Bank of Sydney

Annual Report

2020

Hello.

Bank of Sydney is a thriving bank that's proudly built on multicultural, community banking foundations and strong relationships with our customers, communities and partners. We go the extra mile, providing real value, with a range of award-winning products to prove it. With us, banking will always be personal.

In this annual report you'll find an insightful review of our focus and performance in 2020, and our strategy going forward.

Contents

A Message from our Chairman

The year 2020 was unprecedented – from bushfires and floods, to a global pandemic. The impacts of these events have been felt socially, culturally and economically. However, through it all we have remained united and focused on providing support to our people and communities.

I feel privileged to reflect upon how far we have come over the last 20 years that I have served on the Bank's Board of Directors, 15 of those years as Chairman. During this time, there has been considerable transformation of the Bank's capabilities and infrastructure. Added to this, COVID-19's impact on our customers' banking needs hastened the need for more immediate change. In response, the Bank accelerated the implementation of its strategic plan, and the last 12 months have seen significant improvements which now enable us to better serve our customers and communities.

The momentum for change over this past year will now provide strong foundations for our continued growth in the years to come.

On behalf of our Board of Directors, I would like to acknowledge and thank all of our loyal people for their unwavering dedication. That includes our staff, our customers, our communities and our partners.

With 2021 marking our 20th anniversary, I'm excited about the bright future ahead for Bank of Sydney.

Kind regards
Dr Nicholas Pappas AM

A Message from our CEO

This past year had an extraordinary impact on our people, customers, community and of course, the economy.

Despite everything, 2020 gave me the opportunity to witness people coming together to support one another. This interruption to normality provided a unique time to realign ourselves with what it is to be human. And remind ourselves of what's truly important as we go about our lives.

That's why our number one priority was the safety of our staff and customers. We took a number of proactive measures to ensure our staff and customers were as safe as possible, following the advice of the Australian Federal Government and health authorities.

With these measures in place, we paid close attention to our customers' changing behaviours and needs over the course of the year. We adapted to the new demand for increased digital and remote banking to ensure we continued to offer the best possible service to our customers, in a safe and effective manner.

As you'll see in the following report, our financial strength, built up over 20 years of responsible operations and solid returns, has positioned us very well not only to manage these unforeseen circumstances in 2020, but to continue to successfully navigate the future and serve our customers in a financially sustainable way.

I'd like to thank our customers and community for their support throughout the past year, and I want to acknowledge how humbled I am by all our people and their commitment during this extraordinary time.

Miltos Michaelas

Kind regards
Miltos Michaelas

Our Strategy

As our customers' needs have evolved, particularly from the effects of COVID-19, we accelerated our strategy. We continued to evolve our customer service model, investing in infrastructure, customer applications and automation to improve customer experience and banking support. We also focused on driving internal efficiencies by implementing automation and digitisation across the Bank.

Our strategic pillars haven't changed

Customer experience

Enhance each end-to-end customer experience across every channel, for every customer. This ensures we deliver real value to our customers.

Business growth

Grow the business through a range of initiatives to deliver value to our customers, communities and partners. This will be supported through an optimised funding model.

People

Develop a team of people and partnerships that embody our values, embrace performance and accountability and display a responsible risk culture. We'll ensure that our people have the skills and abilities to contribute to our strategic goals.

Operational performance

Maintain a focus on driving efficiency and effectiveness in everything we do. This includes an emphasis on automation and digitalising processes across the business. We have a governance framework that enables us to grow responsibly and sustainably.

Our Board, Executive Team and people are committed and passionate about implementing our strategy for 2021 and beyond. We look forward to delivering the benefits to our customers and community.

2020 Highlights

Amongst a large number of other achievements, 2020 saw:

- The acceleration of our **Branch Transformation Strategy** transforming our branches to service centres equipped with market-leading Smart ATMs.
- The launch of our **centralised Customer Service Centre** to further enhance our customer service. This ensured we could handle the surge in customer enquiries during the pandemic without a drop in service levels or experience.
- The continuation of our **Tech Uplift program** which will future-proof the Bank and enable us to continue to enhance our customer offering and experience in 2021 and beyond.
- The completion of the **first phase of our internal digitalisation project** resulting in a 95% saving on paper used in our credit operations team.
- The launch of our **new website**, enabling our customers to engage with us in a modern and contemporary way by easily navigating our competitive products, services and history.
- The opening of our new **flagship branch and head office**. Our modern and contemporary branch and office in the heart of the Sydney CBD opened in October 2020. We look forward to welcoming more of our people, customers and communities soon.
- In 2020, a number of **transformation projects have moved from procurement to implementation**, which will continue in 2021.

These significant milestones are the first phase of our transformation program across the Bank. They reflect our commitment to respond to the changing behaviours and needs of our customers, now and into the future.

2020 Business Performance

Our nation experienced a range of financial impacts in 2020

In 2020 we saw a partial shutdown of the entire Australian economy, three cash rate reductions (reaching a record low of 0.10%), record unemployment figures, a number of government stimulus initiatives and a contraction of credit growth. As an organisation, these impacts were managed with great consideration and diligence.

Foundations for future growth

Our strong financial position, built up over 20 years of responsible operations and solid returns, has formed the foundations to enable us to navigate these unforeseen and unprecedented circumstances confidently. We've carefully and deliberately balanced the need for financial sustainability and long term customer benefit. Throughout the pandemic we've continued to offer competitive banking products and services to our customers and at the same time continued to invest in our largest transformation program to date, delivering long term customer benefits.

Still going strong

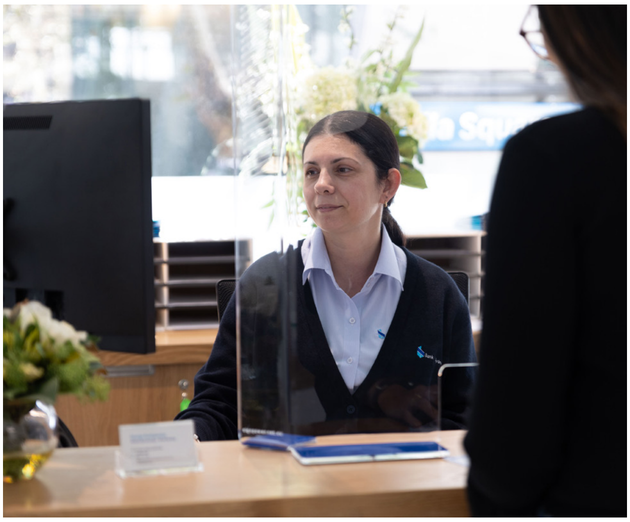
We recorded a net profit after tax of $2.1m, taking our total equity to $309m and our Capital Adequacy Ratio strengthened to 21.82%. This strong capital position enables us to continue to invest in our transformation program and grow the Bank in 2021 and beyond.

Whilst the profit for 2020 was lower than 2019, this was primarily due to COVID-19 impairment provisions ($1.1m) and write-off of legacy assets being replaced as a result of our transformation program ($1.5m). Excluding these one-off items, the underlying profit was better than the prior year.

Low risk, high reward

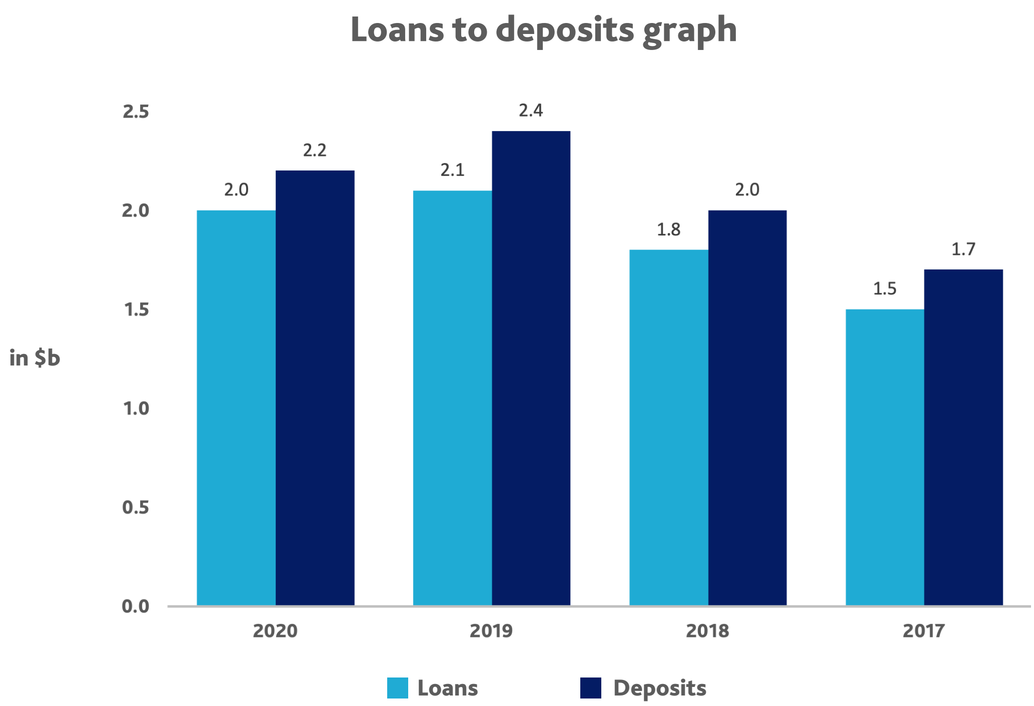
As a result of our prudent lending philosophy we have suffered no actual lending losses for many years. However, accounting standards require us to estimate the expected future losses taking into account the forward looking macro-economic environment. The uncertain outlook for the economy as at December 2020, coupled with a number of loans remaining in repayment deferral schemes, resulted in a COVID related increase in our impairment provision of $1.1m after tax to a total of $2.7m. As a proportion of total lending assets this provision totalled 0.14%, significantly below industry averages. This is a testament to our continued prudent and responsible lending philosophy.

The Bank is undergoing our most comprehensive transformation phase to date with our Technology Uplift program, Branch Transformation Strategy and our internal digitisation program. As a result of accelerating these programs during the pandemic a number of legacy assets were replaced and written off.

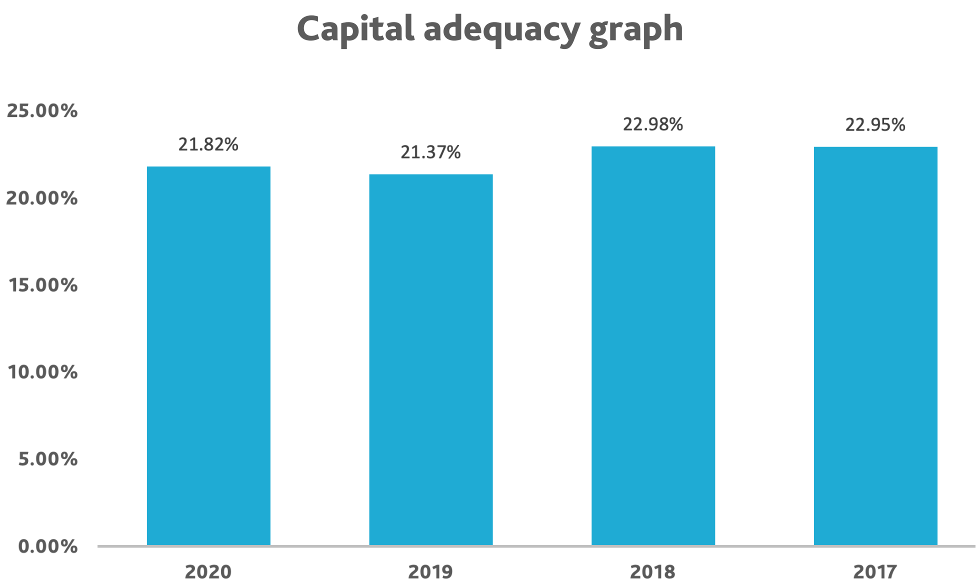


The final figures

Following 7 years of significant loan growth, in 2020 the Bank focused on maintaining our high quality loan book of $2.0bn, and we finished the year with $2.2bn of deposits.



Whilst the Australian economy is recovering faster than initially expected, a level of uncertainty remains over both the speed and extent of economic recovery. However, our financial strength, strong liquidity and credit metrics position us very well to manage this environment, continue our ambitious transformation programs and keep better serving our customers.



Our People

People come first. Now and always.

This is our ethos. Delivering to this promise was more important than ever when the pandemic hit our shores.

Safety and wellbeing

Our number one priority was the safety and wellbeing of our people and our customers, and the Bank immediately put comprehensive processes and procedures in place to ensure safety for all while maintaining efficacy in our services.

Immediately following the outbreak of the pandemic in Australia, a large portion of our workforce pivoted to working from home. We're very proud and appreciative of the frontline and support teams that continued to physically travel to work to serve our community even during periods of restrictions and uncertainty.

Our customers

As a Bank that believes in the power of real human connection, and is deeply committed to forging strong and enduring relationships with our customers, we're proud of the support we provided to our customers when they needed it most.

Throughout 2020 and beyond we have worked closely with those affected by COVID-19, and through our assistance and engagement, 97% of customers who received our COVID-19 support have now returned to normal repayment schedules.

Our communities

We take great pride in our community support program, providing over $2m in donations to local community programs over the last 5 years. In 2020 we continued to support the organisations that we work with, providing over $500k to our community partners, and beyond that, offering assistance as ambassadors and volunteers. As the impact of the pandemic was felt across the country, our people quickly mobilised to provide support and the human connection that we pride ourselves on.

Our people

Never have our people and our core values mattered more. We are incredibly proud of how our staff responded to the challenges we faced in 2020, and a key focus was to support them throughout the year. The resilience, passion and commitment with which our people took on these challenges is a true reflection of their extraordinary performance and willingness to go the extra mile.

72.6%	eNPS	36%	97%	60%
Engagement	Employee NPS increased 12 points over the last 2 years.	increase in calls answered since 2019, despite an overall increase in volume of calls and requests.	of customers that received our COVID-19 support have now returned to normal repayment schedules.	Women represent 60% of our organisation and 52% of our leadership/ management positions.

How we support our people

Training and development

Helping our staff grow and reach their career goals.

Wellness

Supporting our staff to become the best versions of themselves.

Communication

Open, honest and transparent conversations with staff, along with regular check-ins and reviews.

Feedback

Regular engagement surveys and feedback loops to continuously improve how we work together.

Our values and attitude are epitomised in our Employee of the Year winner Hana Abdalla, who went above and beyond to ensure that our front line workers could continue to deliver exceptional and effective customer service whilst protecting the safety and wellbeing of our customers and staff.

Hana Abdalla
Customer Service Manager
Employee of the year 2020 winner

Looking Forward

We're moving through 2021 with a positive outlook.

Whilst some uncertainty remains in relation to the pace and extent of the Australian economic recovery, we are encouraged by the early improvements and look forward to leveraging our financial strength and passion to serve our customers and community.

2021 will be a significant milestone for this Bank as we celebrate our 20th anniversary. In our position of strength, we're very excited about our continued transformation which will not only drive efficiencies, but ultimately deliver improved customer experiences and outcomes.

Our mission and core values are clear to us, and we are committed to continue to support our people, customers and community while delivering exceptional products and services with a real human connection.

Governance

2020

Board of Directors

Dr Nicholas Pappas AM

Chairman of the Board of Directors

Nicholas is a Sydney lawyer in private practice. In addition to his role as Board Chairman, he serves on the Bank's Audit & Remuneration Committees. He is Chairman of South Sydney District Rugby League Football Club Limited ('the Rabbitohs'), and South Sydney Members Rugby League Club Limited. He is also the Chairman of the Hellenic Initiative Australia and serves on the Boards of the Steve Waugh Foundation – Australia, the Hellenic Club Limited and Melbourne's Hellenic Museum.

Dr. Pappas is the Honorary Secretary of the Greek Orthodox Archdiocesan Council and a Trustee of the Greek Orthodox Archdiocese of Australia Consolidated Trust. He was appointed to the General Division of the Order of Australia (AM) in 2013 for services to the Arts, Rugby League & the Greek-Australian community.

Ben Edney

Chairman of the Board Risk Management Committee

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

Nikolas Hatzistergos

Chairman of the Board Audit Committee

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

The Hon Steve Bracks AC

Independent Non-Executive Director

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

Gregory Gav

Independent Non-Executive Director

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

Board of Directors

Sarkis Nassif

Non-Executive Director

Sarkis has over 35 years of experience in property investment, development, and construction. He is the Founder and Chief Executive Officer of Holdmark Property Group, a private property group. In 2019 Sarkis was awarded the Ethnic Business Awards accolade for best medium to large business, and in 2017 he was awarded the Property Person of the Year by the property industry body, Urban Taskforce. His philanthropic interests include the John Paul Foundation, which Sarkis founded and Holdmark supports, to assist children and families facing hardship due to illness, tragedy, or adversity. He is also a donor to Westmead Children's Hospital, St Vincent's Hospital, the Warrah foundation and numerous other community organisations. Sarkis is a Board Member of Bank of Beirut s.a.l.

Fouad Chaker

Non-Executive Director

Fouad is also the Chief Commercial Banking Officer at Bank of Beirut s.a.l., with more than 35 years of banking experience.

Roger Dagher

Non-Executive Director

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

John Elisher

Head of Legal / Company Secretary

John joined Bank of Sydney in May 2019 and was appointed as Company Secretary in August 2019. In addition to being Company Secretary, John leads the legal department and customer advocacy function of the Bank in his role as Head of Legal. John commenced his legal career in private practice working for a multidisciplinary firm. He more recently worked in federal government agencies in multiple executive roles. John holds Bachelor degrees in Commerce & Law and a Master of Laws.

Leadership Team

Miltos Michaelas

Chief Executive Officer

Miltos is the Chief Executive Officer (CEO) of Bank of Sydney, Australia. He has over 4 years in the position and has also had a long association with the organisation leading its set up and growth between 2001-2006.

Furthermore, Miltos has extensive experience as an International Senior Executive and Board member. In particular he has been in charge of a number of international banking operations and also led the deleverage effort of his previous financial group, providing significant experience in M&A. Miltos has served as a member or Chairman with a number of Board of Directors, primarily in banking and financial services.

Miltos is a Chartered Director of the Institute of Directors UK, having also graduated with a BSc in Management and Computer Science (First Class Honours) from Aston University and an MBA in Financial Services (Distinction) from Nottingham University.

Victor Andersson

Chief Financial Officer

Victor is the Chief Financial Officer (CFO) and is responsible for managing the Finance, Treasury and Strategic Planning functions of the Bank. Victor has extensive experience within retail banking, with over 14 years spent in financial and regulatory disciplines across Australia and the UK. Prior to joining Bank of Sydney, Victor was a Client Director with Deloitte.

He delivered a wide range of assurance and advisory services in areas including External Audit, Internal Audit, Strategy, Governance, Risk Management and Risk Culture. Victor holds a Master of Arts (Honours) in International Business from the University of Edinburgh and is a Chartered Accountant with the Institute of Chartered Accountants of Scotland (ICAS).

Chiqui Biaro

Chief Audit Officer

Chiqui is the Head of Internal Audit and is responsible for providing independent assurance on the adequacy and operating effectiveness of risk management, governance and internal control process within the bank. Chiqui joined Bank of Sydney in 2012. Chiqui has more than 20 years' experience in internal and external audit in Australia and overseas.

She holds a Bachelor of Science in Accounting and a Master's degree in Business Administration. She is a Certified Internal Auditor (CIA), a Certified Information Systems Auditor (CISA), a CPA (Phil) and CPA- Australia (Associate Member).

Chris Chew

Chief Technology Officer

Chris is the Chief Technology Officer (CTO) and is responsible for driving the Bank's IT strategy. His role is to enable the business to achieve strategic and operational goals. Chris is also responsible for leading the enterprise IT capabilities to maximise returns from technology investments while improving cost-effectiveness, service quality and business outcomes.

Chris has extensive experience in various IT leadership roles in banking and financial services, with a proven track record of over 20 years in achieving business outcomes. He also studied a Masters of Technology in software engineering and technology management. He will focus on the development and execution of our Digital Strategy, which will enable and deliver our business strategy.

Leadership Team

Gary English

Chief Risk Officer

Gary is the Chief Risk Officer (CRO) and responsible for ensuring Bank of Sydney's risk-management processes effectively protect our customers, employees and key stakeholders. Gary joined Bank of Sydney in 2017, bringing over 30 years' experience in financial services through a range of roles across the sector.

Gary's areas of accountability include Credit Risk, Market and Liquidity Risk, Information Security, Compliance and Operational Risk. Gary holds a Master of Financial Services Management from Macquarie University and a Diamond membership of the South Sydney Rabbitohs.

Bill Kalpouzanis

Chief Operations Officer

Bill is the Chief Operations Officer (COO) and is responsible for overseeing and managing Bank of Sydney's ongoing operations and procedures. Bill has more than 20 years of banking experience in executive roles, as well as invaluable knowledge and expertise on how banking is rapidly evolving. He also has extensive leadership experience and roles in Banking, Transformations, Stakeholder Management, and Program Management.

Bill was the co-founder of Lodex, Australia's first loans and deposits marketplace, and an innovative developer of a financial services digital wallet. Bill holds a Master of Science in Finance, and is a certified Financial Risk Manager (FRM) by GARP and Project Management Professional (PMP).

Fawaz Sankari

Chief Banking Officer

Fawaz is the Chief Banking Officer (CBO) and is responsible for the Customer & Distribution Division, which includes Corporate & Institutional Banking, Retail Banking, Digital Sales, International Banking, Third-party Distribution and Products. After joining Bank of Sydney as Head of Commercial Banking in May 2012, Fawaz assumed the role of CBO in November 2018.

With more than 20 years spent in retail and commercial banking, Fawaz has previously held senior executive roles with NAB and CBA Group, and sat on various external boards in both the education and business-commerce sectors.

Diana Sitnikoski

Chief - Credit Operations

Diana is the Head of Credit and is responsible for Credit Operations, Credit Recovery and Management of Non-performing Loans. Diana joined Bank of Sydney as a Credit Manager in 2005 before assuming her current role in December 2016.

Diana brings with her more than 20 years' experience in retail and commercial lending, and holds a Bachelor of Economics and a CPA designation.

Financial Statements

2020

Bank of Sydney Ltd

Directors' report

For the year ended 31 December 2020

The Directors present their report together with the financial report of the Bank of Sydney Ltd ('the Bank' and 'the Consolidated Entity'), for the year ended 31 December 2020 and the audit report thereon.

Directors

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

Dr Nicholas Pappas AM

Chairman and Non-Executive Independent Director
Appointed 26 March 2001

Mr Greg Gav

Non-Executive Independent Director
Appointed 31 March 2005

Mr Nikolas T Hatzistergos

Non-Executive Independent Director
Appointed 28 August 2006

Hon Steve Bracks AC

Non-Executive Independent Director
Appointed 18 May 2011

Mr Fouad Chaker

Non-Executive Director
Appointed 28 February 2011

Mr Roger Dagher

Non-Executive Director
Appointed 7 July 2016

Mr Ben Edney

Non-Executive Director
Appointed 15 March 2017

Mr Sarkis Nassif

Non-Executive Director
Appointed 15 May 2020

Company Secretaries
Mrs Chrystalla Vougamalis (resigned September 2020)
Mr John Elisher

Directors' Meetings

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

	Board Operations		Board Audit Committee		Board Risk Management Committee		Board Nominations and Remuneration Committee	
Directors	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
N.G. Pappas AM	7	7	6	6	-	-	-	-
N.T. Hatzistergos	7	7	6	6	-	-	-	-
G.Gav	7	6	-	-	6	5	-	-
H.S. Bracks AC	7	6	-	-	-	-	-	-
F. Chaker	7	6	-	-	-	-	-	-
B. Edney	7	6	-	-	6	6	-	-
R. Dagher	7	6	6	6	6	6	-	-
S. Nassif	4	4	-	-	-	-	-	-

*As a result of COVID-19, no meetings were held by the Board Nominations and Remunerations Committee with all committee matters addressed via circular resolutions.

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

Bank of Sydney Ltd

Directors' report (continued)

For the year ended 31 December 2020

Principal Activities

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

Results

The net profit of the Consolidated Entity was $2,061k (2019: profit of $3,940k). The result included provisions for impairment losses for Loans and Advances of $1,340k (2019: $141k reversal). At 31 December 2020, the Consolidated Entity's net loan portfolio was $1,978m (2019: $2,062m) and its customer deposits were $2,232m (2019: $2,443m).

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 2020 (2019: Nil).

State Of Affairs

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

Subsequent Events

On 30 January 2020, the spread of COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organisation ("WHO"). Subsequently, on 11 March 2020, WHO characterised COVID-19 as a pandemic affecting countries worldwide. The pandemic impacted the global and Australian economy throughout 2020 and will continue to do so in 2021. Whilst the outlook for Australia is positive, the pace of economic recovery is better than initially expected and the global and local rollout of vaccines has commenced, the Bank will continue to monitor for any further impacts from the pandemic on its lending portfolios and activities, particularly as repayment deferral periods granted in 2020 are due to expire in the first quarter of 2021.

As at the date of these financial statements the Directors of the Consolidated Entity have considered the financial effects of COVID-19 on the Consolidated Entity's financial statements and consider the Bank a going concern.

No other events have occurred subsequent to 31 December 2020 that require disclosure or adjustment to these financial statements.

Likely Developments

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

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 22 of the annual financial report.

Indemnification and Insurance of Officers and Auditors

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

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

Bank of Sydney Ltd

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

Rounding Off

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

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

On behalf of the Directors:

Nicholas Pappas
Chairman

The Hon Steve Bracks AC
Independent Non-Executive Director

Sydney, 22 April 2021

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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

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

The Board of Directors
Bank of Sydney Ltd
Level 1, 62 Pitt Street
Sydney NSW 2000

23 April 2021

Dear Board Members

Auditor's Independence Declaration to Bank of Sydney Ltd

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

As lead audit partner for the audit of the financial report of Bank of Sydney Ltd and its subsidiary the year ended 31 December 2020, 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 faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. Jones

Rebecca Jones
Partner
Chartered Accountants

Bank of Sydney Ltd
Consolidated Statement of Profit and Loss
For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Interest income	2	70,848	85,808
Interest expense	3	(30,303)	(46,556)
Net interest income		**40,545**	**39,252**
Non-interest income	4	6,046	8,908
Net operating income		**46,591**	**48,160**
Operating expenses	5	(42,280)	(42,602)
Reversal of / (Provision for) impairment losses on financial assets measured at amortised cost	11	(1,340)	141
Profit before income tax		**2,971**	**5,699**
Income tax expense	6	(910)	(1,759)
Profit for the year		**2,061**	**3,940**
Attributable to:			
Equity holders of the Consolidated Entity		2,061	3,940
Profit for the year		**2,061**	**3,940**

The Consolidated Statement of Profit and Loss is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 93.

Bank of Sydney Ltd
Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Profit for the year		**2,061**	**3,940**
Cash flow hedges:			
Effective portion of changes in fair value		5	(1,924)
Net amount transferred to statement of profit and loss		-	-
Other comprehensive income for the period, net of income tax	26	5	(1,924)
Total comprehensive income for the year		**2,066**	**2,016**
Attributable to:			
Equity holders of the Consolidated Entity		2,066	2,016
Total comprehensive income for the year		**2,066**	**2,016**

The Consolidated Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 93.

Bank of Sydney Ltd

Consolidated Statement of Financial Position

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Assets			
Cash and liquid assets	7	35,300	146,850
Due from other financial institutions	8	72,005	69,815
Investment at amortised cost	9	455,415	419,701
Loans and advances	10(a)	1,977,716	2,062,485
Derivative financial assets	20	5,267	3,223
Intangible assets	12	10,501	8,729
Property, plant and equipment	13	51,580	41,311
Investment property	14	20,497	25,189
Deferred tax assets	15	4,129	3,596
Other assets	16	10,075	7,721
Total assets		**2,642,485**	**2,788,620**
Liabilities			
Due to other financial institutions	17	3,670	4,683
Borrowings	18	62,468	-
Deposits	19	2,231,619	2,442,996
Derivative financial liabilities	20	4,036	3,861
Provisions	21	3,831	3,472
Lease liabilities	22	8,063	11,875
Other liabilities	23	20,248	15,249
Total liabilities		**2,333,935**	**2,482,136**
Net assets		**308,550**	**306,484**
Equity			
Contributed equity	24	230,000	230,000
Retained profits	25	75,250	72,981
Reserves	26	3,300	3,503
Total equity		**308,550**	**306,484**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 93.

Bank of Sydney Ltd

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Interest and commission receipts		76,864	95,453
Interest payments		(35,392)	(47,002)
Cash payments to employees and suppliers		(32,053)	(35,456)
Bad debts recovered		-	20
Income tax paid		(1,444)	(1,680)
		7,975	**11,335**
(Increase) / decrease in operating assets			
Loans and advances		83,016	(304,399)
Derivative assets		(449)	(3,376)
Other assets		(2,354)	(2,378)
Increase / (decrease) in operating liabilities			
Due to other financial institutions		(961)	(43,412)
Deposits		(206,340)	486,789
Derivative liabilities		182	(4,056)
Other liabilities		4,325	8,921
Net cash (used in) / provided by operating activities	35(b)	**(114,606)**	**149,424**
Cash flows from investing activities			
Payments for intangible assets		(4,930)	(2,276)
Payments for property, plant & equipment		(9,820)	(29,855)
Payments for investment property		(1,936)	(25,651)
Purchase of investments at amortised cost		(250,626)	(137,682)
Proceeds from investments at amortised cost		213,890	105,380
Net cash provided by investing activities		**(53,422)**	**(90,084)**
Cash flows from financing activities			
Repayments of lease liabilities		(3,812)	735
Proceeds from drawdown of Term Funding Facility		62,468	-
Proceeds from issue of shares		-	20,000
Net cash provided by financing activities		**58,656**	**20,735**
Net increase / (decrease) in cash held		**(109,372)**	**80,075**
Cash at the beginning of the financial year		216,696	136,621
Cash at the end of the financial year	35(a)	**107,324**	**216,696**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 93.

Bank of Sydney Ltd

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Notes	Contributed Equity	General reserve for credit losses	Cash flow hedge reserve	Retained profits	Total Equity
		2020				
Balance at 1 January 2020		**230,000**	**6,609**	**(3,106)**	**72,981**	**306,484**
Profit and loss		-	-	-	2,061	2,061
Transfers from general reserve to retained earnings	26	-	(208)	-	208	-
Other comprehensive income, net of income tax						
Effective portion of changes in fair value		-	-	5	-	5
Net amount transferred to profit and loss		-	-	-	-	-
Total other comprehensive income		-	-	5	-	5
Total comprehensive income for the year		**-**	**(208)**	**5**	**2,269**	**2,066**
Issue of share capital	24	-	-	-	-	-
Balance at 31 December 2020		**230,000**	**6,401**	**(3,101)**	**75,250**	**308,550**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 93.

Bank of Sydney Ltd

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2020

2019

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

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 93.

Bank of Sydney Ltd

Notes to and forming part of the financial report

For the year ended 31 December 2020

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 1, 62 Pitt Street, Sydney, New South Wales.

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

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

The financial report was authorised for issue by the Directors on 21 April 2021.

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

(b) Basis of preparation

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

Bank of Sydney Ltd

Notes to and forming part of the financial report

For the year ended 31 December 2020

1 Summary of significant accounting policies

(c) Basis of consolidation

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

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

(d) Interest

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

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

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

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

(e) Fees and commission income

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

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

Annual fees

Annual fees are charged to recover administrative costs for certain lending products. These are recognised over time when the performance obligations are met.

Line fees

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(e) Fees and commission income (continued)

Other fees and commissions

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

(f) Net foreign exchange gain/loss

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

(g) Cash and cash equivalents

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

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

(h) Due from other financial institutions

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

(i) Financial instruments

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

Financial assets

i. Amortised cost

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(i) Financial instruments (continued)

Financial assets (continued)

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

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

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

iii. Fair value through profit or loss ("FVTPL")

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

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

Financial liabilities

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

Derivative financial liabilities are measured at FVTPL.

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

(j) Securitisation Cost

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

(k) Impairment

Non-financial assets

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Financial assets

Collective impairment provision

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

i. Measurement and recognition of ECL

The ECL is calculated as outlined below:

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

Exposure at Default ('EAD')

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

Probability of Default ('PD')

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

- Retail;
- Commercial non-property; and
- Commercial property.

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

Loss Given Default (LGD)

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

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

ii. 3 Stage approach

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Collective impairment provision (continued)

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

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

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

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

2: This includes COVID-19 hardships where the Bank's customers requested loan repayment deferral periods.

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

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

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Collective impairment provision (continued)

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

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

iii. Macro-economic overlay

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

iv. COVID-19 overlay

In the current year, a further overlay has been applied to take into account the expected increase in the probability of default as payment deferral periods granted to customers of the Bank in response to the COVID-19 pandemic are due to expire in the first half of 2021.

Specific provision

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

Write offs

The Consolidated Entity writes off a financial asset where there is information indicating that there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Consolidated Entity's recovery procedures. Any recoveries made are recognised in the statement of profit and loss. Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of the default.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(l) Derivative instruments

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

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

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

Cash flow hedges

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

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

(m) Borrowings

In the current year, in response to the COVID-19 pandemic and to stimulate the economy, the Reserve Bank of Australia ('RBA') provided Authorised Deposit-taking Institutions ("ADI's") access to the Term Funding Facility ("TFF"), a low cost funding facility with a 3 year term. There were no terms and conditions associated with the TFF, other than the pledging of securities that meet the RBA eligibility criteria, as collateral. The Consolidated Entity accesses this funding by entering into repurchase agreements with the RBA.

The TFF is accounted for as borrowings with the securities pledged as collateral and accordingly is carried at amortised cost. As the funding is, in effect, a below market interest loan from a Government entity, the difference between a market rate for an instrument with similar terms and conditions at inception and the 25 basis points is recognised as a Government Grant under AASB 120 Accounting for Governemnt grants and Disclosure of Government Assistance. The government grant is presented as part of the TFF liability.

Interest relating to securities lending and repurchase agreements are recognised as interest expenses in the profit and loss, using the EIR method, over the expected life of the agreements. The benefits of the grant are deducted from the interest expense and recognised systematically in line with the interest expense charges. As such, the net interest expense will reflect the TFF cost of borrowing of 25 basis points. Refer to Note 18 for more details.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(n) Intangible assets

Computer software

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

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

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

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

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

The amortisation rates used are as follows:

2020	2019
10% to 20%	10% to 20%

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

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

Useful lives

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

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

	2020	2019
Property, plant and equipment		
Land and buildings*	2.50%	2.50%
Leasehold improvements	10%	10%
Property, plant and equipment	10% - 33%	10% - 33%
Furniture and fittings	10% - 33%	10% - 33%
Computer hardware	10% - 25%	10% - 25%
Motor vehicle	13%	13%

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

(p) Investment property

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

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

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

	2020	2019
Investment Property - Building	2.50%	2.50%

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(q) Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxs 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.

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

(r) Tax consolidation

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(s) Leases

Lessee accounting

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Consolidated Entity uses its incremental borrowing rate. The incremental borrowing rate was determined with consideration to:

- An appropriate reference rate; and
- A financial spread adjustment to account for lease term and the Consolidated Entity's credit spread.

Lease payments included in the measurement of the lease liability comprise:

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

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

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

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(s) Leases (continued)

Lessee accounting (continued)

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

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

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

Lessor accounting

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

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

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

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

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

(t) Deposits

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(u) Employee entitlements

i. Wages, salaries, annual leave and sick leave

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

ii. Long service leave

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

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

iii. Superannuation plan

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

(v) Financial guarantees and letters of credit

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

After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of:
(i) the amount of the loss allowance determined in accordance with Note 1(k) (impairment) or
(ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15.

(w) Derecognition of financial assets

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(x) Provisions

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

(y) Use of estimates and judgements

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

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

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

Fair value of financial instruments

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

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

Impairment

Non-Financial assets

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

In the current year, as a response to the COVID-19 pandemic, the Federal and State government implemented a number of measures to support the Australian economy. One of those measures was the establishment of a mandatory code of conduct for commercial property lessors to provide temporary rent relief in the form of rental waivers and deferrals to small to medium entities ("SME") affected by the pandemic. The Consolidated Entity has considered the impacts of temporary rent relief provided to its tenants as well as the wider impact of the pandemic on commercial property values and determined that there were no objective indicators of impairment, with Sydney commercial property prices remaining robust through 2020 and continued demand in the Consolidated Entity's tenanted spaces.

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.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(y) Use of estimates and judgements (continued)

Financial assets

Management estimates and judgements are applied when:

Assessing the Consolidated Entity's business model

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

Calculating impairment provisions for financial assets

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

- SICR: Judgement is used in determining what criteria to assess in the assessment of what constitutes a SICR as outlined in Note 1(k) as well as the underlying assessment of the individual financial asset. These criteria are assessed at each reporting date.
- Establishing groups of assets with similar risk characteristics as outlined in Note 1(i) and 1(k) and 27(b).

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

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

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

1 Summary of significant accounting policies (continued)

(z) Foreign currency

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

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

(aa) Application of new and revised standards

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

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

- AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material;
- AASB 2019-1 Amendments to Australian Accounting Standards - References to Conceptual Framework;
- AASB 2019-3 Amendments to Australian Accounting Standards - Interest Rate Benchmarks; and
- AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the effect of New IFRS standards not yet issued in Australia

These did not have a material impact on adoption.

(ab) Standards and Interpretations issued not yet adopted

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

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

2 Interest income

	2020 $'000	2019 $'000
Cash and liquid assets	349	972
Due from other financial institutions	59	68
Investments at amortised cost		
- banks	7,026	11,445
- related party	116	625
Loans and advances	63,297	72,297
Other interest income – Parent Entity - Bank of Beirut s.a.l.	1	401
	70,848	**85,808**

3 Interest expense

	2020 $'000	2019 $'000
Cash at the end of the financial year		
- banks	2,062	914
- Parent Entity - Bank of Beirut s.a.l.	340	2,059
Deposits	27,515	42,578
Other borrowings - repurchase agreement	76	549
Interest expense - leases	310	456
	30,303	**46,556**

4 Non-interest income

	2020 $'000	2019 $'000
Net fees and commission income	2,491	5,412
Gain from sale of securities	-	320
Net foreign exchange gain	1,034	2,587
Unrealised gain/(loss) on derivatives	1,595	(238)
Rental income	926	827
	6,046	**8,908**

5 Operating expenses

	2020 $'000	2019 $'000
Staff expenses	20,674	22,539
Computer expenses	4,955	5,018
Occupancy costs	1,823	1,777
Depreciation of property, plant and equipment	4,397	3,511
Amortisation of intangibles	1,847	1,336
Marketing expenses	1,010	1,349
Other operating expenses	7,574	7,072
	42,280	**42,602**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

6 Taxation

(a) Income tax expense

	2020 $'000	2019 $'000
Current tax expense		
Current period	1,151	1,363
Adjustment for prior period	294	159
	1,445	**1,522**
Deferred tax expense		
Deferred tax expense recognised in the current year	(241)	78
Adjustment for prior period	(294)	159
	(535)	**237**
Total income tax expense	**910**	**1,759**

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

Profit before tax	**2,971**	**5,699**
Income tax using the Consolidated Entity's tax rate of 30%	891	1,710
Prior Year adjustment	-	-
Non-deductible expenses	**19**	**49**
Income tax expense	**910**	**1,759**

7 Cash and liquid assets

Cash at bank	5,180	3,478
Cash held with central bank	30,120	143,372
	35,300	**146,850**

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

8 Due from other financial institutions

	2020 $'000	2019 $'000
Within Australia	65,577	38,676
Related parties - Bank of Beirut s.a.l.	22	561
Overseas	6,425	30,609
Less: Impairment Loss Allowance	(19)	(31)
	72,005	**69,815**
Impairment Loss Allowance		
Opening balance	(31)	(54)
Reversal / (Charge) to consolidated statement of profit and loss	12	23
Closing balance	**(19)**	**(31)**

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

Residual maturity analysis		
At call	-	-
Up to 1 month	72,024	69,846
1 to 3 months	-	-
Less: Impairment Loss Allowance	(19)	(31)
	72,005	**69,815**

9 Investments at amortised cost

Certificate of Deposits	33,988	49,943
Floating rate notes	339,054	284,278
Fixed rate bonds	82,577	85,541
Less: Impairment Loss Allowance	(204)	(61)
	455,415	**419,701**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

9 Investments at amortised cost (continued)

	2020 $'000	2019 $'000
Residual maturity analysis		
Up to 1 month	20,051	34,215
1 to 3 months	27,506	32,747
3 to 12 months	168,117	71,649
12 months to 5 years	230,779	274,976
Over 5 years	9,166	6,175
Less: Impairment Loss Allowance	(204)	(61)
	455,415	**419,701**
Impairment Loss Allowance		
Opening balance	(61)	(120)
Reversal / (Charge) to consolidated statement of profit and loss	(143)	59
Closing balance	**(204)**	**(61)**

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

10 Loans and advances

		Notes	2020 $'000	2019 $'000
Loans and advances			1,957,718	2,036,141
Overdrafts			22,710	27,847
Gross loans and advances			**1,980,428**	**2,063,988**
Less -				
	Collective provision	11	(2,690)	(1,434)
	Specific provision	11	(22)	(69)
Net loans and advances			**1,977,716**	**2,062,485**
Residual maturity analysis (excluding provisions)				
Overdrafts			22,744	27,916
Up to 1 month			141,163	170,035
1 to 3 months			6,943	21,035
3 to 12 months			26,154	24,458
12 months to 5 years			29,164	23,080
Over 5 years			1,754,260	1,797,464
			1,980,428	**2,063,988**

Residual maturity analysis was performed based on contractual final maturity dates of loans and advances. Refer to Note 27 for additional disclosures.

(b) Internal Securitisation

As further disclosed in Note 38 – Internal Securitisation, $413m (2019: $294m) of Residential Mortgages have been sold and are held by a controlled subsidiary, BHB Residential Securities Trust 1, as part of an internal securitisation.

For further details related to the internal securitisation securities pledged by the Consolidated Entity to drawdown on the TFF refer to Note 18.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

11 (a) Provision for Impairment

	2020 $'000	2019 $'000
(a) Provision for Impairment		
Collective provisions		
Opening balance	(1,434)	(1,513)
(Charged) / Reversal to consolidated statement of profit and loss	(1,257)	78
Closing balance	**(2,690)**	**(1,434)**
Specific provisions		
Opening balance	(69)	(94)
Write off against provision	-	6
Reversal to consolidated statement of profit and loss	48	19
Closing balance	**(21)**	**(69)**
Reconciliation of impairment losses		
Collective provisions		
- current year (charge)/reversal	(1,257)	78
Specific provisions		
- current year (charge)/reversal	48	25
Impairment Loss Allowance		
- current year (charge)/reversal	(131)	82
Write off of Interest	-	(38)
Write off of loan Principal	-	(6)
Impairment (loss) / reversal of loss	**(1,340)**	**141**

The Consolidated Entity did not recognise interest income on impaired assets as at 31 December 2020. (2019: Nil).

(b) Impaired assets

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

Loans and advances to customers		
- Past due but not impaired	18,128	30,194
- Impaired	21	78
Gross impaired and past due loans	**18,149**	**30,272**
Less: Specific provision	(21)	(69)
Net impaired and past due loans	**18,128**	**30,203**

Refer to Note 27(b) for further details.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

12 Intangible assets

	2020 $'000	2019 $'000
Computer software		
At cost	14,624	12,087
Less: Accumulated amortisation	(4,123)	(3,358)
	10,501	**8,729**
Opening balance	8,729	7,990
Additions	4,930	2,276
Transfer	-	-
Net book value of assets disposed during the year	(1,311)	(201)
Amortisation expense	(1,847)	(1,336)
Net book value	**10,501**	**8,729**

13 Property, plant and equipment

Property, plant and equipment		
At cost	3,433	5,645
Less: Accumulated amortisation	(1,742)	(3,729)
	1,691	**1,916**
Leasehold improvements		
At cost	4,961	5,677
Less: Accumulated amortisation	(3,849)	(4,716)
	1,112	**961**
Motor Vehicle		
At cost	59	59
Less: Accumulated amortisation	(36)	(29)
	23	**30**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

13 Property, plant and equipment (continued)

	2020 $'000	2019 $'000
Right of Use Asset	12,503	13,667
At cost	(5,436)	(2,527)
Less: Accumulated amortisation	**7,067**	**11,140**
Land and Buildings		
At cost	41,835	27,325
Less: Accumulated amortisation	(148)	(61)
	41,687	**27,264**
Net book value	**51,580**	**41,311**

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

Property, plant and equipment at cost		
Opening balance	1,916	2,123
Additions	1,122	290
Transfer	(617)	-
Net book value of assets disposed during the year	(319)	(65)
Depreciation expense	(411)	(432)
	1,691	**1,916**
Leasehold improvements at cost		
Opening balance	961	1,550
Additions	37	33
Transfer	617	-
Net book value of assets disposed during the year	(156)	(282)
Depreciation expense	(347)	(340)
	1,112	**961**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

13 Property, plant and equipment at cost (continued)

	2020 $'000	2019 $'000
Motor vehicles at cost		
Opening balance	30	38
Additions	-	-
Depreciation expense	(7)	(8)
	23	**30**
Right of use asset at cost		
Opening balance	11,140	-
Opening balance adjustment - AASB 16 transition	-	11,827
Additions	-	1,840
Depreciation expense	(4,073)	(2,527)
	7,067	**11,140**

Depreciation was accelerated in the current year due to the closure of three branches during the financial year.

	2020 $'000	2019 $'000
Land and Buildings at cost		
Opening balance	27,264	-
Additions	8,661	18,089
Transfers (Refer to Note 14)	5,910	9,175
Depreciation expense	(148)	-
	41,687	**27,264**
Net book value	**51,580**	**41,311**

During the year, the Consolidated Entity transferred a portion of Investment property to property, plant and equipment as the Consolidated Entity did not seek to renew the expiring leases and instead utilise the space as office space for the Bank totalling $5,910 thousand (2019: $9,175 thousand).

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

14 Investment property

	2020 $'000	2019 $'000
Investment property		
At cost	21,310	25,590
Less: Accumulated amortisation	(813)	(401)
	20,497	**25,189**

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

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

Investment property at cost		
Opening balance	25,189	-
Additions	1,793	34,826
Transfers (Refer to Note 13)	(5,910)	(9,175)
Depreciation expense	(575)	(462)
	20,497	**25,189**

15 Deferred tax assets

Deferred income tax assets are attributable to the following items:

Deferred tax assets		
Provisions	2,177	1,737
Cash flow hedge reserve	1,329	1,331
Fixed assets	364	372
Leased asset	299	203
Total deferred tax asset	**4,129**	**3,643**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

15 Deferred tax assets (continued)

	Notes	2020 $'000	2019 $'000
Deferred tax liabilities			
Securitisation start-up costs		(30)	(37)
Prepaid balances		(10)	(10)
Total deferred tax liabilities		**(40)**	**(47)**
Net deferred tax asset		**4,129**	**3,596**

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

	Notes	2020 $'000	2019 $'000
Deferred tax assets			
Prior year ending balance		3,596	2,850
Deferred tax credit/(debit) to income statement	6(a)	535	(78)
Deferred tax charges recognised in equity for cash flow hedge		(2)	824
Net deferred tax asset		**533**	**3,596**

16 Other assets

	2020 $'000	2019 $'000
Prepayments	2,388	904
Current tax receivable	1,655	2,930
Other receivables - Parent entity - Bank of Beirut s.a.l.	-	285
Other	6,032	3,602
	10,075	**7,721**

Other comprises mainly sundry debtors and other miscellaneous debit balances.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

17 Due to other financial institutions

	2020 $'000	2019 $'000
Parent entity - Bank of Beirut s.a.l.	231	2,220
Australia	-	872
Overseas	3,439	1,591
	3,670	**4,683**

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

18 Borrowings

Term Funding Facility	**62,468**	**-**

As at 31 December 2020, the Consolidated Entity has drawn down $62.4m from the TFF (Facility limit of $102.9m). As detailed in Note 1(m), to access the TFF, the Consolidated Entity is required to pledge securities that meet the RBA eligibility criteria as collateral. The Consolidated Entity retains risks and rewards of these securities, and therefore does not derecognised these assets. The following is the carrying value of A-Notes from the Consolidated Entity's internal securitisation provided to the RBA for this purpose.

Pledged value		
BHB Residential Securities Trust 1 - A Notes	**98,600**	**-**

19 Deposits

Current	457,031	395,104
Savings	197,695	169,386
Term	1,576,893	1,878,506
Total deposits	**2,231,619**	**2,442,996**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

20 Derivative financial instruments

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

	2020 $'000	2019 $'000
Assets		
Foreign currency forwards not designated in a hedging relationship - Parent entity - Bank of Beirut s.a.l	-	2,017
Foreign currency forwards not designated in a hedging relationship - Other	5,267	1,206
	5,267	**3,223**
Liabilities		
Interest rate swaps designated as cash flow hedge		
- Local banks	3,767	3,775
Foreign currency forwards not designated in a hedging relationship - Parent entity - Bank of Beirut s.a.l	-	86
Foreign currency forwards not designated in a hedging relationship - Other	269	-
	4,036	**3,861**

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

Cash flow hedges

2020 $'000						
	Notional Amounts				Carrying Amount	
	Within 1 year	1 through 5 years	Over 5 years	**Total**	Assets	Liabilities
Interest rate risk						
Interest rate contracts	12,000	80,000	6,000	**98,000**	-	(3,767)
Hedge of variable rate liabilities	12,000	80,000	6,000	**98,000**	-	(3,767)
Weighted average fixed interest rate						
Hedge of variable rate liabilities	0.02%	0.04%	0.18%	**0.05%**		

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

20 Derivative financial instruments (continued)

Cash flow hedges

2019

$'000

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

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

2020

$'000

	Line item in the statement of financial position where the hedging instrument is located	Hedge ineffectiveness recognised in profit or loss	Changes in fair values used for calculating hedge ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Discontinued hedges
Cash flow hedges					
Interest rate risk	Derivative instruments	-	8	(3,101)	-

2019

$'000

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

The Consolidated Entity's exposure to market risks and its approach to manage those risks is discussed in Note 27(c).

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

20 Derivative financial instruments (continued)

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

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

21 Provisions

	2020 $'000	2019 $'000
Annual leave provision	1,673	1,383
Long service leave provision	1,397	1,298
Make good provision	761	791
	3,831	**3,472**

22 Lease liabilities

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

Undiscounted lease liability		
Within 1 year	1,834	2,916
Over 1 year but less than 5 years	5,982	9,150
Over 5 years	1,371	1,477
	9,187	**13,543**
Present value of lease liability	**8,063**	**11,875**

23 Other liabilities

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

24 Contributed Equity

230,000,000 ordinary shares fully paid (2019 - 230,000,000 ordinary shares fully paid)	**230,000**	**230,000**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

24 Contributed Equity (continued)

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

There was no additional capital raised during the financial year ended 31 December 2020 (2019: $20,000,000).

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.

25 Retained profits

	2020 $'000	2019 $'000
Retained profits at beginning of year	72,981	70,105
Opening balance adjustments	-	(180)
Net profit after income tax	2,061	3,940
Transfer (to) / from general reserve for credit losses	208	(884)
Retained profits at year-end	**75,250**	**72,981**

26 Reserves

General reserve for credit losses		
Opening Balance	6,609	5,725
Transfer (to) / from retained profits during the year	(208)	884
Closing Balance	**6,401**	**6,609**
Cash flow hedge reserve		
Opening Balance	(3,106)	(1,182)
Transfer from reserves during the year	5	(1,924)
Closing Balance	**(3,101)**	**(3,106)**
Total reserves	**3,300**	**3,503**

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

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 these risks. Taking risk is core to the financial business, and exposures to operational risks are an inevitable consequence of being in business. The Consolidated Entity's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Consolidated Entity's financial performance.

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

Introduction and overview

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

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

(b) Credit risk

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

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

i. Management of credit risk

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

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.

	2020 $'000			
Customer rating	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Customer ratings 1-5: Low risk to acceptable.	1,736,603	1,303	-	**1,737,906**
Customer ratings 6-8: Management attention to High risk	-	239,404	3,089	**242,493**
Customer ratings 9-10: Impaired	-	-	29	**29**
Total gross carrying amount	**1,736,603**	**240,707**	**3,118**	**1,980,428**
Loss allowance	(1,004)	(1,143)	(565)	(2,712)
Carrying Amount	**1,735,599**	**239,564**	**2,553**	**1,977,716**

In response to the COVID-19 pandemic and ensuing impacts on the domestic economy, the Bank allowed its customers to enter into temporary loan repayment deferrals under its Covid hardship program. As per Note 1(k) the request by a customer for a loan repayment deferral was judged to be a SICR and as such any such exposure under Covid hardship was transferred into Stage 2 of the Bank's ECL model.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

On balance sheet items

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

A rating of 1 to 10 (inclusive) is applied to each borrowing entity or guarantor.
The Impairment Provision represents the total of the specific and collective provisions as set out in Note 11(a).

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

	2020 $'000	**2019 $'000**
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	1,594,489	1,617,974
Loans to corporate entities:		
- Commercial - non property	287,284	291,717
- Commercial - property	98,655	154,297
Due from other financial institutions	72,024	69,846
Investments at amortised cost	455,619	419,762
Derivative financial assets	5,267	3,223
Total	**2,513,338**	**2,556,819**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

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

	2020 $'000	2019 $'000
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	7,267	6,110
Loan commitments and other credit related liabilities	245,623	261,080
Trade finance contingencies	82,378	25,258
Total	**335,268**	**292,448**

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 $3,936 million as at 31 December 2020 ($4,020 million as at 31 December 2019). The estimated value of collateral is based on market value of the collateral and is not capped to the value of the exposure.

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

	2020 $'000			
	Individuals (retail customers)	**Large corporate customers**	**SMEs**	**Total**
Past due up to 30 days	9,759	585	-	**10,344**
Past due 30- 60 days	2,971	1	-	**2,972**
Past due 60 - 90 days	1,765	-	-	**1,765**
Past due more than 90 days	2,742	305	-	**3,047**
Total	**17,237**	**891**	**-**	**18,128**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

	2019 $'000			
	Individuals (retail customers)	Large corporate customers	SMEs	Total
Past due up to 30 days	14,428	861	9,094	**24,383**
Past due 30- 60 days	3,492	-	-	**3,492**
Past due 60 - 90 days	613	-	7	**620**
Past due more than 90 days	1,528	290	33	**1,851**
Total	**20,061**	**1,151**	**9,134**	**30,346**

The Consolidated Entity holds collateral with pledged amount totalling $62.5m for assets which are past due but not impaired as at 31 December 2020 ($71.5m as at 31 December 2019). The pledged amount of collateral is based on market value of the collateral and is capped to the value of the total approved loan limit.

iii. Impaired assets and calculation of ECL

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

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

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

	2020 $'000s			
	Stage 1	**Stage 2***	**Stage 3**	**TOTAL**
Opening Gross Loans & Advances 1 January 2020	1,859,746	58,358	1,923	**1,920,027**
Movements:				
Closed Loans	(323,267)	(4,094)	(106)	**(327,467)**
New Loans	322,053	13,449	-	**335,502**
Transfer to Stage 1	73	(73)	-	**-**
Transfer to Stage 2	(174,665)	176,121	(1,456)	**-**
Transfer to Stage 3	(1,377)	(1,397)	2,774	**-**
Movement in Balances	(71,069)	(5,679)	66	**(76,682)**
Write-Offs	**-**	**-**	**-**	**-**
Balance as at 31 December 2020	**1,611,494**	**236,685**	**3,201**	**1,851,380**

* As per Note 1(k) Stage 2 includes loan exposures that were on loan repayment deferral periods under COVID-19 hardships.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

	2020 $'000s			
	Stage 1	**Stage 2***	**Stage 3**	**TOTAL**
Opening ECL 1 January 2020	707	268	167	**1,141**
Movements:				
Closed Loans	(214)	(26)	(15)	**(255)**
New Loans	119	11	-	**130**
Transfer to Stage 1	11	(3)	(7)	**1**
Transfer to Stage 2	(89)	171	(82)	**-**
Transfer to Stage 3	(1)	(17)	18	**-**
Increases due to change in credit risk	554	934	455	**1,943**
Decreases due to change in credit risk	(163)	(195)	8	**(350)**
Write-Offs	-	-	-	**-**
Provisions as at 31 December 2020	**924**	**1,143**	**544**	**2,610**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

2020

$'000

	Gross Balance			ECL		
	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade
Stage 1	72,002	455,619	129,048	18	204	80
Stage 2	-	-	-	-	-	-
Stage 3	22	-	-	1	-	-
Total	**72,024**	**455,619**	**129,048**	**19**	**204**	**80**

2019

$'000

	Gross Balance			ECL		
	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade
Stage 1	69,846	419,762	143,961	31	61	293
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**69,846**	**419,762**	**-**	**31**	**61**	**293**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(b) Credit risk (continued)

iv. Settlement risk

The Consolidated Entity's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Consolidated Entity mitigates this risk by conducting settlements through a clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk Management.

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

	2020 $'000		
	Investments at amortised cost	Due from other financial institutions	Total
Aa3 - Aa1	225,975	67,536	**293,511**
A3 - A1	164,085	2	**164,087**
Baa3 - Baa1	65,559	4,464	**70,023**
Unrated	-	22	**22**
Total	**455,619**	**72,024**	**527,643**

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(c) Market risk

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

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

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

i. Interest rate risk

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

Refer to Note 27(c)(iii) for result of sensitivity analysis on interest rate movement.
The ALCO is the monitoring body for compliance with these limits and is assisted by Risk in its day-to-day monitoring activities.

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(c) Market risk (continued)

i. Interest rate risk (continued)

		2020 $'000					
		The earlier of maturity or repricing date					
	Notes	Floating Interest Rate[1]	1 Year or less	Over 1 to 5 Years	More than 5 Years	Non-interest bearing	Total
Financial assets							
Cash and liquid assets	7	35,300	-	-	-	-	**35,300**
Due from other financial institutions	8	72,024	-	-	-	-	**72,024**
Investments at amortised cost	9	339,054	39,611	70,788	6,166	-	**455,619**
Loans and advances	10	1,977,452	-	4	37	-	**1,977,493**
Derivative financial assets	20	5,267	-	-	-	-	**5,267**
		2,429,097	**39,611**	**70,792**	**6,203**	**-**	**2,545,703**
Financial liabilities							
Due to financial institutions	17	3,670	-	-	-	-	**3,670**
Borrowings	18	-	-	62,468	-	-	**62,468**
Deposits	19	651,845	1,579,774	-	-	-	**2,231,619**
Derivative financial liabilities	20	4,036	-	-	-	-	**4,036**
		659,551	**1,579,774**	**62,468**	**-**	**-**	**2,301,793**
Interest rate swaps[2]		98,000	(12,000)	(80,000)	(6,000)	-	-
Interest rate gap		**1,867,546**	**(1,552,163)**	**(71,676)**	**203**	**-**	**243,910**

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

2. Notional principal amounts

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(c) Market risk (continued)

i. Interest rate risk (continued)

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

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.

	2020 $'000					
	EUR	**USD**	**GBP**	**AUD**	**Other currency**	**Total**
Cash and liquid assets	401	219	66	34,609	6	35,301
Due from other financial institutions	1,044	2,634	2,726	65,558	43	72,005
Investments at amortised cost	-	-	-	455,415	-	455,415
Loans and advances	187	135,299	-	1,842,230	-	1,977,716
Derivative financial asset	-	-	-	5,267	-	5,267
Intangible assets	-	-	-	10,501	-	10,501
Property, plant and equipment	-	-	-	51,580	-	51,580
Investment Property	-	-	-	20,497	-	20,497
Deferred tax assets	-	-	-	4,129	-	4,129
Other assets	-	-	-	10,074	-	10,074
Total assets	**1,632**	**138,152**	**2,792**	**2,499,860**	**49**	**2,642,485**
Due to other financial institutions	-	-	-	3,670	-	3,670
Borrowings	-	-	-	62,468	-	62,468
Deposits	26,658	36,003	2,806	2,166,126	26	2,231,619
Derivative liabilities	-	-	-	4,036	-	4,036
Provisions	-	-	-	3,831	-	3,831
Lease liabilities	-	-	-	8,063	-	8,063
Other liabilities	-	-	-	20,248	-	20,248
Total liabilities	**26,658**	**36,003**	**2,806**	**2,268,442**	**26**	**2,333,935**
Net on-balance sheet position	**(25,026)**	**102,149**	**(14)**	**231,418**	**23**	**308,550**
Effect of derivatives held for risk management	**24,841**	**(104,841)**	**-**	**-**	**-**	**(80,000)**
Net currency position	**(185)**	**(2,692)**	**(14)**	**231,418**	**23**	**228,550**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(c) Market risk (continued)

ii. Foreign exchange risk (continued)

2019

$'000

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(c) Market risk (continued)

iii. Sensitivity analysis

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

Interest Rate Sensitivity

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

	Increase / (decrease) to profit $	
	2020	2019
Increase in yield curve of 50 basis points	889,287	53,506
Decrease in yield curve of 50 basis points	(889,287)	(53,506)

Exchange Rate Sensitivity

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

	Increase / (decrease) to profit $	
	2020	2019
Increase in exchange rates of 10%	(10,625)	(21,202)
Decrease in exchange rates of 10%	13,000	25,936

(d) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting obligations from its financial instruments. In response to the Covid-19 pandemic, the RBA made available a 3 year funding facility to assist with liquidity for ADIs. The Bank has drawn on that facility in 2020. Refer to Note 18 for more details.

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

i. Measurement and limitation of maturity profile

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(d) Liquidity risk (continued)

2020 $'000	Repayable on demand	3 months or less	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Over 5 years	Total
Non-derivative liabilities						
Due to other financial institutions	3,671	-	-	-	-	**3,671**
Borrowings	-	-	-	62,468	-	**62,468**
Deposits	651,135	966,779	613,706	-	-	**2,231,620**
	654,806	**966,779**	**613,706**	**62,468**	**-**	**2,297,759**
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	-	142	2,526	1,099	**3,767**
- Foreign currency swaps	-	269	-	-	-	**269**
	-	**269**	**142**	**2,526**	**1,099**	**4,036**
Off balance sheet commitments						
Bank guarantee	7,267	-	-	-	-	**7,267**
Loan commitments	245,623	-	-	-	-	**245,623**
Trade Finance contingencies	82,378	-	-	-	-	**82,378**
	335,268	**-**	**-**	**-**	**-**	**335,268**
Total	**990,074**	**967,048**	**613,848**	**64,994**	**1,099**	**2,637,063**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

(d) Liquidity risk (continued)

2019

$'000

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

28 Capital management

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

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

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

Various limits are applied to elements of the capital base.

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

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

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

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

The processes and procedures of managing capital are set out in the Consolidated Entity's Capital Management Plan (CMP). The CMP sets out the responsibilities for the monitoring, managing and reporting of the Consolidated Entity's capital position. The strategic planning process incorporates the capital requirements to support projected loan growth.

Full 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 2020

28 Capital management (continued)

	2020 $'000	2019 $'000
Tier 1 Capital	289,691	288,034
Add Tier 2 Capital: General reserve for credit losses	9,144	9,441
Total Regulatory Capital	**298,835**	**297,476**
Risk weighted assets	1,369,401	1,392,246
Capital Ratios		
Total regulatory capital as % of risk weighted assets	21.82%	21.37%
Total Tier 1 capital as % of risk weighted assets	21.15%	20.69%

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

29 Fair value measurement

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

Cash and liquid assets

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

Due from other financial institutions

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

Investments at amortised cost

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

Loans and advances

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

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

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

Interest rate swaps

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

FX swaps and foreign currency forward contracts

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

29 Fair value measurement (continued)

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

		2020 $'000		2019 $'000	
	Financial instruments measured at	Carrying value	Fair value	Carrying value	Fair value
Assets					
Cash and liquid assets	Amortised cost	35,300	35,300	146,850	146,850
Due from other financial institutions	Amortised cost	72,005	72,005	69,815	69,815
Investments at amortised cost	Amortised cost	455,415	461,973	419,701	424,538
Loans and advances	Amortised cost	1,977,716	1,978,682	2,062,485	2,063,170
Derivative financial assets	FVTPL	5,267	5,267	3,223	3,223
Liabilities					
Due to other financial institutions	Amortised cost	3,670	3,670	4,683	4,683
Securities sold and under repurchase agreements	Amortised cost	62,468	62,468	-	-
Deposits	Amortised cost	2,231,619	2,233,975	2,442,996	2,442,923
Derivative financial liabilities	FVTPL	3,767	3,767	3,861	3,861

Fair value hierarchy

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.

All assets and liabilities that the Consolidated Entity carries at fair value through profit and loss are classified as Level 2 in the fair value hierarchy.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

30 Auditors' remuneration

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

	2020 $	2019 $
Audit or review of the financial report		
Group	75,306	68,723
Local statutory reporting	221,107	205,442
Statutory assurance services required by legislation to be provided by the auditor	60,407	86,972
Other assurance and agreed-upon procedures under legislation or conctracual arrangements	36,960	71,610
Taxation services	60,962	61,800
Other non-audit services	19,250	46,200
Total	**473,992**	**540,746**

31 Commitments and contingencies

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

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

	2020 $'000	2019 $'000
Credit related instruments:		
Letters of Guarantee given in the normal course of business	7,267	6,110
Commitments to extend credit	245,623	261,080
Trade finance contingencies	82,378	25,258
Total	**335,268**	**292,448**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

32 Directors' remuneration

Directors' income

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

	2020	2019
$80,000 - $89,999	2	2
$90,000 - $99,999	3	2
$100,000 - $109,999	2	2
$150,000 - $159,999	1	1
	8	**7**

Total income received, or due and receivable, by all Directors of the Consolidated Entity:

	$	$
Short term benefits	713,308	660,015
Other long term benefits	78,276	73,213
Total benefits to non-executive Directors	**791,584**	**733,228**

33 Key management personnel disclosures

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

Non-executive Directors

Mr Nicholas Pappas AM (Chairman)

Mr Nikolas T Hatzistergos

Mr Greg Gav

Mr Hon Steve Bracks AC

Mr Fouad Chaker

Mr Ben Edney

Mr Roger Dagher

Mr Sarkis Nassif (appointed from 15/05/2020)

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

33 Key management personnel disclosures (continued)

Executives

Mr Miltiades Michaelas (Chief Executive Officer)

Mr Victor Andersson (Chief Financial Officer)

Mr Bill Kalpouzanis (Chief Operating Officer)

Mr Gary English (Chief Risk Officer)

Mr Fawaz Sankari (Executive General Manager – Chief Banking Officer)

Ms Diana Sitnikoski (Chief - Credit Operations)

Mrs Chrystalla Vougamalis (Chief Customer Officer - resigned 28/09/2020)

Mr Chris Chew (Chief Technology Officer)

Transactions with key management personnel

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

	2020	2019
	$	$
Short term benefits	2,584,242	2,122,096
Long term benefits	9,749	9,889
Other long term benefits	146,392	134,985
Total benefit	**2,740,383**	**2,266,970**

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

Loans and other transactions to key management personnel

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

	2020	2019
	$	$
Loans to key management personnel	7,191,204	11,025,453
Deposit accounts	66,590,073	34,230,103

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.

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

33 Key management personnel disclosures (continued)

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	2020 $	2019 $
Mr Greg Gav	Rental Payments	**914,050**	**988,845**

34 Related party transactions

(a) Transactions within the wholly-owned group

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

(b) Transactions with other related parties

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

(c) Ultimate parent entity

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

(d) Key Management Personnel

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

35 Notes to the statement of cash flows

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

(a) Reconciliation of cash

	2020 $'000	2019 $'000
Cash	35,300	146,850
Due from other financial institutions - at call deposits	72,024	69,846
Total Cash and cash equivalents	**107,324**	**216,696**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

35 Notes to the statement of cash flows (continued)

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

	2020 $'000	2019 $'000
Profit from ordinary activities after income tax	**2,061**	**3,940**
Add: non-cash items:		
Depreciation and amortisation of non-current assets	7,409	4,846
Increase/(Decrease) in specific provision	(48)	(19)
Increase/(Decrease) in ECL	1,388	(102)
Increase in provision for employee entitlements	598	1,080
Decrease in tax provision	(535)	79
Net Increase in accruals	(2,850)	1,291
Loss on writing off Property, plant and equipment	1,786	548
Loss from Loan write offs	(2)	(6)
Increase in derivative financial instruments	(1,595)	238
(Increases)/decreases in assets and increases/(decreases)in liabilities:		
Loans and advances	83,018	(304,393)
Derivative Assets	(449)	(3,376)
Other assets	(2,354)	(2,378)
Due to other financial institutions	(961)	(43,412)
Deposits	(206,340)	486,789
Derivative liabilities	182	(4,056)
Other liabilities	4,086	8,355
Net cash used in operating activities	**(114,606)**	**149,424**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

35 Notes to the statement of cash flows (continued)

(c) Net reporting of certain cash flows

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

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

36 Events subsequent to balance date

On 30 January 2020, the spread of COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organisation ("WHO"). Subsequently, on 11 March 2020, WHO characterised COVID-19 as a pandemic affecting countries worldwide. The pandemic impacted the global and Australian economy through out 2020 and will continue to do so in 2021. Whilst the outlook for Australia is positive, the pace of economic recovery is better than initially expected and the global and local rollout of vaccines has commenced, the Bank will continue to monitor for any further impacts from the pandemic on its lending portfolios and activities, particularly as repayment deferral periods granted in 2020 are due to expire in the first quarter of 2021.

As at the date of these financial statements the Directors of the Consolidated Entity have considered the financial effects of COVID-19 on the Consolidated Entity's financial statements and consider the Bank a going concern.

No other events have occurred subsequent to 31 December 2020 that require disclosure or adjustment to these financial statements.

37 Parent entity information

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

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

37 Parent entity information (continued)

Financial Position

	2020 $'000	2019 $'000
Assets		
Cash and liquid assets	35,300	146,850
Due from other financial institutions	21,843	46,105
Receivable from securitisation Trust	50,162	23,710
Investments at amortised cost	455,415	419,701
Loans and advances		
- Held by Parent Entity	1,275,082	1,532,052
- Held by Trust subject to securitisation	702,634	530,433
Derivative financial assets	5,267	3,223
Intangible assets	10,501	8,729
Property, plant and equipment	51,580	41,311
Investment Property	20,497	25,189
Deferred tax assets	4,129	3,596
Investment in Securitisation Trust - Notes A and B	752,498	554,094
Other assets	10,075	7,721
Total assets	**3,394,983**	**3,342,714**
Liabilities		
Due to other financial institutions	3,670	4,683
Borrowings	62,468	-
Deposits	2,231,619	2,442,996
Derivative liabilities	4,036	3,861
Intergroup Payable to Trust	752,498	554,094
Provisions	3,831	3,472
Lease Liability	8,063	11,875
Other liabilities	20,248	15,249
Total liabilities	**3,086,433**	**3,036,230**
Net assets	**308,550**	**306,484**

Bank of Sydney Ltd

Notes to and forming part of the financial report (continued)

For the year ended 31 December 2020

37 Parent entity information (continued)

Financial Position (continued)

	2020 $'000	2019 $'000
Equity		
Contributed equity	230,000	230,000
Reserves	3,300	3,503
Retained profits	75,250	72,981
Total equity	**308,550**	**306,484**
Financial Performance		
Profit for the year	2,061	3,940
Other comprehensive income	5	(1,924)
Total comprehensive income	**2,066**	**2,016**

At 31 December 2020, BHB Residential Securities Trust 1 ('the Trust') owes Bank of Sydney ('the Company') $752,498 thousand which was eliminated on consolidated account level (2019: $554,094 thousand). During 2020, the Company received $25,072 thousand as interest income (2019: $14,485 thoursand) and incurred $9,549 thousand in operating expenses (2019: $3,285 thousand) from its 100% owned internal securitisation of the Trust which was also fully eliminated on consolidated account level.

38 Securitisation

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

Name of securitisation	Principal activity	Place of incorporation and operation	Proportion of ownership interest by the Consolidate 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 2020

38 Securitisation (continued)

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

On 22 January 2020, the Company carried out a "top-up" of the Trust in order to meet Securitisation contingency funding requirements, which includes buying back of Class A Notes issued in 2019 with carrying amount of $529.7m at nil consideration and reissuing new Class A Notes of $858.7m. There was also an additional issue of new Class B Notes of $32m.The additional proceeds of $413.5m from the Note Issue were used to purchase a further parcel of triple A rated Residential Mortgage Loans from the Company. Class A Notes qualify as eligible securities for repurchase with the Reserve Bank of Australia.

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

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

Internal Securitisation assets

	2020 $'000	2019 $'000
Residential Mortgage	702,634	530,433
Cash and accrued income	50,162	23,710
	752,796	**554,143**

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

Directors Declaration

Bank of Sydney Ltd

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

(a) the financial statements, set out on pages 8 to 68, 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 2020 and of its performance, for the financial year ended on that date;

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

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

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

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

On behalf of the Directors

Nicholas Pappas

Chairman

The Hon Steve Bracks AC

Independent Non-Executive Director

Sydney, 22 April 2021

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

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

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

Opinion

We have audited the financial report of Bank of Sydney Ltd and its subsidiary (the "Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the director's declaration.

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

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2020 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report included in the Consolidated Entity's annual financial report for the year ended 31 December 2020, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the directors for the Financial Report

The directors of the Consolidated Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control.

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

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

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

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

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

R. Jones

Rebecca Jones
Partner
Chartered Accountants
Sydney, 23 April 2021

Bank of Sydney

banksyd.com.au
13 95 00