Definition of a Business;*
• AASB 2018-7 *Amendments to Australian Accounting Standards - Definition of Material;* and
• AASB 2019-1 *Amendments to Australian Accounting Standards - References to the Conceptual Framework.*
• AASB 2019-5 *Amendments to Australian Accounting Standards - Disclosure of the effect of New IFRS standards not yet issued in Australia*
• AASB 2019-1 *Amendments to Australian Accounting Standards - Interest rate benchmark reform*

		2019 $'000	2018 $'000
2	**Interest income**		
	Cash and liquid assets	972	1,355
	Due from other financial institutions	68	83
	Investments at amortised cost		
	- banks	11,445	12,550
	- related party	625	341
	Loans and advances	72,297	68,774
	Other interest income – parent company	401	(49)
		85,808	**83,054**
3	**Interest expense**		
	Due to other financial institutions		
	- banks	914	318
	- related party	2,059	224
	Deposits	42,578	39,674
	Other borrowings - repurchase agreement	549	1,301
	Interest expense - leases	456	-
		46,556	**41,517**
4	**Non-interest income**		
	Net fees and commission income	5,412	5,753
	Gain from sale of securities	320	304
	Net foreign exchange gain	2,587	1,972
	Unrealised loss on derivatives	(238)	(53)
	Rental income	827	-
		8,908	**7,976**
5	**Operating expenses**		
	Staff expenses	22,539	20,122
	Computer expenses	5,018	3,722
	Occupancy costs	1,777	3,941
	Depreciation of property, plant and equipment	3,511	765
	Amortisation of intangibles	1,336	1,220
	Marketing expenses	1,349	1,111
	Other operating expenses	7,072	6,350
		42,602	**37,231**

	2019 $'000	2018 $'000
6 Taxation		
(a) Income tax expense		
Current tax expense		
Current period	1,363	3,876
Adjustment for prior period	159	(8)
	1,522	3,868
Deferred tax expense		
Deferred tax expense recognised in the current year	78	986
Adjustment for prior period	159	8
	237	994
Total income tax expense	**1,759**	**4,862**
(b) Reconciliation between tax expense and pre-tax net profit		
Profit before tax	5,699	16,081
Income tax using the Consolidated Entity's tax rate of 30%	1,710	4,824
Prior Year adjustment	-	-
Non-deductible expenses	49	38
Income tax expense	**1,759**	**4,862**

7 Cash and liquid assets

	2019 $'000	2018 $'000
Cash at bank	3,478	4,298
Cash held with central bank	143,372	53,320
	146,850	**57,618**

Total cash and liquid assets are all variable interest rates and are unsecured.

		2019 $'000	2018 $'000
8	**Due from other financial institutions**		
	Within Australia	38,676	14,088
	Related parties	561	57,755
	Overseas	30,609	7,160
	Less: Impairment Loss Allowance	(31)	(54)
		69,815	**78,949**
	Impairment Loss Allowance		
	Opening balance	(54)	-
	Reversal / (Charge) to consolidated statement of profit and loss	23	(54)
	Closing balance	**(31)**	**(54)**

Refer to Note 27(b)(iii) for analysis of movement in gross balance and impairment loss allowance during the year.

		2019 $'000	2018 $'000
	Residual maturity analysis		
	At call	-	-
	Up to 1 month	69,846	78,891
	1 to 3 months	-	112
	Less: Impairment Loss Allowance	(31)	(54)
		69,815	**78,949**
9	**Investments at amortised cost**		
	Certificate of Deposits	49,943	17,980
	Floating rate notes	284,278	284,396
	Fixed rate bonds	85,541	85,786
	Less: Impairment Loss Allowance	(61)	(120)
		419,701	**388,042**
	Residual maturity analysis		
	Up to 1 month	34,215	12,993
	1 to 3 months	32,747	8,001
	3 to 12 months	71,649	48,715
	12 months to 5 years	274,976	312,269
	Over 5 years	6,175	6,184
	Less: Impairment Loss Allowance	(61)	(120)
		419,701	**388,042**
	Impairment Loss Allowance		
	Opening balance	(120)	(98)
	Reversal / (Charge) to consolidated statement of profit and loss	59	(22)
	Closing balance	**(61)**	**(120)**

Refer to Note 27(b)(iii) for analysis of movement in gross balance and impairment loss allowance during the year.

			2019	2018
			$'000	$'000
9	**Investments at amortised cost (continued)**			

The below carrying value of investments at amortised cost were sold with a forward repurchase date, as part of the sales and repurchase agreement with Reserve Bank of Australia. The Consolidated Entity retained risks and rewards of the investments, and therefore have not derecognised these assets.

		2019 $'000	2018 $'000
Pledged value			
Floating rate notes		-	-
Fixed rate bonds		-	-
		-	-

10 (a) Loans and advances

	Note	2019 $'000	2018 $'000
Loans and advances		2,036,141	1,719,452
Overdrafts		27,847	39,999
Gross loans and advances		**2,063,988**	**1,759,451**
Less -			
Collective provision	11	(1,434)	(1,513)
Specific provision	11	(69)	(94)
Net loans and advances		**2,062,485**	**1,757,844**

	2019 $'000	2018 $'000
Residual maturity analysis (excluding provisions)		
Overdrafts	27,916	40,093
Up to 1 month	170,035	244,036
1 to 3 months	21,035	26,981
3 to 12 months	24,458	71,715
12 months to 5 years	23,080	19,659
Over 5 years	1,797,464	1,356,967
	2,063,988	**1,759,451**

Residual maturity analysis was performed based on contractual final maturity dates of loans and advances. Refer to Note 29 for additional disclosures.

(b) Internal Securitisation

As further disclosed in Note 38 – Internal Securitisation, $294m (2018: $331m) of Residential Mortgages have been sold and are held by a controlled subsidiary, BHB Residential Securities Trust 1, as part of an internal securitisation.

	2019	2018
	$'000	$'000
11 (a) Provision for Impairment		
Collective provisions		
Opening balance	(1,513)	(5,503)
Reversal to consolidated statement of profit and loss	78	3,990
Closing balance	**(1,434)**	**(1,513)**
Specific provisions		
Opening balance	(94)	-
Write off against provision	6	-
Reversal / (Charged) to consolidated statement of profit and loss	19	(94)
Closing balance	**(69)**	**(94)**

Reconciliation of impairment losses

	2019	2018
Collective provisions		
- current year (charge)/reversal	78	3,990
Specific provisions		
- current year (charge)/reversal	25	(94)
Impairment Loss Allowance		
- current year (charge)/reversal	82	(76)
Write off of Interest	(38)	(16)
Write off of loan Principal	(6)	(5)
Write back of unrealized interest to profit or loss	-	-
Impairment (loss) / reversal of loss	**141**	**3,799**

The Consolidated Entity did not recognise interest income on impaired assets as at 31 December 2019. (2018: Nil).

(b) Impaired assets

The balance of past due loans and impaired loans as described and explained in Note 1(k) are as follows:

	2019	2018
Loans and advances to customers		
Past due but not impaired	30,194	41,746
Impaired	78	96
Gross impaired and past due loans	30,272	41,842
Less: Specific provision	(69)	(94)
Net impaired and past due loans	**30,203**	**41,748**

Refer to Note 27(b) for further details.

		2019 $'000	2018 $'000
12	**Intangible assets**		
	Computer software		
	At cost	12,087	11,651
	Less: Accumulated amortisation	(3,358)	(3,661)
		8,729	**7,990**
	Opening balance	7,990	5,387
	Additions	2,276	4,086
	Transfer	-	-
	Disposal	(201)	(263)
	Amortisation expense	(1,336)	(1,220)
	Net book value	**8,729**	**7,990**
13	**Property, plant and equipment**		
	Property, plant and equipment		
	At cost	5,645	5,633
	Less: Accumulated amortisation	(3,729)	(3,510)
		1,916	2,123
	Leasehold improvements		
	At cost	5,677	6,795
	Less: Accumulated amortisation	(4,716)	(5,245)
		961	1,550
	Motor Vehicle		
	At cost	59	59
	Less: Accumulated amortisation	(29)	(21)
		30	38
	Right of Use Asset		
	At cost	13,667	-
	Less: Accumulated amortisation and impairment	(2,527)	-
		11,140	-
	Land and Buildings		
	At cost	27,325	-
	Less: Accumulated amortisation	(61)	-
		27,264	-
	Net book value	**41,311**	**3,711**

During the financial year, the Consolidated Entity acquired a building located at 62 Pitt Street Sydney NSW for $52,915 thousand. A portion of the building, including land of $5,837 thousand will be used by the Consolidated Entity for its operations and has accordingly been classified as Land and Buildings. The remaining portion of the building will be leased to tenants and have been classified as investment property. Refer to Note 14 for more details.

	2019 $'000	2018 $'000
13 Property, plant and equipment (continued)		
Reconciliation of the carrying values of Property, plant and equipment and leasehold property are set out below:		
Property, plant and equipment at cost		
Opening balance	2,123	1,093
Additions	290	963
Transfer	-	477
Net book value of assets disposed during the year	(65)	(34)
Depreciation expense	(432)	(376)
	1,916	2,123
Leasehold improvements at cost		
Opening balance	1,550	2,385
Additions	33	158
Transfer	-	(477)
Net book value of assets disposed during the year	(282)	(135)
Depreciation expense	(340)	(381)
	961	1,550
Motor vehicles at cost		
Opening balance	38	46
Additions	-	-
Depreciation expense	(8)	(8)
	30	38
Right of use asset at cost		
Opening balance	-	-
Opening balance adjustment - AASB 16 transition	11,827	
Additions	1,840	-
Impairment: Right of Use asset	(259)	
Depreciation expense	(2,268)	-
	11,140	-
Land and Buildings at cost		
Opening balance	-	-
Additions	18,089	-
Transfers (Refer to Note 14)	9,175	-
Depreciation expense	-	-
	27,264	-
Net book value	**41,311**	**3,711**

During the year, the Consolidated Entity transferred a portion of Investment property to property, plant and equipment as the Consolidated Entity did not seek to renew the expiring leases in anticipation of utilising the office space.

			2019	2018
			$'000	$'000
14	**Investment property**			
	Investment property			
	At cost		25,590	-
	Less: Accumulated amortisation		(401)	-
			25,189	**-**

The investment property is the proportion of the building acquired in 2019 allocated as such. Refer to Note 13 for more details. Given the recency of the acquisition, the Consolidated Entity believes that the carrying value reflects the fair value of the proportion classified as investment property.

Reconciliation of the carrying values of Investment property are set out below:

			2019	2018
	Investment property at cost			
	Opening balance		-	-
	Additions		34,826	-
	Transfers (Refer to Note 13)		(9,175)	
	Depreciation expense		(462)	-
			25,189	**-**

15 Deferred tax assets

Deferred income tax assets are attributable to the following items:

		2019	2018
Deferred tax assets			
Provisions		1,737	1,711
Cash flow hedge reserve		1,331	507
Fixed assets		372	681
Leased asset		203	-
Total deferred tax asset		3,643	2,899
Deferred tax liabilities			
Securitisation start-up costs		(37)	(34)
Prepaid balances		(10)	(15)
Total deferred tax liabilities		(47)	(49)
Net deferred tax asset		**3,596**	**2,850**

Reconciliation of balances of net deferred tax assets are set out below:

		2019	2018
Deferred tax assets			
Prior year ending balance		2,850	1,773
Effect of change in accounting policy from AASB 9		-	1,592
Opening balance restated		2,850	3,365
Deferred tax credit/(debit) to income statement	6(a)	(78)	(986)
Deferred tax charges recognised in equity for cash flow hedge		824	471
Net deferred tax asset		**3,596**	**2,850**

	2019 $'000	2018 $'000

16 Other assets

	2019 $'000	2018 $'000
Prepayments	904	943
Current tax receivable	2,930	-
Other receivables - Parent entity - Bank of Beirut s.a.l.	285	65
Other	3,602	4,335
	7,721	**5,343**

Other comprises mainly sundry debtors and other miscellaneous debit balances.

17 Due to other financial institutions

	2019 $'000	2018 $'000
- Parent entity - Bank of Beirut s.a.l.	2,220	3,788
- Australia	872	-
- overseas	1,591	7,322
- related parties	-	37,037
	4,683	**48,147**

Related parties refers to wholly owned subsidiaries and associated companies of Bank of Beirut s.a.l. Please refer to Note 34 for further details on related parties and transactions in during the financial year.

18 Securities sold and under repurchase agreements

	2019 $'000	2018 $'000
Securities sold and under repurchase agreements	-	-

The Consolidated Entity enters into sales and repurchase agreement with Reserve Bank of Australia, which in substance is borrowing with pledged securities. Refer to Note 9 for details of investments at amortised cost sold and repurchased.

19 Deposits

	2019 $'000	2018 $'000
Current	170,059	320,067
Savings	394,431	192,316
Term	1,878,506	1,444,218
Total deposits	**2,442,996**	**1,956,601**

		2019 $'000	2018 $'000
20	**Derivative financial instruments**		
	The Consolidated Entity enters into derivative transactions, which provide economic hedges for exposures to market risk.		
	Assets		
	Interest rate swaps designated as cash flow hedge - Local banks	-	59
	Foreign currency forwards not designated in a hedging relationship- Parent entity	2,017	-
	Foreign currency forwards not designated in a hedging relationship- Other	1,206	26
		3,223	**85**
	Liabilities		
	Interest rate swaps designated as cash flow hedge - Local banks	3,775	1,085
	Foreign currency forwards not designated in a hedging relationship- Parent entity	86	-
	Foreign currency forwards not designated in a hedging relationship- Other	-	4,083
		3,861	**5,168**

The following tables detail various information regarding interest rate swap contracts outstanding at the end of the reporting period and their related hedged items.

Cash flow hedges

2019

$' 000	Notional amounts Within 1 year	 1 through 5 years	 Over 5 years	**Total**	Carrying amount Assets	 Liabilities
Interest rate risk						
Interest rate contracts	15,000	92,000	6,000	**113,000**	-	(3,775)
Hedge of variable rate liabilities	15,000	92,000	6,000	**113,000**	-	(3,775)
Weighted average fixed interest rate						
Hedge of variable rate liabilities	0.91%	0.92%	1.17%	**0.93%**		

2018

$' 000	Notional amounts Within 1 year	 1 through 5 years	 Over 5 years	**Total**	Carrying amount Assets	 Liabilities
Interest rate risk						
Interest rate contracts	15,000	107,000	6,000	**128,000**	59	1,085
Hedge of variable rate liabilities	15,000	107,000	6,000	**128,000**	59	1,085
Weighted average fixed interest rate						
Hedge of variable rate liabilities	1.92%	2.24%	2.92%	**2.23%**		

20 Derivative financial instruments(continued)

The tables below summarise the derivatives designated as hedging instruments in qualifying cash flow hedge relationships.

2019

$'000	Line item in the statement of financial position where the hedging instrument is located	Hedge ineffectiveness recognised in profit or loss	Changes in fair values used for calculating hedge ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Discontinued hedges
Cash flow hedges					
Interest rate risk	Derivative instruments	-	(2,749)	(3,106)	-

2018

$'000	Line item in the statement of financial position where the hedging instrument is located	Hedge ineffectiveness recognised in profit or loss	Changes in fair values used for calculating hedge ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Discontinued hedges
Cash flow hedges					
Interest rate risk	Derivative instruments	-	(1,503)	(1,182)	-

The Consolidated Entity's exposure to market risks and its approach to manage those risks is discussed in Note 27(c).
Specifically, the Consolidated Entity is exposed to interest rate fluctuations as it pays floating interest on customer deposit liabilities and receives fixed revenues from fixed-rate financial assets. To alleviate the risk of interest rate fluctuations, the Consolidated Entity enters into interest rate swaps to receive floating rate interest and pay fixed rate interest to hedge the variability in cash flows on the floating rate deposit liabilities attributable to changes in the interest rate. In this way the Consolidated Entity exchanges floating rate interest payment, to fixed rate interest payment. The Consolidated Entity has designated cash flow hedge relationships to hedge against movements in interest rate and applies hedge accounting on these cash flow hedges.

The Consolidated Entity assesses hedge effectiveness by comparing the changes in fair value of a hypothetical derivative reflecting the terms of the portion of gross interest cash outflows that will result from the repricing or reinvestment of the Consolidated Entity's 3 month fixed short term deposit portfolio with the changes in fair value of the interest rate swaps used to hedge the exposure. The Consolidated Entity uses the hypothetical derivative method to determine the changes in fair value of the hedged item.

The Consolidated Entity has identified the following possible source of ineffectiveness in its cash flow hedge relationships:
The use of derivatives as a protection against currency and interest rate risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into derivatives with high credit quality counterparties.

No other source of hedge ineffectiveness are expected to affect the cash flow hedging relationship during the year.

		2019 $'000	2018 $'000
21	**Provisions**		
	Annual leave provision	1,383	1,206
	Long service leave provision	1,298	1,190
	Make good provision	791	562
		3,472	**2,958**

22 Lease liabilities

The gross nominal outflow disclosed below is the contractual, undiscounted cash flow on the Consolidated Entity's lease liabilities. These amounts include variable lease components that are linked to an index (such as consumer price index) at the prevailing rate of the index at commencement. The lease liability is remeasured prospectively as this rate changes through the term of the lease.

	2019 Repayable			
	Within 1 year	Over 1 year but less than 5 years	Over 5 years	**Total**
Undiscounted lease liability	2,916	9,150	1,477	**13,543**
Present value of lease liability				**11,875**

		2019 $'000	2018 $'000
23	**Other liabilities**		
	Current tax liability	-	(387)
	Bank cheques issued awaiting clearance	2,773	1,434
	Other	12,476	3,863
		15,249	**4,910**

Other mainly includes accrued expenses, sundry creditors and other miscellaneous credit balances.

		2019 $'000	2018 $'000
24	**Contributed Equity**		
	230,000,000 ordinary shares fully paid (2018 - 210,000,000 ordinary shares fully paid)	230,000	210,000

All shares are fully paid ordinary shares, which have a par value of $1AUD, carry one vote per share and carry a right to dividends. Bank of Beirut s.a.l. owns 100% of the Consolidated Entity. The Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

On 15 April 2019, Bank of Beirut s.a.l injected a further $20,000,000 (2018: $10,000,000) AUD of Capital (20,000,000 ordinary shares fully paid (2018:10,000,000)) into the Consolidated Entity. There was no additional capital raised during the financial year ended 31 December 2019.

In the event of the winding up of the Consolidated Entity, ordinary shareholders rank after all other shareholders. Creditors are fully entitled to any proceeds on liquidation to meet outstanding amounts owing.

		2019 $'000	2018 $'000
25	**Retained profits**		
	Retained profits at beginning of year	70,105	60,553
	Opening balance adjustments	(180)	(3,715)
	Net profit after income tax	3,940	11,219
	Transfer (to) / from general reserve for credit losses	(884)	2,048
	Retained profits at year-end	**72,981**	**70,105**
26	**Reserves**		
	General reserve for credit losses		
	Opening Balance	5,725	7,773
	Transfer (to) / from retained profits during the year	884	(2,048)
	Closing Balance	6,609	5,725
	Cash flow hedge reserve		
	Opening Balance	(1,182)	(85)
	Transfer from reserves during the year	(1,924)	(1,097)
	Closing Balance	(3,106)	(1,182)
	Total reserves	**3,503**	**4,543**

All reserve amounts are shown net of income tax. A General Reserve for Credit Losses (GRCL) represents a reserve established to cover credit losses estimated but not certain to arise which is over and above any specific provisions raised for impaired assets. The GRCL represents lifetime expected credit losses as referred to in APS 220 Credit Quality.

27 Financial risk management

(a) Introduction and overview

The Consolidated Entity's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and exposures to operational risks are an inevitable consequence of being in business. The Consolidated Entity's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Consolidated Entity's financial performance.

The Consolidated Entity's risk management policies are established to identify and analyse the risks faced by the Consolidated Entity, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Consolidated Entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

27 Financial risk management (continued)

(a) Introduction and overview (continued)

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework and sets the Consolidated Entity's risk appetite.

The Board Risk Management Committee is responsible for monitoring compliance with the Consolidated Entity's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Consolidated Entity. The Consolidated Entity's Executive Risk and Compliance Committee assists the Board and the BRMC in overseeing all risk management activities that are carried out, for the purpose of identifying, evaluating and managing all key business risks.

(b) Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from loans and advances to customers and other banks and from investment securities. For risk management reporting purposes, credit concentrations are managed on a consolidated basis to ensure that the Consolidated Entity is not unduly exposed to a single or small number of counterparties such that their default would adversely affect the financial position of the Consolidated Entity. Also, large credit exposures are monitored and reviewed on a regular basis.

For debt securities and other bills, external ratings such as Moody's and Standard & Poor's rating, or their equivalents, are used for managing credit risk exposures. Investment securities and other bills are utilised in order to maintain a portfolio of high quality liquid assets available to meet funding needs as required.

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Executive Credit Committee. Risk is responsible for monitoring compliance with credit policies on a day to day basis. Responsibilities of Risk include:

- General oversight of the asset quality including the credit grading system, loan portfolio trends and concentration risks;
- Ensure that lending at all times is within the regulations, recommendations and instructions of the Australian Prudential Regulation Authority's credit policies;
- To prepare reports and returns for management, Board of Directors, and authorities;
- To monitor that all lending is complying with all external laws, regulations, guidelines, markets and internal Codes of Conduct, policies, limits and procedures; and
- Report to the Board and the Credit Committee any excesses on risk management limits.

Internal Audit undertakes regular audits of business units and credit processes, including the effectiveness of the Credit Risk Management Framework.

27 Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk

The table below illustrates the Consolidated Entity's on-balance sheet loans and advances and the associated impairment provision for each, according to the Consolidated Entity's internal grading categories. The exposures set out below are based on carrying amounts.

On balance sheet items

	2019 $'000			
Customer rating	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Customer ratings 1-5: Low risk to acceptable.	2,003,664	1,817	71	**2,005,552**
Customer ratings 6-8: Management attention to High risk	-	56,610	1,748	**58,358**
Customer ratings 9-10: Impaired	-	-	78	**78**
Total gross carrying amount	**2,003,664**	**58,427**	**1,897**	**2,063,988**
Loss allowance	(999)	(268)	(236)	**(1,503)**
Carrying Amount	**2,002,665**	**58,159**	**1,661**	**2,062,485**

On balance sheet items

	2018 $'000			
Customer rating	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Customer ratings 1-5: Low risk to acceptable.	1,697,990	13,643	1,117	**1,712,750**
Customer ratings 6-8: Management attention to High risk	-	46,009	596	**46,605**
Customer ratings 9-10: Impaired	-	-	96	**96**
Total gross carrying amount	**1,697,990**	**59,652**	**1,809**	**1,759,451**
Loss allowance	(895)	(443)	(269)	**(1,607)**
Carrying Amount	**1,697,095**	**59,209**	**1,540**	**1,757,844**

A rating of 1 to 10 (inclusive) is applied to each borrowing entity or guarantor.

The Impairment Provision represents the total of the specific and collective provisions as set out in Note 11(a).

27 Financial risk management (continued)

(b) Credit risk (continued)

The table below represents the maximum exposure to credit risk of the Consolidated Entity, without taking account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures equal gross carrying amounts as reported in the balance sheet.

	2019 $'000	2018 $'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	1,566,364	1,156,219
Loans to corporate entities:		
- Large corporate customers	203,151	274,432
- Small and medium size enterprises (SMEs)	294,473	328,800
Due from other financial institutions	69,846	79,003
Investments at amortised cost	419,762	388,162
Derivative financial assets	3,223	85
Total	**2,556,819**	**2,226,701**
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	6,110	6,286
Loan commitments and other credit related liabilities	261,080	168,932
Trade finance contingencies	25,258	17,528
Total	**292,448**	**192,746**

The Consolidated Entity holds collateral and other credit enhancements to cover its credit risks associated with on balance sheet and off balance sheet credit risk exposures. The estimated value of collateral and other credit enhancements amounts to $4,020 million as at 31 December 2019 ($3,205 million as at 31 December 2018). The estimated value of collateral is based on market value of the collateral and is not capped to the value of the exposure.

Refer to Note 27(b)(iii) for analysis of movement in gross balance and ECL during the year.

27 Financial risk management (continued)

(b) Credit risk (continued)

Loans and advances past due, though subject to ECL calculation by the Consolidated Entity, are not considered impaired, unless other information is available to indicate the contrary. The gross value of loans and advances by class to customers that were past due, but not impaired, are presented in the table below.

2019
$'000's

	Individuals (retail customers)	Large corporate customers	SMEs	Total
Past due up to 30 days	13,429	4,214	6,690	**24,333**
Past due 30- 60 days	3,453	-	-	**3,453**
Past due 60 - 90 days	614	-	7	**621**
Past due more than 90 days	1,754	-	33	**1,787**
Total	**19,250**	**4,214**	**6,730**	**30,194**

2018
$'000's

	Individuals (retail customers)	Large corporate customers	SMEs	Total
Past due up to 30 days	15,274	931	9,059	**25,264**
Past due 30- 60 days	2,220	-	12,396	**14,616**
Past due 60 - 90 days	61	-	-	**61**
Past due more than 90 days	1,184	-	621	**1,805**
Total	**18,739**	**931**	**22,076**	**41,746**

The Consolidated Entity holds collateral with pledged amount totalling $71.5m for assets which are past due but not impaired as at 31 December 2019 ($83.4m as at 31 December 2018). The pledged amount of collateral is based on market value of the collateral and is capped to the value of the total approved loan limit.

27 Financial risk management (continued)

(b) Credit risk (continued)

The breakdown of the gross amount of individually impaired loans and advances by class is presented in the table below.

	2019 $'000	2018 $'000
Impaired loans		
Corporate Entities	-	-
SMEs	-	-
Individuals	78	96
Total	**78**	**96**

The Consolidated Entity held collateral with nil carrying value totalling the impaired assets as at 31 December 2019 ($nil as at 31 December 2018).

The Consolidated Entity monitors concentration of risk by sector categories. The table below breaks down the Consolidated Entity's maximum credit exposure at their gross carrying amounts (i.e. gross of provisions) as categorised by the industry sectors of the counterparties.

2019
$'000's

		Corporate entities		
Industry type	**Individuals (Retail Customers)**	**Large Corporate Entities**	**SMEs**	**Total**
Manufacturing	17,542	-	6,187	**23,729**
Tourism	6,312	-	4,059	**10,371**
Domestic trade	40,872	162,442	30,109	**233,423**
Construction, Trade, Property Investment	83,049	39,823	150,907	**273,779**
Housing	1,335,656	-	14,087	**1,349,743**
Cultural, Recreational & Religious Org	1,522	-	27,198	**28,720**
Professional	73,216	-	58,422	**131,638**
Transport	2,155	-	-	**2,155**
Other	6,040	886	3,504	**10,430**
Total	**1,566,364**	**203,151**	**294,473**	**2,063,988**

27 Financial risk management (continued)

(b) Credit risk (continued)

2018
$'000's **Corporate entities**

Industry type	Individuals (Retail Customers)	Large Corporate Entities	SMEs	Total
Manufacturing	13,723	-	10,803	**24,526**
Tourism	6,097	-	5,041	**11,138**
Domestic trade	39,387	222,709	22,723	**284,819**
Construction, Trade, Property Investment	72,112	51,392	191,123	**314,627**
Housing	953,453	-	14,175	**967,628**
Cultural, Recreational & Religious Org	909	-	27,087	**27,996**
Professional	63,977	-	53,430	**117,407**
Transport	2,179	-	-	**2,179**
Other	4,382	331	4,418	**9,131**
Total	**1,156,219**	**274,432**	**328,800**	**1,759,451**

(iii) Impaired assets and calculation of ECL

Please refer to Note 1 (i), (k) and (j) for further details of impaired assets and calculation of ECL in relation to credit risk.

The Consolidated Entity will use a formulaic approach to adjust for the impacts of macro-economic factors. The formula is a result of a regression model which was developed by Group Risk using Australian data sourced from European University Institute (EUI) and the World Bank database. The basis of the model consists of three variables: medium & long-term debt, domestic credit growth (%) and budget balance (% of GDP). These variables indicate a strong correlation to non-performing loans (NPL). The resultant formula is intended to estimate NPL movements in the future based on the forecasts of the variable inputs.

Three scenarios will be applied to determine the final adjusted provision amount with the weightings as follows:
Base Case: 60% Weighting
Good Case: 20% Weighting
Bad Case: 20% Weighting

Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process.

27 Financial risk management (continued)

(b) Credit risk (continued)

(iii) Impaired assets and calculation of ECL (continued)

The table below analyse the movement of the gross balance (gross of provision) of customer loans and advances during the year, excluding trade exposures.

	'000s			
	Stage 1	**Stage 2**	**Stage 3**	**TOTAL**
Opening Loans & Advances 1 January 2019	1,491,562	59,653	1,809	**1,553,024**
Movements:				
Closed Loans	(204,667)	(15,954)	(1,083)	**(221,704)**
New Loans	632,415	5,134	1	**637,550**
Transfer to Stage 1	2,001	(2,001)	-	-
Transfer to Stage 2	(14,088)	14,088	-	-
Transfer to Stage 3	(1,085)	(62)	1,147	-
Movement in Balances	(46,392)	(2,500)	55	**(48,837)**
Write-Offs	-	-	(6)	**(6)**
Balance as at 31 December 2019	**1,859,746**	**58,358**	**1,923**	**1,920,027**

	'000s			
	Stage 1	**Stage 2**	**Stage 3**	**TOTAL**
Opening Loans & Advances 1 January 2018	1,286,344	32,182	23,359	**1,341,885**
Movements:				
Closed Loans	(268,558)	(11,358)	(2,116)	**(282,032)**
New Loans	520,090	10,118	201	**530,409**
Transfer to Stage 1	2,205	(3,799)	1,594	-
Transfer to Stage 2	(15,710)	32,486	(16,776)	-
Transfer to Stage 3	-	(11)	11	-
Movement in Balances	(32,809)	35	(4,464)	**(37,238)**
Write-Offs				-
Balance as at 31 December 2018	**1,491,562**	**59,653**	**1,809**	**1,553,024**

27 Financial risk management (continued)

(b) Credit risk (continued)

(iii) Impaired assets and calculation of ECL (continued)

The table below analyse the movement of the ECL of customer loans and advances during the year, excluding trade exposures.

	'000s			
	Stage 1	**Stage 2**	**Stage 3**	**TOTAL**
Opening ECL 1 January 2019	786	444	208	**1,438**
Movements:				
Closed Loans	(154)	(176)	(121)	**(451)**
New Loans	217	6	0	**223**
Transfer to Stage 1	29	(29)	-	-
Transfer to Stage 2	(17)	17	-	-
Transfer to Stage 3	(2)	(2)	5	-
Increases due to change in credit risk	101	118	84	**303**
Decreases due to change in credit risk	(254)	(110)	(9)	**(372)**
Write-Offs	-	-	-	-
Provisions as at 31 December 2019	**707**	**268**	**167**	**1,141**

	'000s			
	Stage 1	**Stage 2**	**Stage 3**	**TOTAL**
Opening ECL 1 January 2018	774	371	4,298	**5,443**
Movements:	-	-	-	
Closed Loans	(252)	(167)	(298)	**(717)**
New Loans	207	28	54	**289**
Transfer to Stage 1	1	-	(1)	-
Transfer to Stage 2	12	3,984	(3,996)	-
Transfer to Stage 3	(2)	-	2	-
Increases due to change in credit risk	177	196	149	**522**
Decreases due to change in credit risk	(131)	(3,968)	-	**(4,099)**
Write-Offs	-	-	-	-
Provisions as at 31 December 2018	**786**	**444**	**208**	**1,438**

27 Financial risk management (continued)

(b) Credit risk (continued)

(iii) Impaired assets and calculation of ECL (continued)

The tables below analyses the movement of the gross balance and ECL, respectively, of Treasury assets and trade exposures with Bank counterparties during the year.

	Gross Balance			ECL		
	Due from other financial institutions	**Investments at amortised cost**	**Loan and advances-Trade**	**Due from other financial institutions**	**Investments at amortised cost**	**Loan and advances-Trade**
	$'000	$'000	$'000	$'000	$'000	$'000
2019						
Stage 1	69,846	419,762	-	31	61	293
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**69,846**	**419,762**	**-**	**31**	**61**	**293**

	Gross Balance			ECL		
	Due from other financial institutions	**Investments at amortised cost**	**Loan and advances-Trade**	**Due from other financial institutions**	**Investments at amortised cost**	**Loan and advances-Trade**
	$'000	$'000	$'000	$'000	$'000	$'000
2018						
Stage 1	79,003	388,162	206,427	54	120	75
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**79,003**	**388,162**	**206,427**	**54**	**120**	**75**

27 Financial risk management (continued)

(b) Credit risk (continued)

(v) Settlement risk

The Consolidated Entity's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Consolidated Entity mitigates this risk by conducting settlements through a clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk Management.

The table below presents an analysis of gross investments and financial assets due from other financial institutions by rating agency designation based on Moody's (or their equivalent) ratings.

	Investments at amortised cost $'000	Due from other financial institutions $'000	**Total $'000**
2019			
Aa3 - Aa1	283,118	44,159	**327,277**
A3 - A1	106,680	25,126	**131,806**
Baa3 - Baa1	29,964	-	**29,964**
Unrated	-	561	**561**
Total	**419,762**	**69,846**	**489,608**

	Investments at amortised cost $'000	Due from other financial institutions $'000	**Total $'000**
2018			
Aa3 - Aa1	286,572	19,405	**305,977**
A3 - A1	90,799	1,843	**92,642**
Baa3 - Baa1	10,791	-	**10,791**
Unrated	-	57,755	**57,755**
Total	**388,162**	**79,003**	**467,165**

27 Financial risk management (continued)

(c) Market risk

The Consolidated Entity is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and foreign currency instruments, which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

Market risk arising from non-trading activities are concentrated in Treasury and are separately monitored by Risk. Regular reports are submitted to the Board of Directors and ALCO (Asset and Liabilities Committee).

Non-trading portfolios primarily arise from the interest rate management of the Consolidated Entity's retail and commercial banking assets and liabilities. Foreign exchange risks arise from the Consolidated Entity's non-trading portfolios of investments at amortised cost.

(i) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps, and by having pre-approved limits for re-pricing bands.

Refer to Note 27(c)(iii) for result of sensitivity analysis on interest rate movement.

The ALCO is the monitoring body for compliance with these limits and is assisted by Risk in its day-to-day monitoring activities.

The following tables represent the Consolidated Entity's non-trading portfolios by the earlier of contractual repricing or maturity date. The total will not reconcile to the Consolidated Entity's total assets on the balance sheet as non-financial assets have been excluded from the table below.

Bank of Sydney Ltd
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27 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

2019		The earlier of maturity or repricing date					
	Note	Floating Interest Rate[1] $'000	1 Year or less $'000	Over 1 to 5 Years $'000	More than 5 Years $'000	Non-interest bearing $'000	**Total $'000**
Financial assets							
Cash and liquid assets	7	146,850	-	-	-	-	**146,850**
Due from other financial institutions	8	69,655	191	-	-	-	**69,846**
Investments at amortised cost	9	284,278	52,726	76,584	6,175	-	**419,763**
Loans and advances	10	2,014,815	21,674	25,904	-	-	**2,062,393**
Derivative financial assets	20	3,223	-	-	-	-	**3,223**
		2,518,821	**74,591**	**102,488**	**6,175**	**-**	**2,702,075**
Financial liabilities							
Due to financial institutions	17	4,683	-	-	-	-	**4,683**
Securities sold and under repurchase agreement	18	-	-	-	-	-	**-**
Deposits	19	564,159	1,877,202	1,635	-	-	**2,442,996**
Derivative financial liabilities	20	3,861	-	-	-	-	**3,861**
		572,703	**1,877,202**	**1,635**	**-**	**-**	**2,451,540**
Interest rate swaps[2]		113,000	(10,000)	(97,000)	(6,000)	-	**-**
Interest rate gap		**2,059,118**	**(1,812,611)**	**3,853**	**175**	**-**	**250,535**

1. Includes assets and liabilities for which the Consolidated Entity or the counter party has the contractual right to reset interest rate at any time.

2. Notional principal amounts

Bank of Sydney Ltd
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27 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The earlier of maturity or repricing date

2018

	Note	Floating Interest Rate[1] $'000	1 Year or less $'000	Over 1 to 5 Years $'000	More than 5 Years $'000	Non-interest bearing $'000	**Total $'000**
Financial assets							
Cash and liquid assets	7	57,618	-	-	-	-	**57,618**
Due from other financial institutions	8	17,875	61,074	-	-	-	**78,949**
Investments at amortised cost	9	284,308	17,980	79,570	6,184	-	**388,042**
Loans and advances	10	1,698,902	24,061	34,881	-	-	**1,757,844**
Derivative financial assets	20	85	-	-	-	-	**85**
		2,058,788	**103,115**	**114,451**	**6,184**	**-**	**2,282,538**
Financial liabilities							
Due to financial institutions	17	11,111	37,036	-	-	-	**48,147**
Deposits	19	516,015	1,435,974	4,612	-	-	**1,956,601**
Derivative financial liabilities	20	5,168	-	-	-	-	**5,168**
		532,294	**1,473,010**	**4,612**	**-**	**-**	**2,009,916**
Interest rate swaps[2]		128,000	(15,000)	(107,000)	(6,000)	-	-
Interest rate gap		**1,526,494**	**(1,241,895)**	**(12,161)**	**184**	**-**	**272,622**

1. Includes assets and liabilities for which the Consolidated Entity or the counter party has the contractual right to reset interest rate at any time.

2. Notional principal amounts

27 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk

The Consolidated Entity does not hold a trading book (positions created from trading activities with a speculative purpose). The Consolidated Entity is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Consolidated Entity's exposure to foreign currency exchange rate risk at year-end.

2019

$'000	EUR	USD	GBP	AUD	Other currency	Total
Cash and liquid assets	476	280	70	146,018	6	146,850
Due from other financial institutions	12,758	16,009	1,802	38,157	1,089	69,815
Investments at amortised cost	-	-	-	419,701	-	419,701
Loans and advances	437	149,769	-	1,912,279	-	2,062,485
Derivative financial asset	-	-	-	3,223	-	3,223
Intangible assets				8,729		8,729
Property, plant and equipment	-	-	-	41,311	-	41,311
Investment Property	-	-	-	25,189	-	25,189
Deferred tax assets	-	-	-	3,596	-	3,596
Other assets	-	-	-	7,721	-	7,721
Total assets	**13,671**	**166,058**	**1,872**	**2,605,924**	**1,095**	**2,788,620**
Due to other financial institutions	-	-	-	4,683	-	4,683
Securities sold and under repurchase agreements	-	-	-	-	-	-
Deposits	12,630	27,161	1,820	2,400,750	635	2,442,996
Derivative liabilities	-	-	-	3,861	-	3,861
Provisions	-	-	-	3,472	-	3,472
Lease liabilities				11,875		11,875
Other liabilities	-	-	-	15,249	-	15,249
Total liabilities	**12,630**	**27,161**	**1,820**	**2,439,890**	**635**	**2,482,136**
Net on-balance sheet position	**1,041**	**138,897**	**52**	**166,034**	**460**	**306,484**
Effect of derivatives held for risk management	(1,523)	(136,059)	-	-	(449)	(138,031)
Net currency position	**(482)**	**2,838**	**52**	**166,034**	**11**	**168,453**

27 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

2018

$'000	**EUR**	**USD**	**GBP**	**AUD**	**Other currency**	**Total**
Cash and liquid assets	9	330	-	56,516	763	57,618
Due from other financial institutions	8,616	43,048	-	24,036	3,249	78,949
Investments at amortised cost	-	-	-	388,042	-	388,042
Loans and advances	216	212,211	-	1,545,417	-	1,757,844
Derivative financial asset	-	-	-	85	-	85
Intangible assets	-	-	-	7,990	-	7,990
Property, plant and equipment	-	-	-	3,711	-	3,711
Investment Property	-	-	-	-	-	-
Deferred tax assets	-	-	-	2,850	-	2,850
Other assets	-	-	-	5,343	-	5,343
Total assets	**8,841**	**255,589**	**-**	**2,033,990**	**4,012**	**2,302,432**
Due to other financial institutions	-	40,355	-	7,792	-	48,147
Securities sold and	-	-	-	-	-	-
under repurchase agreements	-	-	-	-	-	-
Deposits	10,208	22,702	-	1,920,378	3,313	1,956,601
Current tax liability	-	-	-	(387)	-	(387)
Derivative liabilities	-	-	-	5,168	-	5,168
Provisions	-	-	-	2,958	-	2,958
Lease liability	-	-	-	-	-	-
Other liabilities	-	-	-	5,297	-	5,297
Total liabilities	**10,208**	**63,057**	**-**	**1,941,206**	**3,313**	**2,017,784**
Net on-balance sheet position	**(1,367)**	**192,532**	**-**	**(191,864)**	**699**	**-**
Effect of derivatives held for risk management	-	(185,900)	-	185,900	-	-
Net currency position	**(1,367)**	**6,632**	**-**	**(5,964)**	**699**	**-**

27 Financial risk management (continued)

(c) Market risk (continued)

(iii) Sensitivity analysis

The management of interest rate and foreign exchange risk against interest rate and foreign currency limits is supplemented by monitoring the sensitivity of the Consolidated Entity's financial assets and liabilities to potential standard interest rate and currency fluctuations.

Interest Rate Sensitivity

The sensitivity analysis on interest rate risk is performed using the methodology of GAP IRR. The GAP IRR methodology is a method of measuring interest rate sensitivity by classifying interest rate sensitive assets, liabilities and off-balance sheet items. The instruments are split into specific pre-defined time buckets according to their maturity for fixed rate instruments, or till next re-pricing date for variable rate instruments. The size of the gap position can then be determined in each of the respective time buckets. A cumulative gap can also then be given after summing up the individual time bucket gaps. Result of the analysis is as follows:

	Increase / (decrease) to profit $	
	2019	2018
Increase in yield curve of 50 basis points	53,506	513,349
Decrease in yield curve of 50 basis points	(53,506)	(513,349)

Exchange Rate Sensitivity

The sensitivity analysis on foreign currency risk is performed by calculating the impact on the Consolidated Entity's net currency exposure in the case of a 10% increase or decrease in all foreign currency exchange rates. Result of the analysis is as follows:

	Increase / (decrease) to profit $	
	2019	2018
Increase in exchange rates of 10%	(21,202)	(3,700)
Decrease in exchange rates of 10%	25,936	5,204

(d) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting obligations from its financial instruments.

The Consolidated Entity measures and manages this risk based on an analysis of the maturity profile. The management of liquidity risk for the Consolidated Entity is based on the following:

(i) Measurement and limitation of maturity profile

The maturity profile is measured on a daily basis by monitoring the mismatch of maturing assets against maturing liabilities within prescribed maturity buckets. The cumulative maturity mismatch limit is -2% out to seven days with an internal trigger of 0.5% and the cumulative negative mismatch out to one month must not exceed 15% of total liabilities.

The gross nominal outflow disclosed below is the contractual, undiscounted cash flow on the financial liability. The balances include the expected interest payable on maturity. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement.

27 Financial risk management (continued)

(d) Liquidity risk (continued)

2019

$'000	Repayable on demand	3 months or less	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Over 5 years	**Total**
Non-derivative liabilities						
Due to other financial institutions	4,683	-	-	-	-	**4,683**
Securities sold and under						-
repurchase agreements	-	-	-	-	-	-
Deposits	560,706	1,343,008	537,647	1,635	-	**2,442,996**
	565,389	**1,343,008**	**537,647**	**1,635**	**-**	**2,447,679**
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	14	82	2,874	805	**3,775**
- Foreign currency swaps	86	-	-	-	-	**86**
	86	**14**	**82**	**2,874**	**805**	**3,861**
Off balance sheet commitments						
Bank guarantee	6,110	-	-	-	-	**6,110**
Loan commitments	261,080	-	-	-	-	**261,080**
Trade Finance contingencies	25,258	-	-	-	-	**25,258**
	292,448	**-**	**-**	**-**	**-**	**292,448**
Total	**857,923**	**1,343,022**	**537,729**	**4,509**	**805**	**2,743,988**

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27 Financial risk management (continued)

(d) Liquidity risk (continued)

2018

$'000	Repayable on demand	3 months or less	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Over 5 years	**Total**
Non-derivative liabilities						
Due to other financial institutions	48,147	-	-	-	-	**48,147**
Securities sold and under repurchase agreements	-	-	-	-	-	**-**
Deposits	516,015	810,323	635,066	4,689	-	**1,966,093**
	564,162	**810,323**	**635,066**	**4,689**	**-**	**2,014,240**
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	120	1,448	4,906	1,225	**7,699**
- Foreign currency swaps	-	4,003	-	-	-	**4,003**
	-	**4,123**	**1,448**	**4,906**	**1,225**	**11,702**
Off balance sheet commitments						
Bank guarantee	6,286	-	-	-	-	**6,286**
Loan commitments	168,932	-	-	-	-	**168,932**
Trade Finance contingencies	17,528	-	-	-	-	**17,528**
	192,746	**-**	**-**	**-**	**-**	**192,746**
Total	**756,908**	**814,446**	**636,514**	**9,595**	**1,225**	**2,218,688**

28 Capital management

The Consolidated Entity’s regulator, Australian Prudential Regulation Authority (APRA), sets minimum capital requirements for the Consolidated Entity. The Board determines the internal capital requirements of the Bank. In implementing current capital requirements, APRA requires the Consolidated Entity to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Consolidated Entity’s regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings after deductions for intangible assets;
- Tier 2 capital, which includes general reserve for credit losses.

Various limits are applied to elements of the capital base.

Risk weighted assets are determined according to specific requirements that seek to reflect the varying level of risk attached to assets and off-balance sheet exposures. Regulatory capital is managed using the Basel III standard methodology.

The Consolidated Entity has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Consolidated Entity’s management of capital during the period.

The Board has a duty to ensure that the level and quality of capital are maintained commensurate with the type, amount and concentration of risks to which the Consolidated Entity is exposed from its activities. In doing so, the Board must have regards to any prospective changes in the Consolidated Entity's risk profile and capital holdings.

Capital management must be an integral part of the Consolidated Entity's risk management framework through the alignment of its risk appetite and risk profile to its capacity to absorb losses.

The processes and procedures of managing capital are set out in the Consolidated Entity's Capital Management Plan (CMP). The CMP sets out the responsibilities for the monitoring, managing and reporting of the Consolidated Entity's capital position. The strategic planning process incorporates the capital requirements to support projected loan growth. Management must take relevant action where expected capital injection is either delayed or not forthcoming.

Full disclosures required under Pillar 3, per prudential standard APS 330 “Public Disclosure”, are provided on the Consolidated Entity’s website.

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28 Capital management (continued)

The Consolidated Entity's regulatory capital position at 31 December was:

	Note	2019 $'000	2018 $'000
Tier 1 Capital			
Ordinary share capital	24	230,000	210,000
Retained profits	25	72,981	70,105
Cash flow hedge reserve	26	(3,106)	(1,182)
Less Deductions:			
Intangible assets	12	8,729	7,990
Deferred tax assets	15	3,596	2,850
Fair value of cash flow hedges	26	(3,106)	(1,182)
Loan Origination Fees		3,440	2,359
ECL adjustment		(1,068)	(1,181)
Securitisation start-up costs		250	225
Total		288,034	267,862
Tier 2 Capital			
General reserve for credit losses	26	9,441	8,178
Total		9,441	8,178
Total regulatory capital		**297,476**	**276,040**
Risk weighted assets		1,392,246	1,201,232
Capital ratios			
Total regulatory capital as % of risk weighted assets		21.37%	22.98%
Total Tier 1 capital as % of risk weighted assets		20.69%	22.30%

29 Fair value measurement

Fair values of financial assets and liabilities
Fair value is the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value estimates were determined by the following methodologies and assumptions:

Cash and liquid assets
The carrying values of cash and liquid assets approximate their fair values, as they are short term in nature.

Due from other financial institutions
The carrying value of amounts due from other financial institutions approximates their fair value, as they are short term.

Investments at amortised cost
For fixed term deposits and bank bills, the carrying amount is a reasonable estimate of net fair value, as they are short term in nature. The net fair value of floating rate notes and fixed rate bonds are calculated by using current bid price in an active market.

Loans and advances
The carrying value of loans and advances is net of specific provisions for impairment. For variable loans and loans with rates fixed for a period less than six months, the carrying amount is a reasonable estimate of net fair value. The fair value of fixed rate loans greater than six months was calculated by discounting the future interest cash flows using a discount rate based on the current market rate, assuming constant interest rate spreads, for the average remaining term.

Due to other financial institutions, securities sold and repurchase agreement, and deposits
The carrying value of amounts due within six months to other financial institutions and other depositors, and securities sold and repurchase agreement approximate their net fair value. The net fair value of liabilities with a longer maturity has been determined by using the discount methodology described above.

Interest rate swaps
The net fair value of interest rate swap instruments have been determined by valuing them at the current market rates, being the discounted present value of the future cash flows.

FX swaps and foreign currency forward contracts
The fair value of FX swap and foreign currency forward contract instruments have been determined by valuing them at the current market value, being the discounted present value of the future cash flows.

29 Fair value measurement (continued)

The carrying amounts and estimated fair values of financial assets and liabilities are as follows:

	Financial instruments measured at	2019 Carrying value $'000	2019 Fair value $'000	2018 Carrying value $'000	2018 Fair value $'000
Assets					
Cash and liquid assets	Amortised cost	146,850	146,850	57,618	57,618
Due from other financial institutions	Amortised cost	69,815	69,815	78,949	78,949
Investments at amortised cost	Amortised cost	419,701	424,538	388,042	389,805
Loans and advances	Amortised cost	2,062,485	2,063,170	1,757,844	1,758,378
Derivative financial assets - interest rate swaps	FVTPL	-	-	26	26
Derivative financial assets - foreign currency forwards	FVTPL	3,223	3,223	59	59
Liabilities					
Due to other financial institutions	Amortised cost	4,683	4,683	48,147	48,147
Securities sold and under repurchase agreements	Amortised cost	-	-	-	-
Deposits	Amortised cost	2,442,996	2,442,923	1,956,601	1,956,586
Derivative financial liabilities - interest rate swaps	FVTPL	3,775	3,775	1,085	1,085
Derivative financial assets - foreign currency forwards	FVTPL	86	86	4,083	4,083

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (adjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, interest rates and yield curves observable at commonly quoted intervals, volatilities or credit risk;
- Level 3: inputs for the asset or liability that are not based on observable market data.

2019	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	3,223	-	3,223
Total	**-**	**3,223**	**-**	**3,223**
Derivative financial liabilities	-	3,861	-	3,861
Total	**-**	**3,861**	**-**	**3,861**

2018	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	85	-	85
Total	**-**	**85**	**-**	**85**
Derivative financial liabilities	-	5,168	-	5,168
Total	**-**	**5,168**	**-**	**5,168**

30 Auditors' remuneration

Amounts paid or due and payable to the Auditors of the Consolidated Entity for:

	$	$
Auditing the financial report	363,446	329,676
Taxation services	61,800	19,800
Other non-audit services	115,500	57,310
Total	**540,746**	**406,786**

31 Commitments and contingencies

The Consolidated Entity has financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates.

Details of financial instruments with off-balance sheet risk are as follows (Face value in $000s):

Credit related instruments:		
Letters of Guarantee given in the normal course of business	6,110	6,286
Commitments to extend credit	261,080	168,932
Trade finance contingencies	25,258	17,528
Total	**292,448**	**192,746**

32 Directors' remuneration

Directors' income

The number of Directors of the Consolidated Entity whose income from the Consolidated Entity or related bodies corporate falls within the following bands:

$80,000 - $89,999	2	2
$90,000 - $99,999	2	2
$100,000 - $109,999	2	2
$150,000 - $159,999	1	1
	7	**7**

32 Directors' remuneration (continued)

	2019	2018
	$	$
Total income received, or due and receivable, by all Directors of the Consolidated Entity:		
Short term benefits	660,015	660,015
Other long term benefits	73,213	73,213
Total benefits to non-executive Directors	**733,228**	**733,228**

33 Key management personnel disclosures

Unless otherwise indicated the following were key management personnel of the Consolidated Entity during the reporting period:

Non-executive Directors
Mr Nicholas Pappas AM (Chairman)
Mr Nikolas T Hatzistergos
Mr Greg Gav
Mr Hon Steve Bracks AC
Mr Fouad Chaker
Mr Ben Edney
Mr Roger Dagher

Executives
Mr Miltiades Michaelas (Chief Executive Officer)
Mr Victor Andersson (Chief Financial Officer appointed 18/02/2019)
Mr Bill Kalpouzanis (Chief Operating Officer appointed 26/08/2019)
Mr Gary English (Chief Risk Officer)
Mr Fawaz Sankari (Executive General Manager – Chief Banking Officer)
Ms Diana Sitnikoski (Head of Credit)
Mrs Chrystalla Vougamalis (Chief Customer Officer)
Mr Chris Chew (Chief Technology Officer appointed 20/08/2019)

Transactions with key management personnel
The key management personnel benefits included in staff expenses are as follows:

	2019	2018
Short term benefits	2,122,096	2,564,849
Long term benefits	9,889	10,563
Other long term benefits	134,985	129,957
Total benefit	**2,266,970**	**2,705,369**

Details of non-executive Directors' remuneration are set out separately in Note 32. No other remuneration benefits were paid to key management personnel.

33 Key management personnel disclosures (continued)

Loans and other transactions to key management personnel

Details of loans and other transactions with key management personnel, including their related parties, are as follows:

	2019 $	2018 $
Loans to key management personnel	11,025,453	13,554,984
Deposit accounts	34,230,103	17,190,631

For all loans and deposits to key management personnel, interest is determined at prevailing market rates and are on normal commercial terms and conditions. Further, loans provided are secured by collateral.

Other key management personnel transactions with the Consolidated Entity

Key management personnel of the Consolidated Entity hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

One of those entities transacted with the Company in the reporting period. The terms and conditions of the transaction were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis. Details are as follows:

Director	Transaction	Note	2019 $	2018 $
Mr Greg Gav	Rental Payments	(i)	988,845	956,499

(i) In 2019, the Consolidated Entity renewed its lease of head office with an entity related to Mr Greg Gav, to May 2021. This transaction was entered into on normal terms and conditions.

34 Related party transactions

(a) Transactions within the wholly-owned group

During the financial year the Consolidated Entity engaged in banking transactions with Bank of Beirut s.a.l., and its wholly owned subsidiaries. All transactions were on normal terms and conditions. Please refer to Notes 2, 3, 8, 9, 16, 17 and 20 for details of transactions and balances within the wholly-owned group.

(b) Transactions with other related parties

During the period the Consolidated Entity engaged in banking transactions with associated companies of Bank of Beirut s.a.l. All transactions were on normal commercial terms and conditions.

Please refer to Notes 2, 3, 8, 9, 16, 17 and 20 for details of transactions and balances within the wholly-owned group.

(c) Ultimate parent entity

The ultimate parent entity of the Consolidated Entity is Bank of Beirut s.a.l., a company incorporated in Lebanon.

(d) Key Management Personnel

Key Management Personnel and their close family members are also considered related parties. Transactions and balances with them are disclosed in Note 32. The related party disclosures in consolidated statement of profit and loss do not include interest income or expense on Key Management Personnel loans and deposits.

35 Notes to the statement of cash flows

For the purposes of the statement of cash flows, cash includes cash on hand, cash at bank and short term deposits at call. Cash as at the end of the period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

(a) Reconciliation of cash

	2019 $'000	2018 $'000
Cash	146,850	57,618
Due from other financial institutions - at call deposits	69,846	79,003
Total Cash and cash equivalents	**216,696**	**136,621**

35 Notes to the statement of cash flows (continued)

(b) Reconciliation of profit from ordinary activities after income tax to net cash used in operating activities

	2019 $'000	2018 $'000
Profit from ordinary activities after income tax	**3,940**	**11,219**
Add: non-cash items:		
Depreciation and amortisation of non-current assets	4,846	2,417
Increase/(Decrease) in specific provision	(19)	95
Increase/(Decrease) in ECL	(102)	(3,914)
Increase in provision for employee entitlements	1,080	247
Decrease in tax provision	79	(443)
Net Increase in accruals	1,291	96
Loss on writing off Property, plant and equipment	548	-
Loss from Loan write offs	(6)	-
Increase in derivative financial instruments	238	(1,602)
(Increases)/decreases in assets and increases/(decreases)in liabilities:		
Loans and advances	(304,393)	(282,489)
Derivative Assets	(3,376)	3,695
Other assets	(2,378)	(2,422)
Due to other financial institutions	(43,412)	41,850
Deposits	486,789	221,985
Derivative liabilities	(4,056)	5,084
Sales and repurchase agreement	-	(85,068)
Other liabilities	8,355	(1,776)
Net cash used in operating activities	**149,424**	**(91,026)**

(c) Net reporting of certain cash flows

Cash flows arising from the following activities have been presented on a net basis in the statement of cash flows:

(i) Money market trading and lending activities;
(ii) Customer deposits to and withdrawals from savings, money market and other deposit accounts; and
(iii) Balances due to and from other financial institutions.

36 Events subsequent to balance date

On 30 January 2020, the spread of COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organisation ("WHO"). Subsequently, on 11 March 2020, WHO characterised COVID-19 as a pandemic affecting countries worldwide.

The Bank is monitoring the impacts on its lending portfolios and acknowledges that provisions may be higher as a result of COVID-19. This is expected to be partially compensated by the impact of recently announced financial benefits extended by Governments and regulators across Australia. The situation remains fluid and the Bank expects there will be a range of outcomes that will emerge over the coming months. The Bank will continue to monitor the impact of COVID-19 and assess the overall impact on the Consolidated Entity.

As at the date of these financial statements the Directors of the Consolidated Entity have considered the financial effects of COVID-19 on the Consolidated Entity's financial statements and consider the Bank a going concern. Although the Bank has taken steps to mitigate the impacts on the Consolidated Entity, it is still in the process of quantifying the overall impacts.

The Bank continues to be fully operational and has policies in place to minimise the potential risk of business interruption.

No other events have occurred subsequent to 31 December 2019 that require disclosure or adjustment to these financial statements.

37 Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied to the Consolidated Entity. Refer to Note 1 for a summary of the significant accounting policies relating to the Consolidated Entity.

Financial Position	2019 $'000	2018 $'000
Assets		
Cash and liquid assets	146,850	57,618
Due from other financial institutions	46,105	67,527
Receivable from securitisation Trust	23,710	11,422
Investments at amortised cost	419,701	388,042
Loans and advances		
- Held by Parent Entity	1,532,052	1,426,426
- Held by Trust subject to securitisation	530,433	331,418
Derivative financial assets	3,223	85
Intangible assets	8,729	7,990
Property, plant and equipment	41,311	3,711
Investment Property	25,189	
Deferred tax assets	3,596	2,850
Investment in Securitisation Trust - Notes A and B	554,094	342,721
Other assets	7,721	5,343
Total assets	**3,342,714**	**2,645,153**
Liabilities		
Due to other financial institutions	4,683	48,147
Securities sold and under repurchase agreement	-	-
Deposits	2,442,996	1,956,601
Derivative liabilities	3,861	5,168
Intergroup Payable to Trust	554,094	342,721
Provisions	3,472	2,958
Lease Liability	11,875	-
Other liabilities	15,249	4,910
Total liabilities	**3,036,230**	**2,360,505**
Net assets	**306,484**	**284,648**

37 Parent entity information (continued)

Financial Position (continued)	2019 $'000	2018 $'000
Equity		
Contributed equity	230,000	210,000
Reserves	3,503	4,543
Retained profits	72,981	70,105
Total equity	**306,484**	**284,648**
Financial Performance		
Profit for the year	3,940	11,219
Other comprehensive income	(1,924)	(1,097)
Total comprehensive income	**2,016**	**10,122**

At 31 December 2019, BHB Residential Securities Trust 1 ('the Trust') owes Bank of Sydney ('the Company') $554,094,337 which was eliminated on consolidated account level (2018: $342,721,457). During 2019, the Company received $14,485,448 as interest income (2018: $8,099,286) and incurred $3,284,891 in operating expenses (2018: $2,216,112) from its 100% owned internal securitisation of the Trust which was also fully eliminated on consolidated account level.

38 Securitisation

Details of the Consolidated Entity’s internal securitisation at the end of the reporting period are as follows:

Name of securitisation	Principal activity	Place of incorporation and operation	Proportion of ownership interest by the Consolidated Entity
BHB Residential Securities Trust 1	Contingent Liquidity Reserve Facility	Australia	100%

38 Securitisation (continued)

During 2013, the Company packaged equitable interests in residential mortgage backed mortgage loans and transferred to the Trust, which issued securities backed by the same loans and sold back to the Company. The Company retained risks and rewards of the subject loans as being the sole unit holder and beneficiary of the Trust in this "internal securitisation" program. The purpose of setting up the Trust was to provide a contingency liquidity reserve facility to meet any future liquidity crisis that the Company may face due to either internal or external factors.

On 22 August 2019, the Company carried out a "top-up" of the Trust in order to meet Securitisation contingency funding requirements, which includes buying back of Class A Notes issued in 2018 with carrying amount of $254.6m at nil consideration and reissuing new Class A Notes of $529.7m. There was also a buy- back of Class B Notes of $32m at nil consideration with a reissue of new Class B Notes of $51m.The additional proceeds of $294.1m from the Note Issue were used to purchase a further parcel of triple A rated Residential Mortgage Loans from the Company. Class A Notes qualify as eligible securities for repurchase with the Reserve Bank of Australia.

As the Company owns 100% of the issued units in the Trust and has control over the Trust as defined in AASB 10 *Consolidated Financial Statements* , the Trust will be accounted for as the Company's 100% owned subsidiary.

Where relevant, credit risk, market risk and liquidity risk arising from internal securitisation transactions are captured and monitored in the Consolidated Entity's normal risk management framework and processes. The table below presents assets securitised by the Consolidated Entity:

	2019 $'000	2018 $'000
Internal Securitisation assets		
Residential Mortgage	530,433	331,418
Cash and accrued income	23,710	11,422
	554,143	**342,840**

Note: cash and accrued income are held by the asset securitisation vehicles, which have not yet been distributed to the note holders.

Bank of Sydney Ltd
Directors' declaration

1 In the opinion of the Directors of the Consolidated Entity:

(a) the financial statements, set out on pages 8 to 71, are in accordance with the Corporation Act 2001, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance, for the financial year ended on that date;

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

2 The Directors draw attention to Note 1(b) to the financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Nicholas Pappas	Nikolas Hatzistergos
Chairman	Director

Sydney, 22 April 2020

Deloitte.

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Independent Auditor's Report to the members of Bank of Sydney Ltd

Opinion

We have audited the financial report of Bank of Sydney Ltd and its subsidiary (the "Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the director's declaration.

In our opinion, the accompanying financial report of the Consolidated Entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Consolidated Entity**,** would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report included in the Consolidated Entity's annual financial report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

Responsibilities of the directors for the Financial Report

The directors of the Consolidated Entity 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the consolidated financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. Jones

Rebecca Jones
Partner
Chartered Accountants
Sydney, 24 April 2020