Bank of Sydney

Annual Report 2015

Bank of Sydney Ltd
ABN 44 093 488 629
Annual Financial Report
31 December 2015

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Bank of Sydney Ltd
Corporate Governance Statement
For the year ended 31 December 2015

This statement sets out the main Corporate Governance practices that were in place throughout the financial year.

Corporate Governance

The Board of Directors is collectively responsible for the Corporate Governance of Bank of Sydney Ltd ("the Consolidated Entity"). The Consolidated Entity's Corporate Governance is driven by the Board's principal responsibility to act in good faith, with prudence and within a set of values and standards that ensures that the stakeholders' interests are fully understood and met.

The major processes by which the Board fulfils its duties are described in the Board's Charter and in the Corporate Governance Guidelines. The Board Charter sets out the key governance principles adopted by the Board for the management of the Consolidated Entity.

The Board recognises that Corporate Governance is fundamental to the effective operation of the Consolidated Entity and has adopted the principles and practices of APRA's Prudential Standard CPS 510 "Governance".

The Corporate Governance Guidelines reflect the key Corporate Governance principles as set and adopted by the Board in the Board Charter. The Corporate Governance Guidelines have been adopted to collate the functions and operational principles under which the Board and its committees operate.

Responsibilities and Functions of the Board

The Board has adopted a formal charter that details the roles, responsibilities and functions of the Board. These include, but are not limited to:

- Corporate Governance of the Consolidated Entity, including the establishment and empowerment of Committees of the Board to assist in its functions;
- Overseeing the business and affairs of the Consolidated Entity by:
  - establishing with management the overall direction, taking into account Shareholder objectives and approving the strategies and financial objectives to be implemented by Management;
  - approving major corporate initiatives;
  - ensuring that an appropriate amount of capital is maintained commensurate with the level and extent of risks to which the Consolidated Entity is exposed from its activities;
  - overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures, operational risk policies and practices and systems of internal controls;
  - monitoring the performance of Management directly and through its Committees; and
  - carrying out the functions specifically reserved to the Board and its Committees under the policy of the Board and the Charters of those Committees.

The Board retains the right to alter the matters reserved for its decision.

Beyond the powers reserved for the Board, the Board delegates to the Chief Executive Officer ("CEO") authority for the day-to-day management of the Consolidated Entity to achieve the Consolidated Entity's strategic objective. Within this delegation, the CEO is free to take all decisions and actions, whilst taking into account the accountability and reporting obligations.

In carrying out its role, the Board will operate in a manner reflecting the Consolidated Entity's values and Codes of Conduct, and in accordance with the Board Charter, The Corporate Governance Guidelines, the Consolidated Entity's Constitution, the Corporations Act 2001 and other applicable laws and regulations.

Board Size and Composition

The Board must have a minimum of five Directors at all times and a majority of non-executive Directors at all times. The Board is required to have a minimum of three independent Directors. All Directors must possess the appropriate skills, knowledge, experience, integrity and character to fulfil their responsibilities to shareholders.

The size and composition of the Board and its committees is to be reviewed annually by the Board. The Board is to assess the skills required to discharge the Board's accountability having regard to the nature of the business of the Consolidated Entity and the markets in which it operates and the Consolidated Entity's legal and prudential obligations.

Selection and Role of Chairman

The Chairman must be an independent Director. The Directors shall elect one of the independent Directors to be the Chairman. The responsibilities of the Chairman shall include, but not be limited to:

- Ensuring the proper running of the Board;
- Ensuring that all matters on the agenda are sufficiently supported;
- Ensuring the Board meets at regular intervals and minutes of meetings accurately record decisions taken;
- Providing effective leadership to formulate the Board's strategy; and
- Reviewing the performance of the Board and individual Directors.

Director Independence

The Board regularly assesses the independence of each Director, in accordance with the criteria for independence set out in Prudential Standard CPS 510.

In addition to being required to conduct themselves in accordance with the ethical policies of the Consolidated Entity, Directors are required to be meticulous in their disclosure of any material contract or relationship in accordance with the Corporations Act 2001 (Cth). This disclosure extends to the interest of family companies and spouses.

Directors are required to strictly adhere to the constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the Corporations Act 2001 (Cth) and the Consolidated Entity's policies.

Each Director may from time to time have dealings with the Consolidated Entity and/or be involved with other companies or professional firms, which have dealings with the Consolidated Entity. Full details of related party dealings are set out in notes to the Consolidated Entity's financial accounts as required by Law.

Director Appointment

The Board has agreed the criteria, which should form the basis of selecting candidates for Board appointment.

The criteria are aimed at creating a Board capable of challenging, stretching and motivating management to achieve sustained outstanding performance by the Consolidated Entity in all respects. These criteria also aim to ensure that any new appointee is able to contribute to the Board, constituting a competitive advantage for the Consolidated Entity and:

- Be capable of operating as part of an exceptional team;
- Contribute outstanding performance and exhibit impeccable values;
- Be capable of contributing strongly to risk management, strategy and policy;
- Provide skills and experience required currently and for the future strategy of the Consolidated Entity;
- Be properly prepared for all board matters and to undertake necessary ongoing education to enhance their knowledge and skills;
- Provide important and significant insights, input and questions to management from their experience and skill; and
- Vigorously debate and challenge management.

The Board annually assesses the skills base and experience of the existing Directors to enable identification of attributes required in Directors to ensure it has the expertise required to competently discharge the Board's duties, having regard to the strategic direction of the Consolidated Entity.

The Board has agreed to adopt a policy whereby appointment as a Director is reviewed, every three years, on a rotation basis, to ensure skills remain appropriate (except where succession planning for the Chairman requires an extended term). In accordance with the requirements of CPS 510, the Board has established this policy for review of Directors' tenures to ensure that it remains open to new ideas and independent thinking while retaining adequate expertise. In addition, on appointment, the Chairman will be expected to be available for that position for a minimum of 5 years.

Further, The Director Induction Program involves sessions with key executives from each business area of the Consolidated Entity to inform Directors of details about the businesses. The CEO will be required to schedule a continuing education and development program for the Directors as required. The target will be a minimum of one, and desirably two per year as deemed necessary by the Directors. Through the induction process the Board will identify any additional areas where education is required and suggest appropriate development activities for Directors after consideration of the results of the annual performance assessment of Directors, and educational sessions will include local and overseas experts in the particular fields relevant to the Consolidated Entity's operations.

Conflicts of Interest
The Board has established a Director's Conflict of Interest Policy to clarify their responsibilities with respect to actual and potential conflicts of interest. The Board must ensure that Directors avoid any action, position or interest that conflict between their duty to the Consolidated Entity and their own interests. A Director who has a conflict or potential conflict of interest in a matter that relates to the affairs of the Consolidated Entity must give the other Directors notice of such interest as soon as practicable after the Director becomes aware of their interest. All Directors must complete a conflict of interest certification annually. Procedures for handling a conflict of interest are documented in the Director's Conflict of Interest Policy.

Board Performance

The Board recognises that it is collectively responsible for promoting the success of the Consolidated Entity by directing and supervising the Consolidated Entity's affairs. To ensure the Board and Board Committees are working effectively, the Board must review and evaluate the performance of the Board and its Committees and each individual Director annually. It is intended to use a self-evaluation questionnaire, on an annual basis, to enable Directors to evaluate the effectiveness of Board and Board Committee practices and procedures, and performance. The Chairman must meet at least once a year with each Director to discuss each individual Director's performance. The Chairman must also meet at least once a year with the Chief Executive Officer to discuss management's view of the Board's performance.

Board Operations

The Board shall meet a minimum of 4 and a maximum of 6 times per year in scheduled meetings and whenever necessary between scheduled meetings to deal with specific matters. Directors must attend a minimum of four scheduled meetings during the financial year unless prior approval has been obtained by the Chairman. Directors are expected to prepare adequately for, and attend and participate at, Board meetings and have the opportunity to review Board documents in advance. All Directors must have unrestricted access to Company records and information. Directors are authorised to seek external independent advice at the Consolidated Entity's expense, subject to prior consultation with the Chairman.

The Board may establish committees to assist it in fulfilling its responsibilities. At this date, the Board has established the Board Audit Committee, the Board Risk Management Committee and the Board Remuneration Committee. These committees have their own charter detailing the manner in which they operate.

Board Audit Committee

Membership of the Board Audit committee consists of:

- Nikolas T Hatzistergos (Chairman);
- Nicholas Pappas AM;
- Greg Gav; and
- Elias Alouf.

The membership of the Board Audit Committee is compliant with Prudential Standard CPS 510 that requires the Board Audit Committee to be comprised of at least three non-executive Directors with the majority of the members including the Chairman being independent.

The Board Audit Committee's primary responsibility it to assist the Board in fulfilling its Corporate Governance and oversight responsibilities in relation to compliance with financial reporting and regulatory requirements, integrity of financial statements and reports, and external and internal audit functions. The Board Audit Committee must meet at least four times per year in scheduled meetings.

The Charter of the Board Audit Committee incorporates the Committee's authority, responsibilities and a work program to ensure that it can fulfil its purpose and exercise its responsibilities effectively. The responsibilities referred to in the charter include:

- Oversee management in the preparation of the financial statements and financial disclosures;
- Review accounting policies to ensure compliance with relevant laws and accounting standards;
- Review with management and the external auditor, the effect of new or proposed auditing, accounting and reporting standards;
- Consider, with management and the external auditor, significant financial reporting issues and judgements made in connection with the preparation of the financial statements;
- Oversight of APRA regulatory reporting requirements;
- Approve the Risk Management Plan and recommend its endorsement by the Board;
- Monitor the effectiveness and implementation of the Risk Management Framework and policies for risks incurred in the Consolidated Entity's business;
- Monitor the practices and procedures, including processes for identification of new areas of risk exposure, implementation of the risk management framework and management actions undertaken to rectify breaches;
- Endorse the appointment and removal of the Head of Internal Audit and the APRA regulated institutions auditor following recommendation by the Shareholder;
- Evaluate the independence, effectiveness and scope of the work of the internal and external auditors; and
- Report to the Board on its activities and table the minutes of Committee meetings.

Board Risk Management Committee (BRMC)
Membership of the BRMC consists of:
- Alex Bartlem (Chairman);
- Greg Gav; and
- Elias Alouf.

The role, responsibility, composition and membership requirements of the BRMC are documented in the Consolidated Entity's BRMC Charter. The Committee must be comprised of at least three non-executive Directors, of whom at least one shall be an independent non-executive Director. Independence is determined against the independence requirements of applicable laws, rules and regulations.

The charter of the BRMC incorporates its primary responsibilities that are to oversee the assessment of the Consolidated Entity's risk management profile, including credit, market (including traded, interest rate risk on the banking book, non-traded equity and structural foreign exchange) liquidity and funding, operational, insurance, compliance and regulatory risks assumed by the Consolidated Entity in the course of carrying out its business.

Further responsibilities of the BRMC incorporate the committee's authority, responsibilities and a work program to ensure that it can fulfil its purpose and exercise its responsibilities effectively. The responsibilities referred to in the charter include:

- Oversee the assessment of the Consolidated Entity's risk profile and understand the principal risks affecting the operations of the Consolidated Entity.
- Review regulators' reports on the adequacy of the Consolidated Entity's risk management systems.
- Establish and review on an on-going basis a framework for risk management throughout the Consolidated Entity covering all risks including strategic, market, liquidity, credit, operational and reputation risks.
- Ensure that risk management policies, procedures and monitoring accurately reflect the business mandate, accepted practices and legal and regulatory requirements.
- Provide a forum for discussion of risk issues.
- Promote and ensure a high level of awareness of risk management throughout the Consolidated Entity.
- Review on a regular basis and recommend for approval by the Board any proposed amendments to the policy and framework for measuring and controlling risks throughout the Consolidated Entity.
- Escalate material risk issues to the Board where appropriate.
- Recommend to the Board the adoption of the Banks Risk Appetite Statement.

Board Remuneration Committee (BRC)
Membership of the BRC consists of:

- Nicholas Pappas AM (Chairman);
- Nikolas Hatzistergos;
- Elias Alouf; and
- Alex Bartlem.

The role, responsibility, composition and membership requirements of the BRC are documented in the Consolidated Entity's BRC Charter. The BRC is to be comprised of at least three non-executive Directors. The majority of members must be independent. The chairperson of the BRC must be an independent Director of the Consolidated Entity.

The charter of the BRC incorporates its primary responsibly in fulfilling its responsibilities relating to remuneration and people matters and compliance with employment laws and regulations. It does this by ensuring that the Consolidated Entity has appropriate remuneration and people systems in place and by monitoring their effectiveness on a regular basis.

Further responsibilities of the BRC incorporate the committee's authority, responsibilities and a work program to ensure that it can fulfil its purpose and exercise its responsibilities effectively. The responsibilities referred to in the charter include:

- Recommend to the Board changes in the Remuneration Policy, other benefits and remuneration structure likely to have a material impact on the Consolidated Entity;
- Recommend to the Board the establishment of, and changes to, the Consolidated Entity's long term incentive scheme;
- Recommend to the Board the review of the total remuneration (including the components comprising the package, such as long term incentives) of the CEO and Direct Reports to the CEO, for shareholder approval;
- Approve the appointment and associated remuneration for newly appointed Heads of Business Units, as well as remuneration reviews for the Heads of Business Units;
- Approve the appointment and associated remuneration of employees earning more than a base salary of AUD150,000 per annum;
- Approve where the individual has a potential total remuneration (including long term incentive) higher than the potential total remuneration of the Head of their Business Unit;
- Review and approve the remuneration reviews by management for the bonus pool, prior to any payment being made;
- Be informed of:
    - leadership performance (including talent pool);
    - performance review and development systems;
    - safety (OH & S) management; and
    - legislative and regulatory compliance in employment issues and legislative developments likely to have a material impact on the Consolidated Entity;
- Review the training and development program, in aggregate, for the Consolidated Entity;
- Provide input in relation to succession planning for the CEO and Heads of Business Units and advise the Board of progress made from time to time;
- Review and recommend to the Board the overall fees payable to the Independent Directors, for shareholder approval; and
- Report to the Board on its activities and circulate the minutes of BRC meetings.

Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The internal control framework is based upon well-documented policies and procedures, manuals and guidelines. It is also based upon an organisational structure, which provides an appropriate segregation of responsibility given the size of the Consolidated Entity, an internal audit function that provides reasonable assurance to the Chief Executive Officer and the Board and the careful selection and training of qualified personnel by Human Resources.

Risk Management

The Board has approved and implemented policies and procedures in line with its operational strategy dealing with the following risks:

- Credit Risk – the risk of financial loss from the failure of customers to fully honour the terms of their contract;
- Treasury Risk (including Market, Investment, Interest Rate and Foreign Exchange risk) – the risk that changes in market interest rates, foreign exchange rates and other variables will negatively affect the Consolidated Entity's earnings;
- Liquidity Risk - the risk that the Consolidated Entity will have insufficient funds to meet its obligations;
- Operational Risk (includes Insurance) – the risk that arises from inadequate or failed internal processes, people and systems or from external events;
- Regulatory Compliance Risk – the risk of failing to comply with legal and regulatory requirements, codes and regulations;
- Business Strategy Risk – the risk of loss from failing to successfully implement the Bank's business plan.

The Consolidated Entity has established the following Management Committees responsible for the oversight, review and implementation of the framework to manage and monitor the above risks:

Executive Committee – Oversee the risk governance framework and performance of all the Consolidated Entity's Committees. Recommend policy and strategic direction for Board approval.

Executive Credit Committee - Oversee, assess, monitor and manage all credit related issues and risks. The Credit Committee develops controls, procedures and reporting in respect to credit risk.

Assets and Liabilities Committee – Oversee growth in the balance sheet, monitor balance sheet risk and the external environment and measure the impact of external factors on profitability.

Occupational Health and Safety Committee – Oversee compliance with Occupational Health and Safety legislation by implementing policies and controls to provide a safe and healthy working environment.

Human Resources Committee – Oversee the development of the Consolidated Entity's staff and Human Resources policies in line with the Consolidated Entity's strategic plan and values, vision and mission. This includes the development of talent and remuneration policies to enhance the Consolidated Entity's reputation as an 'Employer of Choice'.

Risk and Compliance Committee – Oversee, assess, monitor and manage the Board in oversight of the risks and compliance environment assumed by the Consolidated Entity in the course of carrying on its business.

Information Security Committee – Oversee, assess, monitor and manage any issues related to the Consolidated Entity's Information Security Framework, including Business Continuity, in line with the Consolidated Entity's Information Technology strategy.

Information Technology Steering Committee - Focus on the development and achievement of the Bank's IT Strategy, Including development of the IT Strategic Plan in line with the Bank's Business Plan and its implementation.

Whistleblower Policy
The Board has established a Whistleblower Policy for the confidential reporting of any known or suspected incidents of improper or unacceptable conduct. The Policy encourages all the Consolidated Entity's employees to report any incidents of improper conduct by making a protected disclosure. The Consolidated Entity will take all reasonable steps to protect the identity of the whistleblower. The Policy contains provisions for any employee to contact the Consolidated Entity or a regulatory authority.

Ethical Standards
The Board expects Directors, management and employees to:

- Observe the highest standards of behaviour and commitment to truth;
- Strive at all times to enhance the reputation and performance of the Consolidated Entity through fair dealing;
- Decline acceptance of gifts of significant value;

- Conduct the business of the Consolidated Entity in compliance with relevant laws and ethical standards;
- Prevent conflicts of interest; and
- Demonstrate social responsibility and contribute to the wellbeing of the community.

The Board is committed to integrity and quality in its financial reporting. Senior management must provide confirmation to the Board that the Consolidated Entity's financial reports present a true and fair view, in all material respects, of the Consolidated Entity's financial condition and operational results and are in accordance with relevant accounting standards. The Consolidated Entity's annual financial reports are subject to an annual audit by an external auditor. The Audit Committee is responsible for ensuring the independence of the external auditor. The Audit Committee reviews the reliability of financial reports issued by the Consolidated Entity to ensure that the information they contain has been fairly and accurately stated.

Role of the Shareholder

Bank of Beirut s.a.l.("Bank of Beirut") is the sole Shareholder of Bank of Sydney and is responsible for the appointment of the Directors, as well as approval of the remuneration for provision of their services as Directors of the Consolidated Entity. The Shareholder is also responsible for appointment of external auditors.

Further to ensure that the Board of Directors fulfil their stewardship responsibilities, Directors inform the shareholder of all significant events concerning the Consolidated Entity through distribution of the Annual Financial Report. The Annual Financial Report includes all information concerning the operations of the Consolidated Entity and changes in the state of affairs.

The managers of the Consolidated Entity are accountable directly to the Chief Executive Officer. As the Consolidated Entity however is a member of the Bank of Beirut Group (majority shareholder), management personnel will consult with the respective functions of Bank of Beirut to ensure business plans and policies take in to account the interest of the Bank of Beirut Group and achieve standardisation where appropriate.

The respective roles that the Board has reserved for itself, and delegated to management, are to be viewed in this context. The Board must ensure that any group policies followed by the Board give appropriate regard to the Consolidated Entity's business and its specific requirements.

Bank of Sydney Ltd
Directors’ report
For the year ended 31 December 2015

The Directors present their report together with the financial report of the Consolidated Entity for the year ended 31 December 2015 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
Appointed as Chairman on 28 August 2006 (Chairman of the BRC)

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
Appointed 31March 2005
Non-Executive Independent Director

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
Appointed 28 August 2006
Non-Executive Independent Director

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
Appointed 18 May 2011
Non-Executive Independent Director

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; as a Director of the Bionics Institute Board. He is also Honorary Chair of the Union Education Foundation. He is Chairman of the superannuation fund Cbus; a Director of Jardine Lloyd Thomson Australia; Chairman of AFL Sportsready; Chairman of The Kardinia Park Trust; and is a member of the Consolidated Rail and Road Australia (CLARA) Advisory Board.

Mr Elias Sami Alouf
Appointed 28 February 2011
Non-Executive Director

Mr. Alouf is a member of the Board Risk Management Committee and is a member of the Board Audit Committee. Mr Alouf holds the position of Senior Manager, Head of Risk Management, Bank of Beirut s.a.l.

Mr Fouad Chaker
Appointed 28 February 2011
Non-Executive Director

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

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

Mr El-Bikai holds the position of Chief Credit Officer, Bank of Beirut s.a.l.

Mr Alex Robert (Lex) Bartlem OAM
Appointed 1 December 2014
Non-Executive Independent Director

Mr Bartlem is the Chairman of the Board Risk Management Committee. Alex Bartlem served 35 years in the Australian Foreign Service. He served time in Lebanon, including as Australian Ambassador from 2010 to 2014. 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.

Bank of Sydney Ltd
Directors' report (continued)
For the year ended 31 December 2015

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

Directors	Board		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	5	5	5	5	-	-	-	-
N. Hatzistergos	5	5	5	5	-	-	-	-
G.Gav	5	4	5	4	5	3	-	-
S. Bracks	5	4	-	-	-	-	-	-
E. Alouf	5	5	5	5	5	5	-	-
F. Chaker	5	4	-	-	-	-	-	-
H. El-Bikai	-	-	-	-	-	-	-	-
L. Bartlem	5	3	-	-	5	3	-	-

* Note – Remuneration decisions for 2015 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.

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

Results
The net profit of the Consolidated Entity was $7,666,000 (2014: profit of $7,733,000). The result included provisions of impairment losses for loans and advances of $584,000 (2014: $133,000).

Risk Management
The Consolidated Entity's activities expose it to changes in interest rates and foreign exchange rates. It is also exposed to credit, liquidity and cash flow risks from its operations. The Board has confirmed policies and procedures in each of these areas to manage these exposures.

The Consolidated Entity has a strict credit policy for all customers on credit terms and only deals with financial market intermediaries with an acceptable credit rating determined by a recognised rating agency.

Financial facilities and operating cash flows are managed to ensure that the Consolidated Entity is not exposed to any adverse liquidity risks. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

The Consolidated Entity does not trade for speculative purposes.

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 2015 (2014: Nil).

Review of Operations
At 31 December 2015, the Consolidated Entity's gross loan portfolio was $1,044.6m (2014: $874.1m) and its customer deposits $1,303.6m (2014: $1,144.8m). This represents an increase of 19.50% in loans and an increase of 13.87% in deposits when compared to the balances as at 31 December 2014.

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

Bank of Sydney Ltd
Directors' report (continued)
For the year ended 31 December 2015

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, 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 19 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 Class Order 98/100 dated 10 July 1998 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:

Nicholas Pappas	Nikolas T Hatzistergos
Chairman	Director

Dated at Sydney on 19th April 2016.

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

19 April 2016

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 2015, 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 2015

	Note	2015 $'000	2014 $'000
Interest income	2	69,954	68,294
Interest expense	3	(37,992)	(39,031)
Net interest income		31,962	29,263
Non-interest income	4	7,958	8,326
Net operating income		39,920	37,589
Operating expenses	5	(28,356)	(26,374)
Reversal/(Provision) of impairment losses on loans and advances	11	(584)	(133)
Profit before income tax		**10,980**	**11,082**
Income tax expense	6	(3,314)	(3,349)
Profit for the year		**7,666**	**7,733**
Attributable to:			
Equity holders of the Consolidated Entity		**7,666**	**7,733**
Profit for the year		**7,666**	**7,733**

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 26 to 86.

Bank of Sydney Ltd
Consolidated Statement of Profit and Loss
And Other Comprehensive Income
For the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Profit for the year		**7,666**	**7,733**
Other comprehensive income, net of income tax			
Cash flow hedges:			
Effective portion of changes in fair value	24	125	(24)
Net amount transferred to statement of profit and loss	24	35	34
Fair value reserve (available for sale financial assets):			
Net amount transferred to statement of profit and loss	24	-	1
Other comprehensive income for the period, net of income tax		160	11
Total comprehensive income for the year		7,826	7,744
Attributable to:			
Equity holders of the Consolidated Entity		7,826	7,744
Total comprehensive income for the year		7,826	7,744

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 26 to 86.

Bank of Sydney Ltd
Consolidated Statement of Financial Position
As at 31 December 2015

	Note	2015 $'000	2014 $'000
Assets			
Cash and liquid assets	7	136,101	29,099
Due from other financial institutions	8	33,336	90,279
Investments at amortised cost	9	558,897	519,981
Loans and advances	10	1,043,752	873,898
Derivative financial assets	19	1,336	711
Intangible assets	12	1,712	2,195
Plant and equipment	13	4,026	4,129
Deferred tax assets	14	1,794	1,585
Other assets	15	6,471	2,555
Total assets		**1,787,425**	**1,524,432**
Liabilities			
Due to other financial institutions	16	76,291	18,270
Securities sold and under repurchase agreements	17	191,811	148,960
Deposits	18	1,303,554	1,144,788
Derivative liabilities	19	607	3,540
Provisions	20	2,315	1,995
Other liabilities	21	5,503	7,361
Total liabilities		**1,580,081**	**1,324,914**
Net assets		**207,344**	**199,518**
Equity			
Contributed equity	22	160,000	160,000
Retained profits	23	44,620	37,531
Reserves	24	2,724	1,987
Total equity		**207,344**	**199,518**

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 26 to 86.

Bank of Sydney Ltd
Consolidated Statement of Cash Flows
For the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Interest and commission receipts		78,146	77,511
Interest payments		(37,892)	(37,095)
Cash payments to employees and suppliers		(26,390)	(24,045)
Income tax paid		(3,439)	(2,595)
		10,425	**13,776**
(Increase) / decrease in operating assets			
Loans and advances		(170,175)	(121,835)
Other assets		(3,618)	(496)
Increase / (decrease) in operating liabilities			
Due to other financial institutions		58,026	11,243
Deposits		159,103	168,605
Derivative liabilities		(3,554)	4,541
Securities sold under repurchase agreement		42,409	25,047
Other liabilities		(2,060)	2,554
Net cash provided by operating activities	35(b)	**90,556**	**103,435**
Cash flows from investing activities			
Payments for intangible assets		(450)	(623)
Payments for plant and equipment		(859)	(393)
(Payments)/proceeds from investments at amortised cost		(39,188)	69,635
Net cash (used in)/provided by investing activities		**(40,497)**	**68,619**
Cash flows from financing activities			
Repayment of subordinated liabilities		-	(112,296)
Net cash used in financing activities		**-**	**(112,296)**
Net increase in cash held		**50,059**	**59,758**
Cash at the beginning of the financial year		119,378	59,620
Cash at the end of the financial year	35(a)	**169,437**	**119,378**

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 26 to 86.

Bank of Sydney Ltd
Consolidated Statement of Changes in Equity
For the year ended 31 December 2015

	Contributed Equity	General reserve for credit losses	Available for sale reserve	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2015	**160,000**	**2,894**	**0**	**(907)**	**37,531**	**199,518**
Total comprehensive income for the year						
Profit and loss	-	-	-	-	7,666	7,666
Transfers from retained earnings to general reserve	-	577	-	-	(577)	-
Other comprehensive income, net of income tax						
Net amount transferred to profit and loss	-	-	-	125	-	125
Effective portion of changes in fair value	-	-	-	35	-	35
Total other comprehensive income	**-**	**-**	**-**	**160**	**-**	**160**
Total comprehensive income for the year	**-**	**577**	**0**	**160**	**7,089**	**7,826**
Balance at 31 December 2015	**160,000**	**3,471**	**0**	**(747)**	**44,620**	**207,344**

The 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 26 to 86.

Bank of Sydney Ltd
Consolidated Statement of Changes in Equity
For the year ended 31 December 2014

	Contributed Equity	General reserve for credit losses	Available for sale reserve	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2014	**160,000**	**2,535**	**(1)**	**(917)**	**30,157**	**191,774**
Total comprehensive income for the year						
Profit and loss	-	-	-	-	7,733	7,733
Transfers from retained earnings to general reserve	-	359	-	-	(359)	-
Other comprehensive income, net of income tax						
Net amount transferred to profit and loss	-	-	-	34	-	34
Effective portion of changes in fair value	-	-	1	(24)	-	(23)
Total other comprehensive income	**-**	**-**	**1**	**10**	**-**	**11**
Total comprehensive income for the year	**-**	**359**	**1**	**10**	**7,374**	**7,744**
Balance at 31 December 2014	**160,000**	**2,894**	**0**	**(907)**	**37,531**	**199,518**

The 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 26 to 86.

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 19th April 2016.

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. 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.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

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 Class Order 98/100 dated 10 July 1998 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.

1 Summary of significant accounting policies (continued)

(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 expenses 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.

(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.

1 Summary of significant accounting policies (continued)

(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.

Following the adoption of AASB 9, 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.

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.

1 Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

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.

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.

(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.

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.

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

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:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of the financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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.

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.

1 Summary of significant accounting policies (continued)

(k) Impairment (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.

(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.

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 25 for cash flow hedge reserve movement.

1 Summary of significant accounting policies (continued)

(l) Derivative instruments (continued)

Other non-trading derivative

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.

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:

2015	**2014**
20%	20%

1 Summary of significant accounting policies (continued)

(n) Intangible assets (continued)

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:

	2015	2014
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)

(r) Income tax (continued)

The Taxation of Financial Arrangements (TOFA) applies to the Consolidated Entity effective from 1 January 2011. Subject to certain elections being made, TOFA improves the alignment of the tax treatment of gains and losses from financial arrangements with the accounting treatment adopted in the financial statements. TOFA did not significantly impact the Consolidated Entity, due to the transitional rules which require existing estimated deferred tax balances impacted by TOFA to be amortised to taxable income over a four year period.

(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 2014 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.

1 Summary of significant accounting policies (continued)

(u) Employee entitlements

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

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

(ii) Long service leave

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

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

(iii) Superannuation plan

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

(v) Financial guarantees and letters of credit

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

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

1 Summary of significant accounting policies (continued)

(w) Derecognition of financial assets (continued)

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.

(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

1 Summary of significant accounting policies (continued)

(y) Use of estimates and judgements (continued)

- 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.

(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 2014, and therefore relevant for the current year end.

1 Summary of significant accounting policies (continued)

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

AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The Company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments does not have any material impact on the disclosures or on the amounts recognised in the Company's consolidated financial statements.
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	The amendments to AASB 139 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. As the Company does not have any derivatives that are subject to novation, the application of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Company's consolidated financial statements.
AASB 2014-1 'Amendments to Australian Accounting Standards' (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)	The Annual Improvements 2010-2012 has made number of amendments to various AASBs, which are summarised below: * The amendments to the basis for conclusions of AASB 13 clarify that the issue of AASB 13 and consequential amendments to AASB 139 and AASB 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. * The amendments to AASB 116 and AASB 138 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
AASB 2014-1 'Amendments to Australian Accounting Standards' (Part B: Defined Benefit Plans: Employee Contributions Amendments to AASB 119)	The amendments to AASB 119 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service. The application of these amendments to AASB 119 does not have any material impact on the disclosures or on the amount recognised in the Company's consolidated financial statements.
Interpretation 21 'Levies'	Interpretation 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. Interpretation 21 has been applied retrospectively. The application of this Interpretation does not have any material impact on the disclosures or on the amounts recognised in the Company's consolidated financial statements.

1 Summary of significant accounting policies (continued)

(aa) Standards and Interpretations issued not yet adopted

As described in note 1 (i), the Consolidated Entity has early adopted AASB 9 “Financial Instruments: classification and measurement”. Other sections under revised AASB 9 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 impact of future full implementation of AASB9 effective 1 January 2018 is still under review

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 2015.

- AASB 2015-2 “Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 101” was issued by the AASB in January 2015, for application in annual periods beginning on or after 1 January 2016.
- AASB 15 “Revenue from Contracts with Customers” (“AASB 15”) was issued by AASB in December 2014 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.
- As part of the January 2015 Annual Improvements to Australian Accounting Standards, the AASB made amendments to the following standards that are relevant to the Company’s operations: AASB “Financial Instruments: Disclosures” and AASB 119 “Employee benefits” (for application in accounting periods beginning on or after 1 January 2016).

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.

		2015 $'000	2014 $'000
2	**Interest income**		
	Cash and liquid assets	684	576
	Due from other financial institutions	784	563
	Investments at amortised cost		
	- banks	18,524	17,512
	- related party	3,823	3,539
	Loans and advances	45,772	46,078
	Other interest income – parent company	367	26
		69,954	68,294
3	**Interest expense**		
	Due to other financial institutions		
	- banks	326	365
	- related party	137	152
	Deposits	33,535	33,970
	Subordinated liabilities – parent company	-	672
	FX swaps – parent company	-	586
	Other borrowings - repurchase agreement	3,994	3,286
		37,992	39,031
4	**Non-interest income**		
	Net fees and commission income	5,853	4,485
	Net income from sale of securities	102	2,020
	Net foreign exchange gain	2,050	1,857
	Unrealised loss on derivatives	(47)	(138)
	Gain on forward contracts	-	102
		7,958	8,326

	2015 $'000	2014 $'000
5 Operating expenses		
Staff expenses	17,170	15,383
Computer expenses	2,603	2,556
Occupancy costs	2,822	2,819
Depreciation of property and equipment	953	1,047
Amortisation of intangibles	933	840
Marketing expenses	738	685
Other operating expenses	3,137	3,044
	28,356	26,374

6 Taxation

(a) Income tax expense

	2015	2014
Current tax expense		
Current period	3,586	3,427
Adjustment for prior period	6	9
	3,592	3,436
Deferred tax expense		
Deferred tax expense recognised in the current year	(241)	(41)
Adjustment to deferred tax attributable to TOFA	-	(46)
Adjustment for prior period	(37)	-
	(278)	(87)
Total income tax expense	3,314	3,349

(b) Reconciliation between tax expense and pre-tax net profit

	2015	2014
Profit before tax	10,980	11,082
Income tax using the Consolidated Entity's tax rate of 30%	3,294	3,325
Non-deductible expenses	20	15
Prior period under provision	-	9
Income tax expense	3,314	3,349

		2015 $'000	2014 $'000
7	**Cash and liquid assets**		
	Cash at bank	3,921	3,738
	Cash held with central bank	132,180	25,361
		136,101	29,099
8	**Due from other financial institutions**		
	Australia	14,618	73,698
	Related parties	302	1,723
	Other	18,416	14,858
		33,336	90,279
	Residual maturity analysis		
	At call	33,336	90,279
		33,336	90,279
9	**Investments at amortised cost**		
	Bank bills	-	16,920
	Floating rate notes	420,955	353,361
	Fixed rate bonds	48,000	59,628
	Fixed term deposits - related parties	89,830	89,958
	Fixed term deposit- local banks	112	114
		558,897	519,981
	Residual maturity analysis		
	Up to 1 month	94,955	90,072
	1 to 3 months	-	15,930
	3 to 12 months	78,554	92,129
	12 months to 5 years	383,051	314,100
	Over 5 years	2,337	7,750
		558,897	519,981

9 Investments at amortised cost (continued)

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

	Note	2015 $'000	2014 $'000
Pledged value			
Floating rate notes		189,124	136,322
Fixed rate bonds		28,901	28,845
		218,025	165,167

10 (a) Loans and advances

	Note	2015 $'000	2014 $'000
Loans and advances		1,010,186	820,497
Overdrafts		34,372	53,623
Gross loans and advances		1,044,558	874,120
Less -			
Collective provision	11	(250)	(188)
Specific provision	11	(556)	(34)
Net loans and advances		1,043,752	873,898

Residual maturity analysis (excluding provisions)

	2015 $'000	2014 $'000
Overdrafts	34,372	53,623
Up to 1 month	172,199	111,517
1 to 3 months	35,088	4,789
3 to 12 months	105,658	86,656
12 months to 5 years	121,229	109,249
Over 5 years	576,012	508,286
	1,044,558	874,120

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 2015 used for cash flow hedges was negative $295,114 (2014: $488,882).

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

Gross loans and advances	2015 $'000	2014 $'000
Carrying amount	1,044,487	874,021
Fair value adjustment	71	99
Total	1,044,558	874,120

10 (c) Internal Securitisation

As further disclosed in Note 38 – Internal Securitisation, $165.6m of Residential Mortgages have been sold and are held by a controlled subsidiary, BHB Residential Securities Trust 1, as part of an internal securitisation.

11(a) Provision for Impairment

Collective provisions

Opening balance	188	163
Charge to income statement	62	25
Closing balance	250	188

Specific provisions

Opening balance	34	134
Write off against provision	-	-
Recoveries recognised in income statement	(130)	(190)
Charge to income statement	652	90
Closing balance	556	34

	2015 $'000	2014 $'000

11(a) Provision for Impairment (continued)

Reconciliation of impairment losses /(recoveries) of impairment losses

	2015 $'000	2014 $'000
Collective provisions		
-current year charge	62	25
Specific provisions		
-recoveries	(130)	(190)
-current year charge	652	90
Write off loans	-	208
Impairment loss	584	133

The Consolidated Entity did not recognise any material interest income on impaired assets as at 31 December 2015. (2014: Nil).

(b) Impaired assets

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

	2015 $'000	2014 $'000
Loans and advances to customers		
Past due but not impaired	44,413	43,301
Impaired	2,551	2,674
Gross impaired and past due loans	46,964	45,975
Less: Specific provision	(556)	(34)
Net impaired and past due loans	46,408	45,941

Refer to Note 25 (Credit Risk) for further details.

		2015 $'000	2014 $'000
12	**Intangible assets**		
	Computer software		
	At cost	5,820	5,371
	Less: Accumulated amortisation	(4,108)	(3,176)
		1,712	2,195
	Opening balance	2,195	2,413
	Additions	450	623
	Disposal	-	(1)
	Amortisation expense	(933)	(840)
	Net book value	1,712	2,195
13	**Plant and equipment**		
	Plant and equipment		
	At cost	4,718	4,308
	Less: Accumulated depreciation	(2,892)	(2,873)
		1,826	1,435
	Leasehold		
	At cost	6,713	6,682
	Less: Accumulated depreciation	(4,513)	(3,988)
		2,200	2,694
	Net book value	4,026	4,129

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

Plant and equipment at cost		
Opening balance	1,435	1,658
Additions	829	363
Net book value of assets disposed during the year	(9)	(127)
Depreciation expense	(429)	(459)
	1,826	1,435
Leasehold property at cost		
Opening balance	2,694	3,255
Additions	30	30
Net book value of assets disposed during the year	-	(3)
Depreciation expense	(524)	(588)
	2,200	2,694
	4,026	4,129

14 Deferred tax assets

Deferred income tax assets are attributable to the following items:

	2015 $'000	2014 $'000
Deferred tax assets		
Provisions	1,132	910
Cash flow hedge reserve	320	389
Fixed assets	386	290
Total deferred tax asset	1,838	1,589
Deferred tax liabilities		
Fair value of financial instruments	(37)	-
Prepaid balances	(7)	(4)
Total deferred tax liabilities	(44)	(4)
Net deferred tax asset	1,794	1,585

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

Deferred tax assets		
Opening balance	1,585	1,502
Deferred tax credit to income statement	278	88
Deferred tax charges recognised in equity	(69)	(5)
Net deferred tax asset	1,794	1,585

15 Other assets

Prepayments	750	449
Suspense accounts	5,116	1,433
Other	605	673
	6,471	2,555

Other comprises mainly sundry debtors and other miscellaneous debit balances.

16 Due to other financial institutions

Due to other financial institutions		
- parent entity	72,912	15,637
- Australia	-	319
- overseas	3,379	2,314
	76,291	18,270

	2015 $'000	2014 $'000

16 Due to other financial institutions (continued)

Residual maturity analysis

	2015 $'000	2014 $'000
At call	33,892	3,599
Up to 1 month	8,209	12,217
1 to 3 months	-	2,454
3 to 12 months	34,190	-
	76,291	18,270

The parent entity refers to Bank of Beirut s.a.l and the related party in 2015 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 in 2015.

	2015 $'000	2014 $'000
17 Sales and repurchase agreement	191,811	148,960

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.

18 Deposits

	2015 $'000	2014 $'000
Current	229,455	216,183
Savings	173,006	161,371
Term	901,093	767,234
	1,303,554	1,144,788

Residual Maturity Analysis

	2015 $'000	2014 $'000
At call	402,461	377,554
Up to 1 month	163,443	155,027
1 to 3 months	368,017	330,699
3 to 12 months	369,272	281,492
12 months to 5 years	361	16
	1,303,554	1,144,788

	2015 $'000	2014 $'000

19 Derivative Financial Instruments

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

	2015 $'000	2014 $'000
Asset		
Interest rate swaps – Local banks	54	3
Foreign currency forwards – Parent entity	348	19
Foreign currency forwards - Other	934	689
	1,336	711
Liabilities		
Interest rate swaps - Local banks	334	460
- Other	73	111
Foreign currency forwards – Parent entity	-	426
Foreign currency forwards – Other	200	2,543
	607	3,540

20 Provisions

	2015 $'000	2014 $'000
Annual leave provision	1,024	881
Long service leave provision	904	778
Make good provision	387	336
	2,315	1,995

21 Other liabilities

	2015 $'000	2014 $'000
Current tax liability	1,542	1,389
Bank cheques issued awaiting clearance	2,409	2,179
Other	1,552	3,793
	5,503	7,361

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

	2015 $'000	2014 $'000
22 Contributed Equity		
160,000,000 ordinary shares fully paid	160,000	160,000

On 10 April 2014 Bank of Beirut s.a.l acquired the remaining 7.5% shareholding in the Consolidated Entity from Cyprus Popular Bank Public Company Ltd (formerly Marfin Popular Bank Public Company Ltd) and since then owns 100% of the Consolidated Entity.

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.

		2015 $'000	2014 $'000
23	**Retained profits**		
	Retained profits at beginning of year	37,531	30,157
	Net profit after income tax	7,666	7,733
	Transfer to general reserve for credit losses	(577)	(359)
	Retained profits at year-end	44,620	37,531
24	**Reserves**		
	General reserve for credit losses[1]		
	Opening Balance	2,894	2,535
	Transfer from retained profits during the year	577	359
	Closing Balance	3,471	2,894
	Available for sale reserve		
	Opening Balance	-	(1)
	Transfer from reserves during the year	-	1
	Closing Balance	-	-
	Cash flow hedge reserve		
	Opening Balance	(907)	(917)
	Transfer from reserves during the year	160	10
	Closing Balance	(747)	(907)
	Total Reserves	2,724	1,987

All reserve amounts are shown net of income tax.

[1] In accordance with the Australian Prudential Regulation Authority (APRA) guidelines the Group reallocates a portion of retained earnings to a non-distributable reserve which is calculated as approximately 0.5% of credit risk weighted assets. This reallocation is not recognised in the Statement of Profit and Loss and represents credit losses estimated but not certain to arise in the future.

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.

The Board has overall responsibility for the establishment and oversight of the Bank of Beirut Group'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.

25 Financial risk management (continued)

(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

		2015 $'000		2014 $'000	
Grades	**Risk Level**	**Loans and advances**	**Impairment provision**	**Loans and advances**	**Impairment provision**
1.	Low/ Insignificant	112,990	-	-	-
2.	Minimal	54,346	12	57,666	12
3.	Moderate	199,241	56	162,611	34
4.	Acceptable	550,790	149	540,783	123
5.	Acceptable with care	115,955	32	99,517	18
6.	Management Attention	8,453	1	10,212	1
7.	High	670	-	897	-
8.	High & Problematic	187	-	-	-
9.	Very High & Problematic	1,926	556	2,434	34
10.	Loss	-	-	-	-
Total		1,044,558	806	874,120	222

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 2015 and 2014, 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.

	2015 $'000	2014 $'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	449,763	389,907
Loans to corporate entities:		
- Large corporate customers	180,885	168,636
- Small and medium size enterprises (SMEs)	413,910	315,577
Due from other financial institutions	33,336	90,279
Investments at amortised cost	558,897	519,981
Derivative financial assets	1,336	711
Total	1,638,127	1,485,091
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	6,066	13,373
Loan commitments and other credit related liabilities	188,643	145,700
Trade finance contingencies	20,097	19,383
Total	214,806	178,456

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 $1,940 million as at 31 December 2015 ($1,664m as at 31 December 2014). 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 December 2015

$'000's		Corporate Entities		
	Individuals (retail customers)	Large corporate customers	SMEs	Total
Past due up to 30 days	11,677	6,791	20,984	39,452
Past due 30- 60 days	1,559	-	367	1,926
Past due 60 - 90 days	-	-	1	1
Past due more than 90 days	14	-	3,019	3,033
Total	13,250	6,791	24,371	44,412

31 December 2014

$'000's		Corporate Entities		
	Individuals (retail customers)	Large corporate customers	SMEs	Total
Past due up to 30 days	9,188	14,618	14,567	38,374
Past due 30- 60 days	3,695	-	803	4,498
Past due 60 - 90 days	416	-	-	416
Past due more than 90 days	13	-	-	13
Total	13,312	14,618	15,370	43,301

The Consolidated Entity holds collateral with pledged amount totalling $47.5m for assets which are past due but not impaired as at 31 December 2015 ($45.8m as at 31 December 2014). 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.

	2015 $000	2014 $000
Impaired Loans		
Corporate Entities		
- SMEs	2,541	2,674
Individuals	10	-
Total	2,551	2,674

The Consolidated Entity holds collateral with carrying value totalling $1.42m for the impaired assets as at 31 December 2015 ($2.88m as at 31 December 2014).

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.

	2015 $000				**2014 $000**			
		Corporate Entities		**Total**		**Corporate Entities**		**Total**
Industry type	**Individuals (Retail Customers)**	**Large Corporate Entities**	**SMEs**		**Individuals (Retail Customers)**	**Large Corporate Entities**	**SMEs**	
Manufacturing	6,925	-	16,296	23,221	6,088	311	18,918	25,317
Tourism	3,473	`-	6,140	9,613	4,573	-	6,217	10,790
Domestic Trade	35,078	17,093	47,462	99,633	26,004	18,953	37,426	82,383
Construction	65,327	69,738	70,286	205,351	49,222	38,245	43,911	131,378
Housing	223,404	7,245	28,511	259,160	204,127	3,294	24,142	231,563
Personal	12,084	12,028	5,648	29,760	13,398	9,150	5,928	28,476
Professional	37,528	74,524	172,781	284,833	29,870	98,332	142,091	270,293
Transport	2,406	-	113,139	115,545	409	-	83,311	83,720
Other	2,023	257	15,162	17,442	1,000	350	8,850	10,200
Total	388,248	180,885	475,425	1,044,558	334,691	168,635	370,794	874,120

25 Financial risk management (continued)

(b) Credit risk (continued)

(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 2015 is $186,531 with a collateral value of $340,000 (2014: $1,156,000).

- "Assets acquired through the enforcement of security" are assets acquired in *full or partial settlement of a loan or similar facility through the enforcement of security arrangements.* The Consolidated Entity has no such assets at year-end (2014: Nil).

- "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

(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.

25 Financial risk management (continued)

(b) Credit risk (continued)

The table below presents an analysis of investments and due from other financial institutions by rating agency designation at 31 December 2015, based on Moody's ratings or their equivalent.

	Investments at amortised cost $' 000	Due from other financial institutions $' 000	Total $' 000
31 December 2015			
AA- to AA+	255,000	14,531	269,531
A- to A+	214,067	18,503	232,570
Unrated	89,830	302	90,132
Total	558,897	33,336	592,233
31 December 2014			
AAA	2,386	-	2,386
AA- to AA+	184,164	53,173	237,337
A- to A+	243,473	27,228	270,701
Lower than A-	-	8,168	8,168
Unrated	89,958	1,710	91,668
Total	519,981	90,279	610,260

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.

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, 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 2015 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)

2015	Note	The earlier of maturity or repricing date					
		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	132,180				3,921	136,101
Due from other financial institutions	8	32,734	602				33,336
Investments at amortised cost	9		516,023	40,537	2,337		558,897
Loans and advances	10	865,123	139,088	39,541			1,043,752
Derivative financial assets	19		1,282			54	1,336
		1,030,037	656,995	80,078	2,337	3,975	1,773,422
Financial liabilities							
Due to other financial institutions	16		42,399			33,892	76,291
Securities sold and under repurchase agreement	17		191,811				191,811
Deposits	18	402,461	847,519	361		53,213	1,303,554
Derivative financial liabilities	19		200			407	607
		402,461	1,081,929	361	-	87,512	1,572,263
Interest rate swaps [2]			15,882	(15,882)			
Interest rate gap		627,576	(409,052)	63,835	2,337	(83,537)	201,159

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 2014 table is set out on the next page.

25 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

2014		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	25,361				3,738	29,099
Due from other financial institutions	8	29,422	60,857				90,279
Investments at amortised cost	9		470,900	41,331	7,750		519,981
Loans and advances	10	732,326	109,070	32,502			873,898
Derivative financial assets	19		708			3	711
		787,109	641,535	73,833	7,750	3,741	1,513,968
Financial liabilities							
Due to other financial institutions	16		14,671			3,599	18,270
Securities sold and under repurchase agreement	17		148,960				148,960
Deposits	18	377,554	719,789	16		47,429	1,144,788
Derivative financial liabilities	19		2,969			571	3,540
		377,554	886,389	16	-	51,599	1,315,558
Interest rate swaps [2]			25,214	(25,214)			
Interest rate gap		409,555	(219,640)	48,603	7,750	(47,858)	198,410

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 2015 $'000	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	129	289	515	135,168	-	136,101
Due from other financial institutions	5,618	11,976	1,264	14,461	17	33,336
Investments at amortised cost	-	-	-	558,897	-	558,897
Loans and advances	-	124,079	-	919,673	-	1,043,752
Derivative financial asset	-	-	-	1,336	-	1,336
Plant and equipment	-	-	-	4,026	-	4,026
Intangible assets	-	-	-	1,712	-	1,712
Deferred tax assets	-	-	-	1,794	-	1,794
Other assets	-	-	-	6,471	-	6,471
Total assets	5,747	136,344	1,779	1,643,538	17	1,787,425
Due to other financial institutions	-	42,400	-	33,891	-	76,291
Securities sold and under repurchase agreements	-	-	-	191,811	-	191,811
Deposits	16,886	23,410	1,407	1,261,845	6	1,303,554
Current tax liability	-	-	-	1,542	-	1,542
Derivative liabilities	-	-	-	607	-	607
Provisions	-	-	-	2,315	-	2,315
Other liabilities	-	-	-	3,961	-	3,961
Total liabilities	16,886	65,810	1,407	1,495,972	6	1,580,081
Shareholders' equity	-	-	-	207,344	-	207,344
Total liabilities and shareholders' equity	16,886	65,810	1,407	1,703,316	6	1,787,425
Net on-balance sheet position	(11,139)	70,534	372	(59,778)	11	-
Effect of derivatives held for risk management	10,890	(68,791)	-	57,901	-	-
Net currency position	(249)	1,743	372	(1,877)	11	-

25 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

31 December 2014 **$'000**	**EUR**	**USD**	**STG**	**AUD**	**OTHER CURR**	**TOTAL**
Cash and liquid assets	422	237	119	28,321	-	29,099
Due from other financial institutions	3,845	10,514	916	73,665	1,339	90,279
Investments at amortised cost	-	-	-	519, 981	-	519,981
Loans and advances	33	94,870	-	778,995	-	873,898
Plant and equipment	-	-	-	4,129	-	4,129
Derivative financial asset	-	-	-	711	-	711
Intangible assets	-	-	-	2,195	-	2,195
Deferred tax assets	-	-	-	1,585	-	1,585
Other assets	-	-	-	2,555	-	2,555
Total assets	4,300	105,621	1,035	1,412,137	1,339	1,524,432
Due to other financial institutions	-	14,671	-	3,599	-	18,270
Securities sold and under repurchase agreements	-	-	-	148,960	-	148,960
Deposits	13,709	21,089	1,116	1,107,709	1,165	1,144,788
Current tax liability	-	-	-	1,389	-	1,389
Derivative liabilities	-	-	-	3,540	-	3,540
Provisions	-	-	-	1,995	-	1,995
Other liabilities	-	-	-	5,972	-	5,972
Total liabilities	13,709	35,760	1,116	1,273,164	1,165	1,324,914
Shareholders' equity	-	-	-	199,518	-	199,518
Total liabilities and shareholders' equity	13,709	35,760	1,116	1,472,682	1,165	1,524,432
Net on-balance sheet position	(9,409)	69,861	(81)	(60,545)	174	-
Effect of derivatives held for risk management	9,427	(66,750)	-	57,323	-	-
Net currency position	18	3,111	(81)	(3,222)	174	-

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 $24,515 (2014: $92,000) 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 $763 (2014: Gain $1,283) 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 $4,013 (2014: Gain $712).

(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.

25 Financial risk management (continued)

(d) Liquidity Risk (continued)

(ii) Minimum liquidity holdings

The Consolidated Entity ensures that the Minimum Liquidity Holdings standard, specified by APRA, is maintained at all times.

Liabilities include all on-balance sheet liabilities, including equity, and irrevocable commitments, less eligible capital base as per APRA's capital adequacy requirements. High quality liquid assets are held in the name of the Consolidated Entity, unencumbered, valued at market value and readily convertible into cash within two business days.

(iii) Diversified funding mix

The Consolidated Entity aims to achieve a diversified funding mix of deposits by limiting deposits sourced from total and any "Significant counterparty" to less than or equal to 22% and 6% of total deposit base respectively. . "Significant counterparts" are defined as counterparties or groups of connected or affiliated counterparties that have an aggregate balance greater than 0.25% of total deposit base.

(iv) Uncommitted credit lines

The Consolidated Entity has also established wholesale short-term credit lines with other Australian Banks in the event that additional funding is required.

(v) Contingency plan

A detailed contingency plan has been established and must be followed in the event of liquidity problems.

(vi) Internal securitisation

The Securitisation Trust was set up to provide a contingency liquidity reserve facility to meet any future liquidity crisis that the Consolidated Entity may face due to either internal or external factors. Class A notes in the Trust are eligible for repurchase with the Reserve Bank of Australia.

Residual contractual maturities of financial liabilities

The table below shows the undiscounted cash flows of the Consolidated Entity's financial liabilities on the basis of their earliest possible contractual maturity, assuming no early termination occurs. The expected cash flows on these instruments vary significantly from this analysis. For example, deposits from customers are expected to maintain a stable or increasing balance.

25 Financial risk management (continued)

(d) Liquidity Risk (continued)

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.

31 December 2015

$'000	Repayable on demand	3 months or less	Over 3 mths but less than 1 yr	Over 1 but less than 5 yrs	Over 5 yrs	Total
Non-derivative liabilities						
Due to other financial institutions	33,892	42,547	-	-	-	76,439
Securities sold and under repurchase agreements		166,119	26,184			192,303
Deposits	402,461	539,542	374,602	372	-	1,316,977
	436,353	748,208	400,786	372	-	1,585,719
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	182	282	337	-	801
- Foreign currency swaps	-	125	17	-	-	142
	-	307	299	337	-	943
Off balance sheet commitments						
Bank guarantee	6,066	-	-	-	-	6,066
Loan commitments	188,643	-	-	-	-	188,643
Trade Finance contingencies	20,097	-	-	-	-	20,097
	214,806	-	-	-	-	214,806
Total	651,159	748,515	401,085	709	-	1,801,468

Comparative 2014 table is set out on the next page.

25 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2014

$'000	Repayable on demand	3 months or less	Over 3 mths but less than 1 yr	Over 1 but less than 5 yrs	Over 5 yrs	Total
Non-derivative liabilities						
Due to other financial institutions	3,376	3,636	-	-	-	7,012
Securities sold and under repurchase agreements	-	123,646	-	-	-	123,646
Deposits	282,341	552,394	145,456	114	-	980,305
Subordinated liabilities	-	113,000	-	-	-	113,000
	285,717	792,676	145,456	114	-	1,223,963
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	203	607	1,178	-	1,988
- Foreign currency swaps	-	780	-	-	-	780
	-	983	607	1,178	-	2,768
Off balance sheet commitments						
Bank guarantee	12,799	-	-	-	-	12,799
Loan commitments	119,061	-	-	-	-	119,061
Trade Finance contingencies	11,354	-	-	-	-	11,354
	143,214	-	-	-	-	143,214
Total	428,931	793,659	146,063	1,292	-	1,369,945

26 Capital management

The Consolidated Entity's regulator, Australian Prudential Regulation Authority (APRA), sets and monitors capital requirements for the Consolidated Entity. 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.

Full disclosures on the 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	2015 $'000	2014 $'000
Tier 1 Capital			
Ordinary share capital	22	160,000	160,000
Retained profits	23	44,620	37,531
Available for sale and cash flow hedge reserve	24	(747)	(907)
Less Deductions:			
Intangible assets	12	1,712	2,195
Deferred tax assets (net)	14	1,794	1,585
Fair value of cash flow hedges	24	(747)	(907)
Securitisation start-up costs		274	267
Total		200,840	193,484
Tier 2 Capital			
General reserve for credit losses	24	4,959	4,134
Total		4,959	4,134
Total regulatory capital		**205,799**	**197,618**
Risk weighted assets		1,084,298	909,618
Capital ratios			
Total regulatory capital as % of risk weighted assets		18.98%	21.73%
Total tier 1 capital as % of risk weighted assets		18.52%	21.27%

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.

27 Financial instruments (continued)

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.

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

	2015		2014	
	Carrying Value $'000	Fair Value $'000	Carrying Value $'000	Fair Value $'000
Assets				
Cash and liquid assets	136,101	136,101	29,099	29,099
Due from other financial institutions	33,336	33,336	90,279	90,279
Investments at amortised cost	558,897	559,931	519,981	523,976
Loans and advances	1,043,752	1,044,211	873,898	874,736
Derivative financial assets	1,336	1,336	711	711
Liabilities				
Due to other financial institutions	76,291	76,291	18,270	18,270
Securities sold and under repurchase agreements	191,811	191,811	148,960	148,960
Deposits	1,303,554	1,303,484	1,144,788	1,144,773
Derivative financial liabilities	607	607	3,540	3,540

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.

27 Financial instruments (continued)

Fair value hierarchy (continued)

- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
31 December 2015				
Derivative financial assets	-	1,336	-	1,336
Total	**-**	**1,336**	**-**	**1,336**
Derivative financial liabilities	-	607	-	607
Total	**-**	**607**	**-**	**607**

	Level 1	Level 2	Level 3	Total
31 December 2014				
Derivative financial assets	-	711	-	711
Total	**-**	**711**	**-**	**711**
Derivative financial liabilities	-	3,540	-	3,540
Total	**-**	**3,540**	**-**	**3,540**

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

	Level 1	Level 2	Level 3	Total
31 December 2015				
Cash and liquid assets	-	136,101	-	136,101
Due from other financial institutions	-	33,336	-	33,336
Investments at amortised cost	-	559,931	-	559,931
Loans and advances	-	-	1,044,211	1,044,211
Total	**-**	**729,368**	**1,044,211**	**1,773,579**
Due to other financial institutions	-	76,291	-	76,291
Securities sold and under repurchase agreement	-	191,811	-	191,811
Deposits	-	-	1,303,484	1,303,484
Total	**-**	**268,102**	**1,303,484**	**1,571,586**

27 Financial instruments (continued)

Fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
31 December 2014				
Cash and liquid assets	-	29,099	-	29,099
Due from other financial institutions	-	90,279	-	90,279
Investments at amortised cost	-	523,976	-	523,976
Loans and advances	-	-	874,736	874,736
Total	**-**	**643,354**	**874,736**	**1,518,090**
Due to other financial institutions	-	18,270	-	18,270
Securities sold and under repurchase agreement	-	148,960	-	148,960
Deposits	-	-	1,144,773	1,144,773
Total	**-**	**167,230**	**1,144,773**	**1,312,003**

28 Commitments for expenditure

	2015 $'000	2014 $'000
Operating leases		
Future operating lease rentals not provided for and payable:		
Not later than one year	1,318	2,102
Later than one year but no later than two years	760	1,104
Later than two years but no later than five years	1,455	1,337
Later than five years	96	358
	3,629	4,901

29 Auditors' remuneration

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

	$	$
Auditing the financial report	218,625	235,400
Taxation services	36,138	18,700
Other services	82,882	31,012
	337,645	285,112

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:

	2015 $'000 Face value	2014 $'000 Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	6,066	13,373
Commitments to extend credit	188,643	145,700
Trade finance contingencies	20,097	19,383

31 Directors' remuneration

	2015 No.	2014 No.
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:		
$ 0 - $ 9,999	-	1
$ 40,000 - $69,999	-	-
$ 70,000 - $79,999	2	2
$ 80,000 - $89,999	4	4
$ 120,000 - $129,999	1	1
	7	**8**

	2015 $	2014 $
Total income received, or due and receivable, by all Directors of the Consolidated Entity.		
Short term benefits	562,615	493,865
Other long term benefits	53,448	46,308
Total benefits to non-executive Directors	616,063	540,173

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 Steve Bracks
Mr Elias Alouf
Mr Fouad Chaker
Mr Alex Bartlem

Executives

Mr Robert Anderson (Chief Executive Officer) (Executive from 01/02/2016)
Mr Steven Pambris (Deputy CEO and Head of Credit)
Mr Steven Pasas (Chief Operating Officer)
Mr Ashley Bakes (Head of International Trade and Correspondent Banking)
Mr Fawaz Sankari (Head of Commercial Banking NSW)
Mr John Pehlivanidis (Head of Commercial Banking VIC and SA)
Mr Soteris Hadjikyriacou (Head of Marketing, Branch and Community Development)
Ms Sue Mayson (Heads of Human Resources)
Mr Justin Morgan-Cooper (Chief Risk Officer)
Mr Steven Sampson (Head of Third Party Distribution)

Executives who left the Consolidated Entity during the year:

Ms Julie Elliott (Chief Executive Officer) (Executive from 30/05/2013 to 29/01/2016)
Ms Dian Gatti (Head of Retail Banking) (Executive from 19/09/2013 to 20/11/2015)

32 Key management personnel disclosures (continued)

Transactions with key management personnel

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

	2015 $	2014 $
Short term benefits	2,820,005	2,343,619
Long term benefits	10,406	14,582
Other long term benefits	250,853	195,817
Total benefit	3,081,264	2,554,018

Details of non-executive Directors' remuneration are set out separately in Note 32. 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:

	2015 $	**2014 $**
Loans to key management personnel	11,253,746	6,699,118
Deposit accounts	(19,446,982)	(1,624,968)

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:

32 Key management personnel disclosures (continued)

Director	Transaction	Note	2015 $	2014 $
Mr Greg Gav	Rental Payments	(i)	633,145	640,794

(i) The Consolidated Entity moved to a new head office location in October 2005 and entered into a 10 year lease agreement with an entity related to Mr Greg Gav. As part of this transaction, the Consolidated Entity was paid an incentive payment and provided with a rent free period of 13 months which ended in November 2006. This transaction was entered into on normal terms and conditions.

33 Related parties 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 note 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 note 2, 3, 8, 9, 16, 19 and 20 for details of transactions and balances with other related parties.

33 Related parties transactions (continued)

(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:

35 Notes to the statement of cash flows (continued)

(a) Reconciliation of cash

	2015 $'000	2014 $'000
Cash	136,101	29,099
Due from other financial institutions - at call deposits	33,336	90,279
Total Cash and cash equivalents	169,437	119,378

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

	2015 $'000	2014 $'000
Profit from ordinary activities after income tax	7,666	7,733
Add: non-cash items:		
Depreciation and amortisation of non-current assets	1,886	1,887
Increase/(Decrease) in provision for doubtful debts	505	90
Increase/(Decrease) in collective provisions	62	25
Increase/(Decrease) in provision for employee entitlements	320	25
Increase/(Decrease) in tax provision	(125)	754
Net Decrease/(Increase) in prepayments /accruals	(249)	286
Loss/(Profit) on writing off plant and equipment	9	130
Loss on writing off loans	18	18
Increase/(Decrease) in derivative financial instruments	197	27
(Increases)/decreases in assets and increases/(decreases)in liabilities:		
Interest accruals	136	2,801
Loans and advances	(170,175)	(121,835)
Other assets	(3,618)	(496)
Due to other financial institutions	58,026	11,243
Deposits	159,103	168,605
Derivative liabilities	(3,554)	4,541
Sales and repurchase agreement	42,409	25,047
Other liabilities	(2,060)	2,554
Net cash used in operating activities	90,556	103,435

35 Notes to the statements of cash flows (continued)

(c) Net reporting of certain cash flows

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

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

36 Events subsequent to balance date

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.

37 Parent entity information (continued)

Financial Position

	2015 $'000	2014 $'000
Assets		
Cash and liquid assets	136,101	29,099
Due from other financial institutions	22,045	78,309
Investments at amortised cost	558,897	519,981
Loans and advances		
- Held by Parent Entity	878,143	712,277
- Held by Trust subject to securitisation	165,609	161,621
Derivative financial assets	1,336	711
Intangible assets	1,712	2,195
Plant and equipment	4,026	4,129
Deferred tax assets	1,794	1,585
Other assets	6,471	2,555
Receivable from securitisation Trust	11,291	11,970
Total assets	**1,787,425**	**1,524,432**
Liabilities		
Due to other financial institutions	76,291	18,270
Securities sold and under repurchase agreements	191,811	148,960
Deposits	1,303,554	1,144,788
Current tax liability	1,542	1,389
Derivative liabilities	607	3,540
Subordinated liabilities	-	-
Provisions	2,315	1,995
Other liabilities	3,961	5,972
Total liabilities	**1,580,081**	**1,324,914**
Net assets	**207,344**	**199,518**

37 Parent entity information (continued)

Financial Position (continued)

	2015 $'000	2014 $'000
Equity		
Contributed equity	160,000	160,000
Reserves	2,724	1,987
Retained profits	44,620	37,531
Total equity	**207,344**	**199,518**

Financial Performance

Profit for the year	7,666	7,733
Other comprehensive income	160	11
Total comprehensive income	7,826	7,744

At 31 December 2015, "BHB Residential Securities Trust 1" (the Trust) owes Bank of Sydney (the Company) $176,352,646, which was eliminated on consolidated account level. During 2015, the Company received $6,018,876 as interest income and $441,645 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 September 2015, 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 2014 with carrying amount of $117.6m at nil consideration and reissuing new Class A Notes of $179.2m. There was also a buy- back of Class B Notes of $16m at nil consideration with a reissue of new Class B Notes of $17m.The additional proceeds of $62.5m 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.

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:

	2015 $’000	2014 $’000
Internal Securitisation assets		
Residential Mortgage	165,609	161,621
Cash and accrued income	11,291	11,970
	176,900	173,591

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 and notes, set out on pages 20 to 86, 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 2015 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(a) to the financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Nicholas Pappas
Chairman

Nikolas T Hatzistergos
Director

Dated at Sydney on 19h April 2016.

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Independent Auditor's Report to the Equity Holders of Bank of Sydney Ltd

We have audited the accompanying financial report of Bank of Sydney Ltd (the Company), which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 20 to 86.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Bank of Sydney Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Deloitte.

Opinion

In our opinion:

(a) the financial report of Bank of Sydney Ltd 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 2015 and of its performance for the year ended on that date; and

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

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Melbourne, 19 April 2016