Bank of Sydney

Bank of Sydney Ltd
ABN 44 093 488 629
Annual Financial Report
For the year ended
31 December 2017

Table of contents

Bank of Sydney Ltd
Directors' report
For the year ended 31 December 2017

The Directors present their report together with the financial report of the Bank of Sydney Ltd, later referred to as the Consolidated Entity, for the year ended 31 December 2017 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 Board role, 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 Secretary of the Greek Orthodox Archdiocesan Council and 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.

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

Mr Gav is a member of the Board Risk Management Committee and Board Audit 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 a Managing Director of William Buck (NSW) Pty Ltd and Chairman of William Buck International Limited. He is a Director at St Basils Homes and Hellenic Club Limited and has been elected as a Member of the Governing Council and Management Board – Praxity (AISBL). He is 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 three 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; a non – executive Director of Jardine Lloyd Thomson Australia; Chairman of AFL SportsReady; Chairman of The Kardinia Park Stadium Trust; and a member of the Monash Business School Business Advisory Board (BAB); the Australian Republic Movement's Republican Advisory Panel (RAP); and the West of Melbourne Alliance Board.

Mr Fouad Chaker
Non-Executive Director
Appointed 28 February 2011

Mr Chaker holds the position of Assistant General Manager - Commercial Banking Division, Bank of Beirut s.a.l.

Bank of Sydney Ltd
Directors' report (continued)
For the year ended 31 December 2017

Mr Hikmat El-Bikai
Non-Executive Alternate Director to Mr. Fouad Chaker
Appointed 18 May 2011

Mr El-Bikai holds the position of Senior Executive Officer - Credit and Legal Affairs, Bank of Beirut s.a.l.

Mr Alex Robert Bartlem OAM
Non-Executive Independent Director
Appointed 1 December 2015
Resigned 31 July 2017

Mr Bartlem was the Chairman of the Board Risk Management Committee from 1 December 2015 and resigned on 31 July 2017. Alex Bartlem served 35 years in the Australian Foreign Service. He served time in Lebanon, including as Australian Ambassador from 2010 to 2015. His international experience includes appointments in Spain, Germany, France, Venezuela, Egypt, Indonesia, Turkey as well as short-term assignments in Iraq, Syria and Jordan. He was awarded an Order of Australia Medial (OAM) in 2002. Alex continues to work as a Consultant to the government.

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 over 25 years domestic and international experience with National Australia Bank and KPMG in advisory, risk and restructuring. He has strong strategic and technical skills across corporate finance, restructuring and risk having led NAB's problem loan management throughout the GFC. Mr. Edney is also chairman of Williams Holdings Limited in New Zealand.

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:

Directors	Board Operations		Board Audit Committee		Board Risk Management Committee		Board Remuneration Committee	
	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	8	7	6	6	-	-	1	1
N.T. Hatzistergos	8	6	6	5	-	-	1	1
G.Gav	8	8	-	-	9	7	-	-
H.S. Bracks AC	8	5	-	-	-	-	-	-
F. Chaker	8	8	-	-	-	-	-	-
H. El-Bikai	-	-	-	-	-	-	-	-
A.R. Bartlem	5	1	-	-	4	2	1	1
R. Dagher	8	8	6	5	9	9	1	1
B. Edney	7	7	-	-	6	6	-	-

Note – Remuneration decisions for 2017 were taken by Circular Resolution, no physical meetings held.

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

Company Secretary

Mrs. Fiakos was appointed as Company Secretary in May 2011, she also holds the position of Business Manager and has worked in various roles throughout the Bank since 2006 including Risk Management and Credit. She holds 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 $11,005,000 (2016: profit of $9,230,000). The result included provisions for impairment losses for Loans and Advances of $177,000 (2016: $463,000). At 31 December 2017, the Consolidated Entity's net loan portfolio was $1,474.4m (2016: $1,272.5m) and its customer deposits $1,732.7m (2016: $1,493.8m). This represents an increase of 16% in loans and an increase of 16% in deposits when compared to the balances as at 31 December 2016.

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 2017 (2016: Nil).

State Of Affairs

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

Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Consolidated Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in subsequent financial years.

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

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.

Rounding Off

The Consolidated Entity is of a kind referred to in ASIC 2016/191 dated 24 March 2016 and in accordance with that Class Order, 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

Sydney, 24 April 2018

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 2 9322 7000
Fax: +61 2 9322 7001
www.deloitte.com.au

24 April 2018

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

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.

As lead audit partner for the audit of the financial statements of Bank of Sydney Ltd for the financial year ended 31 December 2017, 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

M Stretton

Mark Stretton
Partner
Chartered Accountants

Bank of Sydney Ltd
Consolidated Statement of Profit and Loss
For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Interest income	2	75,279	69,636
Interest expense	3	(36,955)	(34,488)
Net interest income		38,324	35,148
Non-interest income	4	8,911	8,644
Net operating income		47,235	43,792
Operating expenses	5	(31,633)	(31,003)
Reversal/(Provision) of impairment losses on loans and advances	11	177	463
Profit before income tax		15,778	**13,252**
Income tax expense	6	(4,773)	(4,022)
Profit for the year		11,005	9,230
Attributable to:			
Equity holders of the Consolidated Entity		**11,005**	**9,230**
Profit for the year		**11,005**	**9,230**

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 64.

Bank of Sydney Ltd
Consolidated Statement of Profit and Loss
and Other Comprehensive Income
For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Profit for the year		**11,005**	**9,230**
Other comprehensive income, net of income tax			
Cash flow hedges:			
Effective portion of changes in fair value		99	491
Net amount transferred to statement of profit and loss		37	35
Other comprehensive income for the period, net of income tax	24	136	526
Total comprehensive income for the year		11,141	**9,756**
Attributable to:			
Equity holders of the Consolidated Entity		**11,141**	9,756
Total comprehensive income for the year		**11,141**	**9,756**

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 64.

Bank of Sydney Ltd
Consolidated Statement of Financial Position
For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash and liquid assets	7	122,047	35,606
Due from other financial institutions	8	26,571	42,096
Investment at amortised cost	9	462,735	510,064
Loans and advances	10(a)	1,474,444	1,272,472
Derivative financial assets	19	3,361	864
Intangible assets	12	5,387	3,099
Plant and equipment	13	3,524	3,592
Deferred tax assets	14	1,773	1,538
Other assets	15	4,649	1,577
Total assets		**2,104,491**	**1,870,908**
Liabilities			
Due to other financial institutions	16	6,245	17,140
Securities sold and under repurchase agreements	17	85,173	90,870
Deposits	18	1,732,675	1,493,774
Derivative liabilities	19	120	1,968
Provisions	20	2,711	2,326
Other liabilities	21	9,325	7,730
Total liabilities		**1,836,249**	**1,613,808**
Net assets		**268,241**	**257,100**
Equity			
Contributed equity	22	200,000	200,000
Retained profits	23	60,553	51,822
Reserves	24	7,688	5,278
Total equity		**268,241**	**257,100**

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 64.

Bank of Sydney Ltd
Consolidated Statement of Cash Flows
For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Interest and commission receipts		84,223	78,866
Interest payments		(38,038)	(32,545)
Cash payments to employees and suppliers		(30,266)	(29,406)
Bad debts recovered		162	-
Income Tax Paid		(5,562)	(5,038)
		10,519	11,877
(Increase) / decrease in operating assets			
Loans and advances		(202,165)	(227,963)
Derivative Assets		(4,823)	-
Other assets		(945)	4,857
Increase / (decrease) in operating liabilities			
Due to other financial institutions		(10,895)	(59,136)
Deposits		240,017	188,334
Derivative liabilities		-	1,845
Securities bought under repurchase agreement		(5,730)	(101,013)
Other liabilities		1,055	3,636
Net cash (used in) / provided by operating activities	35(b)	**27,033**	**(177,563)**
Cash flows from investing activities			
Payments for intangible assets		(3,640)	(1,777)
Payments for plant & equipment		(233)	(1,121)
(Payments)/proceeds from investments at amortised cost		47,756	48,726
Net cash provided by investing activities		**43,883**	**45,828**
Cash flows from financing activities			
Proceeds from issue of shares		-	40,000
Net cash provided by financing activities		**-**	**40,000**
Net increase / (decrease) in cash held		**70,916**	**(91,735)**
Cash at the beginning of the financial year		77,702	169,437
Cash at the end of the financial year	35(a)	148,618	**77,702**

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 64.

Bank of Sydney Ltd
Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Contributed Equity	General reserve for credit	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2017	**200,000**	**5,499**	**(221)**	**51,822**	**257,100**
Total comprehensive income for the year					
Profit and loss	-	-	-	11,005	11,005
Transfers from retained earnings to general reserve	-	2,274	-	(2,274)	-
Other comprehensive income, net of income tax					
Net amount transferred to profit and loss	-	-	99	-	99
Effective portion of changes in fair value	-	-	37	-	37
Total other comprehensive income	**-**	**-**	**136**	**-**	**136**
Total comprehensive income for the year	**-**	**2,274**	**136**	**8,731**	**11,141**
Balance at 31 December 2017	**200,000**	**7,773**	**(85)**	**60,553**	**268,241**

	Contributed Equity	General reserve for credit	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2016	**160,000**	**3,471**	**(747)**	**44,620**	**207,344**
Total comprehensive income for the year					
Profit and loss	-	-	-	9,230	9,230
Transfers from retained earnings to general reserve	-	2,028	-	(2,028)	-
Other comprehensive income, net of income tax					
Net amount transferred to profit and loss	-	-	491	-	491
Effective portion of changes in fair value	-	-	35	-	35
Total other comprehensive income	**-**	**-**	**526**	**-**	**526**
Total comprehensive income for the year	**-**	**2,028**	**526**	**7,202**	**9,756**
Issue of share capital	**40,000**	**-**	**-**	**-**	**40,000**
Balance at 31 December 2016	**200,000**	**5,499**	**(221)**	**51,822**	**257,100**

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 64.

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 100% owned subsidiary of the Company since inception. Please refer to 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 24th April 2018.

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.

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

(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 Company is a for-profit entity.

(d) Interest

Interest income and expense for all interest bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest 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 effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Consolidated Entity estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The Consolidated Entity enters into FX swaps primarily to minimise its foreign currency risk and entering into foreign currency money market deals. 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 income statement.

(e) Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account-servicing fees, are recognised as the related services are performed.

1 Summary of significant accounting policies (continued)

(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 is brought to account at the gross value of the outstanding balance. Interest on receivables due from other financial institutions is recognised on an effective yield 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. The Consolidated Entity has early adopted AASB 9 "Financial Instruments: Classification and Measurement" issued in December 2010 with a date of initial application of 1 January 2011(AASB 9 December 2010)

Following the adoption of AASB 9 (December 2010), non-derivative financial instruments are classified and measured as follows by the Consolidated Entity.

Amortised Cost: A financial asset qualifies for amortised cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category includes loans and advances to customers and investments at amortised cost.

1 Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

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 effective interest rate method, except for fixed rate loans that qualify for hedge accounting which are valued at fair value.

Impairment of a loan is recognised when objective evidence of impairment exists as described in Note 1(k). Loans and advances are reported net of allowances to reflect the estimated recoverable amounts.

Interest income on loans and advances is recognised using the effective yield method.

Fair value through profit and loss: If a financial asset does not meet both of the conditions listed for financial assets classified under Amortised cost, then it is measured at fair value. Upon initial recognition, attributable transaction costs are recognised in the profit or loss when incurred. Financial instruments at fair value through the profit or loss are measured at fair value, and changes therein are recognised in the profit or loss.

Financial Liabilities: The Consolidated Entity classifies its non-derivative financial liabilities as measured at amortised cost. They are measured at amortised cost and further details on the Consolidated Entity's accounting for financial liabilities have been included in Note 1(q).

Investments at amortised cost sold under repurchase agreements are classified as financial liabilities and measured at amortised cost. The investments at amortised cost subject to the borrowing 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 asset on balance sheet and recognised in profit and loss on a straight line basis over the life of the Trust i.e. 31 years since inception.

(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 Income Statement in the reporting period in which it occurs.

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Non-financial assets (continued)

Costs incurred by the Company that are directly related to the issue of a pool of mortgage loans by the Trust are amortised over the expected life of the pool of loans, currently 5 years.

Financial assets, excluding financial assets at fair value through the profit and loss, are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Financial assets

Objective evidence that an individual asset or a group of assets is impaired includes, but is not limited to, observable data from the following loss events:

- default or delinquency by a debtor; or
- restructuring of an amount due to the Consolidated Entity on terms that the Consolidated Entity would not consider otherwise; or
- indications that a debtor or issuer will enter bankruptcy; or
- adverse changes in the payment status of borrowers or issuers; or
- observable data indicating that there is a measurable decrease in the expected cash flow from a group of financial assets.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable amount.

The recoverable amounts of financial assets carried at amortised cost are calculated as the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

All individually significant financial assets found not to be specifically impaired are collectively assessed for any impairment that has been incurred but not yet identified. The Consolidated Entity calculates the collective provision by using a model which incorporates the probability of default and the amount of loss incurred adjusted for management's judgement of current credit conditions based on the Consolidated Entity's customer grading model.

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Financial assets (continued)
Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and its recoverable amount. Impairment losses are recognised in profit or loss and reflected in an allowance against loans and advances. If a subsequent event occurs and causes the impairment loss to decrease, the decrease is reversed in the profit and loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and its recoverable amount. Impairment losses are recognised in profit or loss and reflected in an allowance against loans and advances. If a subsequent event occurs and causes the impairment loss to decrease, the decrease is reversed in the 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 income statement.

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 a recognised asset or liability which 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)

(l) Derivative instruments (continued)

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. If the hedge is ineffective, changes in fair value are recognised in profit or 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 equity remains there until the forecast transaction occurs. Refer to note 24 for cash flow hedge reserve movement.

Other non-trading derivatives
When a derivative financial instrument is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(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 at amortised cost on balance sheet.

Fees and interest relating to securities lending and repurchase agreements are recognised as interest expenses in the income statement, using the effective interest rate 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.

1 Summary of significant accounting policies (continued)

(n) Intangible assets (continued)

Computer software (continued)
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 5 years.

The amortisation rates used are as follows:

2017	2016
20%	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.

(o) Plant and equipment

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

Useful lives
All assets have limited useful lives and are depreciated through the income statement using the straight-line method over their estimated useful lives.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

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:

	2017	2016
Plant and equipment		
Leasehold improvements	10%	10%
Plant and equipment	10%	10%
Furniture and fittings	10% to 20%	10% to 20%
Computer hardware	20% to 25%	20% to 25%
Motor vehicle	20%	20%

1 Summary of significant accounting policies (continued)

(p) 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 income statement in the period in which the exchange rates change.

(q) 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 income statement using the effective interest rate method described in Note 1(d).

(r) 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.

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.

1 Summary of significant accounting policies (continued)

(s) 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.

(t) Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(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.

1 Summary of significant accounting policies (continued)

(u) Employee entitlements (continued)

(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.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(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.

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 statements (refer to note 38) and are presented as “Loans and advances-Held by Trust subject to securitisation”.

(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.

1 Summary of significant accounting policies (continued)

(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 27, 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 27 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

As described in note 1(k), determining whether an individual asset 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.

Management judgement also applies to calculating collective provision for all individually significant financial assets which are not specifically impaired. The amount of loss calculated by using a model is adjusted for management's judgement of current credit conditions based on the Consolidated Entity's customer grading model.

Deferred tax assets

As described in note 1(r), 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.

Judgement is applied by management in determining that taxable profit will be available against which a deductible temporary difference can be utilised and the extent to which the recovery of carried forward tax losses is probable for the purpose of meeting the criteria for recognition as deferred tax assets.

1 Summary of significant accounting policies (continued)

(z) Application of new and revised standards

In the current year, the Group has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2016, and therefore relevant for the current year end.

AASB 2016-2 "Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 107"	The amendments provide guidance on AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(aa) Standards and Interpretations issued not yet adopted

As described in note 1(i), the Consolidated Entity has early adopted AASB 9 (December 2010) "Financial Instruments: classification and measurement". Other sections under AASB 9 (December 2010) have not been adopted including the new model for calculating impairment, new general hedge accounting standards and the carried forward guidance on recognition and derecognition of financial instruments.

The Consolidated Entity has assessed the estimated impact that the application of AASB 9(December 2014) will have on its consolidated financial statements. The major changes under the standard and details of the implementation project are outlined below. The actual impacts of adopting the full standards at 1 January 2018 may change.

Impairment

The estimated impact of the adoption of the new model for impairment calculation is based on the assessments undertaken to date and is summarised below.

The Company has developed a model to calculate expected credit losses in accordance with AASB 9 Financial Instruments (December 2014). The model utilises risk data to determine the Probability of Default (PD) and Loss Given Default (LGD) factors to calculate Expected Credit Loss (ECL) for portfolio exposures. The AASB 9 model is based on a 3-Stage approach and depending on the risk characteristics of the loan or exposure, it may fall into one of three stages, which impacts the period for which the ECL is summated i.e. 12 months or lifetime loss. The Company is in the final stages of completing the model, with refinements made to ensure it is consistent with the methodology documented. It is intended to further enhance the forward-looking macro-economic factors required by AASB 9 in early 2018 to align with the approach adopted by the Bank of Beirut S.A.L Group. The impact of these further changes is not expected to be material.

1 Summary of significant accounting policies (continued)

(aa) Standards and Interpretations issued not yet adopted (continued)

Classification and measurement

AASB 9 (December 2014) replaces the classification and measurement model in AASB 139 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. Financial assets will be measured at:

- amortised cost where the 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;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

As described in note 1(i), the Consolidated Entity has early adopted AASB 9 (December 2010) “Financial Instruments: classification and measurement” since 1 January 2011, which contains two primary measurement categories for financial assets:

- amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding; or
- fair value through profit or loss for all other financial assets

The Company's classification and measurement implementation project is in progress including an assessment of business models and a review of the contractual cash flows across financial assets balances. The impact of implementing these changes is not expected to be material.

Except the above, the following Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ended 31 December 2017.

- AASB 15 “Revenue from Contracts with Customers” (“AASB 15”) was issued by AASB in December 2015 for retrospective application in annual periods beginning on or after 1 January 2018.
- AASB 16 ‘Leases’ ("AASB 16") was issued by the AASB in February 2016, for retrospective application in annual periods beginning on or after 1 January 2019.

When applied in future periods, these recently issued or amended standards are not expected to have a material impact on the Consolidated Entity’s financial position or performance; they may impact the disclosures.

		2017 $'000	2016 $'000
2	**Interest income**		
	Cash and liquid assets	756	1,408
	Due from other financial institutions	8	35
	Investments at amortised cost		
	- banks	15,058	14,946
	- related party	74	133
	Loans and advances	59,231	53,047
	Other interest income – parent company	152	67
		75,279	69,636
3	**Interest expense**		
	Due to other financial institutions		
	- banks	491	213
	- related party	28	342
	Deposits	34,744	32,653
	Other borrowings - repurchase agreement	1,691	1,280
		36,955	34,488
4	**Non-interest income**		
	Net fees and commission income	6,929	7,018
	Gain from sale of securities	486	150
	Net foreign exchange gain	1,561	1,533
	Unrealised loss on derivatives	(66)	(57)
		8,911	8,644
5	**Operating expenses**		
	Staff expenses	18,527	18,493
	Computer expenses	2,663	2,736
	Occupancy costs	3,567	3,181
	Depreciation of property and equipment	777	860
	Amortisation of intangibles	876	1,068
	Marketing expenses	726	670
	Other operating expenses	4,498	3,995
		31,633	31,003

	2017 $'000	2016 $'000
6 Taxation		
(a) Income tax expense		
Current tax expense		
Current period	5,067	4,087
Adjustment for prior period	-	(96)
	5,067	3,991
Deferred tax expense		
Deferred tax expense recognised in the current year	(294)	(84)
Adjustment for prior period	-	115
	(294)	31
Total income tax expense	**4,773**	**4,022**
(b) Reconciliation between tax expense and pre-tax net profit		
Profit before tax	15,778	13,252
Income tax using the Consolidated Entity's tax rate of 30%	4,733	3,976
Prior Year adjustment	-	19
Non-deductible expenses	40	27
Income tax expense	4,773	4,022
7 Cash and liquid assets		
Cash at bank	4,218	4,331
Cash held with central bank	117,828	31,275
	122,047	35,606

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

		2017 $'000	2016 $'000
8	**Due from other financial institutions**		
	Within Australia	5,140	13,279
	Related parties	10,955	14,996
	Overseas	10,477	13,821
		26,571	42,096
	Residual maturity analysis		
	At call	25,958	41,483
	Up to 1 month	501	613
	1 to 3 months	112	-
		26,571	42,096
9	**Investments at amortised cost**		
	Floating rate notes	348,620	468,131
	Fixed rate bonds	114,115	41,933
		462,735	510,064
	Residual maturity analysis		
	Up to 1 month	10,204	-
	1 to 3 months	12,441	14,013
	3 to 12 months	104,627	39,997
	12 months to 5 years	335,463	456,054
		462,735	510,064

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.

	2017 $'000	2016 $'000
Pledged value		
Floating rate notes	93,200	99,710
Fixed rate bonds	-	-
	93,200	99,710

		Note	2017 $'000	2016 $'000
10 (a)	**Loans and advances**			
	Loans and advances		1,433,705	1,231,691
	Overdrafts		41,032	41,090
	Gross loans and advances		1,474,738	1,272,781
	Less -			
	Collective provision	11	(294)	(263)
	Specific provision	11	-	(46)
	Net loans and advances		**1,474,444**	**1,272,472**

Residual maturity analysis (excluding provisions)

	2017 $'000	2016 $'000
Overdrafts	41,032	41,090
Up to 1 month	198,986	207,390
1 to 3 months	56,514	70,517
3 to 12 months	103,601	107,681
12 months to 5 years	42,795	79,389
Over 5 years	1,031,808	766,714
	1,474,738	1,272,781

Residual maturity analysis was performed based on contractual final maturity dates of loans and advances. Refer to Note 27 for additional disclosures to meet requirements of AASB7 – *Financial Instruments: Disclosures.*

10 (b) Hedge accounting adjustment

The fair value of the interest rate swaps as at 31 December 2017 used for cash flow hedges was -$577,081 (2016: -$422,402).

The following table illustrates the carrying amount and the fair value adjustments attributable to loans and advances.

Gross loans and advances

	2017 $'000	2016 $'000
Carrying amount	1,474,720	1,272,738
Fair value adjustment	18	43
Total	**1,474,738**	**1,272,781**

10 (c) Internal Securitisation

As further disclosed in Note 38 – Internal Securitisation, $188.9m of Residential Mortgages have been sold and are held by a controlled subsidiary, BHB Residential Securities Trust 1, as part of an internal securitisation.

		2017 $'000	2016 $'000
11 (a)	**Provision for Impairment**		
	Collective provisions		
	Opening balance	263	250
	Charge to income statement	31	13
	Closing balance	294	263
	Specific provisions		
	Opening balance	46	556
	Write off against provision	(49)	(34)
	Recoveries recognised in income statement		(514)
	Charge to income statement	3	38
	Closing balance	(0)	46
	Reconciliation of recoveries of impairment losses		
	Collective provisions		
	- current year charge	31	13
	Specific provisions		
	- recoveries	-	(514)
	- current year charge	3	38
	Write off of Interest	10	-
	Write off of loan Principal	6	-
	Write back of unrealized interest to profit or loss	(227)	-
	Impairment loss recovery	(177)	(463)

The Consolidated Entity did not recognise any material interest income on impaired assets as at 31 December 2017. (2016: Nil).

11 (b) Impaired assets

The balance of past due loans and impaired loans are as follows:

	2017 $'000	2016 $'000
Loans and advances to customers		
Past due but not impaired	60,871	72,594
Impaired	-	2,731
Gross impaired and past due loans	60,871	75,325
Less: Specific provision	-	(46)
Net impaired and past due loans	60,871	75,279

Refer to Note 25(b) for further details.

		2017	2016
		$'000	$'000
12	**Intangible assets**		
	Computer software		
	At cost	8,476	8,208
	Less: Accumulated amortisation	(3,089)	(5,109)
		5,387	3,099
	Opening balance	3,099	1,712
	Additions	3,168	1,777
	Transfer	-	611
	Amortisation expense	(880)	(1,001)
	Net book value	5,387	3,099
13	**Plant and equipment**		
	Plant and equipment		
	At cost	4,277	4,477
	Less: Accumulated amortisation	(3,184)	(3,186)
		1,093	1,291
	Leasehold		
	At cost	7,464	6,885
	Less: Accumulated amortisation	(5,079)	(4,637)
		2,385	2,248
	Motor Vehicle		
	At cost	60	59
	Less: Accumulated amortisation	(14)	(6)
		46	53
	Net book value	**3,524**	**3,592**

	2017 $'000	2016 $'000

13 Plant and equipment (continued)

Reconciliation of the carrying values of plant and equipment and leasehold property are set out below:

	2017 $'000	2016 $'000
Plant and equipment at cost		
Opening balance	1,291	1,826
Additions	131	513
Transfer	-	(611)
Net book value of assets disposed during the year	(26)	(6)
Depreciation expense	(303)	(431)
	1,093	1,291
Leasehold property at cost		
Opening balance	2,248	2,200
Additions	578	549
Net book value of assets disposed during the year	-	(12)
Depreciation expense	(441)	(489)
	2,385	2,248
Motor vehicles at cost		
Opening balance	53	-
Additions	-	59
Depreciation expense	(7)	(6)
	46	53
Net book value	**3,524**	**3,592**

14 Deferred tax assets

Deferred income tax assets are attributable to the following items:

	2017 $'000	2016 $'000
Deferred tax assets		
Provisions	1,161	1,020
Cash flow hedge reserve	36	95
Fixed assets	628	478
Total deferred tax asset	**1,825**	**1,593**
Deferred tax liabilities		
Fair value of financial instruments	(35)	(36)
Prepaid balances	(17)	(19)
Total deferred tax liabilities	**(52)**	**(55)**
Net deferred tax asset	**1,773**	**1,538**

		Note	2017 $'000	2016 $'000
14	**Deferred tax assets (continued)**			
	Reconciliation of balances of net deferred tax assets are set out below:			
	Deferred tax assets			
	Opening balance		1,538	1,794
	Deferred tax credit/(debit) to income statement	6(a)	294	(31)
	Deferred tax charges recognised in equity		(59)	(225)
	Net deferred tax asset		**1,773**	**1,538**
15	**Other assets**			
	Prepayments		818	716
	Other		3,831	861
			4,649	**1,577**

Other comprises mainly suspense accounts, sundry debtors and other miscellaneous debit balances.

		Note	2017 $'000	2016 $'000
16	**Due to other financial institutions**			
	- parent entity		739	463
	- Australia		718	3,962
	- overseas		4,786	12,695
	- related parties		2	20
			6,245	**17,140**

The parent entity refers to Bank of Beirut s.a.l and the related party in 2017 refers to wholly owned subsidiaries and associated companies of Bank of Beirut s.a.l. Please refer to note 33(a) for details of related party relationship and transactions in 2017.

		Note	2017 $'000	2016 $'000
17	**Sales and repurchase agreement**			
	Sales and repurchase agreement		85,173	90,870

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.

		Note	2017 $'000	2016 $'000
18	**Deposits**			
	Current		276,122	235,516
	Savings		191,979	205,845
	Term		1,264,574	1,052,413
	Total deposits		**1,732,675**	**1,493,774**

		2017	2016
		$'000	$'000

19 Derivative financial instruments

The Consolidated Entity enters into derivative transactions, which provide economic hedges for exposures to market risk.

		2017 $'000	2016 $'000
Assets			
Interest rate swaps - Local banks		547	706
Foreign currency forwards - Parent entity		1,785	28
Foreign currency forwards - Other		1,029	130
		3,361	**864**
Liabilities			
Interest rate swaps	- Local banks	70	295
	- Other	-	31
Foreign currency forwards - Parent entity		-	548
Foreign currency forwards - Other		51	1,094
		120	**1,968**

20 Provisions

	2017 $'000	2016 $'000
Annual leave provision	1,075	950
Long service leave provision	1,135	943
Make good provision	500	433
	2,711	**2,326**

21 Other liabilities

	2017 $'000	2016 $'000
Current tax liability	1,041	495
Bank cheques issued awaiting clearance	2,328	4,478
Other	5,957	2,757
	9,325	**7,730**

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

22 Contributed Equity

	2017 $'000	2016 $'000
200,000,000 ordinary shares fully paid	200,000	200,000

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.

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.

		2017 $'000	2016 $'000
23	**Retained profits**		
	Retained profits at beginning of year	51,822	44,620
	Net profit after income tax	11,005	9,230
	Transfer to general reserve for credit losses	(2,274)	(2,028)
	Retained profits at year-end	**60,553**	**51,822**
24	**Reserves**		
	General reserve for credit losses		
	Opening Balance	5,499	3,471
	Transfer from retained profits during the year	2,274	2,028
	Closing Balance	7,773	5,499
	Cash flow hedge reserve		
	Opening Balance	(221)	(747)
	Transfer from reserves during the year	136	526
	Closing Balance	(85)	(221)
	Total reserves	**7,688**	**5,278**

All reserve amounts are shown net of income tax.

25 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.

25 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 Consolidated Entity's Executive Risk and Compliance Committee assists the Board in overseeing all risk management activities that are carried out, for the purpose of identifying, evaluating and managing all key business risks.

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.

(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 by Treasury for managing the credit risk exposures. Investment securities and other bills are utilised in order to maintain a portfolio of high quality liquid assets which are 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 Credit Committee. Risk Management is responsible for monitoring compliance with credit policies on a day to day basis. Responsibilities of Risk Management 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.

25 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

		2017 $'000		2016 $'000	
Grades	Risk level	Loans and advances	Impairment provision	Loans and advances	Impairment provision
1	Low/insignificant	134,360	-	122,025	-
2	Minimal	78,640	17	69,253	11
3	Moderate	333,213	64	241,532	50
4	Acceptable	733,584	185	665,189	170
5	Acceptable with care	145,688	21	131,370	31
6	Management Attention	18,627	3	11,859	1
7	High	30,109	3	29,809	-
8	High & Problematic	517	-	-	-
9	Very High & Problematic	-	-	1,744	46
10	Loss	-	-	-	-
Total		1,474,738	293	1,272,781	309

A rating of 1 to 10 (inclusive) is applied to each borrowing entity or guarantor. Eight ratings are allocated to performing customers and two (9-10) to non-performing exposures. Interest suspension and specific provisions are required for non-performing exposures.

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

25 Financial risk management (continued)

(b) Credit risk (continued)

The table below represents the maximum exposure to credit risk of the Consolidated Entity as at 31 December 2017 and 2016, without taking account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures equal net carrying amounts as reported in the balance sheet.

	2017 $'000	2016 $'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	838,647	553,980
Loans to corporate entities:		
- Large corporate customers	158,691	145,936
- Small and medium size enterprises (SMEs)	477,400	572,863
Due from other financial institutions	26,571	42,096
Investments at amortised cost	462,735	510,064
Derivative financial assets	3,361	864
Total	1,967,405	1,825,803
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	10,182	7,147
Loan commitments and other credit related liabilities	161,655	251,864
Trade finance contingencies	26,510	24,095
Total	198,348	283,106

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 $2,705 million as at 31 December 2017 ($1,632m as at 31 December 2016). The estimated value of collateral is based on market value of the collateral and is not capped to the value of the exposure.

25 Financial risk management (continued)

(b) Credit risk (continued)

Loans and advances less than 90 days past due 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.

31/12/2017
$'000's

	Individuals (retail customers)	Large corporate customers	SMEs	Total
Past due up to 30 days	8,575	-	18,737	27,312
Past due 30- 60 days	4,213	-	3,253	7,466
Past due 60 - 90 days	485	-	2,248	2,733
Past due more than 90 days	1,843	21,517	-	23,360
Total	**15,116**	**21,517**	**24,238**	**60,871**

31/12/2016
$'000's

	Individuals (retail customers)	Large corporate customers	SMEs	Total
Past due up to 30 days	26,166	119	18,691	44,976
Past due 30- 60 days	3,270	-	1,886	5,156
Past due 60 - 90 days	233	-	-	233
Past due more than 90 days	406	21,702	121	22,229
Total	**30,075**	**21,821**	**20,698**	**72,594**

The Consolidated Entity holds collateral with pledged amount totalling $78.8m for assets which are past due but not impaired as at 31 December 2017 ($47.5m as at 31 December 2016). 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.

25 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.

	2017 $'000	2016 $'000
Impaired loans		
Corporate Entities		
- SMEs	-	2,681
Individuals	-	50
Total	-	2,731

The Consolidated Entity held collateral with carrying value totalling $1.42m for the impaired assets as at 31 December 2016. Balance reported as of 31 December 2016 was related to one customer and it was recovered in 2017.

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.

31 December 2017
$'000's

		Corporate entities		
Industry type	**Individuals (Retail Customers)**	**Large Corporate Entities**	**SMEs**	**Total**
Manufacturing	11,357	249	15,556	27,162
Tourism	6,656	-	6,166	12,822
Domestic trade	30,328	17,778	17,654	65,759
Construction, Trade, Property Investment	73,895	128,394	238,633	440,922
Housing	665,514	-	301	665,815
Cultural, Recreational & Religious Org	913	11,942	16,611	29,466
Professional	46,484	-	47,316	93,800
Transport	2,972	328	132,931	136,231
Other	528	-	2,233	2,760
Total	838,647	158,691	477,400	1,474,738

25 Financial risk management (continued)

(b) Credit risk (continued)

31 December 2016
$'000's

		Corporate entities		
Industry type	**Individuals (Retail Customers)**	**Large Corporate Entities**	**SMEs**	**Total**
Manufacturing	8,051	7,393	10,185	25,629
Tourism	6,412	-	4,438	10,849
Domestic trade	34,713	11,926	12,847	59,486
Construction, Trade, Property Investment	89,545	129,026	278,774	497,345
Housing	449,291	-	98	449,389
Cultural, Recreational & Religious Org	954	-	29,642	30,596
Professional	31,402	-	39,975	71,377
Transport	2,312	312	122,024	124,648
Other	867	6	2,588	3,460
Total	623,546	148,662	500,571	1,272,780

(iii) *Impaired assets*

- "Non-accrual loans" are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised;
- "Restructured loans" arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required. Balance for such loans as at 31 December 2017 is $608,165 with a collateral value of $1,295,000 (2016: $1,156,000);
- "Past due loans" are when a counterparty has failed to make a payment when contractually due. Past due therefore includes all financial assets that are more than one day overdue.

25 Financial risk management (continued)

(b) Credit risk (continued)

(iv) 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 company 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 investments and due from other financial institutions by rating agency designation at 31 December 2017 and 31 December 2016, based on Moody's ratings or their equivalent.

	Investments at amortised cost $'000	Due from other financial institutions $'000	Total $'000
31 December 2017			
AA- to AA+	462,735	12,295	475,030
A- to A+	-	-	-
BBB- to BBB+	-	3,322	3,322
Unrated	-	10,954	10,954
Total	462,735	26,571	489,306

	Investments at amortised cost $'000	Due from other financial institutions $'000	Total $'000
31 December 2016			
AA- to AA+	394,468	-	394,468
A- to A+	115,596	25,478	141,074
BBB- to BBB+	-	1,622	1,622
Unrated	-	14,996	14,996
Total	510,064	42,096	552,160

25 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.

The market risks arising from non-trading activities are concentrated in Treasury and are separately monitored by Risk Management. Regular reports are submitted to the Board of Directors and ALCO (Asset-Liability Committee).

Non-trading portfolios primarily arise from the interest rate management of the Consolidated Entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange risks arising from the Consolidated Entity's 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 PVBP (Price Value of a Basis Point), and by having pre-approved limits for re-pricing bands. PVBP is the method used on calculating the present value of an instrument in the case of a certain market interest rate shift and comparing this value with the present value of the same instrument. The difference between the present values for the different interest rates represents a change in the value and is indicative of the sensitivity of the instrument's price to a change in the interest rate. Refer to note 25(c) (iii) for result of sensitivity analysis on interest rate movement using PVBP methodology.

The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management 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 as at 31 December 2017 and the prior year. 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.

25 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

31 December 2017

		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	122,047	-	-	-	-	122,047
Due from other financial institutions	8	15,616	10,955	-	-	-	26,571
Investments at amortised cost	9	348,620	33,701	80,414	-	-	462,735
Loans and advances	10	1,423,386	11,973	39,085	-	-	1,474,444
Derivative financial assets	19	3,361	-	-	-	-	3,361
		1,913,030	56,629	119,499	-	-	2,089,158
Financial liabilities							
Due to other financial institutions	16	6,245	-	-	-	-	6,245
Securities sold and under repurchase agreement	17	-	85,173	-	-	-	85,173
Deposits	18	477,195	1,253,605	1,875	-	-	1,732,675
Derivative financial liabilities	19	120	-	-	-	-	120
		483,560	1,338,778	1,875	-	-	1,824,213
Interest rate swaps[2]		-	143,200	(143,200)	-	-	-
Interest rate gap		1,429,470	(1,138,949)	(25,576)	-	-	264,945

1. Include assets and liabilities for which the Consolidated Entity or the counter party has the contractual right to reset interest rate any time.
2. Notional principal amounts

Comparative 2016 table is set out on the next page.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2017

25 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

31 December 2016	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
		The earlier of maturity or repricing date					
Financial assets							
Cash and liquid assets	7	31,275	-	-	-	4,331	35,606
Due from other							-
financial institutions	8	41,483	613	-	-	-	42,096
Investments at							-
amortised cost	9	-	468,131	41,933	-	-	510,064
Loans and advances	10	1,216,687	16,282	39,503	-	-	1,272,472
Derivative financial assets	19	-	719	-	-	145	864
		1,289,445	485,745	81,436	-	4,476	1,861,102
Financial liabilities							
Due to other							
financial institutions	16	-	-	-	-	17,140	17,140
Securities sold and under							
repurchase agreement	17	-	90,870	-	-	-	90,870
Deposits	18	441,361	967,406	1,778	-	83,229	1,493,774
Derivative financial liabilities	19	-	1,781	-	-	187	1,968
		441,361	1,060,057	1,778	-	100,556	1,603,752
Interest rate swaps[2]		-	70,061	(70,061)	-	-	-
Interest rate gap		848,084	(504,251)	9,597	-	(96,080)	257,350

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

2. Notional principal amounts

25 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.

31 December 2017

$'000	**EUR**	**USD**	**STG**	**AUD**	**Other currency**	**Total**
Cash and liquid assets	80	254	-	121,031	682	122,047
Due from other financial institutions	10,658	8,031	-	5,139	2,743	26,571
Investments at amortised cost	-	-	-	462,735	-	462,735
Loans and advances	423	137,765	-	1,336,256	-	1,474,444
Derivative financial asset	-	-	-	3,361	-	3,361
Plant and equipment	-	-	-	3,524	-	3,524
Intangible assets	-	-	-	5,387	-	5,387
Deferred tax assets	-	-	-	1,773	-	1,773
Other assets	-	-	-	4,649	-	4,649
Total assets	**11,161**	**146,050**	**-**	**1,943,855**	**3,425**	**2,104,491**
Due to other financial institutions	-	-	-	6,245	-	6,245
Securities sold and	-	-	-	-	-	-
under repurchase agreements	-	-	-	85,173	-	85,173
Deposits	11,444	22,322	-	1,696,345	2,564	1,732,675
Current tax liability	-	-	-	1,041	-	1,041
Derivative liabilities	-	-	-	120	-	120
Provisions	-	-	-	2,711	-	2,711
Other liabilities	-	-	-	8,284	-	8,284
Total liabilities	**11,444**	**22,322**	**-**	**1,799,919**	**2,564**	**1,836,249**
Shareholders' equity	-	-	-	268,241	-	268,241
Total liabilities and shareholders' equity	11,444	22,322	-	2,068,160	2,564	2,104,490
Net on-balance sheet position	(283)	123,728	-	(124,305)	861	-
Effect of derivatives held for risk management	-	(71,818)	-	71,818	-	-
Net currency position	(283)	51,910	-	(52,487)	861	-

Comparative 2016 table is set out on the next page.

25 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

31 December 2016

$'000	**EUR**	**USD**	**STG**	**AUD**	**Other currency**	**Total**
Cash and liquid assets	138	334	583	34,551	-	35,606
Due from other financial institutions	14,850	11,867	1,566	13,222	591	42,096
Investments at amortised cost	-	-	-	510,064	-	510,064
Loans and advances	467	129,544	-	1,142,461	-	1,272,472
Derivative financial asset	-	-	-	864	-	864
Plant and equipment	-	-	-	3,592	-	3,592
Intangible assets	-	-	-	3,099	-	3,099
Deferred tax assets	-	-	-	1,538	-	1,538
Other assets	-	-	-	1,577	-	1,577
Total assets	**15,455**	**141,745**	**2,149**	**1,710,968**	**591**	**1,870,908**
Due to other financial institutions	-	-	-	17,140	-	17,140
Securities sold and under repurchase agreements	-	-	-	90,870	-	90,870
Deposits	15,789	19,768	1,705	1,456,475	37	1,493,774
Current tax liability	-	-	-	495	-	495
Derivative liabilities	-	-	-	1,968	-	1,968
Provisions	-	-	-	2,326	-	2,326
Other liabilities	-	-	-	7,235	-	7,235
Total liabilities	**15,789**	**19,768**	**1,705**	**1,576,509**	**37**	**1,613,808**
Shareholders' equity	-	-	-	257,100	-	257,100
Total liabilities and shareholders' equity	**15,789**	**19,768**	**1,705**	**1,833,609**	**37**	**1,870,908**
Net on-balance sheet position	(334)	121,977	444	(122,641)	554	-
Effect of derivatives held for risk management	-	(114,518)	-	114,518	-	-
Net currency position	(334)	7,459	444	(8,123)	554	-

25 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.

The sensitivity analysis on interest rate risk is performed using the methodology of PVBP. PVBP is the method used on calculating the present value of an instrument in the case of a certain market interest rate shift and comparing this value with the present value of the same instrument. The difference between the present values for the different interest rates represents a change in the value and is indicative of the sensitivity of the instrument's price to a change in the interest rate. Result of the analysis is as follows:

An increase or decrease of 50 basis points in the yield curve is expected to result in a gain or loss of approximately $580,450 (2016: $363,650) on profit or loss and the same amount of increase or decrease in balance sheet assets.

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:

An increase in currency exchange rates by 10% is expected to result in a loss of approximately $3,424 (2016: Loss $1,950) on the profit and loss and the same amount of increase in balance sheet assets. A decrease in currency exchange rates by 10% is expected to result in a gain of approximately $4,724 (2016: Gain $4,637).

(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% and the cumulative negative mismatch out to one month must not exceed 25% 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.

25 Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2017 $'000	Repayable on demand	3 mths or less	Over 3 mths but less then 1 yr	Over 1 but less then 5 yrs	Over 5 yrs	Total
Non-derivative liabilities						
Due to other financial institutions	6,245	-	-	-	-	6,245
Securities sold and under						-
repurchase agreements	-	85,258	-	-	-	85,258
Deposits	477,195	830,998	429,504	1,875		1,739,572
	483,440	916,256	429,504	1,875	-	1,831,075
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	346	984	3,935	-	5,265
- Foreign currency swaps	-	46	-	-	-	46
	-	392	984	3,935	-	5,311
Off balance sheet commitments						
Bank guarantee	10,182	-	-	-	-	10,182
Loan commitments	161,655	-	-	-	-	161,655
Trade Finance contingencies	26,510	-	-	-	-	26,510
	198,348	-	-	-	-	198,348
Total	681,787	916,648	430,488	5,810	-	2,034,733

Comparative 2016 table is set out on the next page.

25 Financial risk management (continued)

(d) Liquidity risk (continued)

31 December 2016

$'000	Repayable on demand	3 mths or less	Over 3 mths but less then 1 yr	Over 1 but less then 5 yrs	Over 5 yrs	Total
Non-derivative liabilities						
Due to other financial institutions	17,140	-	-	-	-	17,140
Securities sold and under repurchase agreements	-	91,023	-	-	-	91,023
Deposits	441,361	768,311	287,799	1,789	-	1,499,260
	458,501	859,334	287,799	1,789	-	1,607,423
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	386	1,024	1,782	-	3,192
- Foreign currency swaps	-	1,642	-	-	-	1,642
	-	2,028	1,024	1,782	-	4,834
Off balance sheet commitments						
Bank guarantee	7,147	-	-	-	-	7,147
Loan commitments	251,864	-	-	-	-	251,864
Trade Finance contingencies	24,095	-	-	-	-	24,095
	283,106	-	-	-	-	283,106
Total	741,607	861,362	288,823	3,571	-	1,895,363

26 Capital management

The Consolidated Entity's regulator, Australian Prudential Regulation Authority (APRA), sets minimum capital requirements for the Consolidated Entity. The Board determines internal Bank's capital requirements. 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. Total Tier 2 capital cannot exceed Tier 1 capital. Upper and lower Tier 2 capital cannot exceed 50% of Tier 1 capital.

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.

26 Capital management (continued)

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

	Note	2017 $'000	2016 $'000
Tier 1 Capital			
Ordinary share capital	22	200,000	200,000
Retained profits	23	60,553	51,822
Available for sale and cash flow hedge reserve	24	(85)	(221)
Less Deductions:			
Intangible assets	12	5,387	3,099
Deferred tax assets (net)	14	1,773	1,538
Fair value of cash flow hedges	24	(85)	(221)
Loan Origination Fees		1,727	731
Securitisation start-up costs		249	264
Total		251,417	246,190
Tier 2 Capital			
General reserve for credit losses		11,104	7,855
Total		11,104	7,855
Total regulatory capital		**262,521**	**254,045**
Risk weighted assets		1,143,958	1,148,476
Capital ratios			
Total regulatory capital as % of risk weighted assets		22.95%	22.12%
Total tier 1 capital as % of risk weighted assets		21.98%	21.44%

27 Fair value measurement

Fair values of financial assets and liabilities
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 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.

27 Fair value measurement (continued)

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

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
	$'000	$'000	$'000	$'000
Assets				
Cash and liquid assets	122,047	122,047	35,606	35,606
Due from other financial institutions	26,571	26,571	42,096	42,096
Investments at amortised cost	462,735	466,482	510,064	510,578
Loans and advances	1,474,444	1,474,993	1,272,472	1,273,112
Derivative financial assets	3,361	3,361	864	864
Liabilities				
Due to other financial institutions	6,245	6,245	17,140	17,140
Securities sold and under repurchase agreements	85,173	85,173	90,870	90,870
Deposits	1,732,675	1,732,644	1,493,774	1,493,737
Derivative financial liabilities	120	120	1,968	1,968

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.

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	-	3,361	-	3,361
Total	**-**	**3,361**	**-**	**3,361**
Derivative financial liabilities	-	120	-	120
Total	**-**	**120**	**-**	**120**

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	-	864	-	864
Total	**-**	**864**	**-**	**864**
Derivative financial liabilities	-	1,968	-	1,968
Total	**-**	**1,968**	**-**	**1,968**

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2017

27 Fair value measurement (continued)

Fair value hierarchy (continued)

The following illustrates the fair value of financial assets and liabilities not measured at fair value:

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and liquid assets	-	122,047	-	122,047
Due from other financial institutions	-	26,571	-	26,571
Investments at amortised cost	-	466,482	-	466,482
Loans and advances	-	1,474,993	-	1,474,993
Total	**-**	**2,090,092**	**-**	**2,090,092**
Due to other financial institutions	-	6,245	-	6,245
Securities sold and under repurchase agreement	-	85,173	-	85,173
Deposits	-	1,732,644	-	1,732,644
Total	**-**	**1,824,063**	**-**	**1,824,063**

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and liquid assets	-	35,606	-	35,606
Due from other financial institutions	-	42,096	-	42,096
Investments at amortised cost	-	510,578	-	510,578
Loans and advances	-	1,273,112	-	1,273,112
Total	**-**	**1,861,392**	**-**	**1,861,392**
Due to other financial institutions	-	17,140	-	17,140
Securities sold and under repurchase agreement	-	90,870	-	90,870
Deposits	-	1,493,737	-	1,493,737
Total	**-**	**1,601,747**	**-**	**1,601,747**

28 Commitments for expenditure

	2017 $'000	2016 $'000
Operating leases		
Future operating lease rentals not provided for and payable:		
Not later than one year	2,904	2,415
Later than one year but no later than two years	2,248	2,202
Later than two years but no later than five years	2,900	3,193
Later than five years	-	-
Total	8,052	7,810

29 Auditors' remuneration

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

	$	$
Auditing the financial report	284,900	302,538
Taxation services	29,293	22,330
Other non-audit services	254,162	104,325
Total	568,355	429,193

All amounts include 10% GST.

30 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 '000):

Credit related instruments:		
Letters of Guarantee given in the normal course of business	10,182	7,147
Commitments to extend credit	161,655	251,864
Trade finance contingencies	26,510	24,095
Total	198,348	283,106

31 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:

$20,000 - $29,999	-	1
$50,000 - $59,999	1	-
$70,000 - $79,999	1	2
$80,000 - $89,999	4	2
$90,000 - $99,999	1	2
$150,000 - $159,999	1	1
	8	8

31 Directors' remuneration (continued)

	2017 $	2016 $
Total income received, or due and receivable, by all Directors of the Consolidated Entity:		
Short term benefits	662,147	585,055
Other long term benefits	62,904	55,580
Total benefits to non-executive Directors	725,051	640,635

32 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

Non-executives Directors who left the Consolidated Entity during the year
Mr Alex Bartlem (Non-executive Director from 1/12/2015 to 31/07/2017)

Executives
Mr Miltiades Michaelas (Chief Executive Officer)
Mr Steven Pasas (Chief Operating Officer)
Mr Gary English (Chief Risk Officer) (Executive from 13/02/2017)
Mr Fawaz Sankari (Executive General Manager – Commercial)
Mr Soteris Hadjikyriacou (Head of Marketing, Branch and Community Development)
Mr Steven Sampson (Head of Third Party Distribution)
Ms Michelle Khoury (Head of Human Resources)
Ms Diana Sitnikoski (Head of Credit)

32 Key management personnel disclosures (continued)

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

	2017 $	2016 $
Short term benefits	2,793,647	3,356,592
Long term benefits	51,802	46,308
Other long term benefits	185,803	256,732
Total benefit	3,031,252	3,659,632

Details of non-executive Directors' remuneration are set out separately in Note 31. No other remuneration benefits were paid to key management personnel.

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:

	2017 $	2016 $
Loans to key management personnel	20,638,815	8,365,365
Deposit accounts	33,289,954	25,394,991

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	2017 $	2016 $
Mr Greg Gav	Rental Payments	(i)	943,200	770,397

(i) In 2016, the Consolidated Entity renewed its lease of head office with an entity related to Mr Greg Gav, to May 2019. This transaction was entered into on normal terms and conditions.

33 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 it's wholly owned subsidiaries. All transactions were on normal terms and conditions. Please refer to notes 2, 3, 8, 9, 16, 19 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, 19 and 20 for details of transactions and balances with other related parties.

(c) Parent entity

The 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 Income Statement do not include interest income or expense on Key Management Personnel loans and deposits.

34 Financial reporting by segments

The Consolidated Entity does not have any separately reportable segments.

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

	2017 $'000	2016 $'000
Cash	122,047	35,606
Due from other financial institutions - at call deposits	26,571	42,096
Total Cash and cash equivalents	148,618	77,702

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

	2017 $'000	2016 $'000
Profit from ordinary activities after income tax	11,005	9,230
Add: non-cash items:		
Depreciation and amortisation of non-current assets	1,653	1,927
Increase/(Decrease) in provision for doubtful debts	(46)	(494)
Increase in collective provisions	31	13
Increase in provision for employee entitlements	385	11
Decrease in tax provision	(789)	(1,016)
Net Increase in prepayments/accruals	(670)	(360)
Loss on writing off plant and equipment	-	18
Loss from Loan write offs	-	18
Increase in derivative financial instruments	252	739
(Increases)/decreases in assets and increases/(decreases)in liabilities:		
Interest accruals	(1,302)	1,791
Loans and advances	(202,165)	(227,963)
Derivative Assets	(4,823)	-
Other assets	(945)	4,857
Due to other financial institutions	(10,895)	(59,136)
Deposits	240,017	188,334
Derivative liabilities	-	1,845
Sales and repurchase agreement	(5,730)	(101,013)
Other liabilities	1,055	3,636
Net cash provided/(used) in operating activities	27,033	(177,563)

(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;
(iii) Balances due to and from other financial institutions.

36 Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, any other transaction or event of a material and unusual nature likely, in the opinion of the directors of the Consolidated Entity, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

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 in the consolidated financial statements. Refer to note 1 for a summary of the significant accounting policies relating to the Consolidated Entity.

Financial Position	2017 $'000	2016 $'000
Assets		
Cash and liquid assets	122,047	35,606
Due from other financial institutions	22,440	29,819
Investments at amortised cost	462,735	510,064
Loans and advances		
- Held by Parent Entity	1,285,520	1,081,198
- Held by Trust subject to securitisation	188,923	191,274
Derivative financial assets	3,361	864
Intangible assets	5,387	3,099
Plant and equipment	3,524	3,592
Deferred tax assets	1,773	1,538
Other assets	4,649	1,577
Receivable from securitisation Trust	4,131	12,277
Total assets	**2,104,490**	**1,870,908**
Liabilities		
Due to other financial institutions	6,245	17,140
Securities sold and under	-	
repurchase agreement	85,173	90,870
Deposits	1,732,675	1,493,774
Current tax liability	1,041	495
Derivative liabilities	120	1,968
Subordinated liabilities	-	-
Provisions	2,711	2,326
Other liabilities	8,284	7,235
Total liabilities	**1,836,249**	**1,613,808**
Net assets	**268,241**	**257,100**

37 Parent entity information (continued)

Financial Position (continued)	2017 $'000	2016 $'000
Equity		
Contributed equity	200,000	200,000
Reserves	7,688	3,445
Retained profits	60,553	53,655
Total equity	**268,241**	**257,100**

Financial Performance

Profit for the year	11,005	9,230
Other comprehensive income	136	526
Total comprehensive income	**11,141**	**9,756**

At 31 December 2017, “BHB Residential Securities Trust 1” (the Trust) owes Bank of Sydney (the Company) $193,134,825, which was eliminated on consolidated account level. During 2017, the Company received $6,152,548 as interest income and incurred $2,776,446 in operating expenses 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 "BHB Residential Securities Trust 1" (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 13 March 2013, the Trust issued one Participation Unit ($10 each) and ten Residual Units ($10 each), all of which (100%) were purchased by the Company. Class A Notes of $197.3m and Class B Notes of $16m (total $213.3m) were issued by the Trust and all purchased by the Company. The proceeds from the above issue were used to purchase a parcel of triple A rated residential mortgage loans (rated by Moody's) of $206.7m from the Company.

On 22 June 2017, 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 2016 with carrying amount of $157.0m at nil consideration and reissuing new Class A Notes of $201.4m. The additional proceeds of $45.6m from Note Issue were used to purchase a further parcel of triple A rated Residential Mortgage Loans from the Company. Class A Notes qualifies for repurchase with the Reserve Bank of Australia. Class B Notes of $19M remained the same as after previous "top-up" on 22 July 2016.

As the Company owns 100% of the issued units in the Trust and has control over the Trust as defined in AASB 10 (Note b), 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:

	2017 $'000	2016 $'000
Internal Securitisation assets		
Residential Mortgage	188,923	191,274
Cash and accrued income	4,131	12,277
	193,054	203,551

Note: cash and accrued income are held by the own 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 64, 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 2016 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
Chairman

Sydney, 24 April 2018

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 2 9322 7000
Fax: +61 2 9322 7001
www.deloitte.com.au

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 2017, 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 2017 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 2017, 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.

Deloitte.

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

M Stretton

Mark Stretton
Partner
Chartered Accountants

Sydney, 24 April 2018