Bank of Sydney

Annual Report 2014

Bank of Sydney

...experience the difference

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CHAIRMAN'S FOREWORD

On behalf of the Board of Directors of Bank of Sydney, I welcome you to this Annual Report for our financial year ended 31 December 2014.

During the year in question, the Bank achieved a number of key financial and non-financial milestones which collectively demonstrate that Bank of Sydney is gradually forging its place in the highly-competitive financial services landscape of Australia.

2014 witnessed some important changes to the composition of our Board of Directors. We farewelled our long-serving Cyprus-based director (and previous CEO), Michalis Athanasiou, and, in his place, we were delighted to welcome former Australian Ambassador to Lebanon, Alex Bartlem OAM. Mr. Bartlem brings with him a world of knowledge of the Middle East, and government generally, from his time in the diplomatic service. I am sure that he will make a valuable and lasting contribution to our Board.

Within our Executive Team we also made some key appointments through the year. These have undoubtedly assisted us to drive the Bank towards improved results. These key appointments included the Head of International Trade, Head of Commercial Banking VIC & SA, Chief Risk Officer and, most recently, our Head of Third Party Distribution.

The results for 2014 were not easy to achieve and are commendable. However, there can be no doubt that our Board believes that this upward trend must continue and, indeed, gain pace if we are to become Australia's leading relationship bank, as envisaged in our current Strategic Plan.

May I take this opportunity to thank our Group Executive Chairman & CEO, Mr Salim Sfeir, and the entire Board of Bank of Beirut for the confidence and trust they continue to place in our local Board.

As a boutique bank in a market surrounded by strong and large players, Bank of Sydney has now found its proper place. The challenge ahead of us now is to build on these steady foundations and create a financial services institution that delivers consistently strong financial results while maintaining the highest standards of service to its customers.

Nicholas G Pappas AM
Chairman
Bank of Sydney Limited

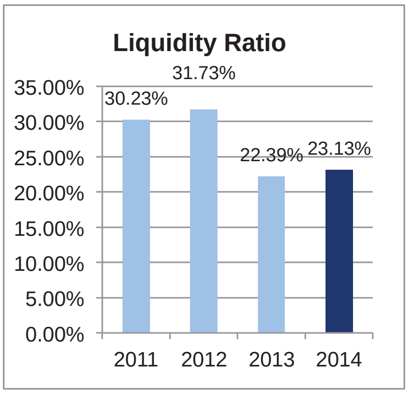
CEO REPORT 2014

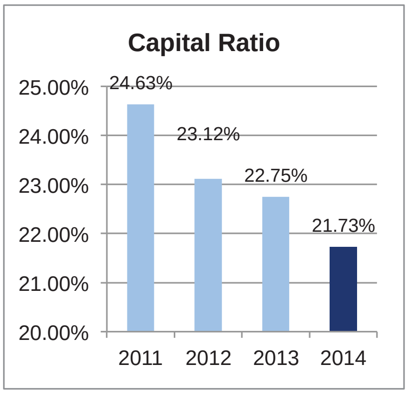
The 2014 Financial Year results reflect a strong year of growth for the Bank with a number of milestones being hit. In 2014 the Bank recorded a Net Profit after Tax of $7.733 Million representing an 89% increase on the 2013 result of $4,082 Million. This growth has been achieved through strong growth in Deposits reaching over $1.1 Billion for the first time in the history of the Bank, strong investment returns, tight expense management and working hard to increase every dollar of revenue from our business lines. Our focus remains on our vision to deliver to our customers and be the Australia's only true relationship bank.

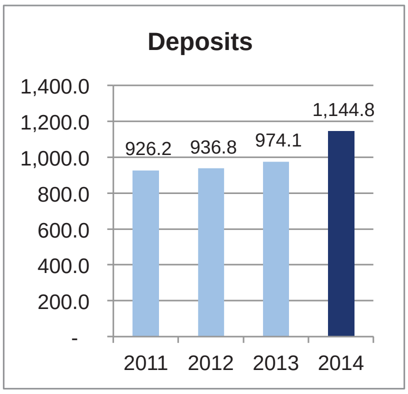
Recurring operating revenues remained strong with Net Interest Income increasing by 15% to $29.3 Million for the full 2014 year, whilst Non-Interest Income increased by 16% to $8.3 Million due to increased lending and trade finance activity.

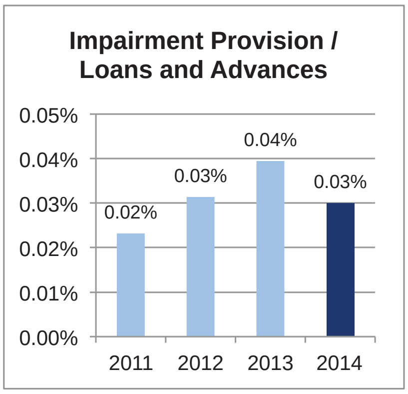
The Bank's High Quality Liquid Assets (HQLA) ratio increased slightly during the year from 22.22% to 23.13%. The decision to maintain our liquidity above 20% was a business decision despite APRA reducing the bank's Minimum Liquidity Requirements. We know that our liquidity position remains one of the strongest in the market and is one of our strengths which we have maintained for the benefit of our Bank and our customers. Our Capital Adequacy ratio as at 31 December 2014 was 21.73%, also one of the highest in the market further strengthening our Bank's financial position.

The continued diligence of management toward maintaining high asset quality has resulted in a continuing very low level of impairment provisions. As at 31 December 2014 impairment provisions were at 0.03% of Total Loans and Advances.









Retail Banking

The Retail banking division had a solid year in 2014 which was the result of improved lending growth and very strong deposit growth. We also made inroads into increasing products per customer through improved cross selling and focus on our Credit Card offering.

Our structure change has been in place for over 12 months now and has proven to be successful in delivering on our vision to become "Australia's only true relationship bank" additionally, it has provided retail banking staff the opportunity to be cross trained, improve their skills and capability and offer staff a career path and progression within the Bank. We continue to invest in our people through regular face to face training and have also introduced 2 new channels/elements in how we deliver training, being E-Learning (an online learning management system) and webinar capability to support our Training & Development Manager conduct training with our interstate branches. Both have proven to be highly effective and value adding.

We have also had success in launching a revised School Banking Program which officially will be launched in 2015 once Term 1 - school recommences. It consists of a Student Savings and a Student Transaction account. When the school participates in the School Banking program, children are offered the opportunity to participate in a rewards program and receive gifts to acknowledge good savings throughout the year. We have also engaged with a 3rd party provider to offer Equipment leasing, this offer is facilitated through referrals to Stratton finance who liaise with our clients and assist them with finding a car or equipment via leasing, refinancing and or purchasing outright. As we do not currently offer unsecured personal loans this partnership has resulted in our ability to extend our product offering and assist our customers with broader needs. Our partnership with Allianz continues to flourish with increased revenue derived from our ability to quote and sell general insurance directly to our customers.

2015 will be another successful year for the Bank, with the implementation of a Broker channel for 3rd party loan introductions. Having the support of Retail Banking to write the loans and assist newly introduced clients to our Bank this will open up opportunity for cross sale of everyday banking products and services and align to our vision and mission.

Commercial Banking and International Trade

In 2014 the Commercial Banking business achieved the strongest growth since our acquisition by Bank of Beirut.

The growth was predicated on having a stable and focused team of Relationship Managers that provide our customers with exceptional, timely, flexible and nimble service, engaging our target markets and communities and delivering on our vision of being "Australia's only true relationship bank".

We have also had initial success in on-boarding and building relationships with commercial brokers and other business referral partners, which has expanded our non-proprietary distribution networks and increased the flow of new customer opportunities. The Commercial Banking team are committed to further enhancing the commercial broker and referral business partner offerings in 2015 and building on the relationships developed during 2014.

Although we expect 2015 to be challenging due to the competitive market conditions, we are confident our stronger and focused Commercial Banking team will continue to grow the business by retaining and expanding our client base, business to business relationships and bringing to life the meaning of being a true relationship Bank.

Commercial Banking remains a key strategic growth business for Bank of Sydney for 2015.

International Trade

2014 for International trade was a year of positive overall growth from many perspectives. This has been activated by extending our existing customer base whilst still continuing to support our initial clients. What is encouraging is that Trade has only been initiated into the Bank of Sydney product suite since 2011. So it has made an interesting journey through 2014 providing a lot of value add to clients and at the same time building up the Bank of Sydney name as a serious player to support Australian international trade flows.

From a revenue perspective, International Trade met its assigned targets and exceeded revenue by 33%. A great achievement considering a number of changes within the team, and can be attributed to the strength of leadership of our Head of International Trade, who re-visited the strategy to review account and revenue optimisation from the existing trade portfolio plus demonstrated strong drive in introducing a number of new trade clients to the Bank with the support of his team.

The team has also increased their interstate coverage with trade opportunities being identified in Western Australia, Queensland and South Australia. They have worked closely with government bodies such as Chambers of Commerce, Regional Trade and Investment bodies and Export Finance Insurance Corporation expanding on networking opportunities.

The focus for 2015 is to diversify revenue concentration of our current trade flows, look at new business flows outside of the Agri business sector, seek new export transactional opportunities using our Head Office networking coverage to cover country and bank risk, build new markets in cross-border Financial Institution opportunities and stay ahead of adverse market related issues safeguarding internal controls. All these initiatives coupled with astute pipeline management and a strong client retention policy puts our International Trade business in a strong position for the future.

There will be roadblocks along the way that will be encountered, but a successful business will take that view in their stride and plan in advance to look at their strengths and capitalise on our niche values, which is to support trade flows into MENA primarily but also look at global opportunities.

The International Trade horizon is getting brighter for the Bank!

Capital and Treasury

Financial markets continue to be characterised by high levels of volatility, though glimpses of improvement had started to shine through as the year progressed. Spreads have tightened since and bonds are performing strongly.

Domestically, growth has been consistently below trend though we are beginning to see some improvement in consumer confidence. This has been supported by the Reserve Bank taking the cash rate to a record low in 2015. This has had the effect of weakening the AUD from previous year's levels. For 2015, the cash rate was cut by 0.25% in February with Cash rate of 2% expected by year end.

The Treasury Managed Asset portfolio performed strongly as asset prices rebounded. Volatility in credit markets allowed for good buying opportunities. Our Treasury continued to invest in highly rated assets which not only provide excellent returns but ensure our HQLA levels remain robust.

Foreign exchange income exceeded 2013 with strong growth from Trade Finance and Retail. From our Trade Finance clients we saw strong exporter demand due to the weaker AUD and Retail volumes grew in line with increased branch traffic. We expect 2015 to improve further as volumes rise even more.

Looking forward to 2015 we can expect many challenges whilst at the same time opportunities for our business to grow. The regulatory environment is ever changing and the demand of 'sticky' deposits will intensify as new regulations start to take effect in the Banking Industry. Foreign exchange income is anticipated to improve further through both growth in Retail and also Trade volumes. Capital Markets will likely remain volatile and this will provide excellent buying opportunities for our Managed Asset portfolio.

Credit Quality

The 2014 year was again one of challenging market conditions. The Australian economy was simultaneously impacted by many significant forces, producing divergent business conditions across and even within states, regions and industry sectors.

Locally, credit quality as measured by APRA for all the Bank's has remained stable and provisioning has reduced over the past year. BOS's credit quality remains sound, with Nil specific provisions as at 31/12/14.

2014 saw further legislative changes to the National Credit Code with regards to Responsible Lending for all credit providers and also prudential practice guide issued for Residential Mortgage Lending from our regulator due to concerns from the inflating residential property market and current low interest rate environment.

For 2015, we will continue to focus on growth of our portfolio by assessing of all opportunities ensuring we have a prudent risk management framework. While the major banks have similar credit criteria, we realise that to be competitive we need to demonstrate flexibility within the credit risk framework whilst still covering risks.

Risk Management and Compliance

During 2014, the Bank appointed a new Chief Risk Officer to oversee Risk Management and Compliance activities at the Bank.

Initial effort was focused on re-aligning risk management capability to support the Bank's growth strategy. Roles within the Risk management function have been modified to focus particular expertise on the key areas of Credit, Treasury and Operational Risk. These changes will enable the Bank's risk capability to be "fit for purpose" for the future. Concurrently this will positively contribute towards the Bank's compliance with new prudential regulation.

The Bank's Risk Management Framework and Strategy has been strengthened during the second half of 2014 to ensure the following core components are further embedded across the organisation:

- A "Three Lines of Defence" model to provide assurance that there are clearly defined risk ownership responsibilities with functionally independent levels of oversight and independent assurance;
- A suite of frameworks, policies, processes and systems for material risk classes that quantify specific risk limits and other measures to restrict particular risk exposures.
- All categories of risk are actively monitored by the Board and managed by Executive Management.

A forward looking Risk Appetite Statement has been created to ensure that future business strategies are consistent with the agreed appetite of the Bank.

Continued effort will be undertaken leading into 2015 to embed the revised risk frameworks into everyday business activities. A particular focus will be committed to:

- Sustainable credit risk management (quality/diversification/benchmarking)
- Risk culture and reward – reaffirming personal behaviour aligned to the Bank's values
- Ongoing development and implementation of operational risk and compliance strategies, with a renewed focus on fraud mitigation.

Business activities throughout 2014 and beyond will necessitate continuous improvement of the Bank's AML/CTF obligations to satisfy both emerging regulatory change whilst being vigilant in the areas in which the Bank operates.

Internal Audit

During 2014, Internal Audit issued 32 reports which provided more than 180 recommendations and contributed to the strengthening of internal controls within the Bank. We validated closure of over 130 recommendations which contributed to the strengthening of internal controls within the Bank. Internal Audit also completed other activities such as investigations relating to fraud allegations, follow-up reviews and other management requests.

Overall, we found that internal controls within the Bank are adequate to ensure compliance with policies, regulations, and to ensure that Bank's objectives are achieved.

Internal Audit will continue to ensure that the Bank's operations are conducted in accordance with internal policies and regulations by providing an independent and objective assurance on the adequacy and effectiveness of risk management, control and governance processes.

Technology and Operations

Continuing to enhance the delivery of products and services to members via new technology was a key focus for the 2014 financial year. The Bank continued to evolve its mobile banking service by launching a new mobile banking app for iPhone while enhancing electronic banking functionality through E-statements and introduction of 'Paytag' card technology.

During the year the Bank implemented the latest technologies in virtualisation. The new technology delivers a more robust, secure, scalable and agile technology platform. As a result, there will be more scope to support increased business growth, facilitate faster delivery of new business initiatives, increase efficiencies, reduce overall operational costs and strengthen business continuity arrangements.

The Bank has commenced a project to upgrade its core banking technology platform to provide process and cost efficiencies and the foundation for an integrated, scalable banking platform across the Bank.

A highlight in 2014 was the introduction of a platform to enable the Bank to access the broker channel and assist in the growth of the Bank's Lending.

Looking forward to 2015, we are excited by the soon to be completed banking app for Android mobile devices, online account opening, HCE mobile card (that would enable card transaction using your mobile) and are looking forward to further enhancement on E-bank functionality and delivery of Online Application for both Housing Loans and Credit Cards.

Staff and culture

Our vision to be Australia's only true relationship bank has been the revitalising driver of our culture. We have invested in further developing our engaged employees whose commitment is next to none. Recruitment continues in the Retail and Commercial areas as well as more specialised areas throughout the Bank. There has been a small increase in staff numbers since 2013.

The Executive of the Bank have met and worked on Succession Planning, Talent Mapping as well as strategies to retain our talented staff, who are the building blocks for our future.

The Staff Satisfaction Survey conducted was followed by Focus Groups meetings where the outcomes of the Survey were discussed as a means to ensure an even better place to work in the future.

Training and Development continues to be high on our agenda. The key initiative for 2014, the implementation of the Learning Management System, enables regular e-learning becoming a realistic and easily accessible focal part of our ongoing staff development.

The journey to achieve our mission of growing together with our customers and our people through personal relationships and premium service continues.

Marketing and Community Involvement

While maintaining close relationships with the traditional communities and customers, in 2014 we took new initiatives to promote the BOS brand within the wider Australian community. BOS was mentioned for the first time in several Australian mainstream media outlets through our Public Relations efforts, CEO interviews and other opportunities during the year with the highlight being the front page interview of our CEO in the business news section of The Australian.

At the start of 2014 our Everyday Saver and Smartnet products have won multiple 5 star awards from Canstar, an acknowledgement of our strong product commitment and an endorsement of our brand.

We also successfully implemented regular local Branch area media campaigns and billboards, and created a full set of new marketing collateral and merchandise to support the Youth and Kidz accounts as well as our school banking program.

Our social media promotion continued with our Facebook page exceeding 10,000 followers and our LinkedIn and Twitter pages actively engaged, securing good support and promotion for the BOS Brand.

In October 2014 we were involved as major sponsors and supporters of the historic visit of the Maronite Patriarch to Australia while also supporting more than 100 other community, charity and sporting associations and events in Sydney, Melbourne and Adelaide.

Looking forward to 2015, we are excited to work towards building our brand awareness in the wider community and strengthening our ties with our traditional customers focused on our vision to be Australia's only true relationship Bank.

Finally I would like to thank our Shareholder Bank of Beirut for their strong support in 2014 continuing into 2015. I would also like to congratulate them on their results for 2014 with double digit growth in net profit of 17.89% and total assets of 9.69%.

Julie Elliott
Chief Executive Officer
Bank of Sydney Ltd

Bank of Sydney Ltd
ABN 44 093 488 629
Annual Financial Report
31 December 2014

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Bank of Sydney Ltd
Corporate Governance Statement
For the year ended 31 December 2014

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.

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2014

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 Director Induction Process will be conducted through sessions with each business area over a rolling 3 year period. 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.

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2014

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;
- Elias Alouf; and
- Michalis Athanasiou (Resigned 2nd April 2014).

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;
- Oversee 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:

- Elias Alouf (Chairman);
- Greg Gav;
- Alex Bartlem (Appointed 1st December 2014); and
- Michalis Athanasiou (Resigned 2nd April 2014).

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.

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2014

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 (Appointed 1st December 2014).

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 Directors. The Directors must be non-executive Directors, and 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.

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2014

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 policies, controls, procedures and reporting in respect of the risks.

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
Director's Report
For the year ended 31 December 2014

The Directors present their report together with the financial report of the Consolidated Entity for the year ended 31 December 2014 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 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), South Sydney Members Rugby League Club Limited and Souths Cares PBI, the charitable arm of the Rabbitohs. 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 31 March 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 Chairman of Mazars Australia a Director at St Basils Homes and Hellenic Club Limited and has been elected as a Member of the Governing Council – 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, Xanana Gusmao; 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; and Chairman of AFL Sportsready.

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

Mr. Alouf is the Chairman 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

Alex Bartlem served 35 years in the Australian Foreign Service. He served as the Australian Ambassador in Lebanon from 2010 to 2014. He was awarded an Order of Australia Medal (OAM) in 2002. He is a member of the Board of the Australia Lebanon Chamber of Commerce and Industry.

Mr Michalis Athanasiou
Appointed 28 February 2011
Resigned on 2nd April 2014
Non-Executive Director

Bank of Sydney Ltd
Director's Report (continued)
For the year ended 31 December 2014

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	6	6	6	6	-	-	1	1
N. Hatzistergos	6	6	6	6	-	-	1	1
G.Gav	6	6	6	6	6	6	1	1
S. Bracks	6	3	-	-	-	-	-	-
E. Alouf	6	5	6	5	6	6	1	1
F. Chaker	6	3	-	-	-	-	-	-
M. Athanasiou	1	-	1	-	1	-	-	-
H. El-Bikai	-	-	-	-	-	-	-	-
L. Bartlem	1	1	-	-	1	1	-	-

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

Bank of Sydney Ltd
Director's Report (continued)
For the year ended 31 December 2014

Principal activities

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

Results

The net profit of the Consolidated Entity was $7,733,000 (2013: profit of $4,082,000). The result included provisions of impairment losses for loans and advances of $133,000 (2013: $100,000).

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 2014 (2013: Nil).

Review of Operations

At 31 December 2014, the Consolidated Entity's gross loan portfolio was $874.1m (2013: $752.6m) and its customer deposits $1,144.8m (2013: $974.1m). This represents an increase of 16.15% in loans and an increase of 17.52% in deposits when compared to the balances as at 31 December 2013.

State Of Affairs

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

Bank of Sydney Ltd
Director's Report (continued)
For the year ended 31 December 2014

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 18 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 8th April 2015.

Deloitte.

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

8 April 2015

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 2014, 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

Jamie C.J. Gatt
Partner
Chartered Accountants

Bank of Sydney Ltd
Consolidated Statement of Profit or Loss
For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Interest income	2	68,294	68,876
Interest expense	3	(39,031)	(43,441)
Net interest income		29,263	25,435
Non-interest income	4	8,326	7,153
Net operating income		37,589	32,588
Operating expenses	5	(26,374)	(26,615)
Reversal/(Provision) of impairment losses on loans and advances	11	(133)	(100)
Profit before income tax		**11,082**	**5,873**
Income tax expense	**6**	**(3,349)**	**(1,791)**
Profit for the year		**7,733**	**4,082**
Attributable to:			
Equity holders of the Consolidated Entity		**7,733**	**4,082**
Profit for the year		**7,733**	**4,082**

The Income Statement is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 90.

Bank of Sydney Ltd
Consolidated Statement of Profit or Loss And Other Comprehensive Income

For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Profit for the year		**7,733**	**4,082**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
		-	-
Cash flow hedges:			
Effective portion of changes in fair value			
Net amount transferred to income statement			
Fair value reserve (available for sale financial assets):	25	(24)	352
Net amount transferred to income statement	25	34	22
Other comprehensive income for the period, net of income tax	**25**	**1**	**7**
		11	381
Total comprehensive income for the year			
		7,744	**4,463**
Attributable to:			
Equity holders of the Consolidated Entity			
Total comprehensive income for the year		**7,744**	**4,463**
		7,744	**4,463**

The Statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 90.

Bank of Sydney Ltd
Consolidated Statement of Financial Position
As at 31 December 2014

	Note	2014 $'000	2013 $'000
Assets			
Cash and liquid assets	7	29,099	11,002
Due from other financial institutions	8	90,279	48,618
Investments at amortised cost	9	519,981	590,442
Loans and advances	10	873,898	752,299
Derivative financial assets	19	711	2,201
Intangible assets	12	2,195	2,413
Plant and equipment	13	4,129	4,913
Deferred tax assets	14	1,585	1,502
Other assets	15	2,555	2,326
Total assets		**1,524,432**	**1,415,716**
Liabilities			
Due to other financial institutions	16	18,270	7,012
Securities sold and under repurchase agreements	17	148,960	123,517
Deposits	18	1,144,788	974,129
Current tax liability		1,389	583
Derivative liabilities	19	3,540	1,013
Subordinated liabilities	20	-	112,355
Provisions	21	1,995	1,970
Other liabilities	22	5,972	3,363
Total liabilities		**1,324,914**	**1,223,942**
Net assets		**199,518**	**191,774**
Equity			
Contributed equity	23	160,000	160,000
Retained profits	24	37,531	30,157
Reserves	25	1,987	1,617
Total equity		**199,518**	**191,774**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 90.

Bank of Sydney Ltd
Consolidated Statement of Cash Flows
For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Interest and commission receipts		77,511	74,355
Interest payments		(37,095)	(43,813)
Cash payments to employees and suppliers		(24,045)	(24,984)
Income tax paid		(2,595)	(1,224)
		13,776	**4,334**
(Increase) / decrease in operating assets			
Loans and advances		(121,835)	6,283
Other assets		(496)	(401)
Increase / (decrease) in operating liabilities			
Due to other financial institutions		11,243	1,833
Deposits		168,605	37,735
Derivative liabilities		4,541	14,031
Securities sold under repurchase agreement		25,047	123,517
Other liabilities		2,554	(732)
Net cash used in operating activities	36(b)	**103,435**	**186,600**
Cash flows from investing activities			
Payments for intangible assets		(623)	(372)
Payments for plant and equipment		(393)	(955)
Payments/(Proceeds) from investments at amortised cost		69,635	(194,163)
Proceeds on disposal of plant and equipment		-	58
Net cash used in investing activities		**68,619**	**(195,432)**
Cash flows from financing activities			
Repayment of subordinated liabilities		(112,296)	-
Net cash used in financing activities		**(112,296)**	**-**
Net increase in cash held		**59,758**	**(8,832)**
Cash at the beginning of the financial year		59,620	68,452
Cash at the end of the financial year	36(a)	**119,378**	**59,620**

The 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 25 to 90.

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 or 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 or 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 25 to 90.

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 2013	**160,000**	**2,694**	**(8)**	**(1,291)**	**25,916**	**187,311**
Total comprehensive income for the year						
Profit or loss	-	-	-	-	4,082	4,082
Transfers from retained earnings to general reserve	-	(159)	-	-	159	-
Other comprehensive income, net of income tax						
Net amount transferred to profit or loss	-	-	7	22	-	29
Effective portion of changes in fair value	-	-		352	-	352
Total other comprehensive income	**-**	**-**	**7**	**374**	**-**	**381**
Total comprehensive income for the year	-	**(159)**	**7**	**374**	**4,241**	**4,463**
Balance at 31 December 2013	**160,000**	**2,535**	**(1)**	**(917)**	**30,157**	**191,774**

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 25 to 90.

Bank of Sydney Ltd
Notes to and forming part of the financial report
For the year ended 31 December 2014

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 39 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 8th April 2015.

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.

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.

1. Summary of significant accounting policies (continued)

(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 or 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.

(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.

1. Summary of significant accounting policies (continued)

(f) Net foreign exchange gain/loss

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

(g) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise balances with less than three months to maturity and include cash and balances held with the Reserve Bank of Australia. This includes the minimum reserve requirement that Consolidated Entity is obliged to place for liquidity purposes and cash due from other banks.

(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. Refer to Note 1 (j) and (k) for further details.

1. Summary of significant accounting policies (continued)

(i) Financial Instruments (continued)

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

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

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) Investment at amortised cost

Investments at amortised cost are non-derivative financial assets with fixed and determinable payments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows. Investments at amortised cost are initially recognised at fair value plus any transaction costs and subsequently measured at amortised cost using the effective interest rate method as described in Note 1(d).

(k) Loans and advances

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 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 (n). 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 as described in Note 1(d).

1. Summary of significant accounting policies (continued)

(l) 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.

(m) 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.

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.

1. Summary of significant accounting policies (continued)

(m) Impairment (continued)

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)

(n) 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.

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.

(o) 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.

(p) 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:

2014	2013
20%	20%

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

1. Summary of significant accounting policies (continued)

(q) 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:

	2014	2013
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%

(r) 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.

1. Summary of significant accounting policies (continued)

(s) 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).

(t) 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.

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.

1. Summary of significant accounting policies (continued)

(u) Leases

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

(v) 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 to the fund during the period were $1,190,703 (2013: $1,098,335).

(w) 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.

1. Summary of significant accounting policies (continued)

(x) Derecognition of financial assets

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

Residential Mortgages subject to securitisation arrangements between the Company and the BHB Residential Securities Trust (the “Trust”) are recognised by the Company in its separate financial statements (refer to note 38) and are presented as “Loans and advances-Held by Trust subject to securitisation”.

(y) 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.

(z) Application of new and revised standards

The Consolidated Entity has adopted all mandatory Australian Accounting Standards and Interpretations for annual reporting periods beginning on or after 1 January 2014. Adoption of these Standards and Interpretations has not had any effect on the financial position or performance of the Consolidated Entity or the disclosures.

1. Summary of significant accounting policies (continued)

(aa) 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 28, 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 28 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed disclosure of carrying amounts and estimated fair value of financial assets and liabilities.

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

- Impairment

As described in note 1 (m), 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.

1. Summary of significant accounting policies (continued)

(aa) Use of estimates and judgements (continued)

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(t), 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.

(ab) 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, other 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 2014. 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.

		2014 $'000	2013 $'000
2	**Interest Income**		
	Cash and liquid assets	576	555
	Due from other financial institutions	563	572
	Investments at amortised cost		
	- banks	17,512	17,969
	- related party	3,539	831
	Investments at FVTPL	-	455
	Loans and advances	46,078	48,494
	Other Interest income – parent company	26	-
		68,294	68,876

		2014 $'000	2013 $'000
3	**Interest expense**		
	Due to other financial institutions		
	- banks	365	663
	- related party	152	98
	Deposits	33,970	33,858
	Subordinated liabilities - parent company	672	3,449
	FX Swaps - parent company	586	3,136
	Other Borrowings-repurchase agreement	3,286	2,237
		39,031	43,441

		2014 $'000	2013 $'000
4	**Non-Interest Income**		
	Net fees and commission income	4,485	3,872
	Net Income from sale of securities	2,020	1,336
	Net foreign exchange gain	1,857	1,853
	Unrealised gain on FVTPL securities	-	167
	Unrealised gain/(loss) on derivatives	(138)	(61)
	Gain /(loss) on forward contracts	(102)	(14)
		8,326	7,153

		2014 $'000	2013 $'000
5	**Operating expenses**		
	Staff expenses	15,383	15,433
	Computer expenses	2,556	2,439
	Occupancy costs	2,819	2,779
	Depreciation of property and equipment	1,047	1,142
	Amortisation of intangibles	840	805
	Marketing expenses	685	676
	Other operating expenses	3,044	3,341
		26,374	26,615

		2014 $'000	2013 $'000
6	**Taxation**		
(a)	**Income tax expense**		
	Current tax expense		
	Current period	3,427	1,836
	Adjustment for prior period	9	6
		3,436	1,842
	Deferred tax expense		
	Deferred tax expense recognised in the current year	(41)	(8)
	Adjustment to deferred tax attributable to TOFA	(46)	(45)
	Adjustment for prior period	-	2
		(87)	(51)
	Total income tax expense	**3,349**	**1,791**
(b)	**Reconciliation between tax expense and pre-tax net profit**		
	Profit before tax	11,082	5,873
	Income tax using the Consolidated Entity's tax rate of 30%	3,325	1,762
	Non-deductible expenses	15	21
	Prior period under provision	9	8
	Income tax expense	**3,349**	**1,791**

6. Taxation (continued)

(c) 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.

		2014 $'000	2013 $'000
7	**Cash and liquid assets**		
	Cash at bank	3,738	2,974
	Cash held with central bank	25,361	8,028
		29,099	11,002
8	**Due from other financial institutions**		
	Australia	73,698	34,694
	Related parties	1,723	1,934
	Other	14,858	11,990
		90,279	48,618
	Residual Maturity analysis		
	At Call	90,279	48,618
		90,279	48,618
9	**Investments at amortised cost**		
	Bank Bills	16,920	19,922
	Floating rate notes	353,361	406,075
	Fixed Rate Bonds	59,628	86,900
	Fixed term deposits - related parties	89,958	77,545
	Fixed term deposit- Local Banks	114	-
		519,981	590,442

	2014 $'000	2013 $'000
9 Investments at amortised cost (continued)		
Residual Maturity analysis		
Up to 1 month	90,072	81,393
1 to 3 months	15,930	47,076
3 to 12 months	92,129	93,059
12 months to 5 years	314,100	345,317
Over 5 years	7,750	23,597
	519,981	590,442

A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the asset's contractual terms give rise on a specific date to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

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.

	2014 $'000	2013 $'000
Pledged value		
Floating rate notes	136,322	110,676
Fixed Rate Bonds	28,845	26,887
	165,167	137,563

	Note	2014 $'000	2013 $'000
10 (a) Loans and advances			
Loans and advances		820,497	693,183
Overdrafts		53,623	59,413
Gross loans and advances		874,120	752,596
Less -			
Collective provision	11	(188)	(163)
Specific provision	11	(34)	(134)
Net loans and advances		873,898	752,299
Residual Maturity analysis (excluding provisions)			
Overdrafts		53,623	59,413
Up to 1 month		111,517	58,972
1 to 3 months		4,789	18,447
3 to 12 months		86,656	52,013
12 months to 5 years		109,249	78,336
Over 5 years		508,286	485,415
		874,120	752,596

Residual maturity analysis was performed based on contractual final maturity dates of loans and advances.

Refer to Note 28 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 2014 used for cash flow hedges was negative $488,882 (2013: $569,794).

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

Gross loans and advances	2014 $'000	2013 $'000
Carrying amount	874,021	752,380
Fair value adjustment	99	216
Total	874,120	752,596

10 (c) Internal Securitisation

As further disclosed in Note 39 – Internal Securitisation, $161.6m 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	163	166
Recoveries recognised in income statement	-	(3)
Charge to income statement	25	-
Closing balance	188	163
Specific provisions		
Opening balance	134	73
Write off against provision	(190)	(42)
Recoveries recognised in income statement	-	(35)
Charge to income statement	90	138
Closing balance	34	134

	2014 $'000	2013 $'000
11 (a) Provision for impairment (continued)		
Reconciliation of impairment losses / (recoveries) of impairment losses		
Collective provisions		
-recoveries	-	(3)
-current year charge	25	-
Specific provisions	-	(35)
-recoveries	90	138
-current year charge	18	-
Impairment loss/ (gain)	133	100

The Consolidated Entity did not recognise any material interest income on impaired assets as at 31 December 2014. (2013: Nil).

(b) Impaired Assets

Impaired assets are defined as follows:

- "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 2014 is $1,126,030 with a collateral value of $1,156,000 (2013: 761,903).

- "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 (2013: 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.

11 Provision for impairment (continued)

(b) Impaired assets (continued)

Under AASB 139, impairment losses are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts. The Consolidated Entity creates specific provisions for impairment when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

Interest accrued on impaired assets is suspended and not recognised in the income statement until the principal outstanding is recovered or the account is no longer in arrears.

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

	2014 $'000	2013 $'000
Loans and advances to customers		
Past due but not impaired	43,301	39,838
Impaired	2,674	1,408
Gross impaired assets	45,975	41,246
Less: Specific provision	(34)	(134)
Net impaired assets	45,941	41,112

Refer to Note 26 for further details.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2014

		2014 $'000	2013 $'000
12	**Intangible assets**		
	Computer software		
	At cost	5,371	4,779
	Less: Accumulated amortisation	(3,176)	(2,366)
		2,195	2,413
	Opening balance	2,413	2,846
	Additions	623	373
	Disposal	(1)	(1)
	Amortisation expense	(840)	(805)
	Net book value	2,195	2,413
13	**Plant and equipment**		
	At cost	4,308	5,070
	Less: Accumulated depreciation	(2,873)	(3,412)
		1,435	1,658
	Leasehold		
	At cost	6,682	6,669
	Less: Accumulated depreciation	(3,988)	(3,414)
		2,694	3,255
	Net book value	4,129	4,913

13 Plant and equipment (continued)

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

	2014 $'000	2013 $'000
Plant and equipment at cost		
Opening balance	1,658	1,844
Additions	**363**	**320**
Net book value of assets disposed during the year	(127)	(12)
Depreciation expense	(459)	(494)
	1,435	1,658
Leasehold property at cost		
Opening balance	3,255	3,507
Additions	30	634
Net book value of assets disposed during the year	(3)	(253)
Depreciation expense	(588)	(633)
	2,694	3,255
Motor Vehicle at cost		
Opening balance	-	74
Net book value on disposals	-	(59)
Depreciation expense	-	(15)
	-	-
	4,129	4,913

14 Deferred tax assets

Deferred income tax assets are attributable to the following items:

	2014 $'000	2013 $'000
Deferred tax assets		
Provisions	910	902
Cash flow hedge reserve	389	393
Fixed assets	290	255
Fair value reserves	-	1
Total deferred tax asset	1,589	1,551
Deferred tax liabilities		
Fair value of financial instruments	-	(42)
Bank Bills accrued interest	-	(3)
Prepaid balances	(4)	(4)
Total deferred tax liabilities	(4)	(49)
Net deferred tax asset	1,585	1,502

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

	2014 $'000	2013 $'000
Deferred tax assets		
Opening balance	1,502	1,613
Deferred tax credit to income statement	88	51
Deferred tax credit/(charges) recognised in equity	(5)	(162)
Net deferred tax asset	1,585	1,502

		2014 $'000	2013 $'000
15	**Other assets**		
	Prepayments	449	722
	Other	2,106	1,604
		2,555	2,326

Other comprises mainly sundry debtors and other miscellaneous debit balances.

		2014 $'000	2013 $'000
16	**Due to other financial institutions**		
	Due to other financial institutions		
	- parent entity	15,637	4,081
	- related party	-	5
	- Australia	319	1,189
	- overseas	2,314	1,737
		18,270	7,012
	Residual Maturity analysis		
	At call	3,599	3,376
	Up to 1 month	12,217	2,806
	1 to 3 months	2,454	830
		18,270	7,012

The parent entity refers to Bank of Beirut s.a.l and the related party in 2014 refers to wholly owned subsidiaries and associated companies of Bank of Beirut s.a.l. Please refer to note 34 (a) for details of related party relationship in 2014.

		2014 $'000	2013 $'000
17	**Sales and repurchase agreement**	148,960	123,517

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.

		2014 $'000	2013 $'000
18	**Deposits**		
	Current	216,183	137,937
	Savings	161,371	144,376
	Term	767,234	691,816
		1,144,788	974,129
	Residual Maturity Analysis		
	At call	377,554	282,313
	Up to 1 month	155,027	210,775
	1 to 3 months	330,699	338,542
	3 to 12 months	281,492	142,396
	12 months to 5 years	16	103
		1,144,788	974,129

19 Derivative Financial Instruments

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

	2014 $'000	2013 $'000
Asset		
Interest rate swaps	3	7
Foreign currency forwards- parent entity	19	1,712
Foreign currency forwards - Other	689	482
	711	2,201
Liabilities		
Interest rate swaps - Local banks	460	486
– Other	111	143
Foreign currency forwards – Parent entity	426	-
Foreign currency forwards – Other	2,543	384
	3,540	1,013

Bank of Sydney Ltd
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		2014 $'000	2013 $'000
20	**Subordinated liabilities**		
	Subordinated notes issued	–	112,355

As at 1 March 2011 the Consolidated Entity issued subordinated notes of USD100 million to Bank of Beirut s.a.l (the Consolidated Entity's ultimate parent) with an original maturity date of 1 March 2013 then extended to 1 March 2014.

In March 2014, the USD100m subordinated debt was repaid.

		2014 $'000	2013 $'000
21	**Provisions**		
	Provision for employee entitlements		
	Annual leave provision	881	894
	Long service leave provision	778	771
	Make good provision	336	305
		1,995	1,970
22	**Other liabilities**		
	Bank cheques issued awaiting clearance	2,179	1,645
	Other	3,793	1,718
		5,972	3,363

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

23 Contributed equity

	2014 $'000	2013 $'000
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.

		2014 $'000	2013 $'000
24	**Retained profits**		
	Retained profits at beginning of year	30,157	25,916
	Net profit after income tax	7,733	4,082
	Transfer to general reserve for credit losses	(359)	159
	Retained profits at year-end	37,531	30,157
25	**Reserves**		
	General Reserve for Credit Losses		
	Opening Balance	2,535	2,694
	Transfer from retained profits during the year	359	(159)
	Closing Balance	2,894	2,535
	Available for sale reserve		
	Opening Balance	(1)	(8)
	Transfer from reserves during the year	1	7
	Closing Balance	-	(1)
	Cash flow hedge reserve		
	Opening Balance	(917)	(1,291)
	Transfer (to) / from reserves during the year	10	374
	Closing Balance	(907)	(917)
	Total Reserves	1,987	1,617

All reserve amounts are shown net of income tax.

26 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.

26 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.

26 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

		2014 $'000		2013 $'000	
Grades	**Risk Level**	**Loans and advances**	**Impairment provision**	**Loans and advances**	**Impairment provision**
1.	Low/Insignificant	-	-	-	-
2.	Minimal	57,666	12	57,913	10
3.	Moderate	162,611	34	167,592	27
4.	Acceptable	540,783	123	400,854	97
5.	Acceptable with care	99,517	18	106,432	25
6.	Management Attention	10,212	1	15,266	2
7.	High	897	0	3,334	2
8.	High & Problematic	-	-	-	-
9.	Very High & Problematic	2,434	34	1,205	134
10.	Loss	-	-	-	-
Total		874,120	222	752,596	297

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).

26 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 2014 and 2013, 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.

	2014 $'000	2013 $'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	389,907	328,883
Loans to corporate entities:		
- Large corporate customers	168,636	106,764
- Small and medium size enterprises (SMEs)	315,577	316,949
Due from other financial institutions	90,279	48,618
Investments at amortised cost	519,981	590,442
Investments fair value through P&L	711	2,201
Total	1,485,091	1,393,857
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	13,373	12,799
Loan commitments and other credit related liabilities	145,700	119,061
Trade finance contingencies	19,383	11,354
Total	178,456	143,214

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 $1,664 million as at 31 December 2014 ($1,553m as at 31 December 2013). The estimated value of collateral is based on market value of the collateral and is not capped to the value of the exposure.

26 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 2014

$'000's

	Individuals (retail customers)	Corporate Entities: Large corporate customers	Corporate Entities: 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

31 December 2013

$'000's

	Individuals (retail customers)	Corporate Entities: Large corporate customers	Corporate Entities: SMEs	Total
Past due up to 30 days	19,366	-	9,864	29,230
Past due 30 - 60 days	3,139	-	3,739	6,878
Past due 60 - 90 days	205	-	-	205
Past due more than 90 days	2,809	-	716	3,525
Total	25,519	-	14,319	39,838

The Consolidated Entity holds collateral with pledged amount totalling $45.8m for assets which are past due but not impaired as at 31 December 2014 ($38.5m as at 31 December 2013). 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.

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26 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.

	2014 $'000	2013 $'000
Impaired Loans		
Corporate Entities		
- SMEs	2,674	1,408
Total	2,674	1,408

The Consolidated Entity holds collateral with carrying value totalling $2.88m for the impaired assets as at 31 December 2014 ($1.24m as at 31 December 2013).

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.

	2014 $000				2013 $000			
		Corporate Entities		Total		Corporate Entities		Total
Industry type	Individuals (Retail Customers)	Large Corporate Entities	SMEs		Individuals (Retail Customers)	Large Corporate Entities	SMEs	
Manufacturing	6,088	311	102,080	108,479	5,876	249	39,401	45,526
Tourism	4,573	-	6,217	10,790	5,699	9,385	9,531	24,615
Domestic Trade	26,004	18,953	37,426	82,383	27,685	13,646	39,751	81,082
Construction	49,222	38,245	43,911	131,378	42,975	48,634	45,664	137,273
Housing	204,127	3,294	24,142	231,563	194,679	-	23,390	218,069
Personal	13,398	9,150	5,928	28,476	17,862	-	5,999	23,861
Professional	29,870	98,332	142,091	270,293	32,235	28,818	143,662	204,715
Other	1,409	350	8,999	10,758	1,872	6,032	9,551	17,455
Total	334,691	168,635	370,794	874,120	328,883	106,764	316,949	752,596

26 Financial risk management (continued)

(b) Credit risk (continued)

(iii) Renegotiated Loans and Advances

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. Balance for renegotiated loans as at 31 December 2014 is $1,126,030 (2013: $761,903) with a collateral value of $1,156,000 (2013: $950,000).

(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.

27 Financial risk management (continued)

The table below presents an analysis of investments and due from other financial institutions by rating agency designation at 31 December 2014, based on Moody's ratings or their equivalent.

	Investments at amortised cost $' 000	Due from other financial institutions $' 000	Total $' 000
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
31 December 2013			
AAA	2,435	-	2,435
AA- to AA+	251,840	17,424	269,264
A- to A+	258,622	20,934	279,556
Lower than A-	-	8,517	8,517
Unrated	77,545	1,743	79,288
Total	590,442	48,618	639,060

26 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 26 (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 2014 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.

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26 Financial risk management (continued)

(c) Market risk (continued)
(i) Interest rate risk (continued)

2014		The earlier 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

Comparative 2013 table is set out on the next page.

26 Financial risk management (continued)

(c) Market risk (continued)
(i) Interest rate risk (continued)

2013		The earlier 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	8,026				2,976	11,002
Due from other financial institutions	8	27,816	20,802				48,618
investments at amortised costs	9		509,714	57,131	23,597		590,442
Loans and advances	10	671,471	54,640	26,188			752,299
Derivative financial assets	19		2,194			7	2,201
		707,313	587,350	83,319	23,597	2,983	1,404,562
Financial liabilities							
Due to other financial institutions	16		3,636			3,376	7,012
Securities sold and under repurchase agreement	17		123,517				123,517
Deposits	18	282,313	658,850	103		32,863	974,129
Derivative financial liabilities	19		384			629	1,013
Subordinated liabilities	20		112,355				112,355
		282,313	898,742	103	-	36,868	1,218,026
Interest rate swaps[2]			26,350	(26,350)			
Interest rate gap		425,000	(337,742)	109,566	23,597	(33,885)	186,536

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

26 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 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
Intangible assets	-	-	-	2,195	-	2,195
Deferred tax assets	-	-	-	1,585	-	1,585
Derivative financial asset	-	-	-	711	-	711
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
Subordinated liabilities	-	-	-	-	-	-
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	-

26 Financial risk management (continued)

(c) Market risk (continued)
(ii) Foreign Exchange Risk (continued)

31 December 2013 $'000	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	457	262	118	10,160	5	11,002
Due from other financial institutions	1,953	11,309	190	34,701	465	48,618
Investments at amortised cost	3,861	131	1,485	584,965	-	590,442
Loans and advances	-	28,235	-	723,091	973	752,299
Plant and equipment	-	-	-	4,913	-	4,913
Intangible assets	-	-	-	2,413	-	2,413
Deferred tax assets	-	-	-	1,502	-	1,502
Derivative financial asset	-	-	-	2,201	-	2,201
Other assets	-	-	-	2,326	-	2,326
Total assets	6,271	39,937	1,793	1,366,272	1,443	1,415,716
Due to other financial institutions	-	2,355	-	3,376	1,281	7,012
Securities sold and under repurchase agreements	-	-	-	123,517	-	123,517
Deposits	16,825	19,115	1,816	936,373	-	974,129
Current tax liability	-	-	-	583	-	583
Derivative liabilities	-	-	-	1,013	-	1,013
Subordinated liabilities	-	112,355	-	-	-	112,355
Provisions	-	-	-	1,970	-	1,970
Other liabilities	-	-	-	3,363	-	3,363
Total liabilities	16,825	133,825	1,816	1,070,195	1,281	1,223,942
Shareholders' equity	-	-	-	191,774	-	191,774
Total liabilities and shareholders' equity	16,825	133,825	1,816	1,261,969	1,281	1,415,716
Net on-balance sheet position	(10,554)	(93,888)	(23)	104,303	162	-
Effect of derivatives held for risk management	10,469	94,297	-	(104,766)	-	-
Net currency position	(85)	409	(23)	(463)	162	-

26 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 $92,000 (2013: $642,200) 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 gain of approximately $1,283 (2013: $291) 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 $712 (2013: -$356).

(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.

26 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 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 taken from any "Significant counterpart" to 15% of total liabilities. "Significant counterparts" are defined as counterparties or groups of connected or affiliated counterparties that have an aggregate balance greater than $3m.

(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.

(vii) 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.

26 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 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	3,599	14,670	-	-	-	18,269
Securities sold and under repurchase agreements	-	96,965	52,625	-	-	149,590
Deposits	377,553	488,044	285,602	17	-	1,151,216
	381,152	599,679	338,227	17	-	1,319,075
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	104	431	645	-	1,180
- Foreign currency swaps	-	9	-	-	-	9
	-	113	431	645	-	1,189
Off balance sheet commitments						
Bank guarantee	13,373	-	-	-	-	13,373
Loan commitments	145,700	-	-	-	-	145,700
Trade Finance contingencies	19,383	-	-	-	-	19,383
	178,456	-	-	-	-	178,456
Total	559,608	599,792	338,658	662	-	1,498,720

Comparative 2013 table is set out on the next page.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2014

26 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2013 $'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

27 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.

27 Capital Management (continued)

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

	Note	2014 $'000	2013 $'000
Tier 1 Capital			
Ordinary share capital	23	160,000	160,000
Retained profits	24	37,531	30,157
Available for sale and cash flow hedge reserve	25	(907)	(918)
Less Deductions:			
Intangible assets	12	2,195	2,413
Deferred tax assets (net)	14	1,585	1,502
Fair value of cash flow hedges	25	(907)	(917)
Securitisation start-up costs		267	256
Total		193,484	185,985
Tier 2 Capital			
General reserve for credit losses[1]	25	4,134	3,784
Total		4,134	3,784
Total regulatory capital		197,618	189,769
Risk weighted assets[2]		909,618	834,126
Capital ratios			
Total regulatory capital as % of risk weighted assets		21.73%	22.75%
Total tier 1 capital as % of risk weighted assets		21.27%	22.30%

28 Financial instruments

Net fair values of financial assets and liabilities

The net 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 net 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 net 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 net fair value of fixed rate loans greater than six months was calculated by discounting the future interest cash flows using a discount rate based on the current market rate, assuming constant interest rate spreads, for the average remaining term.

Due to other financial institutions, securities sold and repurchase agreement, and deposits

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

Interest rate swaps

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

FX swaps and foreign currency forward contracts

The net 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.

28 Financial instruments (continued)

Subordinated liabilities

The carrying value of subordinated liabilities approximates their fair value as the liabilities bears a floating interest rate which is reset on a quarterly basis. In addition, the credit risk profile of the Consolidated Entity has not changed materially since the inception of the liability.

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

	2014		2013	
	Carrying Value $'000	Net Fair Value $'000	Carrying Value $'000	Net Fair Value $'000
Assets				
Cash and liquid assets	29,099	29,099	11,002	11,002
Due from other financial institutions	90,279	90,279	48,618	48,618
Investments amortised cost	519,981	523,976	590,442	592,819
Derivative financial assets	711	711	2,201	2,201
Loans and advances	873,898	874,736	752,299	753,201
Liabilities				
Due to other financial institutions	18,270	18,270	7,012	7,012
Securities sold and under repurchase agreements	148,960	148,960	123,517	123,517
Derivative financial liabilities	3,540	3,540	1,013	1,013
Deposits	1,144,788	1,144,773	974,129	974,126
Subordinated Liabilities	-	-	112,355	112,355

Fair value hierarchy

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

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

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2014

28 Financial instruments (continued)

Fair value hierarchy (continued)

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

	Level 1	Level 2	Level 3	Total
31 December 2013				
Derivative assets	-	2,201	-	2,201
Total	-	2,201	-	2,201
Derivative liabilities	-	1,013	-	1,013
Total	-	1,013	-	1,013

		2014 $'000	2013 $'000
29	**Commitments for expenditure**		
	Operating leases		
	Future operating lease rentals not provided for and payable:		
	Not later than one year	2,102	2,192
	Later than one year but no later than two years	1,104	1,959
	Later than two years but no later than five years	1,337	1,786
	Later than five years	358	608
		4,901	6,545

	2014 $	2013 $

30 Auditors' remuneration

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

	2014 $	2013 $
Auditing the financial report	235,400	226,897
Taxation services	18,700	19,635
Other assurance services	-	-
Other services	31,012	94,134
	285,112	340,666

All amounts include 10% GST. In both 2014 and 2013 remuneration was due to Deloitte Touche Tohmatsu Australia.

31 Commitments and contingencies

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

Details of financial instruments with off-balance sheet risk are as follows:

	2014 $'000 Face value	2013 $'000 Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	13,373	12,799
Commitments to extend credit	145,700	119,061
Trade Finance Contingencies	19,383	11,354

32 Directors' remuneration

	2014 No.	2013 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	1
$ 40,000 - $69,999	-	2
$ 70,000 - $79,999	2	3
$ 80,000 - $89,999	4	-
$ 120,000 - $129,999	1	1
	8	7

	2014 $	2013 $
Total income received, or due and receivable, by all directors of the Company.		
Short term benefits	493,865	487,615
Other long term benefits	46,308	44,495
Total benefits to non-executive directors	540,173	532,110

33 Key management personnel disclosures

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

Non-executive directors
Mr Nicholas Pappas AM(Chairman)
Mr Nikolas T Hatzistergos
Mr Greg Gav
Mr Steve Bracks
Mr Elias Alouf
Mr Fouad Chaker
Mr Alex Bartlem

Executives
Ms Julie Elliott (Chief Executive Officer)
Mr Steven Pambris (Deputy CEO and Head of Credit)
Mr Steven Pasas (Chief Operating Officer)
Mr Ashley Bakes (Head of International Banking)
Ms Dian Gatti (Head of Retail Banking)
Mr Fawaz Sankari (Head of Commercial Banking NSW)
Mr John Pehlivanidis (Head of Commercial Banking VIC and SA) (Joined 14/04/2014)
Mr Soteris Hadjikyriacou (Head of Marketing, Branch and Community Development)
Ms Sue Mayson (Heads of Human Resources)
Mr Justin Morgan-Cooper (Chief Risk Officer) (Joined 02/07/2014)

Executives who left the Consolidated Entity during the year
Mr Vito Rinaldi (Head of Risk, Compliance and Information Security)

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

	2014 $	2013 $
Short term benefits	2,343,619	3,038,947
Long term benefits	14,582	4,053
Other long term benefits	195,817	213,846
Total benefit	2,554,018	3,256,846

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

33 Key management personnel disclosures (continued)

Loans and other transactions to key management personnel

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

	2014 $	2013 $
Loans to key management personnel	6,699,118	7,167,821
Deposit accounts	(1,624,968)	(2,906,099)

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

Other key management personnel transactions with the Consolidated Entity

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

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

Director	Transaction	Note	2014 $	2013 $
Mr Greg Gav	Rental Payments	(i)	640,794	623,608

(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.

34 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.

(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.

35 Financial reporting by segments

The Consolidated Entity does not have any separately reportable segments.

36 Notes to the statement of cash flows

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

(a) Reconciliation of cash

	2014 $'000	2013 $'000
Cash	29,099	11,002
Due from other financial institutions - at call deposits	90,279	48,618
Total Cash and cash equivalents	119,378	59,620

36 Notes to the statement of cash flows

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

	2014 $'000	2013 $'000
Profit from ordinary activities after income tax	7,733	4,082
Add: non-cash items:		
Depreciation and amortisation of non-current assets	1,887	1,947
Increase/(Decrease) in provision for doubtful debts	90	103
Increase/(Decrease) in collective provisions	25	(3)
Increase/(Decrease) in provision for employee entitlements	25	256
Increase/(Decrease) in tax provision	754	567
Net Decrease/(Increase) in prepayments /accruals	286	(839)
Loss/(Profit) on writing off plant and equipment	130	267
Loss on writing off loans	18	-
Increase/(Decrease) in derivative financial instruments	27	(104)
(Increases)/decreases in assets and increases/ (decreases)in liabilities:		
Interest accruals	2,801	(1,942)
Loans and advances	(121,835)	6,283
Other assets	(496)	(401)
Due to other financial institutions	11,243	1,833
Deposits	168,605	37,735
Derivative liabilities	4,541	14,031
Sales and repurchase agreement	25,047	123,517
Other liabilities	2,554	(732)
Net cash used in operating activities	103,435	186,600

36 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.

37 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.

38 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.

38 Parent entity information (continued)

Financial Position	2014 $'000	2013 $'000
Assets		
Cash and liquid assets	29,099	11,002
Due from other financial institutions	78,309	35,125
Investments at amortised cost	519,981	590,442
Loans and advances		
- Held by Parent Entity	712,277	589,392
- Held by Trust subject to securitisation	161,621	162,907
Derivative financial assets	711	2,201
Intangible assets	2,195	2,413
Plant and equipment	4,129	4,913
Deferred tax assets	1,585	1,502
Other assets	2,555	2,326
Receivable from securitisation Trust	11,970	13,493
Total assets	**1,524,432**	**1,415,716**
Liabilities		
Due to other financial institutions	18,270	7,012
Securities sold and under repurchase agreements	148,960	123,517
Deposits	1,144,788	974,129
Current tax liability	1,389	583
Derivative liabilities	3,540	1,013
Subordinated liabilities	-	112,355
Provisions	1,995	1,970
Other liabilities	5,972	3,363
Total liabilities	**1,324,914**	**1,223,942**
Net assets	**199,518**	**191,774**

38 Parent entity information (continued)

Financial Position (continued)	2014 $'000	2013 $'000
Equity		
Contributed equity	160,000	160,000
Reserves	1,987	1,617
Retained profits	37,531	30,157
Total equity	**199,518**	**191,774**

Financial Performance	2014 $'000	2013 $'000
Profit for the year	7,733	4,082
Other comprehensive income	11	381
Total comprehensive income	7,744	4,463

At 31 December 2014, "BHB Residential Securities Trust 1" (the Trust) owes Bank of Sydney (the Company) $172,712,059, which was eliminated on consolidated account level. During 2014, the Company received $7,056,116 as interest income and $465,892 from its 100% owned internal securitisation of the Trust which was also fully eliminated on consolidated account level.

39 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%

39 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 2 July 2014, 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 2013 with carrying amount of $128.4m at nil consideration and reissuing new Class A Notes of $173m. The additional proceeds of $44.6m from Note Issue were used to purchase a further parcel of triple A rated Residential Mortgage Loans from the Company. Class A Notes qualifies for repurchase with the Reserve Bank of Australia.

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:

Internal Securitisation assets	2014 $'000	2013 $'000
Residential Mortgage	161,621	162,907
Cash and accrued income	11,970	13,493
Total equity	**173,591**	**176,400**

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
Director's Declaration
For the year ended 31 December 2014

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

(a) the financial statements and notes, set out on pages 19 to 92, 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 2014 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 8th April 2015.

Deloitte.

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

We have audited the accompanying financial report of Bank of Sydney Ltd, which comprises the consolidated statement of financial position as at 31 December 2014, 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, 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 93.

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

Deloitte

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.

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 2014 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

Jamie C.J. Gatt
Partner
Chartered Accountants
Sydney, 8 April 2015

Bank of Sydney

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