



Bank of Sydney

...experience the difference

**Annual Report
2013**



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CHAIRMAN'S FOREWORD

As Chairman of the Board of Directors, it is with great pleasure that I write this Foreword to the first Annual Report of our newly-styled financial institution, Bank of Sydney.

The historic adoption of our new name and brand in May 2013 was a significant milestone, and, with the recruitment of the experienced Julie Elliott, our new Chief Executive Officer, 2013 was definitely a year of high achievement.

With the dedicated support of our parent, Bank of Beirut, the Board has made a commitment towards improving efficiencies for our people, our systems and our processes and, most of all, towards enhancing and broadening the interface of the entire customer experience with new products and services.

Needless to say, our Board has been together now for a number of years and it continues to deliver a high standard of governance with close and regular oversight over the Bank's financial performance, risk management and audit functions.

Of course, a strong and robust Board is worth little without a well-balanced and knowledgeable team of executives to support it. Led by our Chief Executive Officer, we now have an highly experienced senior executive team which is working together to deliver solid results, while always ensuring that customer relationships remain at the forefront of everything we do.

2013 has undoubtedly been an opportunity for renewal at Bank of Sydney. We have spent a significant amount of time re-focusing our long-term strategy, while at the same time delivering the results you will find in this Annual Report. We are confident that they lay a solid platform for more improvement in 2014.

Despite the highly competitive banking industry in Australia, Bank of Sydney is now making its mark and is steadily finding its own niche. It is doing this primarily by building on our core philosophies of true relationship banking and by always making the customer our first priority



Nicholas G Pappas AM
Chairman



CEO REPORT 2013

The 2013 Financial Year results reflect a strong year of growth for the Bank and also a milestone with the rebrand to Bank of Sydney in May 2013. In 2013 the Bank recorded a Net Profit after Tax of \$4.0 Million representing an 11% increase on the 2012 result of \$3.6 Million. This growth has been achieved through tight expense management and also working hard to increase every dollar of revenue from our business lines, whilst still maintaining a fair position for our customers.

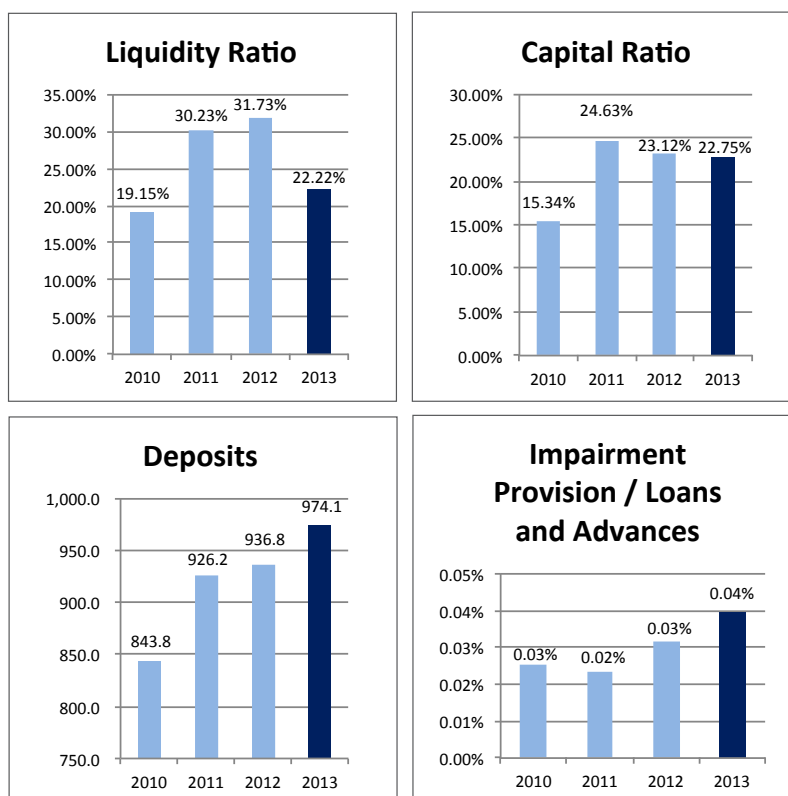
Recurring operating revenues remained strong with Net Interest income increasing by 8% to \$25.4 Million for the full 2013 year, whilst Non-Interest Income increased by 32% to \$7.2 Million due to increased lending and trade finance activity.

The Bank reduced its High Quality Liquid Assets (HQLA) ratio during the year from 31.73% to 22.22%, this was a conscious decision to ensure that assets were being managed efficiently to maximise revenue and minimise the cost of excess liquidity. In saying this however the liquidity position of 22.22% remains as one of the strongest in the market.

Our Capital Adequacy ratio as at 31 December 2013 was 22.75%, also ensuring the Bank remains in a very strong financial position.

The continued diligence of management toward maintaining high asset quality has resulted in a very low level of impairment provisions. As at 31 December 2013 impairment provisions were \$297,000, or 0.04% of Total Loans and Advances.

Strong liquidity and capital positions provide capacity for growth in our loan portfolio and Trade Finance.



Retail Banking

In the Retail Banking division an extensive structural change was undertaken towards the end of FY13 in the branch network to improve efficiency, further minimise risk and support staff learning and development. We needed to ensure that our structure would support our strategy to become "Australia's only true relationship bank" additionally that it meets the needs of our Customers and Shareholder.

The Bank has successfully recruited top talent from other financial institutions and has a competitive pay structure to support all retail positions. Staff capability and development has been re-structured and enhanced. This has provided the branch network with more focused and aligned training to meet our customer's needs.

We have also had success in launching two new savings products the "Everyday Saver" and "Superate". Our Everyday Saver account has already won 4 Canstar awards (5 stars) in the following categories; Cash Manager, Electronic Transaction, Low Transaction and Online, whilst the Superrate product has attracted both new to bank customers and supported our existing customers to bring across new funds to receive a competitive interest rate for the first four months.

In addition to celebrating award winning products, the Bank also focussed on enhancing its procedures and processes to simplify the way our customers interact with us and work on efficiencies to improve the customer experience.

Our key partnerships remain strong with both Western Union and Allianz, with the retail network revamping our arrangements with Allianz. This has increased our sales and commissions earned and allows us to build closer relationships with our customers.

2014 will be a milestone year for the Bank, with the introduction of Credit Cards which were successfully launched in March 2014. Work has now begun to implement a Broker channel for 3rd party loan introductions, this will be another large project that once implemented will open up for Bank of Sydney to win more market share of retail loans. The Broker channel is expected to be launched in the 2nd half of FY14.

Commercial Banking and International Trade

2013 year was one of stabilisation & establishing the framework for growth in the 2014 year ahead. Our main focus was on customer retention through exceptional service standards specifically being: fast, flexible & nimble by our Relationship Management team, clients having access to all levels of Senior Management & delivering on our promises.

A reliable Senior Management Team have worked hard on implementing our key strategic priorities. Their experience was instrumental in implementing a plan that firstly concentrated on both internal & external relationship value, true service & using these same values to attract new to bank customers.

Our team of Relationship Managers that provide our Customers with fast, flexible & nimble service as well as engaging our target market and communities in order to increase the banks customer base has started to show signs of a successful strategy which is being well executed.



Commercial Banking and International Trade (continued)

As we look towards challenging targets for 2014, we remain confident in our ability to continue to grow the business, expanding our client base through true relationship banking and superior product offerings. Commercial Banking remains a key strategic growth business for Bank of Sydney for 2014.

For International Trade division, 2013 was the year to focus and extend our existing customer base. Whilst still supporting our initial clients, it was also very important to expand this list and grow our customer base. Our Parent's support in this has been tremendous with numerous visits from Beirut meeting directly with clients to build strong relationships and leverage off each other's strengths.

With an even stronger team in 2014, we look forward to further developing our client base and are confident in our ability to deliver and make a name for ourselves as experts in the Trade Finance arena.

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. The US Federal Reserve has provided forward guidance that it would commence unwinding its stimulus package and this was the catalyst for most of the anxiety in financial markets. China looks to have avoided any dramatic slowing and Europe lifted itself out of recession though it is expected to languish for some time yet.

Domestically, growth has been consistently below trend though we are beginning to see improvements in consumer confidence and lending. Both have been supported by the Reserve Bank taking the cash rate to a record low. This had the effect of weakening the AUD nearly 15% from levels seen earlier in 2013.

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

Foreign exchange income reached double digit growth in 2013. A number of strategic changes were introduced helping the Treasury achieve its best foreign exchange results to date. 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.

Looking forward to 2014 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 on 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 2013 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 Banks has improved and provisioning has reduced over the past year. The Bank's credit quality remains sound with only one provision expected to be finalised within the first half of 2014.

2013 saw enforced legislative changes to the National Credit Code with regards to Responsible Lending for all credit providers particularly for loans that experience hardship.

For 2014, we will continue to focus on growth of our portfolio by assessment of all opportunities ensuring prudence in our 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 is required whilst still covering risks adequately.

Risk Management and Compliance

In 2013 the Bank continued its strong risk discipline as defined in the Risk Appetite Statement approved by the Board. The losses experienced by the Bank have been minimal and reflect a very strong risk culture permeating across all of the Bank's processes and policies.

Risk Management undertakes an ongoing exercise to ensure all risks identified are continuously assessed, monitored and managed to ensure they are within the tolerance as documented within the Bank's Risk Appetite Statement. During 2013 Risk Management has been involved in the review of all operational or product changes ensuring customer expectations were met without compromising on the Board's risk expectations.

The Bank maintained its uncompromising approach to meeting all of its Compliance obligations and maintaining optimum relationships with the Regulators. The Compliance program was enhanced throughout the year by aligning and incorporating several regulatory changes into the policies and practices within the Bank whilst continuing to support the Bank's overall strategy.

Continuing the Bank's commitment to delivering the systems and processes required to meet best practice standards, Compliance coordinated the Bank's transition to the new Code of Banking Practice (2013), through their involvement with various working groups organised by the Australian Bankers Association (ABA) and the Code Compliance Monitoring Committee (CCMC).

2013 also reflected a continuing focus on meeting the Bank's AML/CTF obligations by maintaining the robustness of the AML/CTF Program to be attuned to the Bank's growing customer base and expanding markets.

In addition to the monitoring, review, education, guidance and awareness activities undertaken by Compliance, notable Compliance projects during 2013 included the 'Foreign Account Tax Compliance Act (FATCA)', 'Amendments to the Privacy Act' and 'APS 910 Financial Claims Scheme'. These projects will be ongoing throughout 2014.



Internal Audit

During 2013, Internal Audit issued 31 reports which produced more than 170 recommendations and contributed to the strengthening of internal controls within the bank. Internal Audit completed a number of other activities such as investigations relating to fraud allegations and follow-up audits to assist management in improving current processes.

Internal Audit also validated closure of a number of management action plans. The issue closure rate for 2013 was 93%, which demonstrates Management's prompt response to audit findings and commitment to strengthening internal controls within the Bank.

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.

Looking forward to 2014, 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

2013 was another year of continued improvement in the areas of Technology and Operations with the implementation and review of numerous processes which created significant operating efficiencies improving our customer experience.

A highlight of the year has been the introduction of Credit Cards in our product suite by using cutting edge software solutions. This alongside other initiatives including, improving our electronic banking by introducing card activation and ability to perform RTGS payments online have been done to further improve customer satisfaction.

We have enabled many process improvements that have resulted in one of the lowest system downtimes in the industry and further enhancements in internal reporting have enabled management to pinpoint areas of required improvement and actions to be taken.

Looking forward to 2014, we are looking to further enhancing our online presence, enabling the augmentation of our delivery channels and undertaking a strategic review of our core banking system.

Staff and culture

The year 2013 will always be remembered as the year of the launch of the Bank of Sydney which created a very positive vibe within the Bank, to our customers within the Communities where we are located and the wider banking community.

While staff numbers remained constant, we have continued to focus on the development of our staff in order to take Bank of Sydney to the next level. Training hours for in-house training grew by 53% and overall by 30%. There was an increased participation in the specialised Omega Training by our Lending staff during 2013.

The implementation of the Human Resources Information System in November 2012 has enabled greater automation of mandatory statistical reporting, automated Performance Reviews and ad-hoc reporting during 2013.

We are looking forward to the next phase of our development with 2014 starting with an employee satisfaction survey, talent mapping and career path planning as we proactively contribute to the strategic direction and growth of the Bank. We have also implemented a Social Club and Awards Program to build the team culture of our Bank and recognise and reward our strongest performers.

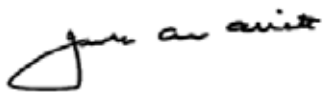
Marketing and Community Involvement

The highlight of 2013 as previously mentioned was the Bank's rebranding to Bank of Sydney in May 2013. Since the re-brand although we maintain our close relationship with the traditional communities the name change has broadened our reach and our exposure into wider communities.

The Bank's Social Media presence was also launched on Facebook in May 2013, and we have already achieved over 5,000 followers. We have now also introduced Twitter and LinkedIn to further expand our social media presence.


We continued to support the Bank's culture and heritage, closely supporting schools and organisations in the Hellenic and Lebanese communities. In 2014 we are focusing even more on our school support implementing a school banking program and further developing our products for the youth market.

Finally I would like to thank our Shareholder Bank of Beirut for their strong support in 2013 continued into 2014. I would also like to congratulate them on their results for 2013 with double digit growth in net profit of 11.04% and total assets of 17.81%



Julie Elliott
Chief Executive Officer
Bank of Sydney Ltd





**Bank of Sydney Ltd
ABN 44 093 488 629
Annual Financial Report
31 December 2013**

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Bank of Sydney Ltd

Corporate Governance Statement

For the year ended 31 December 2013

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:
 - o establishing with management the overall direction, taking into account Shareholder objectives and approving the strategies and financial objectives to be implemented by Management;
 - o approving major corporate initiatives;
 - o 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;
 - o 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;
 - o monitoring the performance of Management directly and through its Committees; and
 - o carrying out the functions specifically reserved to the Board and its Committees under the policy of the Board and the Charters of those Committees.

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2013

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 2013

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.

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2013

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.

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.



Bank of Sydney Ltd

Corporate Governance Statement (continued)

For the year ended 31 December 2013

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.

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 is 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 statutory 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;

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2013

- 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;
- Facilitate the nomination of the external auditor to the Board for approval of the appointment 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; and
- Michalis Athanasiou.

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

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

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

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



Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2013

Board Remuneration Committee (BRC)

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

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 responsibility 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:
 - o leadership performance (including talent pool);
 - o performance review and development systems;
 - o safety (OH & S) management; and
 - o legislative and regulatory compliance in employment issues and legislative developments likely to have a material impact on the Consolidated Entity;

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2013

- Review the training and development program, in aggregate, for the Consolidated Entity;
- Provide input in relation to succession planning for the CEO and Heads of Business Units and advise the Board of progress made from time to time;
- Review and recommend to the Board the overall fees payable to the Independent Directors, for shareholder approval; and
- Report to the Board on its activities and circulate the minutes of BRC meetings.

Internal Control Framework

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

Risk Management

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

- Credit risk – the risk of financial loss from the failure of customers to fully honour the terms of their contract;
- Market risk – the risk that changes in market interest rates and other variables will negatively affect the Consolidated Entity's earnings;
- Operational risk – the risk that arises from inadequate or failed internal processes, people and systems or from external events;
- Liquidity risk – the risk that the Consolidated Entity will have insufficient funds to meet its obligations; and
- Compliance risk – the risk of failing to comply with legal and regulatory requirements, codes and regulations.

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.



Bank of Sydney Ltd

Corporate Governance Statement (continued)

For the year ended 31 December 2013

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.

Bank of Sydney Ltd
Corporate Governance Statement (continued)
For the year ended 31 December 2013

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

The Shareholders of the Consolidated Entity Bank of Beirut s.a.l. ("Bank of Beirut") (92.5%) and Cyprus Popular Bank Public Company Ltd (formerly Marfin Popular Bank Public Company Ltd) (7.5%), are 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 Shareholders are 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 2013

The Directors present their report together with the financial report of the Consolidated Entity for the year ended 31 December 2013 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:

Mr Nicholas Pappas

Chairman and Non-Executive Independent Director

Appointed 26 March 2001

Appointed as Chairman on 28 August 2006 (Chairman of the BRC)

Mr Pappas is a Sydney lawyer in private practice. In addition to his Board role, he serves on the Bank's Audit & Remuneration Committees. He is Chairman of South Sydney District Rugby League Football Club Limited (the Rabbitohs) and South Sydney Members Rugby League Club Limited. He also serves on the Boards of the Steve Waugh Foundation – Australia and the Rookwood General Cemetery Trust. 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 a Chartered Accountant in private practice. He is Chairman of the Board Audit Committee. He is also a Managing Director of William Buck (NSW) and is the Chairman of William Buck International Limited. He is Chairman of Mazars Australia a Director at St Basils Homes and has been elected as a Member of the Governing Council – Paxity (AISBL). He is also a Director and Chairman of the Audit and Finance Committee for South Sydney District Rugby League Football Club Limited (the Rabbitohs).

Hon Steve Bracks AC

Appointed 18 May 2011

Non-Executive Independent Director

The Hon Steve Bracks was premier of Victoria for eight years. He now advises several leading Australian finance and service sector corporations. The Hon Steve Bracks AC now 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 AFL Ready; a Director of the superannuation fund Cbus; a Director of Jardine Lloyd Thomson Australia.

Bank of Sydney Ltd
Director's Report (continued)
For the year ended 31 December 2013

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 Michalis Athanasiou

Appointed 28 February 2011
Non-Executive Director

Mr Athanasiou was a previous CEO of Laiki Bank Australia and is now Head of Risk Management at Cyprus Popular Bank Public Company Ltd (formerly Marfin Popular Bank Public Company Ltd).

Mr Hikmat El-Bikai

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

Mr James Wakim

Appointed 28 February 2011
Resigned on 3rd October 2013
Executive Director



Bank of Sydney Ltd
Director's Report (continued)
For the year ended 31 December 2013

Directors' Meetings

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

Directors	Board		Board Audit Committee		Board Risk Management Committee		Board Remuneration Committee	
	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended
N.G. Pappas AM	5	4	5	4	-	-	3	3
N. Hatzistergos	5	5	5	5	-	-	3	3
G.Gav	5	3	5	2	5	3	3	3
S. Bracks	5	4	-	-	-	-	-	-
J. Wakim *	4	2	-	-	-	-	-	-
E. Alouf	5	5	5	5	5	5	3	3
F. Chaker	5	3	-	-	-	-	-	-
M. Athanasiou	5	4	5	3	5	3	-	-
H. El-Bikai	-	-	-	-	-	-	-	-

Principal activities

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

Results

The net profit of the Consolidated Entity was \$4,082,000 (2012: profit of \$3,621,000). The result included provisions of impairment losses for loans and advances of \$100,000 (2012: \$61,000).

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.

Bank of Sydney Ltd
Director's Report (continued)
For the year ended 31 December 2013

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 2013 (2012: Nil).

Review of Operations

At 31 December 2013, the Consolidated Entity's gross loan portfolio was \$752.6m (2012: \$759.0m) and its customer deposits \$974.1m (2012: \$936.8m). This represents a decrease of 0.85% in loans and an increase of 3.98% in deposits when compared to the balances as at 31 December 2012. The Consolidated Entity had 154 employees as at 31 December 2013 (2012: 154).

State Of Affairs

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

Events subsequent to balance date

In March 2014, the USD100m subordinated debt issued by the Consolidated Entity and held by Bank of Beirut s.a.l. was repaid.

Except for the above matter, 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.

Likely developments

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

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 19 of the annual financial report.

Indemnification and Insurance of Officers

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

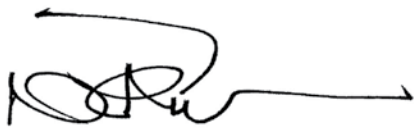


Bank of Sydney Ltd
Director's Report (continued)
For the year ended 31 December 2013

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
Chairman



Nikolas T Hatzistergos
Director

Dated at Sydney on 9th April 2014.

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

9 April 2014

Dear Board Members

Bank of Sydney Limited

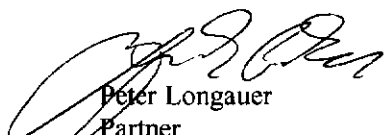
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Bank of Sydney Limited.

As lead audit partner for the audit of the financial statements of Bank of Sydney Limited for the financial year ended 31 December 2013, 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


Peter Longauer
Partner
Chartered Accountants



Bank of Sydney Ltd
Income Statement
For the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
Interest income	2	68,876	73,885
Interest expense	3	(43,441)	(50,437)
Net interest income		25,435	23,448
Non-interest income	4	7,153	5,424
Net operating income		32,588	28,872
Operating expenses	5	(26,615)	(23,599)
Reversal/(Provision) of impairment losses on loans and advances	12	(100)	(61)
Profit before income tax		5,873	5,212
Income tax expense	6	1,791	1,591
Profit for the year		4,082	3,621
Attributable to:			
Equity holders of the Consolidated Entity		4,082	3,621
Profit for the year		4,082	3,621

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 87.

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

For the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
Profit for the year		4,082	3,621
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	26	352	(205)
Net amount transferred to income statement	26	22	(75)
Fair value reserve (available for sale financial assets):			
Net amount transferred to income statement	26	7	14
Other comprehensive income for the period, net of income tax		381	(266)
Total comprehensive income for the year		4,463	3,355
Attributable to:			
Equity holders of the Consolidated Entity		4,463	3,355
Total comprehensive income for the year		4,463	3,355

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 87.



Bank of Sydney Ltd
Consolidated Statement of Financial Position
As at 31 December 2013

	Note	2013 \$'000	2012 \$'000
Assets			
Cash and liquid assets	7	11,002	13,931
Due from other financial institutions	8	48,618	54,521
Investments at amortised cost	9	590,442	375,307
Investments at fair value through profit and loss	10	-	19,254
Loans and advances	11	752,299	758,839
Derivative financial assets	20	2,201	128
Intangible assets	13	2,413	2,846
Plant and equipment	14	4,913	5,425
Deferred tax assets	15	1,502	1,613
Other assets	16	2,326	1,841
Total assets		1,415,716	1,233,705
Liabilities			
Due to other financial institutions	17	7,012	5,177
Securities sold and under repurchase agreements	18	123,517	-
Deposits	19	974,129	936,814
Current tax liability		583	-
Derivative liabilities	20	1,013	1,292
Subordinated liabilities	21	112,355	96,584
Provisions	22	1,970	1,714
Other liabilities	23	3,363	4,813
Total liabilities		1,223,942	1,046,394
Net assets		191,774	187,311
Equity			
Contributed equity	24	160,000	160,000
Retained profits	25	30,157	25,916
Reserves	26	1,617	1,395
Total equity		191,774	187,311

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 87.

Bank of Sydney Ltd
Consolidated Statement of Cash Flows
For the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Interest and commission receipts		74,355	80,079
Interest payments		(43,813)	(58,094)
Cash payments to employees and suppliers		(24,984)	(21,688)
Income tax paid		(1,224)	(802)
		4,334	(505)
(Increase) / decrease in operating assets			
Loans and advances		6,283	9,586
Other assets		(401)	257
Increase / (decrease) in operating liabilities			
Due to other financial institutions		1,833	4,305
Deposits		37,735	18,075
Derivative liabilities		14,031	(4,338)
Securities sold under repurchase agreement		123,517	-
Other liabilities		(732)	909
Net cash used in operating activities	37(b)	186,600	28,289
Cash flows from investing activities			
Payments for intangible assets		(372)	(1,176)
Payments for plant and equipment		(955)	(949)
Payments/(Proceeds) from investments at amortised cost		(194,163)	11,360
Payments for investment at fair value through Profit and loss		-	(11,119)
Proceeds on disposal of plant and equipment		58	-
Net cash used in investing activities		(195,432)	(1,884)
Net increase in cash held		(8,832)	26,405
Cash at the beginning of the financial year		68,452	42,047
Cash at the end of the financial year	37(a)	59,620	68,452

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 87.



Bank of Sydney Ltd
Consolidated Statement of Changes in Equity
For the year ended 31 December 2013

	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 87.
Bank of Sydney Ltd



Bank of Sydney Ltd
Consolidated Statement of Changes in Equity
For the year ended 31 December 2013

	Contributed Equity	General reserve for credit losses	Available for sale reserve	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2012	160,000	2,476	(22)	(1,011)	22,513	183,956
Total comprehensive income for the year						
Profit or loss	-	-	-	-	3,621	3,621
Transfers from retained earnings to general reserve	-	218	-	-	(218)	-
Other comprehensive income, net of income tax						
Net amount transferred to profit or loss	-	-	14	(75)	-	(61)
Effective portion of changes in fair value	-	-	-	(205)	-	(205)
Total other comprehensive income	-	-	14	(280)	-	(266)
Total comprehensive income for the year	-	218	14	(280)	3,403	3,355
Balance at 31 December 2011	160,000	2,694	(8)	(1,291)	25,916	187,311

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 87.

Bank of Sydney Ltd

Notes to and forming part of the financial report

For the year ended 31 December 2013

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.

During the year 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 40 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 9 April 2014.

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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

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 has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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 while borrowing subordinated loan and entering other 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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

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 the 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 the 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 (l) for further details.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

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

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 awards 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) Investment at fair value through profit and loss (Investment at FVTPL)

The Consolidated Entity classifies investments into the 'fair value through profit and loss' category when they don't meet conditions listed in Note 1 (j),

Investments at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. When available, the Consolidated Entity measures fair value using quoted price in an active market. Please refer to Note 29 for details of fair value measurement.

(l) 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.

The Consolidated Entity applied hedge accounting from 1st July 2008. The fair value hedge accounting model is used. A fair value hedge is a hedge of changes in the fair value of a recognised asset or liability, or unrecognised firm commitment that is attributable to a particular risk and could affect profit and loss.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(l) Loans and advances (continued)

The Consolidated Entity hedges against interest rate risk associated with fixed rate loans. The fixed rate loan is converted to a floating rate loan using an interest rate swap. The hedging instrument in this case is the interest rate swap, while the hedged item is the fixed rate loan.

The fair value hedges are tested for effectiveness both at inception and at each reporting date. When hedge effectiveness exists, the fixed loan is measured at fair value and any changes in fair value are recognised through the profit and loss. A hedge is effective when changes in the fair value of the hedging instrument and changes in the fair value or expected cash flows of the hedge item, offset within the range of 80% to 125%. Refer to Note 11 (b) for further details.

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).

(m) 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.

(n) 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

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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(n) Impairment (continued)

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

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

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

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

All individually significant financial assets found not to be specifically impaired are collectively assessed for any impairment that has been incurred but not yet identified. The Consolidated Entity calculates the collective provision by using a statistical model of historical trends of 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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(o) 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 remeasurement 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 26 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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

(p) 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.

(q) 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:

2013	2012
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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(r) 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:

	2013	2012
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%

(s) 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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(t) Deposits

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

(u) 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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(v) Leases

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

(w) Employee entitlements

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

The provision for employee entitlements to wages, salaries, annual leave and sick 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 \$1,098,335 (2012: \$985,035).

(x) 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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(y) 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 bank and the Trust continue to be recognised by the bank in its separate financial statements (refer to note 40) and are presented as "Loans and advances-Held by Trust subject to securitisation".

(z) 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.

(aa) Application of new and revised standards

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements:

- Amendment to AASB 101 *Presentation of Financial Statements- affecting presentation and disclosure.*



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

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

The Consolidated Entity has applied the amendments to AASB 101 arising from AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income' which is effective for annual periods beginning on or after 1 July 2012. The amendments to AASB 101 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

- *AASB 13 Fair value measurement*

The Consolidated Entity has applied AASB 13 effective from 1 January 2013. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of AASB 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other Australian Accounting Standards require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in AASB 13 are more extensive than those required in the current standards.

The adoption of the new Standard doesn't have a material impact on the amounts reported in the financial statements or scope of disclosure, as the Consolidated Entity doesn't hold any non-financial items measured at fair value. However it will result in change in disclosure of fair value measurement methodology.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

1. Summary of significant accounting policies (continued)

(ab) Use of estimates and judgements

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

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

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

- Fair value of financial Instruments

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

- Impairment

As described in note 1 (n), determining whether an individual asset is impaired requires identification of an objective indication of impairment as well as estimation of the value of the recoverable amount. The calculation of recoverable amount requires the Consolidated Entity to estimate the expected future cash flows, future credit losses and suitable discount rate in order to calculate present value.

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



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
2 Interest Income		
Cash and liquid assets	555	397
Due from other financial institutions	572	1,066
Investments at amortised cost		
- banks	17,969	18,218
- related party	831	169
Investments at FVTPL	455	610
Loans and advances	48,494	53,139
Other Interest income – parent company	-	286
	<u>68,876</u>	<u>73,885</u>
	2013	2012
	\$'000	\$'000
3 Interest expense		
Due to other financial institutions		
- banks	663	681
- related party	98	9
Deposits	33,858	42,470
Subordinated liabilities - parent company	3,449	3,355
FX Swaps - parent company	3,136	3,922
Other Borrowings-repurchase agreement	2,237	-
	<u>43,441</u>	<u>50,437</u>

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
4 Non-Interest Income		
Net fees and commission income	3,872	3,740
Net Income from sale of securities	1,336	371
Net foreign exchange gain	1,853	1,212
Unrealised gain on FVTPL securities	167	44
Unrealised gain/(loss) on derivatives	(61)	57
Gain /(loss) on forward contracts	(14)	-
	<u>7,153</u>	<u>5,424</u>
5 Operating expenses		
Staff expenses	15,433	13,750
Computer expenses	2,439	2,273
Occupancy costs	2,779	2,630
Depreciation of property and equipment	1,142	1,130
Amortisation of intangibles	805	702
Marketing expenses	676	607
Other operating expenses	3,341	2,507
	<u>26,615</u>	<u>23,599</u>



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013 \$'000	2012 \$'000
6 Taxation		
(a) Income tax expense		
Current tax expense		
Current period	1,836	1,693
Adjustment for prior period	6	(22)
	<u>1,842</u>	<u>1,671</u>
Deferred tax expense		
Deferred tax expense recognised in the current year	(8)	(65)
Adjustment to deferred tax attributable to TOFA	(46)	(46)
Adjustment for prior period	3	31
	<u>(51)</u>	<u>(80)</u>
Total income tax expense	<u>1,791</u>	<u>1,591</u>
(b) Reconciliation between tax expense and pre-tax net profit		
Profit before tax	<u>5,873</u>	<u>5,212</u>
Income tax using the Consolidated Entity's tax rate of 30%	1,762	1,564
Non-deductible expenses	21	18
Prior period under provision	8	9
	<u>1,791</u>	<u>1,591</u>

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

6. Taxation (continued)

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 2013 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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
7 Cash and liquid assets		
Cash at bank	2,974	3,045
Cash held with central bank	8,028	10,886
	<u>11,002</u>	<u>13,931</u>
8 Due from other financial institutions		
Australia	34,694	53,493
Related parties	1,934	95
Other	11,990	933
	<u>48,618</u>	<u>54,521</u>
Residual Maturity analysis	48,618	
At Call		54,521
	<u>48,618</u>	<u>54,521</u>
9 Investments at amortised cost		
Bank Bills	19,922	22,951
Floating rate notes	406,075	312,192
Fixed Rate Bonds	86,900	-
Fixed term deposits - related parties	77,545	23,970
Fixed term deposit- Local Banks	-	16,194
	<u>590,442</u>	<u>375,307</u>

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013 \$'000	2012 \$'000
9 Investments at amortised cost (continued)		
Residual Maturity analysis		
Up to 1 month	81,393	44,355
1 to 3 months	47,076	21,979
3 to 12 months	93,059	30,352
12 months to 5 years	345,317	278,621
Over 5 years	23,597	-
	590,442	375,307

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

Pledged value		
Floating rate notes	110,676	-
Fixed Rate Bonds	26,887	-
	137,563	-

10 FVTPL investments

Floating rate notes	-	19,254
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On 31 May 2013 the Consolidated Entity changed its business model to cease holding a liquidity portfolio. As a result, on the same date, 10 floating rates notes worth \$26.9m that were originally included in fair value through the profit and loss (FVTPL) category were reclassified to amortised cost, as they meet the following criteria:

- Intention of the bank is to hold them until maturity
- The bank expects to collect their contractual cash flows;



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

9 FVTPL investments (continued)

During January to May 2013 before this reclassification date, the revaluation gain of \$166,501 has been recognised in profit and loss. The effective interest rate of the reclassified securities is between 2.84% to 3.88%.

If the reclassification didn't occur, interest income from floating rate notes would have been higher by \$58,759 from June to December 2013, and a loss of \$10,753 from fair value revaluation would have been recognised.

As at 31st December 2013 the carrying amount and the fair value of reclassified floating rate notes in amortised cost category are \$26.9m and \$27.0m respectively

	Note	2013 \$'000	2012 \$'000
11 (a) Loans and advances			
Loans and advances		693,183	697,118
Overdrafts		59,413	61,960
Gross loans and advances		<u>752,596</u>	<u>759,078</u>
Less -			
Collective provision	12	(163)	(166)
Specific provision	12	(134)	(73)
Net loans and advances		<u>752,299</u>	<u>758,839</u>

Residual Maturity analysis (excluding provisions)

Overdrafts	59,413	61,960
Up to 1 month	58,972	63,714
1 to 3 months	18,447	22,915
3 to 12 months	52,013	62,146
12 months to 5 years	78,336	73,518
Over 5 years	485,415	474,825
	<u>752,596</u>	<u>759,078</u>

Residual maturity analysis was performed based on contractual final maturity dates of loans and advances. Refer to Note 29 for additional disclosures to meet requirements of AASB7 – *Financial Instruments: Disclosures*.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

11 (b) Hedge accounting adjustment

The fair value of the interest rate swaps as at 31 December 2013 used for cash flow hedges was negative \$569,794 (2012: \$997,055). The fair value of the interest rate swaps as at 31 December 2013 used for fair value hedges was a loss of \$52,153 (2012: - \$99,954).

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

Gross loans and advances	2013 \$'000	2012 \$'000
Carrying amount	752,380	758,742
Fair value adjustment	216	336
Total	752,596	759,078

11 (c) Internal Securitisation

As further disclosed in Note 40 – Internal Securitisation, \$162.9m of Residential Mortgages have been sold and are held by a controlled subsidiary, BHB Residential Securities Trust 1, as part of an internal securitisation.

	2013 \$'000	2012 \$'000

12 (a) Provision for impairment

Collective provisions

Opening balance	166	141
Recoveries recognised in income statement	(3)	-
Charge to income statement	-	25
Closing balance	163	166

Specific provisions

Opening balance	73	37
Write off against provision	(42)	-
Recoveries recognised in income statement	(35)	(3)
Charge to income statement	138	39
Closing balance	134	73



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013 \$'000	2012 \$'000
12 (a) Provision for impairment (continued)		
Reconciliation of impairment losses / (recoveries) of impairment losses		
Collective provisions		
-recoveries	(3)	-
-current year charge	-	25
Specific provisions		
-recoveries	(35)	(3)
-current year charge	138	39
Impairment loss/ (gain)	100	61

The Consolidated Entity did not recognise any material interest income on impaired assets as at 31 December 2013. (2012: 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 2013 is \$761,903 with a collateral value of \$950,000 (2012: Nil).
- "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 (2012: 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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

12 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.

Therefore, interest will continue to be accrued on impaired loans based on the revised carrying amounts and using appropriate effective interest rates. Accrued interest 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:

	2013	2012
	\$'000	\$'000
Loans and advances to customers		
Past due but not impaired	39,838	34,405
Impaired	1,408	2,649
Gross impaired assets	41,246	37,054
Less: Specific provision	(134)	(73)
Net impaired assets	41,112	36,981

Refer to Note 27 for further details.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
13 Intangible assets		
Computer software		
At cost	4,779	4,375
Less: Accumulated amortisation	(2,366)	(1,529)
	<u>2,413</u>	<u>2,846</u>
Opening balance	2,846	2,372
Additions	373	1,170
Disposal	(1)	-
Amortisation expense	(805)	(696)
Net book value	<u>2,413</u>	<u>2,846</u>
14 Plant and equipment		
At cost	5,070	4,995
Less: Accumulated depreciation	(3,412)	(3,151)
	<u>1,658</u>	<u>1,844</u>
Leasehold		
At cost	6,669	6,351
Less: Accumulated depreciation	(3,412)	(2,844)
	<u>3,255</u>	<u>3,507</u>
Motor Vehicle		
At cost	-	120
Less: Accumulated depreciation	-	(46)
		<u>74</u>
Net book value	<u>4,913</u>	<u>5,425</u>

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

14 Plant and equipment (continued)

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

	2013	2012
	\$'000	\$'000
Plant and equipment at cost		
Opening balance	1,844	1,788
Additions	320	562
Net book value of assets disposed during the year	(12)	(1)
Depreciation expense	(494)	(505)
	1,658	1,844
Leasehold property at cost		
Opening balance	3,507	3,720
Additions	634	391
Net book value of assets disposed during the year	(253)	-
Depreciation expense	(633)	(604)
	3,255	3,507
Motor Vehicle at cost		
Opening balance	74	98
Additions	-	-
Net book value on disposals	(59)	-
Depreciation expense	(15)	(24)
	-	74
	4,913	5,425



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

15 Deferred tax assets

Deferred income tax assets are attributable to the following items:

	2013	2012
	\$'000	\$'000
Deferred tax assets		
Provisions	902	882
Cash flow hedge reserve	393	553
Fixed assets	255	271
Fair value reserves	1	3
Total deferred tax asset	1,551	1,709
Deferred tax liabilities		
Fair value of financial instruments	(42)	(85)
Bank Bills accrued interest	(3)	(7)
Prepaid balances	(4)	(4)
Total deferred tax liabilities	(49)	(96)
Net deferred tax asset	1,502	1,613

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

	2013	2012
	\$'000	\$'000
Deferred tax assets		
Opening balance	1,613	1,436
Deferred tax credit to income statement	51	80
Deferred tax credit/(charges) recognised in equity	(162)	97
Net deferred tax asset	1,502	1,613

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
16 Other assets		
Income tax prepayment	-	36
Other	2,326	1,805
	<u>2,326</u>	<u>1,841</u>
17 Due to other financial institutions		
Due to other financial institutions		
- parent entity	4,081	4,018
- related party	5	3
- Australia	1,189	-
- overseas	1,737	1,156
	<u>7,012</u>	<u>5,177</u>
Residual Maturity analysis		
At call	3,376	1,321
Up to 1 month	2,806	-
1 to 3 months	830	3,856
	<u>7,012</u>	<u>5,177</u>

The parent entity in 2013 refers to Bank of Beirut s.a.l (2012: Bank of Beirut s.a.l) and the related party in 2013 refers to wholly owned subsidiaries and associated companies of Bank of Beirut s.a.l (2012: Bank of Beirut Group). Please refer to note 35 (a) for details of related party relationship in 2013.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000

18	Sales and repurchase agreement	123,517
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The Consolidated Entity enters into sales and repurchase agreement with Reserve Bank of Australia, which in substance is borrowing with pledged securities. Refer to note 9 for details of investments at amortised cost sold and repurchased.

19 Deposits

Current	137,937	99,977
Savings	144,376	152,239
Term	691,816	684,598
	974,129	936,814

Residual Maturity Analysis

At call	282,313	252,216
Up to 1 month	210,775	173,891
1 to 3 months	338,542	389,408
3 to 12 months	142,396	121,274
12 months to 5 years	103	25
	974,129	936,814

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

20 Derivative Financial Instruments

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

	2013	2012
	\$'000	\$'000
Asset		
Interest rate swaps	7	-
Foreign currency forwards- parent entity	1,712	116
Foreign currency forwards - Other	482	12
	2,201	128
Liabilities		
Interest rate swaps - Local banks	486	1,075
- Other	143	204
Foreign currency forwards - Other	384	13
	1,013	1,292



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
21 Subordinated liabilities		
Subordinated notes issued	112,355	96,584
<p>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 which was extended during the financial year to 1 March 2014. The subordinated liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.</p>		
22 Provisions		
Provision for employee entitlements		
Annual leave provision	894	813
Long service leave provision	771	624
Make good provision	305	277
	<u>1,970</u>	<u>1,714</u>
Number of Employees	<u>154</u>	<u>154</u>
23 Other liabilities		
Bank cheques issued awaiting clearance	1,645	1,400
Other	1,718	3,413
	<u>3,363</u>	<u>4,813</u>

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

24 Contributed equity

	2013	2012
	\$'000	\$'000
160,000,000 ordinary shares fully paid	160,000	160,000

As at the balance sheet date, whilst Bank of Beirut s.a.l owns 92.5% of the Consolidated Entity, Cyprus Popular Bank Public Company Ltd (formerly Marfin Popular Bank Public Company Ltd) owns a minority shareholder holding of 7.5% 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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$'000	\$'000
25 Retained profits		
Retained profits at beginning of year	25,916	22,513
Net profit after income tax	4,082	3,621
Transfer to general reserve for credit losses	159	(218)
Retained profits at year-end	<u>30,157</u>	<u>25,916</u>
26 Reserves		
General Reserve for Credit Losses		
Opening Balance	2,694	2,476
Transfer from retained profits during the year	(159)	218
Closing Balance	<u>2,535</u>	<u>2,694</u>
Available for sale reserve		
Opening Balance	(8)	(22)
Transfer from reserves during the year	7	14
Closing Balance	<u>(1)</u>	<u>(8)</u>
Cash flow hedge reserve		
Opening Balance	(1,291)	(1,011)
Transfer (to) / from reserves during the year	374	(280)
Closing Balance	<u>(917)</u>	<u>(1,291)</u>
Total Reserves	<u>1,617</u>	<u>1,395</u>

All reserve amounts are shown net of income tax.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management

(a) Introduction and overview

The Consolidated Entity's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and exposure 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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk

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

On Balance Sheet Items

Grades	Risk Level	2013 \$'000		2012 \$'000	
		Loans and advances	Impairment provision	Loans and advances	Impairment provision
1.	Low/Insignificant	-	-	-	-
2.	Minimal	57,913	10	65,330	-
3.	Moderate	167,592	27	173,328	1
4.	Acceptable	400,854	97	391,617	8
5.	Acceptable with care	106,432	25	114,326	61
6.	Management Attention	15,266	2	11,738	94
7.	High	3,334	2	284	2
8.	High & Problematic	-	-	2,417	34
9.	Very High & Problematic	1,205	134	38	39
10.	Loss	-	-	-	-
Total		752,596	297	759,078	239

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 12(a).



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 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 2013 and 2012, 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.

	2013	2012
	\$'000	\$'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	328,883	331,479
Loans to corporate entities:		
- Large corporate customers	106,764	123,184
- Small and medium size enterprises (SMEs)	316,949	304,415
Due from other financial institutions	48,618	54,521
Investments at amortised cost	590,442	375,307
Investments fair value through P&L	-	19,254
Total	1,391,656	1,208,160
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	12,799	13,826
Loan commitments and other credit related liabilities	119,061	117,265
Trade finance contingencies	11,354	3,812
Total	143,214	134,903

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 \$1,553 million as at 31 December 2013.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 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 2013

\$'000's

	Corporate Entities			Total
	Individuals (retail customers)	Large corporate customers	SMEs	
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

31 December 2012

\$'000's

	Corporate Entities			Total
	Individuals (retail customers)	Large corporate customers	SMEs	
Past due up to 30 days	14,624	1,887	12,129	28,640
Past due 30 - 60 days	1,129	-	2,978	4,107
Past due 60 - 90 days	-	-	700	700
Past due more than 90 days	958	-	-	958
Total	16,711	1,887	15,807	34,405

The Consolidated Entity holds collateral with carrying value totalling \$38.5m for assets which are past due but not impaired as at 31 December 2013.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

(b) Credit risk (continued)

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

	2013	2012
	\$'000	\$'000
Impaired Loans		
Individual (retail customers)	-	2,649
Corporate Entities		
- SMEs	1,408	-
Total	1,408	2,649

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

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

Industry type	2013				2012			
	\$000				\$000			
		Corporate Entities		Total		Corporate Entities		Total
	Individuals (Retail Customers)	Large Corporate Entities	SMEs		Individuals (Retail Customers)	Large Corporate Entities	SMEs	
Manufacturing	5,876	249	19,731	25,856	3,295	9,689	14,709	27,693
Tourism	5,699	9,385	9,531	24,615	4,050	10,592	17,991	32,633
Domestic Trade	27,685	13,646	32,156	73,487	24,367	18,317	44,769	87,453
Construction	42,975	48,634	45,664	137,273	32,624	39,971	48,449	121,044
Housing	194,679	-	18,576	213,255	216,731	9,375	21,901	248,007
Personal	17,862	-	5,999	23,861	20,920	-	2,455	23,375
Professional	32,235	28,818	143,568	204,621	27,994	31,916	143,881	203,791
Other	1,872	6,032	41,724	49,628	1,498	3,325	10,259	15,082
Total	328,883	106,764	316,949	752,596	331,479	123,185	304,414	759,078

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 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 2013 is \$761,903 with a collateral value of \$950,000 (2012: Nil).

(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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

The table below presents an analysis of investments by rating agency designation at 31 December 2013, based on Standard & Poor's ratings or their equivalent.

	Investments at amortised cost \$' 000	Investment at FVTPL \$' 000	Total \$' 000
31 December 2013			
AAA	2,435	-	2,435
AA- to AA+	251,840	-	251,840
A- to A+	258,622	-	258,622
Lower than A-	-	-	-
Unrated	77,545	-	77,545
Total	590,442	-	590,442
31 December 2012			
AAA	30,191	-	30,191
AA- to AA+	176,670	9,610	186,280
A- to A+	144,476	9,644	154,120
Lower than A-	4,139	-	4,139
Unrated	19,831	-	19,831
Total	375,307	19,254	394,561

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

(c) Market risk

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

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 27 (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 2013 and the prior year.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

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

2013		The earlier maturity or repricing date					Total
	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	\$'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 cost	9		509,714	57,131	23,597	-	590,442
Loans and advances	11	703,437	22,674	26,188	-	-	752,299
Derivative financial assets	20	-	2,194	-	-	7	2,201
Intangible Assets	13	-	-	-	-	2,413	2,413
Plant and Equipment	14	-	-	-	-	4,913	4,913
Deferred tax assets	15	-	-	-	-	1,502	1,502
Other assets	16	-	-	-	-	2,326	2,326
		739,279	555,384	83,319	23,597	14,137	1,415,716
Financial liabilities							
Due to other financial institutions	17	-	3,636	-	-	3,376	7,012
Securities sold and under repurchase agreement	18	-	123,517	-	-	-	123,517
Deposits	19	282,313	658,850	103	-	32,863	974,129
Current tax liability		-	-	-	-	583	583
Derivative financial liabilities	20	-	384	-	-	629	1,013
Subordinated liabilities	21	-	112,355	-	-	-	112,355
Provisions	22	-	-	-	-	1,970	1,970
Other Liabilities	23	-	-	-	-	3,363	3,363
		282,313	898,742	103	-	42,784	1,223,942
Interest rate swaps ²		-	26,350	(26,350)	-	-	-
Interest rate gap		456,966	(317,008)	56,866	23,597	(28,647)	191,774

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 2012 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 2013

27 Financial risk management (continued)

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

2012		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	10,886	-	-	-	3,045	13,931
Due from other financial institutions	8	4,844	49,677	-	-	-	54,521
Amortised costs investments	9	-	375,307	-	-	-	375,307
Fair value through P&L Investment	10	-	19,254	-	-	-	19,254
Loans and advances	11	705,683	13,468	36,253	3,435	-	758,839
Derivative financial assets	19	-	116	-	-	12	128
Intangible Assets	13	-	-	-	-	2,846	2,846
Plant and Equipment	14	-	-	-	-	5,425	5,425
Deferred tax assets	15	-	-	-	-	1,613	1,613
Other assets	16	-	-	-	-	1,841	1,841
		<u>721,413</u>	<u>457,822</u>	<u>32,653</u>	<u>3,435</u>	<u>14,782</u>	<u>1,233,705</u>
Financial liabilities							
Due to other financial institutions	17	-	3,856	-	-	1,321	5,177
Deposits	18	252,216	684,573	25	-	-	936,814
Derivative financial liabilities	19	-	-	-	-	1,292	1,292
Subordinated liabilities	20	-	96,584	-	-	-	96,584
Provisions	21	-	-	-	-	1,714	1,714
Other Liabilities	22	-	-	-	-	4,813	4,813
		<u>252,216</u>	<u>785,013</u>	<u>25</u>	<u>0</u>	<u>9,140</u>	<u>1,046,394</u>
Interest rate swaps ²		-	36,656	(36,656)	-	-	-
Interest rate gap		<u>469,197</u>	<u>(290,535)</u>	<u>(428)</u>	<u>3,435</u>	<u>5,642</u>	<u>187,311</u>

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



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign Exchange Risk

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

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	180	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	-

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign Exchange Risk

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

31 December 2012 \$'000	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	350	253	89	13,235	4	13,931
Due from other financial institutions	191	853	18	53,450	9	54,521
Amortised cost investments	15,572	7,248	1,150	351,155	182	375,307
Investment fair value through P&L	-	-	-	19,254	-	19,254
Loans and advances	-	17,635	-	741,204	-	758,839
Plant and equipment	-	-	-	5,425	-	5,425
Intangible assets	-	-	-	2,846	-	2,846
Deferred tax assets	-	-	-	1,613	-	1,613
Derivative financial asset	-	-	-	128	-	128
Other assets	-	-	-	1,841	-	1,841
Total assets	16,113	25,989	1,257	1,190,151	195	1,233,705
Due to other financial institutions	-	3,856	-	1,321	-	5,177
Deposits	16,032	19,403	1,294	899,905	180	936,814
Derivative liabilities	-	-	-	1,292	-	1,292
Subordinated liabilities	-	96,584	-	-	-	96,584
Provisions	-	-	-	1,714	-	1,714
Other liabilities	-	-	-	4,813	-	4,813
Total liabilities	16,032	119,843	1,294	909,045	180	1,046,394
Shareholders' equity	-	-	-	187,311	-	187,311
Total liabilities and shareholders' equity	16,032	119,843	1,294	1,096,356	180	1,233,705
Net on-balance sheet position	81	(93,854)	(37)	93,795	15	-
Effect of derivatives held for risk management	(102)	94,228	-	(94,126)	-	-
Net currency position	(21)	374	(37)	(331)	15	-



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

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 \$642,200 (2012: \$238,150) 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 \$291 (2012: \$2,792) 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 loss of approximately \$356 (2012: \$3,351).

(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:

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

(d) Liquidity Risk (continued)

(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.

(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. The notes in the Trust are eligible for repurchase with the Reserve Bank of Australia.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

27 Financial risk management (continued)

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.

(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
Interest payable	-	504	-	-	-	504
	285,717	793,180	145,456	114	-	1,224,467
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	794,163	146,063	1,292	-	1,370,449

Comparative 2012 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 2013

27 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2012 \$'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	1,321	3,862	-	-	-	5,183
Deposits	252,216	566,824	123,315	26	-	942,381
Subordinated liabilities	-	97,133	-	-	-	97,133
Interest payable	-	525	-	-	-	525
	253,537	668,344	123,315	26	-	1,045,222
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	270	429	629	32	1,360
- Foreign currency swaps	-	769	-	-	-	769
	-	1,039	429	629	32	2,129
Off balance sheet commitments						
Bank guarantee	13,826	-	-	-	-	13,826
Loan commitments	117,265	-	-	-	-	117,265
Trade Finance contingencies	3,812	-	-	-	-	3,812
	134,903	-	-	-	-	134,903
Total	388,440	669,383	123,744	655	32	1,182,254

Comparative 2012 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 2013

28 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.

The Consolidated Entity's policy is to maintain a strong capital base so as to maintain shareholder and customer confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Consolidated Entity recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

28 Capital Management (continued)

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

	Note	2012 \$'000	2011 \$'000
Tier 1 Capital			
Ordinary share capital	24	160,000	160,000
Retained profits	25	30,157	25,916
Available for sale and cash flow hedge reserve	26	(918)	(1,299)
Less Deductions:			
Intangible assets	13	2,413	2,846
Deferred tax assets (net)	15	1,502	1,613
Fair value of cash flow hedges	26	(917)	(1,291)
Securitisation start-up costs		256	-
Total		185,985	181,449
Tier 2 Capital			
General reserve for credit losses ¹	26	3,784	2,694
Total		3,784	2,694
Total regulatory capital		189,769	184,143
Risk weighted assets²		834,126	796,567
Capital ratios			
Total regulatory capital as % of risk weighted assets		22.75%	23.12%
Total tier 1 capital as % of risk weighted assets		22.30%	22.78%

¹ As at January 2013, general reserve losses are calculated gross of tax, in accordance with ARF110.1 Capital Adequacy requirements.

² The requirements of the Basel II Framework were implemented and effective from 1st January 2008. For capital adequacy purposes, the Company uses the Standardised approach to credit. Total risk weighted assets include the three components of credit risk, operational risk and market risk



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

29 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

The carrying value of investments at amortised cost approximate their net fair value, as they are either short term or earn interest on a floating rate basis.

Investments at fair value through profit and loss

Investments recognised at fair value through profit or loss are subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices.

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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

29 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:

	2013		2012	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and liquid assets	11,002	11,002	13,931	13,931
Due from other financial institutions	48,618	48,618	54,521	54,521
Investments amortised cost	590,442	592,819	375,307	378,940
Investments fair value through P&L	-	-	19,254	19,254
Derivative financial assets	2,201	2,201	128	128
Loans and advances	752,299	753,201	758,839	760,032
Liabilities				
Due to other financial institutions	7,012	7,012	5,177	5,177
Securities sold and under repurchase agreements	123,517	123,517	-	-
Derivative financial liabilities	1,013	1,013	1,292	1,292
Deposits	974,129	974,129	936,814	936,814
Subordinated Liabilities	112,355	112,355	96,584	96,584

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 2013

29 Financial instruments (continued)

Fair value hierarchy (continued)

	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

	Level 1	Level 2	Level 3	Total
31 December 2012				
Investments at FVTPL	-	19,254	-	19,254
Derivative assets	-	128	-	128
Total	-	19,382	-	19,392
Derivative liabilities	-	1,292	-	1,292
Total	-	1,292	-	1,292

	2013 \$'000	2012 \$'000
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30 Commitments for expenditure

Operating leases

Future operating lease rentals not provided for and payable:

Not later than one year	2,192	2,103
Later than one year but no later than two years	1,959	2,069
Later than two years but no later than five years	1,786	3,191
Later than five years	608	883
	6,545	8,246

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

	2013	2012
	\$	\$
31 Auditors' remuneration		
Amounts paid or due and payable to the Auditors of the Consolidated Entity for:		
Auditing the financial report	226,897	230,136
Taxation services	19,635	21,367
Other assurance services	-	-
Other services	94,134	17,824
	340,666	269,327

All amounts include 10% GST. In both 2013 and 2012 remuneration were due to Deloitte Touche Tohmatsu Australia.

32 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:

	2013	2012
	\$'000	\$'000
	Face value	Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	12,799	13,826
Commitments to extend credit	119,061	117,265
Trade Finance Contingencies	11,354	3,812



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

33 Directors' remuneration

	2013	2012
	No.	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	2
\$ 70,000 - \$79,999	3	3
\$ 120,000 - \$129,999	1	1
	<u>7</u>	<u>7</u>

	2013	2012
	\$	\$

Total income received, or due and receivable, by all directors of the Company.

Short term benefits	487,615	602,294
Other long term benefits	44,495	70,720
Total benefits to non-executive directors	<u>532,110</u>	<u>673,014</u>

Remuneration of the Consolidated Entity's previous Managing Director and CEO is not included in the above table as he is not directly remunerated for his directorship. Note that his remuneration is disclosed in key management personnel benefit table as set out in note 34.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

34 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 Michalis Athanasiou
 Mr Fouad Chaker

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 Soteris Hadjikyriacou (Head of Marketing, Branch and Community Development)
 Ms Sue Mayson (Heads of Human Resources)
 Mr Vito Rinaldi (Head of Risk, Compliance and Information Security)

Executives who left the Consolidated Entity during the year

Mr James Wakim (Previous Managing Director and CEO)
 Mr Tony Sacre (Previous Head of International Banking)
 Mr Christos Moutzikis (Previous Head of Commercial Banking VIC&SA)
 Mr Alexander Nassar (Previous Head of Retail Banking)

Transactions with key management personnel

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

	2013	2012
	\$	\$
Short term benefits	3,038,947	2,053,002
Long term benefits	4,053	6,387
Other long term benefits	213,846	154,361
Total benefit	<u>3,256,846</u>	<u>2,213,750</u>

Details of non-executive Directors' remuneration are set out separately in Note 33. No other remuneration benefits were paid to key management personnel.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

34 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:

	2013	2012
	\$	\$
Loans to key management personnel	7,167,821	7,417,468
Deposit accounts	(2,906,099)	(3,264,341)

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	2013	2012
			\$	\$
Mr Greg Gav	Rental Payments	(i)	623,608	619,230

(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.

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

35 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 its wholly owned subsidiaries. All transactions were on normal terms and conditions. Please refer to note 2, 3, 8, 9, 17, 20 and 21 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, 17, 20 and 21 for details of transactions and balances with other related parties.

(c) Parent entity

The parent entity of the Company 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 33. The Related party disclosures in Income Statement do not include interest income or expense on Key Management Personnel loans and deposits.

36 Financial reporting by segments

The Consolidated Entity does not have any separately reportable segments.

37 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

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:

	2013	2012
	\$'000	\$'000
Cash	11,002	13,931
Due from other financial institutions - at call deposits	48,618	54,521
Total Cash and cash equivalents	<u>59,620</u>	<u>68,452</u>



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

37 Notes to the statement of cash flows

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

	2013	2012
	\$'000	\$'000
Profit from ordinary activities after income tax	4,082	3,621
Add: non-cash items:		
Depreciation and amortisation of non-current assets	1947	1,832
Increase/(Decrease) in provision for doubtful debts	103	25
Increase/(Decrease) in collective provisions	(3)	36
Increase/(Decrease) in provision for employee entitlements	256	(10)
Increase/(Decrease) in tax provision	567	789
Net Decrease/(Increase) in prepayments /accruals	267	-
Loss/(Profit) on writing off plant and equipment	(104)	25
Increase/(Decrease) in derivative financial instruments		
(Increases)/decreases in assets and increases/ (decreases)in liabilities:		
Interest accruals	(1,942)	(6,912)
Loans and advances	6,283	9,586
Other assets	(401)	257
Due to other financial institutions	1,833	4,305
Deposits	37,735	18,075
Derivative liabilities	14,031	(4,338)
Sales and repurchase agreement	123,517	
Other liabilities	(732)	909
Net cash used in operating activities	<u>186,600</u>	<u>28,289</u>

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

37 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.

38 Events subsequent to balance date

In March 2014, the USD100m subordinated debt issued by the Consolidated Entity and held by Bank of Beirut s.a.l. was repaid.

Except for the above matter, 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.

39 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.



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

39 Parent entity information (continued)

Financial Position	2013 \$'000	2012 \$'000
Assets		
Cash and liquid assets	11,002	13,931
Due from other financial institutions	35,125	54,521
Investments at amortised cost	590,442	375,307
Investments at FVTPL	-	19,254
Loans and advances		
- Held by Parent Entity	589,392	758,839
- Held by Trust subject to securitisation	162,907	-
Derivative financial assets	2,201	128
Intangible assets	2,413	2,846
Plant and equipment	4,913	5,425
Deferred tax assets	1,502	1,613
Other assets	2,326	1,841
Receivable from securitisation Trust	13,493	-
Total assets	1,415,716	1,233,705
Liabilities		
Due to other financial institutions	7,012	5,177
Securities sold and under repurchase agreements	123,517	-
Deposits	974,129	936,814
Current tax liability	583	-
Derivative liabilities	1,013	1,292
Subordinated liabilities	112,355	96,584
Provisions	1,970	1,714
Other liabilities	3,363	4,813
Total liabilities	1,223,942	1,046,394
Net assets	191,774	187,311

Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

39 Parent entity information (continued)

Financial Position (continued)	2013 \$'000	2012 \$'000
Equity		
Contributed equity	160,000	160,000
Reserves	1,617	1,395
Retained profits	30,157	25,916
Total equity	191,774	187,311
Financial Performance	2013 \$'000	2012 \$'000
Profit for the year	4,082	3,621
Other comprehensive income	381	(266)
Total comprehensive income	4,463	3,355

At 31 December 2013, "BHB Residential Securities Trust 1" (the Trust) owes Bank of Sydney (the Company) \$175,769,131, which was eliminated on consolidated account level. During 2013, the Company received \$6,609,335 as interest income and \$384,656 from its 100% owned internal securitisation of "BHB Residential Securities Trust 1", which was also fully eliminated on consolidated account level.

40 Securitisation

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.

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%



Bank of Sydney Ltd
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2013

40 Securitisation (continued)

During the year, 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. Both Class A and B Notes qualify 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	2013 \$'000	2012 \$'000
Residential Mortgage	162,907	-
Cash and accrued income	13,493	-
Total equity	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 2013**

1. In the opinion of the Directors of the Consolidated Entity:
- (a) the financial statements and notes, set out on pages 20 to 87, 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 2013 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 9th April 2014.



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

We have audited the accompanying financial report of Bank of Sydney Limited, which comprises the statement of financial position as at 31 December 2013, the income statement, the statement of comprehensive income, the statement of cash flows and the 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 financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Bank of Sydney Limited, 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 Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2013 and of their 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



Peter Longauer
Partner
Chartered Accountants
Sydney, 9 April 2014





Bank of Sydney

...experience the difference



Deposit Account, Savings Account
and Transaction Account
2012 - 2014



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