



Bank of Sydney

**Annual Report
2012**





Bank of Sydney

Expect more
from us



Savings Account



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MANAGING DIRECTOR'S REPORT

The 2012 Financial Year results reflect the positive effort of all staff in a year of consolidation for the Bank. This was achieved in an environment of subdued economic activity and challenging market conditions. The Bank recorded a Net Profit after Tax of \$3.6 Million for the 2012 year representing a 31% increase on the 2011 full year results. This has been achieved through effective balance sheet management, and an increase in fee income through improved activity combined with maintaining a tight rein on our cost base.

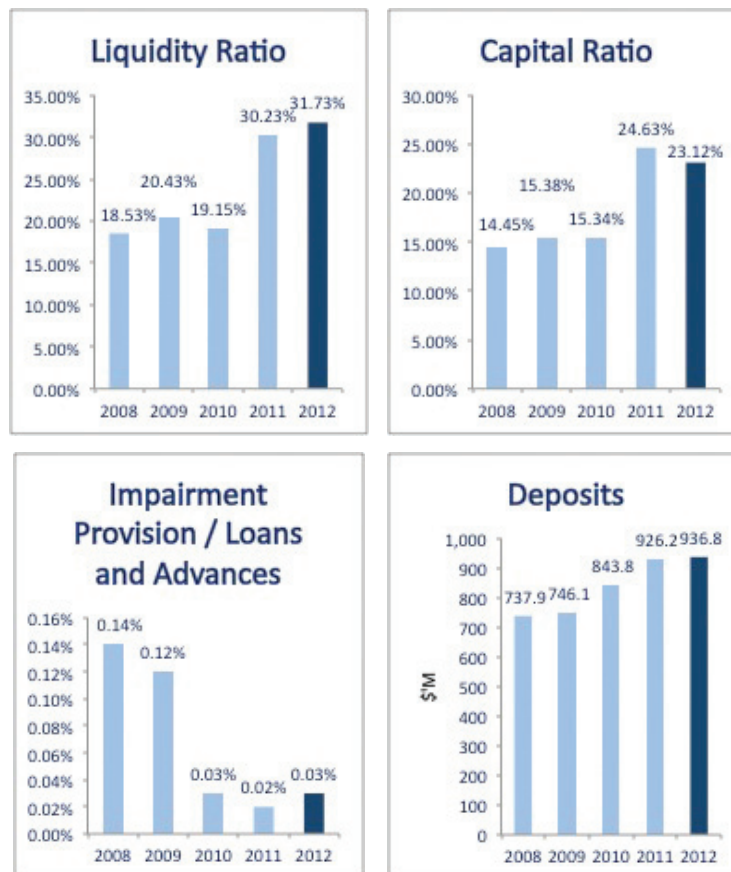
Recurring Operating revenues remained strong with Net Interest income increasing by 6% to \$23.4 Million for the full 2012 year, whilst Non-Interest Income increased by 33% to \$5.4 Million due to increased Lending and Trade Finance activity.

The Bank remained highly liquid, increasing its High Quality Liquid Assets (HQLA) ratio during the year from 30.23% to 31.73% placing the Bank in a very healthy liquidity position. This has been achieved in an environment of intense competition for retail deposits.

Our Capital Adequacy ratio as at 31 December 2012 was 23.12%, also ensuring the Bank remains in a very strong financial position.

The continued diligence of management toward maintaining high asset quality has resulted in a very low level of Impairment Provisions. As at 31 December 2012 Impairment Provisions were \$238,000, or 0.03% of Total Loans and Advances.

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



Since the acquisition of Bank of Sydney by our Shareholder Bank of Beirut in February 2011 our key balance sheet and performance ratios have improved as follows:

Key Performance Ratios	Dec 2010	Dec 2012	% Mvt
Liquidity Ratio	19.15%	31.73%	66%
Capital Ratio	15.34%	23.12%	51%
Deposits	843.8	936.8	11%
Impairment Provision / Loans and Advances	0.03%	0.03%	0%
Total Assets (\$'000)	992,614	1,233,705	24%

In addition to the above our internet banking usage has increased by 75%; new customers as a proportion of total customers is now 20%; the number of branches has increased by 60% and over 30 technology projects have been successfully completed.

Furthermore the Bank has improved its distribution capabilities considerably with key partnerships with Allianz, Western Union, National Australia Bank and Australia Post.

Retail Banking

In the Retail Banking division a thorough review of the organisational structure and product offerings was undertaken in partnership with a prime consulting firm to ensure that our structure is aligned to meet the needs of our strategic plan as well as the needs of our customers.

The Bank is now clearly focused on recruiting staff and developing our people in a way that is congruent with our value proposition of being personable, flexible and competitive in Multicultural Australia. 2012 was also a very successful year for Bank of Sydney, with the achievement of winning not one, but two, Money Magazine Best of the Best awards for our Term Deposit and Smart Net Products. For 2013 we maintained our award winning status with our Smart Net Account achieving the Money Magazine's 5 star rating.

In addition to award winning products, the Bank also focussed on enhancing its distribution channels. In 2012 we implemented Bank@Post allowing our Personal and Business customers to complete not only their identification requirements but also their banking at any one of the 3200 Australia Post outlets nationally. In addition, in 2013 we will also have in place the ability for our customers to bank at any National Australia Bank branch, adding further to our distribution capabilities.

We continue to develop our key partnerships with Western Union and Allianz with the addition of Travel Insurance to our product mix, and aim to develop further strategic relationships for the benefit of our customers.

2013 will be a milestone year for the Bank, with the introduction of Credit Cards. Work has already begun to implement Credit Cards, being one of the biggest projects the Bank has undertaken with the launch expected for in second half of 2013.

Commercial Banking and International Trade

The 2012 year was one of consolidation and establishing the foundations for growth. To achieve this, management's top priority was to ensure that existing business is well serviced with every customer recognised as a VIP, having access to all levels of Senior Management.

Our Senior Management Team has extensive banking experience. Their experience was instrumental in implementing a plan that firstly concentrated on business retention and development. Having achieved that, the focus was then on building a team of Relationship Managers that will provide our customers with personalised, flexible and competitively priced service as well as engaging the traditional target market and communities in order to increase the banks customer base.

For International Trade division, 2012 marked a year of solid results for our Trade Finance operation, a business which is supported by the Bank's overall vision and strategy. We built our initial portfolio around existing customers, and then proceeded to grow the business by focusing on businesses trading between Australia and the Middle East and North Africa (MENA) region. This strategy leveraged off the strength of our parent company in the region and our unique ability to assist importers and exporters with their International Banking requirements in regions where the major Australian banks lack local representation and a thorough knowledge of the region.

The growth in Trade Finance was driven by solid demand from existing customers and efforts to increase our customer base through expansion in Adelaide, Perth and Brisbane. As 2012 drew to a conclusion, we noticed an increase in our client base as well as an increase in demand for the types of services we are willing to offer firms conducting business in the MENA region.

As we look towards challenging targets for 2013, we remain confident in our ability to continue to grow the business, expanding our client base and our product offerings. Trade Finance and Treasury remain a key strategic growth business for BHB for 2013 and beyond.

Capital and Treasury

For Bank of Sydney, our fundamentals remained the envy of most banks throughout the year. The robustness of our balance sheet was evident in our ability to consistently maintain a Tier One capital ratio of over 23% and a HQLA of above 30%.

The Bank's managed asset portfolio also performed well as prices rebounded. The Treasury continues to invest in highly rated assets which provided the Bank with good returns.

Throughout 2012 we saw a 13% improvement in foreign exchange income compared to the previous year's results.



Risk Management and Compliance

2012 was a significant year in which the Bank witnessed the further consolidation and entrenchment of a sound and effective risk management and compliance framework. Complimenting this and which was also a major objective for 2012, was to continue the Bank's focus on risk and compliance awareness helping to ensure a strong risk and compliance culture and mindset within the Bank.

Risk Management undertakes an ongoing exercise to ensure all risks identified are continuously assessed, monitored and managed to ensure they are within the tolerance as documented within the Bank's Risk Appetite Statement which is set by the Board. The Risk Appetite Statement is a very important pronouncement which guides the direction and sets boundaries for management to the types and levels of risk which the Bank is willing to accept.

2012 also saw a further milestone as the Bank subscribed to the Code of Banking Practice, reinforcing the Bank's commitment to delivering the systems and processes required to meet Best Practice standards in banking which are set out in the Code.

The Bank's Compliance program was well maintained throughout the year and aligned with the overall strategy of the Bank. Also, the strong focus on AML/CTF monitoring activities and the implementation of new monitoring systems to allow for the Bank's growing customer base and expanding markets reflects our uncompromising approach to full compliance with the monitoring agencies.

In 2012, the Bank continued its journey in ensuring that our customer information is secure and reasonable steps are taken to protect the information from loss, unauthorised access, use, modification or disclosure. The Information Security department will further enhance the Bank's capabilities to safeguard this information with a high degree of diligence and care.

Technology and Operations

2012 was a year of continued improvement in the areas of Technology and Operations with the implementation of numerous systems which created significant operating efficiencies and sound foundations for future growth.

We have furthered our investment in our ebank by introducing Mobile Banking and ebank FX while our customers are also now able to perform their everyday banking through Australia Post outlets.

Our partnership with NAB and Australia Post has extended the services available to our customers and we have enhanced our Card services by introducing Card PIN change capabilities at ATMs and leading edge 24/7 card fraud monitoring services.

We continue to strengthen our strategic partnerships with Fujitsu, FISERV, Telstra, and Rubik and welcome new partners Sungard, Technology One and Frontier who through their cutting edge software solutions, have enabled many process improvements in the areas of Finance, Treasury and Human Resources.

Looking forward to 2013, we are eager to continue enhancing our online presence and increase automation within our growing branch network by leveraging the technological investments of our Shareholder, in the areas of core banking and business process management systems.

Staff and culture

Bank of Sydney staff numbers increased by 5% and the number of Branches to 16 during 2012. Our culture and staff have provided a strong platform from which to grow our business and succeed.

Our third Employee Culture Survey had the highest participation rate out of the three Surveys conducted thus far and overall provided a positive summation of how our staff view their employment within the Bank and across all areas surveyed.

The continued emphasis on developing staff saw the first graduates of the BOS Institute, the setting up and implementation of two Branches as the Training branches for Retail staff in NSW and Victoria, a formalised Training and Assessment Programme and completion of a Training Needs Analysis throughout our Retail and Commercial operation. Training hours increased by 18% from 2011.

The executive team concentrated on ensuring talent growth and a revitalised sales culture which became prevalent within the organisation during the year.

Marketing and Community Involvement

During 2012, as per our Mission statement, we based our growth and development around our customers with the aim to provide them a totally new banking experience. We introduced new services and products tailored to our customers' needs and increased our branch network by one new branch in the heart of Merrylands in NSW to keep growing closer to the communities we serve. In 2013 we have started the project of converting the older Branches to the new state of the design in line with our International Parent by Allen International, with first being Oakleigh in Victoria.

We continued regular communication with our customers by providing information about current and future changes and new products and services.

As has been the hallmark of Bank of Sydney's culture and heritage, in 2012 we continued to support the communities which we served and it is our objective to continue and enhance this in 2013 through sponsorship of schools, culture and the promotion of equality.


2013 will be a historical year for the Bank with the rebrand to Bank of Sydney. This will have enormous opportunities to expand our business to the wider Australian community by bringing a culture and heritage of being personable, flexible and competitive to the forefront of our value proposition. We believe that this gives us enormous scope for growth in an area which we believe we have found a niche to compete as a bank of choice for our offerings.

Finally I would like to take this opportunity to thank our Shareholder and Board for their guidance and oversight throughout the year. I also thank our staff for their continued loyalty and commitment to the new Bank and in providing the leadership and stability as we moved into our new entity. Our efforts will be reflected in our 2013 performance.



Steven Pambris
Acting CEO
Bank of Sydney Ltd





**Bank of Sydney Ltd
(formerly Beirut Hellenic Bank Ltd)
ABN 44 093 488 629
Annual Financial Report
31 December 2012**

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Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)

Corporate Governance Statement

For the year ended 31 December 2012

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

Corporate Governance

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

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

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

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

Responsibilities and Functions of the Board

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

- Corporate Governance of the Company, including the establishment and empowerment of Committees of the Board to assist in its functions;
- Overseeing the business and affairs of the Company by:
 - o establishing with management the overall direction, taking into account Shareholder objectives and approving the strategies and financial objectives to be implemented by Management;
 - o approving major corporate initiatives;
 - o ensuring that an appropriate amount of capital is maintained commensurate with the level and extent of risks to which the Company is exposed from its activities;
 - o overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures, operational risk policies and practices and systems of internal controls;
 - o monitoring the performance of Management directly and through its Committees; and
 - o carrying out the functions specifically reserved to the Board and its Committees under the policy of the Board and the Charters of those Committees.
- Approval of the Company's Remuneration and Human Resources policies and overseeing the development strategies for senior and high performing executives including succession planning for the Chief Executive Officer (CEO) and Executive Management positions.

**Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2012**

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

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

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

Board Size and Composition

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

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

Selection and Role of Chairman

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

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2012

Director Independence

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

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

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

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

Director Appointment

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

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

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

**Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2012**

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

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

Further, The Director Induction Program involves sessions with key executives from each business area of the Company to inform Directors of details about the businesses. The Director Induction Process will be conducted through sessions with each business area over a rolling 3 year period. The CEO will be required to schedule a continuing education and development program for the Directors. The target will be a minimum of one, and desirably two per year. Through the induction process the Board will identify any additional areas where education is required and suggest appropriate development activities for Directors after consideration of the results of the annual performance assessment of Directors, and educational sessions will include local and overseas experts in the particular fields relevant to the Company's operations.

Conflicts of Interest

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

Board Performance

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd) Corporate Governance Statement (continued) For the year ended 31 December 2012

Board Operations

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

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

Board Audit Committee

Membership of the Board Audit committee consists of:

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

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

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

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

- Oversee management in the preparation of the financial statements and financial disclosures;
- Review accounting policies to ensure compliance with relevant laws and accounting standards;
- Review with management and the external auditor, the effect of new or proposed auditing, accounting and reporting standards;
- Consider, with management and the external auditor, significant financial reporting issues and judgements made in connection with the preparation of the financial statements;
- Oversight of APRA statutory reporting requirements;
- Approve the Risk Management Plan and recommend its endorsement by the Board;
- Monitor the effectiveness and implementation of the Risk Management Framework and policies for risks incurred in the Company's business;

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2012

- Monitor the practices and procedures, including processes for identification of new areas of risk exposure, implementation of the risk management framework and management actions undertaken to rectify breaches;
- Facilitate the nomination of the external auditor to the Board for approval of the appointment by the Shareholder;
- Evaluate the independence, effectiveness and scope of the work of the internal and external auditors; and
- Report to the Board on its activities and table the minutes of Committee meetings.

Board Risk Management Committee (BRMC)

Membership of the BRMC consists of:

- Elias Alouf (Chairman);
- Greg Gav; and
- Michalis Athanasiou.

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

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

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

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



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Corporate Governance Statement (continued)
For the year ended 31 December 2012

Board Remuneration Committee (BRC)

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

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

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

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

- Recommend to the Board changes in the Remuneration Policy, other benefits and remuneration structure likely to have a material impact on the Company;
- Recommend to the Board the establishment of, and changes to, the Company's long term incentive scheme;
- Recommend to the Board the review of the total remuneration (including the components comprising the package, such as long term incentives) of the CEO and Direct Reports to the CEO, for shareholder approval;
- Approve the appointment and associated remuneration for newly appointed Heads of Business Units, as well as remuneration reviews for the Heads of Business Units;
- Approve the appointment and associated remuneration of employees earning more than a base salary of AUD150,000 per annum;
- Approve where the individual has a potential total remuneration (including long term incentive) higher than the potential total remuneration of the Head of their Business Unit;
- Review and approve the remuneration reviews by management for the bonus pool, prior to any payment being made;
- Be informed of:
 - o leadership performance (including talent pool);
 - o performance review and development systems;
 - o safety (OH & S) management; and
 - o legislative and regulatory compliance in employment issues and legislative developments likely to have a material impact on the Company;

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Corporate Governance Statement (continued)
For the year ended 31 December 2012

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

Internal Control Framework

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

Risk Management

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

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

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

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd) Corporate Governance Statement (continued) For the year ended 31 December 2012

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

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

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

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

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

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

Whistleblower Policy

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

Ethical Standards

The Board expects Directors, management and employees to:

- Observe the highest standards of behaviour and commitment to truth;
- Strive at all times to enhance the reputation and performance of the Company through fair dealing;
- Decline acceptance of gifts of significant value;
- Conduct the business of the Company in compliance with relevant laws and ethical standards;
- Prevent conflicts of interest; and
- Demonstrate social responsibility and contribute to the wellbeing of the community.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2012

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

Role of the Shareholder

The Shareholders of the company Bank of Beirut s.a.l. ("Bank of Beirut") (92.5%) and Cyprus Popular Bank Public Company Ltd (formerly Marfin Popular Bank Public Company Ltd) (7.5%), are responsible for the appointment of the Directors, as well as approval of the remuneration for provision of their services as Directors of the Company. The Shareholders are also responsible for appointment of external auditors.

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

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

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd) Director's Report For the year ended 31 December 2012

The Directors present their report together with the financial report of the Company for the year ended 31 December 2012 and the audit report thereon.

Directors

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

Mr Nicholas Pappas

Chairman and Non-Executive Independent Director

Appointed 26 March 2001

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

Mr Pappas is a Sydney lawyer in private practice, he is also a member of the Board Audit Committee. He is a Chairman of the Board of South Sydney District Rugby League Football Club Limited and South Sydney Members Rugby League Club Limited. He is a Member, Board of Governors, Steve Waugh Foundation – Australia and a Secretary of the Greek Orthodox Archdiocesan Council, and Trustee, Greek Orthodox Archdiocese of Australia Consolidated Trust. He was also recently appointed to the Member (AM) in the General Division of the Order of Australia.

Mr Greg Gav

Appointed 31 March 2005

Non-Executive Independent Director

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

Mr Nikolas T Hatzistergos

Appointed 28 August 2006

Non-Executive Independent Director

Mr Hatzistergos is the Chairman of the Board Audit Committee. He is also a Managing Director of William Buck (NSW) and is the Chairman of William Buck International Inc and Chairman of Mazars Australia. He is a Director and Chairman of the Audit and Finance Committee for South Sydney District Rugby League Football Club Limited.

Hon Steve Bracks AC

Appointed 18 May 2011

Non-Executive Independent Director

The Hon Steve Bracks was premier of Victoria for eight years. He now advises several leading Australian finance and service sector corporations. The Hon Steve Bracks AC now holds six major honorary positions: as an Adviser to the Prime Minister of Timor-Leste, Xanana Gusmao; as a Director of the Bionic Ear Institute Board; as Chair of the Deakin Foundation, Deakin University and Centre for Dialogue, LaTrobe University. He is also Honorary Chair of the Union Education Foundation and the John Button Foundation. He is Chairman of the superannuation fund Cbus; a Director of Jardine Lloyd Thomson Australia, and a Senior Adviser to National Australia Bank and KPMG.

Mr Bracks is also the Independent Chair for the Australian Subscription Television and Radio Association (ASTRA).

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2012

Mr James Wakim

Appointed 28 February 2011
Managing Director

Mr James Wakim has been a respected identity in Australia's banking and investment community for over twenty years. He is a career banker with experience across a broad portfolio of banking sectors including marketing, credit, international and corporate.

He has held positions on the advisory Board of the Menzies Centre for Health Policy, on the advisory Board of the Westmead Millennium Institute for eight years and as of July 2011, has joined the board of FSHD Global Research Foundation Limited, dedicated to finding a treatment and cure for Facioscapulohumeral Distrophy. Further to this, James was a Director of the Westmead Medical Research Foundation (previously known as Millennium Foundation) for over ten years, a charity for which he was also a Chairman of the Board for over five years.

Mr Elias Sami Alouf

Appointed 28 February 2011
Non-Executive Director

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

Mr Fouad Chaker

Appointed 28 February 2011
Non-Executive Director

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

Mr Michalis Athanasiou

Appointed 28 February 2011
Non-Executive Director

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

Mr Hikmat El-Bikai

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2012

Directors' Meetings

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

Directors	Board		Board Audit Committee		Board Risk Management Committee		Board Remuneration Committee	
	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended	No. of meetings eligible to attend	No. of meeting attended
N.G. Pappas AM	5	5	4	4	-	-	1	1
N. Hatzistergos	5	5	4	4	-	-	1	1
G.Gav	5	5	-	-	4	4	1	1
S. Bracks	5	4	-	-	-	-	-	-
J. Wakim *	5	5	-	-	-	-	-	-
E. Alouf	5	5	4	4	4	4	1	1
F. Chaker	5	3	-	-	-	-	-	-
M. Athanasiou	5	4	4	3	4	3	-	-
H. El-Bikai	-	-	-	-	-	-	-	-

* Note – Mr Wakim attended all three Board Audit Committee and Board Risk Management Committee Meetings for the 2012 year. Prior approval from the Chairman was also received regarding F Chaker attendance at Board Meetings.

Principal activities

Principal activities of the Company are the provision of general banking services.

Results

The net profit of the Company was \$3,621,000 (2011: profit of \$2,768,000). The result included provisions of impairment losses for loans and advances of \$61,000 (2011: -\$18,000).

Risk Management

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

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

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

The Company does not trade for speculative purposes.

**Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2012**

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 2012 (2011: Nil).

Review of Operations

At 31 December 2012, the Company's gross loan portfolio was \$759.0m (2011: \$769.0m) and its customer deposits \$936.8m (2011: \$926.2m). This represents a decrease of 1.29% in loans and an increase of 1.15% in deposits when compared to the balances as at 31 December 2011. The Company had 154 employees as at 31 December 2012 (2011: 146).

State Of Affairs

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

Events subsequent to balance date

Subsequent to the end of the financial year, Cyprus Popular Bank Public Company Ltd (formerly Marfin Popular Bank Public Company Ltd) have exercised their Put Option in relation to their 7.5% interest in Beirut Hellenic Bank and upon completion of all regulatory approvals Bank of Beirut will increase its shareholding to 100%.

Likely developments

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

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 18 of the annual financial report.

Indemnification and Insurance of Officers

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2012

Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Director's Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with the resolution of the Directors:



Nikolas T Hatzistergos
Director



James Wakim
Managing Director & CEO

Dated at Sydney on 17th April 2013.

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

17 April 2013

Dear Board Members

Beirut Hellenic Bank Limited

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

As lead audit partner for the audit of the financial statements of Beirut Hellenic Bank Limited for the financial year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Jamie C. J. Gatt
Partner
Chartered Accountants



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Income Statement
For the year ended 31 December 2012

	Note	2012 \$'000	2011 \$'000
Interest income	2	73,885	78,324
Interest expense	3	(50,437)	(56,303)
Net interest income		23,448	22,021
Non-interest income	4	5,424	4,070
Net operating income		28,872	26,091
Operating expenses	5	(23,599)	(22,129)
Reversal/(Provision) of impairment losses on loans and advances	12	(61)	18
Profit before income tax		5,212	3,980
Income tax expense	6	1,591	1,212
Profit for the year		3,621	2,768
Attributable to:			
Equity holders of the Company		3,621	2,768
Profit for the year		3,621	2,768

The Income Statement is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 85.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Statement of Comprehensive Income
For the year ended 31 December 2012

	Note	2012 \$'000	2011 \$'000
Net profit for the year	24	3,621	2,768
Other comprehensive income, net of income tax			
Cash flow hedges:			
Effective portion of changes in fair value		(205)	(695)
Net amount transferred to income statement		(75)	(208)
Fair value reserve (available for sale financial assets):			
Net amount transferred to income statement	25	14	59
Other comprehensive income for the period, net of income tax		<u>(266)</u>	<u>(844)</u>
Total comprehensive income for the year		<u>3,355</u>	<u>1,924</u>
Attributable to:			
Equity holders of the Company		<u>3,355</u>	<u>1,924</u>
Total comprehensive income for the year		<u>3,355</u>	<u>1,924</u>

The Statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 85.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Statement of Financial Position
As at 31 December 2012

	Note	2012 \$'000	2011 \$'000
Assets			
Cash and liquid assets	7	13,931	12,450
Due from other financial institutions	8	54,521	29,597
Amortised cost investments	9	375,307	395,334
Fair value through P&L investments	10	19,254	-
Loans and advances	11	758,839	768,783
Derivative financial assets	19	128	253
Intangible assets	13	2,846	2,372
Plant and equipment	14	5,425	5,606
Deferred tax assets	15	1,613	1,436
Other assets	16	1,841	2,697
Total assets		1,233,705	1,218,528
Liabilities			
Due to other financial institutions	17	5,177	870
Deposits	18	936,814	926,197
Derivative liabilities	19	1,292	2,879
Subordinated liabilities	20	96,584	99,340
Provisions	21	1,714	1,724
Other liabilities	22	4,813	3,562
Total liabilities		1,046,394	1,034,572
Net assets		187,311	183,956
Equity			
Contributed equity	23	160,000	160,000
Reserves	25	1,395	1,443
Retained profits	24	25,916	22,513
Total equity		187,311	183,956

The balance sheet is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 85.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Statement of Cash Flows
For the year ended 31 December 2012

	Note	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Interest and commission receipts		80,079	82,311
Interest payments		(58,094)	(51,423)
Cash payments to employees and suppliers		(21,688)	(19,986)
Income tax paid		(802)	(2,926)
		(505)	7,976
(Increase) / decrease in operating assets			
Due from other financial institutions - other		-	16
Loans and advances		9,586	3,266
Other assets		257	(1,584)
Increase / (decrease) in operating liabilities			
Due to other financial institutions		4,305	(42,500)
Deposits		18,075	78,518
Derivative liabilities		(4,338)	-
Other liabilities		909	2,011
Net cash used in operating activities	36(b)	28,289	47,703
Cash flows from investing activities			
Payments for intangible assets		(1,176)	(2,062)
Payments for plant and equipment		(949)	(3,133)
Payments for amortised cost investments		11,360	(224,384)
Payments for fair value through P&L investments		(11,119)	-
Net cash used in investing activities		(1,884)	(229,579)
Cash flows from financing activities			
Proceeds from issue of shares		-	80,000
Proceeds from issue of subordinated liabilities		-	98,328
Net cash provided by financing activities		-	178,328
Net increase in cash held		26,405	(3,548)
Cash at the beginning of the financial year		42,047	45,595
Cash at the end of the financial year	36(a)	68,452	42,047

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 85.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Statement of Changes in Equity
For the year ended 31 December 2012

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

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 85.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Statement of Changes in Equity
For the year ended 31 December 2012

	Contributed Equity	General reserve for credit losses	Available for sale reserve	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2011	80,000	2,196	(81)	(108)	20,025	102,032
Total comprehensive income for the year						
Profit or loss	-	-	-	-	2,768	2,768
Transfers from retained earnings to general reserve	-	280	-	-	(280)	-
Other comprehensive income, net of income tax						
Net amount transferred to profit or loss	-	-	59	(208)	-	(149)
Effective portion of changes in fair value	-	-	-	(695)	-	(695)
Total other comprehensive income	-	-	59	(903)	-	(844)
Total comprehensive income for the year	-	280	59	(903)	2,488	1,924
Transactions with owners of the Company, recognised directly in equity						
Contribution by owners of the Company						
Ordinary shares issued	80,000	-	-	-	-	80,000
Total contribution by owners of the Company	80,000	-	-	-	-	80,000
Balance at 31 December 2011	160,000	2,476	(22)	(1,011)	22,513	183,956

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 25 to 85.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd) **Notes to and forming part of the financial report** **For the year ended 31 December 2012**

1. Summary of significant accounting policies

Beirut Hellenic Bank Ltd ("the Company") is a Company domiciled in Australia. Its registered address is Level 4, 219-223 Castlereagh Street, Sydney, New South Wales.

The financial report was authorised for issue by the Directors on 17th April 2013.

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

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Banking Act 1959 and Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The Company's financial report complies with the International Financial Reporting Standards ("IFRSs") and the interpretations adopted by the International Accounting Standards Board.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been prepared in accordance with the historical cost convention, except for derivative financial instruments, which are stated at their fair value.

The financial report is presented in Australian dollars.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Director's Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(b) Interest

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The Company enters into FX swaps primarily to minimise its foreign currency risk while borrowing subordinated loan and entering other foreign currency money market deals. An FX Swap consists of a spot and a forward foreign exchange impact which offset each other with a net cash outflow or inflow as forward points. The forward points expenses or income in its economic substance are regarded as interest in nature, and recognised as "interest expense" or "interest income" in the income statement.

(c) Fees and commission income

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

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

(d) 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 Company's net foreign currency exposure.

(e) Cash and cash equivalents

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(f) Due from other financial institutions

Due from other financial institutions comprise at call deposits and cash held with other banks and is brought to account at the gross value of the outstanding balance. Interest on receivables due from other financial institutions is recognised on an effective yield basis, as described in Note 1 (b).

(g) Financial Instruments

The Company is a financial institution that offers an extensive range of financial instruments. The Company has early adopted AASB 9 "Financial Instruments: Classification and Measurement" issued in December 2010 with a date of initial application of 1 January 2011.

Following the adoption of AASB 9, non-derivative financial instruments are classified and measured as follows by the Company.

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

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

This category includes loans and advances to customers and amortized cost investments. Refer to Note 1 (h) and (j) for further details.

Fair value through profit and loss: If a financial asset does not meet both of the conditions listed for financial assets classified under *Amortised cost*, then it is measured at fair value. Upon initial recognition, attributable transaction costs are recognised in the profit or loss when incurred. Financial instruments at fair value through the profit or loss are measured at fair value, and changes therein are recognised in the profit or loss. Refer to Note 1(i) for further details.

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(h) Amortised cost investment

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

(i) Fair value through profit and loss (FVTPL) investment

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

FVTPL investments are stated at fair value, with any resultant gain or loss recognized in profit or loss. When available, the Company measures fair value using quoted price in an active market. Please refer to Note 28 for details of fair value measurement.

(j) Loans and advances

Loans and advances are initially recorded at fair value plus any transaction costs directly attributable to the acquisition or issue of the loan and are subsequently measured at amortised cost using the effective interest rate method, except for fixed rate loans that qualify for hedge accounting which are valued at fair value.

The Company applied hedge accounting from 1st July 2008. The fair value hedge accounting model is used. A fair value hedge is a hedge of changes in the fair value of a recognised asset or liability, or unrecognised firm commitment that is attributable to a particular risk and could affect profit and loss. The Company hedges against interest rate risk associated with fixed rate loans. The fixed rate loan is converted to a floating rate loan using an interest rate swap. The hedging instrument in this case is the interest rate swap, while the hedged item is the fixed rate loan.

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

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

Interest income on loans and advances is recognised using the effective yield method as described in Note 1(b).



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(k) Impairment

Non-financial assets

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

Financial Assets

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

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

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

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

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(k) Impairment (continued)

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

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

(k) Derivative instruments

The Company 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 Company does not hold or issue derivative financial instruments for trading purposes.

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

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates. The fair value of forward exchange contracts is their market price at the balance sheet date, being the discounted present value of the forward price.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(l) Derivative instruments (continued)

Cash flow hedges

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

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. If the hedge is ineffective, changes in fair value are recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is terminated, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. Refer to note 25 for cash flow hedge reserve movement.

Other non-trading derivative

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(m) Intangible Assets

Computer Software

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

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

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

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

Both purchased and internally generated software has a finite useful life and are amortised using the straight-line method, at a rate applicable to the expected useful life of the asset, not exceeding 5 years.

The amortisation rates used are as follows:

2012	2011
20%	20%

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(n) Plant and Equipment

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

Useful lives

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

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

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

	2012	2011
Plant and equipment		
Leasehold improvements	10%	10%
Plant and equipment	10%	10%
Furniture and fittings	10% to 20%	10% to 20%
Computer hardware	20% to 25%	20% to 25%
Motor vehicle	20%	20%

(o) Foreign currency

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

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(p) Deposits

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

(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 tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(r) Leases

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

(s) Employee entitlements

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

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

(ii) Long service leave

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

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

(iii) Superannuation plan

The Company contributes to a defined contribution superannuation plan. Contributions to the fund during the period were \$985,035 (2011: \$904,138).

(t) Financial guarantees and letters of credit

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

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(u) Provisions

A provision is recognised in the balance sheet when the Company 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.

(v) Standards and Interpretations in issue not yet adopted

Except as discussed above in relation to early adoption of AASB 9, Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ended 31 December 2012. When applied in future periods, these recently issued or amended standards are not expected to have a material impact on the Company's financial position or performance; they may impact the disclosures.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(w) 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 Company's accounting policies and that have the most significant effect on the amounts recognised in the annual financial report.

- **Fair value of financial Instruments**

As described in note 28, the Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Note 28 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed disclosure of carrying amounts and estimated fair value of financial assets and liabilities.

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

- **Impairment**

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

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012	2011
	\$'000	\$'000
2 Interest Income		
Cash and liquid assets	397	532
Due from other financial institutions	1,066	1,854
Amortised cost investments		
- banks	18,218	16,823
- related party	169	125
FVTPL investments	610	-
Loans and advances	53,139	58,990
Other Interest income – parent company	286	-
	<u>73,885</u>	<u>78,324</u>
	2012	2011
	\$'000	\$'000
3 Interest expense		
Due to other financial institutions		
- banks	681	1,726
- related party	9	21
Deposits	42,470	47,796
Subordinated liabilities - parent company	3,355	2,712
FX Swaps - parent company	3,922	4,048
	<u>50,437</u>	<u>56,303</u>



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012	2011
	\$'000	\$'000
4 Non-Interest Income		
Net fees and commission income	3,740	2,620
Net Income from sale of securities	371	253
Net foreign exchange gain	1,212	1,074
Unrealised gain/(loss) on FVTPL securities	44	-
Unrealised gain/(loss) on derivatives	57	(51)
	5,424	4,070
5 Operating expenses		
Staff expenses	13,750	12,577
Computer expenses	2,273	1,737
Occupancy costs	2,630	2,140
Depreciation of property and equipment	1,130	903
Amortisation of intangibles	702	357
Marketing expenses	607	1,404
Other operating expenses	2,507	3,011
	23,599	22,129

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012 \$'000	2011 \$'000
6 Taxation		
(a) Income tax expense		
Current tax expense		
Current period	1,693	1,475
Adjustment for prior period	(22)	4
	<u>1,671</u>	<u>1,479</u>
Deferred tax expense		
Deferred tax expense recognised in the current year	(65)	(303)
Adjustment to deferred tax attributable to TOFA	(46)	(46)
Adjustment for prior period	31	82
	<u>(80)</u>	<u>(267)</u>
Total income tax expense	<u>1,591</u>	<u>1,212</u>
(b) Reconciliation between tax expense and pre-tax net profit		
Profit before tax	<u>5,212</u>	<u>3,980</u>
Income tax using the Company's tax rate of 30%	1,564	1,195
Non-deductible expenses	18	13
Prior period under provision	9	4
	<u>1,591</u>	<u>1,212</u>



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012	2011
	\$'000	\$'000
7 Cash and liquid assets		
Cash at bank	3,045	2,723
Cash held with central bank	10,886	9,727
	<u>13,931</u>	<u>12,450</u>
8 Due from other financial institutions		
Australia	53,493	29,291
Related parties	95	231
Other	933	75
	<u>54,521</u>	<u>29,597</u>
Residual Maturity analysis		
At Call	54,521	29,597
	<u>54,521</u>	<u>29,597</u>
9 Amortised cost investments		
Bank Bills	22,951	41,970
Floating rate notes	312,192	313,609
Fixed term deposits - related parties	23,970	27,948
Fixed term deposit- Local Banks	16,194	11,807
	<u>375,307</u>	<u>395,334</u>

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012	2011
	\$'000	\$'000
9 Amortised cost investments (continued)		
Residual Maturity Analysis (excluding provisions)		
Up to 1 month	44,355	78,730
1 to 3 months	21,979	6,656
3 to 12 months	30,352	13,469
12 months to 5 years	278,621	296,479
	<u>375,307</u>	<u>395,334</u>

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

10 FVTPL investments

Floating rate notes	19,254	-
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Floating rate notes have been designated at fair value through profit or losses when they do not meet the conditions listed to be classified as amortized cost, and are held by the Company mainly for liquidity purpose.

During 2011 the business model was changed for 5 floating rates notes that were originally included in amortised cost category to accommodate investments held at fair value through the profit and loss (FVTPL). The Company early adopted AASB9 on 1 January 2011 and reclassified these investments into the fair value category effective from 1 January 2012. At 31 December 2011 such investments are carried at amortised cost of \$20.18 million and included in balances reported in Note 9. Their fair value at 31 December 2011 was \$20.2 million.

As at 31st December 2012 the maximum credit risk on FVTPL investments was \$19.3 million. The Company mitigates its credit risk exposure by having a policy to only purchase floating rate notes with a credit rating over A.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	Note	2012 \$'000	2011 \$'000
11 (a) Loans and advances			
Loans and advances		697,118	717,280
Overdrafts		61,960	51,681
Gross loans and advances		759,078	768,961
Less -			
Collective provision	12	(166)	(141)
Specific provision	12	(73)	(37)
Net loans and advances		758,839	768,783

Residual Maturity analysis (excluding provisions)

Overdrafts	61,960	51,681
Up to 1 month	63,714	45,431
1 to 3 months	22,915	22,481
3 to 12 months	62,146	70,151
12 months to 5 years	73,518	86,253
Over 5 years	474,825	492,964
	759,078	768,961

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

Refer to Note 28 for additional disclosures to meet requirements of AASB7 – *Financial Instruments: Disclosures*.

11 (b) Hedge accounting adjustment

The fair value of the interest rate swaps as at 31 December 2012 used for cash flow hedges was negative \$997,055 (2011: \$1,195,700). The fair value of the interest rate swaps as at 31 December 2012 used for fair value hedges was negative of \$99,954 (2011: - \$155,231).

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

11 (b) Hedge accounting adjustment (continued)

Gross loans and advances	2012 \$'000	2011 \$'000
Carrying amount	758,742	768,540
Fair value adjustment	336	421
Total	759,078	768,961
	2012 \$'000	2011 \$'000

12 Provision for impairment

(a) Collective provisions

Opening balance	141	151
Recoveries recognised in income statement	-	(10)
Charge to income statement	25	-
Closing balance	166	141

Specific provisions

Opening balance	37	45
Write off against provision	-	-
Recoveries recognised in income statement	(3)	(8)
Charge to income statement	39	-
Closing balance	73	37



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012 \$'000	2011 \$'000
12 (a) Provision for impairment (continued)		
Reconciliation of impairment losses / (recoveries) of impairment losses		
Collective provisions		
-recoveries	-	(10)
-current year charge	25	-
Specific provisions		
-recoveries	(3)	(8)
-current year charge	39	-
Impairment gain	61	(18)

The Company did not recognise any material interest income on impaired assets as at 31 December 2012. (2011: Nil).

(b) Impaired Assets

Impaired assets are defined as follows:

- “Non-accrual loans” are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.
- “Restructured loans” arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required. The Company did not have any such loans as at 31 December 2012. (2011: Nil).
- “Assets acquired through the enforcement of security” are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements. The Company has no such assets at year-end (2011: Nil).
- “Past due loans” are when a counterparty has failed to make a payment when contractually due. Past due therefore includes all financial assets that are more than one day overdue.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

12 Provision for impairment (continued)

(b) Impaired assets (continued)

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

Therefore, interest will continue to be accrued on impaired loans based on the revised carrying amounts and using appropriate effective interest rates. Accrued interest on impaired assets is suspended and not recognised in the income statement until the principal outstanding is recovered or the account is no longer in arrears.

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

	2012	2011
	\$'000	\$'000
Loans and advances to customers		
Past due but not impaired	34,405	24,440
Impaired	2,649	579
Gross impaired assets	37,054	25,019
Less: Specific provision	(73)	(37)
Net impaired assets	36,981	24,982

Refer to Note 26 for further details.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012 \$'000	2011 \$'000
13 Intangible assets		
Computer software		
At cost	4,375	3,205
Less: Accumulated amortisation	(1,529)	(833)
	2,846	2,372
Opening balance	2,372	667
Additions	1,170	2,061
Amortisation expense	(696)	(356)
Net book value	2,846	2,372
14 Plant and equipment		
Plant and equipment		
At cost	4,995	4,461
Less: Accumulated depreciation	(3,151)	(2,673)
	1,844	1,788
Leasehold		
At cost	6,351	5,959
Less: Accumulated depreciation	(2,844)	(2,239)
	3,507	3,720
Motor Vehicle		
At cost	120	120
Less: Accumulated depreciation	(46)	(22)
	74	98
Net book value	5,425	5,606

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

14 Plant and equipment (continued)

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

	2012	2011
	\$'000	\$'000
Plant and equipment at cost		
Opening balance	1,788	1,413
Additions	562	809
Net book value of assets disposed during the year	(1)	(9)
Depreciation expense	(505)	(425)
	1,844	1,788
Leasehold property at cost		
Opening balance	3,720	1,835
Additions	391	2,399
Net book value of assets disposed during the year	-	(58)
Depreciation expense	(604)	(456)
	3,507	3,720
Motor Vehicle at cost		
Opening balance	98	-
Additions	-	120
Depreciation expense	(24)	(22)
	74	98
	5,425	5,606



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

15 Deferred tax assets

Deferred income tax assets are attributable to the following items:

	2012	2011
	\$'000	\$'000
Deferred tax assets		
Provisions	882	877
Cash flow hedge reserve	553	432
Fixed assets	271	238
Fair value reserves	3	27
Total deferred tax asset	1,709	1,574
Deferred tax liabilities		
Fair value of financial instruments	(85)	(127)
Bank Bills accrued interest	(7)	(10)
Prepaid balances	(4)	
Unrealised FX gain	-	(1)
Total deferred tax liabilities	(96)	(138)
Net deferred tax asset	1,613	1,436

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

	2012	2011
	\$'000	\$'000
Deferred tax assets		
Opening balance	1,436	783
Deferred tax credit/(charges) to income statement	80	267
Deferred tax credit recognized in equity	97	386
Net deferred tax asset	1,613	1,436

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012 \$'000	2011 \$'000
16 Other assets		
Income tax prepayment	36	888
Other	1,805	1,809
	1,841	2,697
17 Due to other financial institutions		
Due to other financial institutions		
- parent entity	4,018	229
- related party	3	-
- - overseas	1,156	641
	5,177	870
Residual Maturity analysis		
At call	1,321	870
1 to 3 months	3,856	-
	5,177	870

The parent entity in 2012 refers to Bank of Beirut s.a.l (2011: Bank of Beirut s.a.l) and the related party in 2012 refers to wholly owned subsidiaries and associated companies of Bank of Beirut s.a.l (2011: Bank of Beirut Group). Please refer to note 34 (a) for details of related party relationship in 2012.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

		2012	2011
		\$'000	\$'000
18	Deposits		
	Current	78,983	70,683
	Savings	133,692	148,687
	At call	39,541	85,194
	Term	684,598	621,633
		936,814	926,197

Residual Maturity Analysis

At call	252,216	304,564
Up to 1 month	173,891	89,323
1 to 3 months	389,408	231,035
3 to 12 months	121,274	301,025
12 months to 5 years	25	250
	936,814	926,197

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

19 Derivative Financial Instruments

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

	2012	2011
	\$'000	\$'000
Asset		
Interest rate swaps- Local banks	-	67
Foreign currency forwards- parent entity	116	186
Foreign currency forwards - Other	12	-
	128	253
Liabilities		
Interest rate swaps - Local banks	1,075	1,358
- Other	204	180
Foreign currency forwards - parent entity	-	1,319
Foreign currency forwards - Other	13	22
	1,292	2,879



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012 \$'000	2011 \$'000
20 Subordinated liabilities		
Subordinated notes issued	96,584	99,340
<p>As at 1 March 2011 the Company issued subordinated notes of USD100 million to Bank of Beirut s.a.l (the Company's ultimate parent) with a maturity date at 1 March 2013. Subsequent to 2012 financial year end, the subordinated notes have been rolled over with renewed maturity date at 1 March 2014.</p> <p>The subordinated liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.</p>		
21 Provisions		
Provision for employee entitlements		
Annual leave provision	813	848
Long service leave provision	624	633
Make good provision	277	243
	1,714	1,724
Number of Employees	154	146
22 Other liabilities		
Bank cheques issued awaiting clearance	1,400	1,484
Other	3,413	2,078
	4,813	3,562

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

23 Contributed equity

	2012	2011
	\$'000	\$'000
160,000,000 ordinary shares fully paid	160,000	160,000

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

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding up of the Company, ordinary shareholders rank after all other shareholders. Creditors are fully entitled to any proceeds on liquidation to meet outstanding amounts owing.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012 \$'000	2011 \$'000
24 Retained profits		
Retained profits at beginning of year	22,513	20,025
Net profit after income tax	3,621	2,768
Transfer to general reserve for credit losses	(218)	(280)
Retained profits at year-end	<u>25,916</u>	<u>22,513</u>
25 Reserves		
General Reserve for Credit Losses		
Opening Balance	2,476	2,196
Transfer from retained profits during the year	218	280
Closing Balance	<u>2,694</u>	<u>2,476</u>
Available for sale reserve		
Opening Balance	(22)	(81)
Transfer from reserves during the year	14	59
Closing Balance	<u>(8)</u>	<u>(22)</u>
Cash flow hedge reserve		
Opening Balance	(1,011)	(108)
Transfer (to) / from reserves during the year	(280)	(903)
Closing Balance	<u>(1,291)</u>	<u>(1,011)</u>
Total Reserves	<u>1,395</u>	<u>1,443</u>

All reserve amounts are shown net of income tax.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management

(a) Introduction and overview

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and exposure to operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework and sets the Company's risk appetite. The Company's Risk and Compliance Committee assists the Board in overseeing all risk management activities that are carried out, for the purpose of identifying, evaluating and managing all key business risks.

The Board Risk Management Committee is responsible for monitoring compliance with the Company's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Company 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 Company is not unduly exposed to a single or small number of counterparties such that their default would adversely affect the financial position of the Company. Also, large credit exposures are monitored and reviewed on a regular basis.

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

(i) Management of credit risk

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

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

Internal Audit undertakes regular audits of business units and Credit processes.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk

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

On Balance Sheet Items

Grades	Risk Level	2012 \$'000		2011 \$'000	
		Loans and advances	Impairment provision	Loans and advances	Impairment provision
1.	Low/Insignificant	-	-	-	-
2.	Minimal	65,330	-	77,467	1
3.	Moderate	173,328	1	230,153	3
4.	Acceptable	391,617	8	358,294	5
5.	Acceptable with care	114,326	61	84,584	81
6.	Management Attention	11,738	94	15,984	47
7.	High	284	2	1,900	4
8.	High & Problematic	2,417	34	533	2
9.	Very High & Problematic	38	39	46	35
10.	Loss	-	-	-	-
Total		759,078	239	768,961	178

A rating of 1 to 10 (inclusive) is applied to each borrowing entity or guarantor. Seven ratings are allocated to performing customers and three (8-10) to non-performing exposures. Interest suspension and specific provisions are required for non-performing exposures.

The Impairment Provision represents the total of the specific and collective provisions as set out in Note 12(a).



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(b) Credit risk (continued)

The table below represents the maximum exposure to credit risk of the Company as at 31 December 2012 and 2011, without taking account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures equal net carrying amounts as reported in the balance sheet.

	2012	2011
	\$'000	\$'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	331,479	342,703
Loans to corporate entities:		
- Large corporate customers	123,184	108,662
- Small and medium size enterprises (SMEs)	304,415	317,596
Due from other financial institutions	54,521	29,597
Amortised costs investments	375,307	395,334
Investments fair value through P&L	19,254	-
Total	1,208,160	1,193,892
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	13,826	7,290
Loan commitments and other credit related liabilities	117,265	54,811
Trade finance contingencies	3,812	12,280
Total	134,903	74,381

The Company holds collateral and other credit enhancements to cover its credit risks associated with on balance sheet and off balance sheet credit risk exposures. The estimated value of collateral and other credit enhancements amounts to \$1,574 million as at 31 December 2012.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(b) Credit risk (continued)

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross value of loans and advances by class to customers that were past due, but not impaired are presented in the table below.

31 December 2012

\$'000's

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

31 December 2011

\$'000's

	Corporate Entities			Total
	Individuals (retail customers)	Large corporate customers	SMEs	
Past due up to 30 days	7,646	-	11,449	19,095
Past due 30 - 60 days	615	-	3,573	4,188
Past due 60 - 90 days	-	-	1	1
Past due more than 90 days	1,156	-	-	1,156
Total	9,417	-	15,023	24,440

The Company holds collateral with carrying value totalling \$36.0m for assets which are past due but not impaired as at 31 December 2012.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(b) Credit risk (continued)

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

	2012 \$'000	2011 \$'000
Impaired Loans		
Individual (retail customers)	2,649	573
Corporate Entities		
- SMEs	-	-
Total	2,649	573

The Company holds collateral with carrying value totalling \$2.38m for the impaired assets as at 31 December 2012.

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

Industry type	2012 \$000				2011 \$000			
		Corporate Entities		Total		Corporate Entities		Total
	Individuals (Retail Customers)	Large Corporate Entities	SMEs		Individuals (Retail Customers)	Large Corporate Entities	SMEs	
Manufacturing	3,295	9,689	14,709	27,693	-	-	15,103	15,103
Tourism	4,050	10,592	17,991	32,633	1,279	19,563	11,273	32,115
Domestic Trade	24,367	18,317	44,769	87,453	6,172	23,807	40,340	70,319
Construction	32,624	39,971	48,449	121,044	26,933	37,041	38,764	102,738
Housing	216,731	9,375	21,901	248,007	266,724	10,706	29,853	307,283
Personal	20,920	-	2,455	23,375	36,847	1,915	34,847	73,609
Professional	27,994	31,916	143,881	203,791	3,423	14,933	91,397	109,753
Other	1,498	3,325	10,259	15,082	1,325	697	56,019	58,041
Total	331,479	123,185	304,414	759,078	342,703	108,662	317,596	768,961

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(b) Credit risk (continued)

(iii) Renegotiated Loans and Advances

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. There were no renegotiated loans that would otherwise be past due or impaired at year-end (2011: Nil).

(iv) Settlement risk

The Company's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Company mitigates this risk by conducting settlements through a clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk Management.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

The table below presents an analysis of investments by rating agency designation at 31 December 2012, based on Standard & Poor's ratings or their equivalent.

	Amortised cost investments \$' 000	Investment fair value through P&L \$' 000	Total \$' 000
31 December 2012			
AAA	30,191	-	30,191
AA- to AA+	176,670	9,610	186,280
A- to A+	144,476	9,644	154,120
Lower than A-	4,139	-	4,139
Unrated	19,831	-	19,831
Total	375,307	19,254	394,561
31 December 2011			
AAA	29,343	-	29,343
AA- to AA+	199,526	-	199,526
A- to A+	128,522	-	128,522
Lower than A-	12,143	-	12,143
Unrated	25,800	-	25,800
Total	395,334	-	395,334

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(c) Market risk

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

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

Non-trading portfolios primarily arise from the interest rate management of the Company's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange risks arising from the Company's Amortised costs investments.

(i) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and PVBP, and by having pre-approved limits for re-pricing bands. PVBP is the method used on calculating the present value of an instrument in the case of a certain market interest rate shift and comparing this value with the present value of the same instrument. The difference between the present values for the different interest rates represents a change in the value and is indicative of the sensitivity of the instrument's price to a change in the interest rate. Refer to note 26 (c) (iii) for result of sensitivity analysis on interest rate movement using PVBP methodology.

The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The following tables represent the Company's non-trading portfolios by the earlier of contractual repricing or maturity date as at 31 December 2012 and the prior year.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

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

2012		The earlier maturity or repricing date					Total
	Note	Floating Interest Rate ¹ \$'000	1 Year or less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non-Interest bearing \$'000	\$'000
Financial assets							
Cash and liquid assets	7	10,886	-	-	-	3,045	13,931
Due from other financial institutions	8	4,844	49,677	-	-	-	54,521
Amortised costs investments	9	-	375,307	-	-	-	375,307
Fair value through P&L Investment	10	-	19,254	-	-	-	19,254
Loans and advances	11	705,683	13,468	36,253	3,435	-	758,839
Derivative financial assets	19	-	116	-	-	12	128
Intangible Assets	13	-	-	-	-	2,846	2,846
Plant and Equipment	14	-	-	-	-	5,425	5,425
Deferred tax assets	15	-	-	-	-	1,613	1,613
Other assets	16	-	-	-	-	1,841	1,841
		<u>721,413</u>	<u>457,822</u>	<u>32,653</u>	<u>3,435</u>	<u>14,782</u>	<u>1,233,705</u>
Financial liabilities							
Due to other financial institutions	17	-	3,856	-	-	1,321	5,177
Deposits	18	252,216	684,573	25	-	-	936,814
Derivative financial liabilities	19	-	-	-	-	1,292	1,292
Subordinated liabilities	20	-	96,584	-	-	-	96,584
Provisions	21	-	-	-	-	1,714	1,714
Other Liabilities	22	-	-	-	-	4,813	4,813
		<u>252,216</u>	<u>785,013</u>	<u>25</u>	<u>0</u>	<u>9,140</u>	<u>1,046,394</u>
Interest rate swaps ²		-	36,656	(36,656)	-	-	-
Interest rate gap		<u>469,197</u>	<u>(290,535)</u>	<u>(428)</u>	<u>3,435</u>	<u>5,642</u>	<u>187,311</u>

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

2. Notional principal amounts

Comparative 2011 table is set out on the next page.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

2011		The earlier maturity or repricing date					Total \$'000
Note	Floating Interest Rate ¹ \$'000	1 Year or less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non- Interest bearing \$'000		
Financial assets							
Cash and liquid assets	7	9,726	-	-	-	2,724	12,450
Due from other financial institutions	8	1,590	28,007	-	-	-	29,597
Amortised cost investments	9	-	395,334	-	-	-	395,334
Loans and advances	11	709,808	26,914	27,797	4,264	-	768,783
Derivative financial assets	19	-	186	-	-	67	253
Intangible Assets	13	-	-	-	-	2,372	2,372
Plant and Equipment	14	-	-	-	-	5,606	5,606
Deferred tax assets	15	-	-	-	-	1,436	1,436
Other assets	16	-	-	-	-	2,697	2,697
		721,124	450,441	27,797	4,264	14,902	1,218,528
Financial liabilities							
Due to other financial institutions	17	870	-	-	-	-	870
Deposits	18	304,564	621,383	250	-	-	926,197
Derivative financial liabilities	19	-	1,341	-	-	1,538	2,879
Subordinate Liabilities	20	-	99,340	-	-	-	99,340
Provisions	21	-	-	-	-	1,724	1,724
Other Liabilities	22	-	-	-	-	3,562	3,562
		305,434	722,064	250	-	6,824	1,034,572
Interest rate swaps ²		-	40,772	(40,772)	-	-	-
Interest rate gap		415,690	(230,851)	(13,225)	4,264	8,078	183,956

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign Exchange Risk

The Company does not hold a trading book (positions created from trading activities with a speculative purpose). The Company 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 Company's exposure to foreign currency exchange rate risk at year-end.

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

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

31 December 2011 \$'000	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	390	190	84	11,775	11	12,450
Due from other financial institutions	48	2	15	29,346	186	29,597
Amortised cost investments	12,847	14,533	800	367,154	-	395,334
Loans and advances	-	9,901	-	758,882	-	768,783
Deferred tax assets	-	-	-	1,436	-	1,436
Derivative financial asset	-	-	-	253	-	253
Plant and Equipment	-	-	-	5,606	-	5,606
Intangible assets	-	-	-	2,372	-	2,372
Other assets	-	-	-	2,697	-	2,697
Total assets	13,285	24,626	899	1,179,521	197	1,218,528
Due to other financial institutions	-	-	-	870	-	870
Deposits	13,094	12,097	939	899,884	183	926,197
Current tax liability	-	-	-	2,879	-	2,879
Derivative liabilities	-	99,340	-	-	-	99,340
Provisions	-	-	-	1,724	-	1,724
Other liabilities	-	-	-	3,562	-	3,562
Total liabilities	13,094	111,437	939	908,919	183	1,034,572
Shareholders' equity	-	-	-	183,956	-	183,956
Total liabilities and shareholders' equity	13,094	111,437	939	1,092,875	183	1,218,528
Net on-balance sheet position	191	(86,811)	(40)	86,646	14	-
Effect of derivatives held for risk management	-	86,659	-	(86,659)	-	-
Net currency position	191	(152)	(40)	(13)	14	-



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(c) Market risk (continued)

(iii) Sensitivity Analysis

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

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

An increase or decrease of 50 basis points in the yield curve is expected to result in a gain or loss of approximately \$238,150 (2011: \$406,950) on profit or loss and the same amount of increase or decrease in balance sheet assets.

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

An increase in currency exchange rates by 10% is expected to result in a gain of approximately \$2,792 (2011: \$1,751) on the profit and loss and the same amount of increase in balance sheet assets. A decrease in currency exchange rates by 10% is expected to result in a loss of approximately \$3,351 (2011: \$2,141).

(d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial instruments.

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(d) Liquidity Risk (continued)

(i) Measurement and limitation of maturity profile

The maturity profile is measured on a daily basis by monitoring the mismatch of maturing assets against maturing liabilities within prescribed maturity buckets. The cumulative maturity mismatch limit is -2% out to seven days with an internal trigger of 0% and the cumulative negative mismatch out to one month must not exceed 25% of total liabilities.

(ii) Minimum liquidity holdings

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

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

(iii) Diversified funding mix

The Company aims to achieve a diversified funding mix of deposits, by limiting deposits taken from any "Significant counterpart" to 15% of total liabilities. "Significant counterparts" are defined as counterparties or groups of connected or affiliated counterparties that have an aggregate balance greater than \$3m.

(iv) Uncommitted credit lines

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

(v) Contingency plan

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

Residual contractual maturities of financial liabilities

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

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 (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2012 \$'000	Repayable on demand	3 months or less	Over 3 mths but less than 1 yr	Over 1 but less than 5 yrs	Over 5 yrs	Total
Non-derivative liabilities						
Due to other financial institutions	1,321	3,862	-	-	-	5,183
Deposits	252,216	566,824	123,315	26	-	942,381
Subordinated liabilities	-	97,133	-	-	-	97,133
Interest payable	-	525	-	-	-	525
	<u>253,537</u>	<u>668,344</u>	<u>123,315</u>	<u>26</u>	<u>-</u>	<u>1,045,222</u>
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	270	429	629	32	1,360
- Foreign currency swaps	-	769	-	-	-	769
	<u>-</u>	<u>1,039</u>	<u>429</u>	<u>629</u>	<u>32</u>	<u>2,129</u>
Off balance sheet commitments						
Bank guarantee	13,826	-	-	-	-	13,826
Loan commitments	117,265	-	-	-	-	117,265
Trade Finance contingencies	3,812	-	-	-	-	3,812
	<u>134,903</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,903</u>
Total	<u>388,440</u>	<u>669,383</u>	<u>123,744</u>	<u>655</u>	<u>32</u>	<u>1,182,254</u>

Comparative 2011 table is set out on the next page.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

26 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2011 \$'000	Repayable on demand	3 months or less	Over 3 mths but less than 1 yr	Over 1 but less than 5 yrs	Over 5 yrs	Total
Non-derivative liabilities						
Due to other financial institutions	870	-	-	-	-	870
Deposits	304,564	322,977	308,341	264	-	936,146
Subordinated liabilities	-	871	2,632	99,901	-	103,404
Interest payable	-	530	-	-	-	530
	305,434	324,378	310,973	100,165	-	1,040,950
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	184	373	812	174	1,543
- Foreign currency swaps	-	1,130	-	-	-	1,130
	-	1,314	373	812	174	2,673
Off balance sheet commitments						
Bank guarantee	7,290	-	-	-	-	7,290
Loan commitments	54,811	-	-	-	-	54,811
Trade Finance contingencies	12,280	-	-	-	-	12,280
	74,381	-	-	-	-	74,381
Total	379,815	325,692	311,346	100,977	174	1,118,004



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

27 Capital Management (continued)

The Company's regulator, Australian Prudential Regulation Authority (APRA), sets and monitors capital requirements for the Company. In implementing current capital requirements, APRA requires the Company to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Company's regulatory capital is analysed into two tiers;

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

Various limits are applied to elements of the capital base. Total Tier 2 capital cannot exceed Tier 1 capital. Upper and lower Tier 2 capital cannot exceed 50% of Tier 1 capital.

Risk weighted assets are determined according to specific requirements that seek to reflect the varying level of risk attached to assets and off-balance sheet exposures.

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

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

27 Capital Management (continued)

The Company's regulatory capital position at 31 December was:

	Note	2012 \$'000	2011 \$'000
Tier 1 Capital			
Ordinary share capital	23	160,000	160,000
Retained profits	24	25,916	22,513
Available for sale and cash flow reserve	25	(1,299)	(1,033)
Less Deductions:			
Intangible assets	13	2,846	2,372
Deferred tax assets (net)	15	1,613	1,436
Fair value of cash flow hedges	25	(1,291)	(1,011)
Total		181,449	178,683
Tier 2 Capital			
General reserve for credit losses	25	2,694	2,476
Total		2,694	2,476
Total regulatory capital		184,143	181,159
Risk weighted assets¹		796,567	735,634
Capital ratios			
Total regulatory capital as % of risk weighted assets		23.12%	24.63%
Total tier 1 capital as % of risk weighted assets		22.78%	24.29%

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

28 Financial instruments

Net fair values of financial assets and liabilities

The net fair value estimates were determined by the following methodologies and assumptions:

Cash and liquid assets

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

Due from other financial institutions

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

Amortised cost investments

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

Fair value through profit and loss investments

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

Loans and advances

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

Due to other financial institutions and deposits

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

Interest rate swaps

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

FX swaps and foreign currency forward contracts

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

28 Financial risk management (continued)

Subordinated liabilities

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

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

	2012		2011	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and liquid assets	13,931	13,931	12,450	12,450
Due from other financial institutions	54,521	54,521	29,597	29,597
Investments amortised cost	375,307	378,940	395,334	388,412
Investments fair value through P&L	19,254	19,254	-	-
Derivative financial assets	128	128	249	249
Loans and advances	758,839	760,032	768,783	769,622
Liabilities				
Due to other financial institutions	5,177	5,177	870	870
Derivative financial liabilities	1,292	1,292	2,755	2,755
Deposits	936,814	936,814	926,197	926,197
Subordinated Liabilities	96,584	96,584	99,340	99,340

Fair value hierarchy

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

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

28 Financial risk management (continued)

Fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
31 December 2012				
Investment fair value through P&L	-	19,254	-	19,254
Derivative assets	-	128	-	128
Total	-	19,382	-	19,382
Derivative liabilities	-	1,292	-	1,292
Total	-	1,292	-	1,292
31 December 2011				
Derivative assets	-	249	-	249
Total	-	249	-	249
Derivative liabilities	-	2,755	-	2,755
Total	-	2,755	-	2,755
			2012	2011
			\$'000	\$'000

29 Commitments for expenditure

Operating leases

Future operating lease rentals not provided for and payable

Not later than one year	2,103	1,874
Later than one year but no later than two years	2,069	1,759
Later than two years but no later than five years	3,191	3,803
Later than five years	883	1,068
	8,246	8,504

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

	2012	2011
	\$	\$
30 Auditors' remuneration		
Amounts paid or due and payable to the Auditors of the Company for:		
Auditing the financial report	230,136	206,250
Taxation services	21,367	18,700
Other assurance services	-	6,270
Other services	17,824	-
	269,327	231,220

All amounts include 10% GST. In both 2012 and 2011 remuneration were due to Deloitte Touche Tohmatsu Australia

31 Commitments and contingencies

The Company 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:

	2012	2011
	\$'000	\$'000
	Face value	Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	13,826	7,290
Commitments to extend credit	117,265	54,811
Letter of Credit	3,812	12,280



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

32 Directors' remuneration

	2012	2011
	No.	No.

Directors' income

The number of directors of the Company whose income from the Company or related bodies corporate falls within the following bands:

\$ 0 - \$ 9,999	1	8
\$ 20,000 - \$39,999	-	-
\$ 40,000 - \$69,999	2	1
\$ 70,000 - \$79,999	3	2
\$ 120,000 - \$129,999	1	1
	7	12

	2012	2011
	\$	\$

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

Short term benefits	602,294	301,635
Other long term benefits	70,720	27,147
Total benefits to non-executive directors	673,014	328,782

Included in the 2012 total benefit disclosure are payments of \$125,000 to two directors for their services prior to 2012.

Remuneration of the Company's Managing Director and CEO is not included in the above table as he is not directly remunerated for his directorship. Note that his remuneration is disclosed in key management personnel benefit table as set out in note 33.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

33 Key management personnel disclosures

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

Non-executive directors

Mr N Pappas AM(Chairman)
 Mr N T Hatzistergos
 Mr G Gav
 Mr S Bracks
 Mr E Alouf
 Mr M Athanasiou
 Mr F Chaker

Executives

Mr J Wakim (Managing Director and CEO)
 Mr S Pasas (Chief Operating Officer)
 Mr S Hadjikyriacou (Head of Branch Network)
 Mr S Pambris (Deputy CEO and Head of Credit)
 Mr C Moutzikis (Head of Commercial Banking VIC&SA)
 Mr F Sankari (Head of Commercial Banking NSW)
 Mr T Scare (Head of International Banking)
 Mr A Nassar (Head of Retail Banking)

Transactions with key management personnel

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

	2012	2011
	\$	\$
Short term benefits	2,053,002	2,206,307
Long term benefits	6,387	17,505
Other long term benefits	154,361	181,664
Total benefit	2,213,750	2,405,476

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

32 Key management personnel disclosures (continued)

Loans and other transactions to key management personnel

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

	2012	2011
	\$	\$
Loans to key management personnel	7,417,468	8,907,749
Deposit accounts	(3,264,341)	(815,978)

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

Other key management personnel transactions with the Company

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

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

Director	Transaction	Note	2011	2010
			\$	\$
Mr Greg Gav	Rental Payments	(i)	619,230	593,966

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

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

34 Related parties transactions

(a) Transactions within the wholly-owned group

During the financial year the Company engaged in banking transactions with Bank of Beirut s.a.l., and its wholly owned subsidiaries. All transactions were on normal terms and conditions. Please refer to note 2, 3, 8, 9, 17, 19 and 20 for details of transactions and balances within the wholly-owned group.

(b) Transactions with other related parties

During the period the Company engaged in banking transactions with associated companies of Bank of Beirut s.a.l.. All transactions were on normal commercial terms and conditions.

Please refer to note 2, 3, 8, 9, 17, 19 and 20 for details of transactions and balances with other related parties.

(c) Parent entity

The parent entity of the Company is Bank of Beirut s.a.l., a Company incorporated in Lebanon.

(d) Key Management Personnel

Key Management Personnel and their close family members are also considered related parties. Transactions and balances with them are disclosed in Note 33. The Related party disclosures in Income Statement do not include interest income or expense on Key Management Personnel loans and deposits.

35 Financial reporting by segments

The Company does not have any separately reportable segments.

36 Notes to the statement of cash flows

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

(a) Reconciliation of cash

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:

	2012 \$'000	2011 \$'000
Cash	13,931	12,450
Due from other financial institutions - at call deposits	54,521	29,597
Total Cash and cash equivalents	<u>68,452</u>	<u>42,047</u>



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

35 Notes to the statement of cash flows

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

	2012 \$'000	2011 \$'000
Profit from ordinary activities after income tax	3,621	2,768
Add: non-cash items:		
Depreciation and amortisation of non-current assets	1,832	1,260
Increase/(Decrease) in provision for doubtful debts	25	(9)
Increase/(Decrease) in collective provisions	36	(10)
Increase/(Decrease) in provision for employee entitlements	(10)	374
Increase/(Decrease) in tax provision	789	(1,714)
Net Decrease/(Increase) in prepayments /accruals	89	938
Profit/(Loss) on sale of plant and equipment	-	(128)
Increase/(Decrease) in derivative financial instruments	25	1,618
(Increases)/decreases in assets and increases/ (decreases)in liabilities:		
Due from other financial institutions - others	-	16
Interest accruals	(6,912)	2,878
Loans and advances	9,586	3,266
Other assets	257	(1,583)
Due to other financial institutions	4,305	(42,500)
Deposits	18,075	78,518
Derivative liabilities	(4,338)	-
Other liabilities	909	2,011
Net cash used in operating activities	<u>28,289</u>	<u>47,703</u>

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2012

36 Notes to the statements of cash flows (continued)

(c) Net reporting of certain cash flows

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

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

36 Events subsequent to balance date

Subsequent to the end of the financial year, Cyprus Popular Bank Public Company Ltd (formerly Marfin Popular Bank Public Company Ltd) have exercised their Put Option in relation to their 7.5% interest in Beirut Hellenic Bank and upon completion of all regulatory approvals Bank of Beirut will increase its shareholding to 100%.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Declaration
For the year ended 31 December 2012

1. In the opinion of the directors of the Company:
- (a) the financial statements and notes, set out on pages 19 to 85, are in accordance with the Corporation Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2012 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 Company will be able to pay its debts as and when they become due and payable
2. The Directors draw attention to Note 1(a) to the financial statements, which include a statement of compliance with International Financial Reporting Standards..

Signed in accordance with a resolution of the directors:



Nikolas T Hatzistergos
Director



James Wakim
Director

Dated at Sydney on 17th April 2013.

Independent Auditor's Report to the members of Beirut Hellenic Bank Limited

We have audited the accompanying financial report of Beirut Hellenic Bank Limited, which comprises the statement of financial position as at 31 December 2012, the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 19 to 86.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

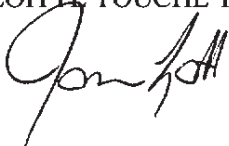
Opinion

In our opinion:

- (a) the financial report of Beirut Hellenic Bank Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Jamie C. J. Gatt
Partner
Chartered Accountants
Sydney, 17 April 2013



Bank of Sydney

Expect more
from us



Savings Account





Bank of Sydney

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