



Bank of Sydney

**Annual Report
2011**



Bank of Sydney

Expect more
from us



Savings Account



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CHAIRMAN'S FOREWORD

Having served as Chairman of Laiki Bank Australia for over 5 years, it is with great pleasure that I write this foreword to the first published annual report of Beirut Hellenic Bank as Chairman of its Board of Directors.

The landmark restructure of our Bank, which occurred in early 2011, saw Lebanon's highly esteemed Bank of Beirut acquire a majority stake in Laiki Bank Australia. Since the change, our new investor, our Board of Directors and our local management team have made it their foremost priority to invest in our people, our infrastructure, our processes and our systems with a view to enhancing the entire banking experience of the customers we are privileged to serve.

The composition of our Board of Directors has also seen improvement, with our new members, the Hon Steve Bracks AC, our previous CEO, Mr Michalis Athanasiou, Bank of Beirut Executives Mr Fouad Chaker and Mr Elias Alouf, and Managing Director, Mr James Wakim, all adding to the experience of our existing Board. Our Board has already devoted much time towards setting the new strategic direction of the Bank, while at the same time ensuring that the Bank maintains robust and effective corporate governance practices.

At the forefront of our business, we are fortunate to have a longstanding and experienced senior management team headed by James Wakim, who has speedily gained the support and respect of the Greek-Australian community, while at the same time broadening the Bank's outreach through its expansion into the Lebanese and Middle Eastern communities within which he is highly regarded.

In a challenging environment, our first 12 months have delivered encouraging results in our key business lines of retail banking and trade finance, and we have gained a stronger foothold in key geographic areas and market sectors including construction and property development.

We are confident that Beirut Hellenic Bank will continue with its pattern of steady and sustainable growth by providing our customers with the quality of service they deserve.



Nicholas Pappas
Chairman
Beirut Hellenic Bank



MANAGING DIRECTOR'S REPORT

I am excited to present you with the inaugural Annual Report of Beirut Hellenic Bank Ltd (the "Bank") following the acquisition of 92.5% of the share capital of Laiki Bank Australia Ltd by Bank of Beirut s.a.l on 28 February 2011.

I firstly would like to take this opportunity to congratulate the Board, the Management and the previous majority shareholder of Laiki Bank Australia on the outstanding manner in which they managed the Bank in one of the most competitive retail banking markets in the world, particularly at a time when all banks with the exception of Laiki Bank Australia experienced significant provisioning and write offs.

Looking back to 2011, the achievements we made have been nothing short of extraordinary and in line with our core value of "Expect more from me". Some of the significant projects that we accomplished during the 2011 year included the opening of 5 modern, open-plan branches; a complete rebranding of the Bank; the establishment and resourcing of a new Trade Finance activity; review and documentation of a new corporate governance structure at both the Board and management levels; a completely new state-of-the-art Internet Banking platform; the establishment of alliances with Australia Post, Western Union, Allianz Insurance and National Australia Bank for our cheque clearing; putting in place a 5-year business plan with appropriate resourcing; and, more recently, winning the Five Star Canstar award for our Smart Net Account in addition to two Money Magazine awards for both Smart Net and Term Deposit Accounts.

Given all of the above, we are confident that the Bank is now positioned to demonstrate its full capabilities and high service level to our valued customers in order to mark 2012 as the 'year of growth'.

With almost zero impaired loans we are the envy of our peers, and we will strive to deliver superior service to our customers who are our 'number one' ambassadors.

We will work in accordance with our Strategic Plan and drive our business in retail banking through the opening of additional branches, improved delivery channels as well as superior retail products and service. In business banking we will increasingly focus on the provision of true Relationship Banking service and competitive pricing in International Trade, we will leverage the excellent footprint and trade expertise that our Parent, Bank of Beirut s.a.l, currently has in the Middle East, North Africa, the Southern Mediterranean and Europe.

We are confident that over the next three years, Beirut Hellenic Bank, will go from strength to strength and provide an alternative in the local Banking Industry to customers seeking a different value proposition.

Throughout 2011 the bank recorded the following key objectives:

Financial Performance

The 2011 Financial Year results reflect the considerable efforts from all staff in a year of change and challenging market conditions. The Bank recorded a modest Net Profit before tax of \$3.98 Million reflecting the extensive investment undertaken in order to meet the strategic future growth objectives of the new shareholder.

Recurring Operating revenues remained strong with net interest income increasing by 14% to \$22 Million for the full 2011 year, whilst non-interest income increased by 10% to \$4.1 Million.

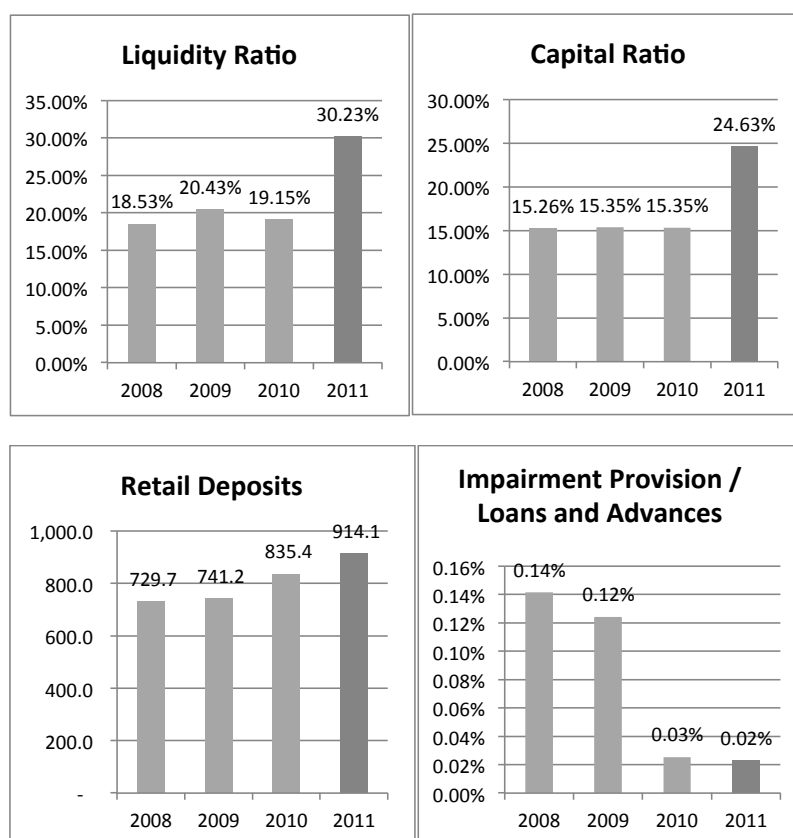


The Bank remained highly liquid, increasing its Liquidity ratio during the year from 19.15% to 30.23%. The Bank's Liquidity ratio is now one of the highest amongst its peers. This has been achieved through strong growth in our retail deposits despite the intense competition and the funding shifts from Wholesale to Retail in the Industry. Total retail deposits have increased by \$82.4 Million (or 9.76%) to reach \$926.2 Million as at the end of the year.

Our capital has been further enhanced through the injection of an additional \$80 Million in common shares from Bank of Beirut s.a.l. which resulted in a boost to the Bank's capital adequacy ratio from 15.35% to 24.63% as at 31 December 2011.

The persistent diligence of management toward maintaining high asset quality has resulted in a very low level of Impairment Provisions. As at 31 December 2011 Impairment provisions were \$178,000 or 0.02% of Total Loans and Advances.

Strong liquidity and capital positions provide capacity for growth in our Loan portfolio as well as our recently established Trade Finance market. This combined with greater economies of scale, new market segments and removal of integration costs, is expected to significantly bolster profitability in 2012.



Technology and Operations

Over the course of 2011 we completed all technology and application integration projects relating to the change in ownership. Integrating with our Parent has bestowed on us platform efficiencies while allowing us to support new Business lines like Trade Finance.



We are enthusiastic about Internet Banking and the new website introduced in mid- 2011, and the Paywave technology has allowed us to further our commitment to retail. We have extended our strategic partnerships with Fujitsu, FISERV and Telstra, while welcoming Rubik our Internet Banking provider as strategic partners in our Payments area, ensuring a path for growth over the next several years.

Our focus on increasing security and availability for our customers is continuous and has translated to a marked decrease in downtime across all areas.

Looking forward to 2012 we are eager to further enhance our online presence as well as increase automation within our growing branch network. Our co-operation with Australia Post will also assist us in increasing our accessibility and providing enhanced Internet Banking capabilities. Further to the above, I am pleased that at the time of writing this report, we have now already introduced Mobile Banking capability for our internet banking, taking a big step forward into the digital world.

Risk Management and Compliance

Prudent risk management and a strong culture of compliance and corporate governance across the Bank's business and operating functions are the keystones of the Bank's activities. This has been an objective of the Bank, built and implemented by its management and supported by an independent Risk and Compliance function. At the core of the Bank's risk management is the thorough assessment and analysis of the risks associated with the undertaking of the Bank's activities.

2011 was indeed a year of further strengthening and consolidation of the Risk and Compliance functions and culture within the Bank. Risk Management, Compliance and the Information Security departments of the Bank were consolidated under one Division reporting directly to the Managing Director. The risk management function continued to ensure that the Bank's Credit, Treasury and Operational risks were adequately identified, measured, monitored and managed so that all risks fell within the Bank's risk appetite.

A major objective for the Bank in 2012 will be to ensure that the Bank's strong risk and compliance culture is further entrenched within the Bank. Additionally there will be a strong focus on risk awareness throughout all the business and operating Departments of the Bank and the further embedding of a culture of strong corporate governance and adherence to an ever increasing Regulatory framework and environment.

Credit Risk Management

The 2011 year was one of challenging market conditions. Weaknesses in global financial markets were driven by concerns in subdued growth and a fear of 'double dip' recessions in the United States and Euro-zone economies, further compounded by sovereign debt concerns. Nevertheless we have continued to maintain high credit quality.

2011 witnessed a number of legislative changes such as the National Consumer Credit Protection Act (NCCPA), the Personal Property Securities Act (PPSA), and the Future of Financial Advice (FOFA) Reforms, all of which affected the credit landscape. The National Credit Code enforced the requirement of Responsible Lending for all credit providers and the inclusion of residential investment property lending under one nationally uniform framework to regulate consumer credit. This resulted in changes to our lending practices and loan documentation in order to comply with the responsible lending conduct and disclosure obligation requirements.



For 2012, our Bank will continue to focus on credit quality. We expect further pressure on loan servicing due to the current deteriorating economic environment and increased unemployment. Downward pressure on local property prices is also projected; however, our loan portfolio, with overall Loan to Value Ratio of 53.4% as at 31/12/2011, is well placed to absorb any movements.

Capital and Treasury

Throughout the adverse conditions experienced by global financial markets in 2011, Beirut Hellenic Bank maintained its position as one of the most liquid and well capitalised banks in Australia. In March 2011, our parent, Bank of Beirut s.a.l, injected \$80 Million of capital. This allowed the Bank to maintain a strong Tier One capital position of over 24% and we now look toward 2012 with renewed optimism. Economic developments abroad appear to be improving, and the Australian economy has so far weathered the worst of any global slowdown. Credit conditions are showing some signs of improvement, and we are in a privileged position to take full advantage of this more positive outlook for 2012.

We have seen our Bank thrive by increasing its deposits and customer base in 2011, due to the excellent service, products and deposit rates we offer to our customers. Our achievements were acknowledged with Beirut Hellenic Bank winning the prestigious Money Magazine award for 'Best DIY Super Savings Account' with our SmartNet Account and 'Best Long Term – Term Deposit' for our 12 month Term Deposit.

Foreign exchange income is expected to grow in 2012, aided by our competitive pricing on all foreign exchange transactions. We anticipate that the continued expansion of our retail business, coupled with the momentum we are seeing within our Trade Finance Operations, will lead to double digit growth in foreign exchange income in 2012.

Product Development and Distribution

The Bank has entered into an agreement with Australia Post to allow our customers access to 3200 Australia Post outlets for identification and our new Internet Banking and Website have also bolstered our digital presence.

We have formed strong alliances and partnerships in order to increase our competitive edge. One of these is our alliance with Western Union, where we were the first bank to become a Western Union agent providing our customers with alternative money transfer solutions. This year we have already forged new relationships, the first with Allianz Insurance. Our customers can now benefit from this additional product offering, of highly respected and competitive insurance products with the added customer service and convenience of completing these transactions at one of our many branches. Furthermore, in addition to using Australia Post for identification, we are finalising arrangements for Bank@post which will allow our Personal and Business customers to do their banking at any one of these outlets nationwide. A similar arrangement is also in progress with National Australia Bank, which will only deepen our distribution to more than that of all the 'Big 4' branches combined.

People Training and Development

2011 was a significant growth phase for the Bank as staff count grew from 122 in the previous year to 146. Our new corporate wardrobe added a professional edge to our front line staff and our image.



Our focus during the year was on setting the strategic direction; establishing the Vision, Mission and Key Value of “Expect more from me”; and creating Beirut Hellenic Institute, which enrolled an inaugural class of 17 students.

2012 will witness the opening of more new branches, the first graduating class of BHB Institute and the second intake of students. We are also planning to expand the BHB Institute to incorporate Sales and Service Training modules. Three areas – establishment of a Mentoring programme, recruitment of the right staff, and the revamping of our staff incentive scheme—will help take us to the next level of optimum.

Internal systems upgrades will also enable greater efficiencies and the roll-out of further development modules to strengthen the leadership skills of the team are high on the agenda.

Marketing and Community Involvement

Major accomplishments include successfully implementing the Bank’s new brand design and image bank. The new branch designs, logo, website, and image were rolled out successfully.

For 2012, the Marketing Department will focus on enhancing the brand of the Bank in the broader Australian community, promoting interaction and supporting worthwhile initiatives which are in line with the Bank’s vision of being a ‘Premier Australian Multicultural Bank’.

During 2011, 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 five new branches to grow closer to the communities we serve.

In order for our customers to understand and appreciate our new culture and the beginning of a new and exciting era, we implemented a state of the art open-plan branch design that is more focused on interactive customer service areas, with bright and inviting colours. We communicated regularly to our customers by providing information about current and future changes and new products and services.

In 2012, we have partnered with Momentum Partners, working together to ensure that our organisational structure is aligned to meet the needs of our strategic plan as well as the needs of our customers. This structure will also assist us as we plan to open additional new Branches and continue our commitment to provide excellence in personalised customer service that our customers have grown to expect.

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 2012 performance.



James Wakim
Managing Director & CEO
Beirut Hellenic Bank Ltd



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**Annual Financial Report
Year Ended 31st December, 2011**



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Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)

Corporate Governance Statement

For the year ended 31 December 2011

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 Beirut Hellenic Bank 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 (approved 18 October 2011). 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 Prudential Standard APS510 "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 Bank, including the establishment and empowerment of Committees of the Board to assist in its functions;
- Overseeing the business and affairs of the Bank 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 Bank is exposed from its activities;
 - o overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures, operational risk policies and practices and systems of internal controls;
 - o monitoring the performance of Management directly and through its Committees; and
 - o carrying out the functions specifically reserved to the Board and its Committees under the policy of the Board and the Charters of those Committees.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2011

- Approval of the Bank'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.

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 Bank to achieve the Bank's Vision. Within this delegation, the CEO is free to take all decisions and actions to achieve the Bank's Vision, but taking into account the accountability and reporting obligations and the CEO requirements.

In carrying out its role, the Board will operate in a manner reflecting the Bank's values and Codes of Conduct, and in accordance with the Board Charter, The Corporate Governance Guidelines, the Bank'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 stakeholders.

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 and 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 2011

Director Independence

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

In addition to being required to conduct themselves in accordance with the ethical policies of the Bank, directors are required to be meticulous in their disclosure of any material contract or relationship in accordance with the Corporations Act 2001 (Cth) and 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 Bank's policies.

Each Director may from time to time have dealings with the Bank and/or be involved with other companies or professional firms, which have dealings with the Bank. Full details of related party dealings are set out in notes to the Bank'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 Bank 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 Bank 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 Bank;
- 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 2011**

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 Bank.

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 APS 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 Bank 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 Bank's operations.

Conflicts of Interest

The Board has established a Director's Conflict of Interest Policy to clarify their responsibilities with respect to conflicts of interest. The Board must ensure that Directors avoid any action, position or interest that conflicts 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 2011

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
- Elias Alouf
- Michalis Athanasiou

The membership of the Board Audit Committee is compliant with Prudential Standard APS 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;



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2011

- 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 Bank's business, be informed of 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
- 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. 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 Bank'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 Bank 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 Bank's risk profile and understand the principal risks affecting the operations of the Bank.
- Review regulators' reports on the adequacy of the Bank's risk management systems.
- Establish and review on an on-going basis a framework for risk management throughout the Bank 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.



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Corporate Governance Statement (continued)
For the year ended 31 December 2011

- Promote and ensure a high level of awareness of risk management throughout the Bank.
- 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 Bank.
- Escalate material risk issues to the Board where appropriate.

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:

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.



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Corporate Governance Statement (continued)
For the year ended 31 December 2011

Product Development Committee – Oversee development of new products, monitor current products in line with the market and review current products in relation to quality, disclosure, risk and compliance.

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

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.

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

Security, Continuity and Information Technology Committee – Oversee, assess, monitor and manager any issues related to the Bank's Information Security Framework, including Business Continuity, in line with the Bank'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 2011

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. (92.5%) and Marfin Bank PLC (7.5%), are responsible for the appointment of the directors and auditors, as well as approval of the remuneration for provision of their services as directors of the Company.

Further to ensure that the board of directors fulfil their stewardship responsibilities, directors inform the shareholder of all significant events concerning the Bank 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 Bank are accountable directly to the Managing Director. As the Bank 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 Bank's business and its specific requirements.

Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report
For the year ended 31 December 2011

The Directors present their report together with the financial report of the Company for the year ended 31 December 2011 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

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.

Mr Greg Gav

Appointed 31 March 2005

Non-Executive Independent Director

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

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.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2011

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).

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.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2011

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 Marfin Popular Bank.

Mr Hikmat El-Bikai

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

Mr Christos Stylianides

Appointed 25 July 2007
Resigned on 28 February 2011
Non-Executive Director

Mr Panayiotis Kounnis

Appointed 26 September 2007
Resigned on 28 February 2011
Non-Executive Director

Mr Peter Mavridis

Appointed 26 November 2008
Resigned on 28 February 2011
Non-Executive, Independent Director



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2011

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	
	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	6	6	3	3	-	-
N. Hatzistergos	6	6	3	3	-	-
G. Gav	6	6	-	-	3	3
S. Bracks	3	2	-	-	-	-
J. Wakim*	5	5	-	-	-	-
E. Alouf	5	5	3	3	3	3
F. Chaker	5	5	-	-	-	-
M. Athanasiou	5	5	3	2	3	3
H. El-Bikai	1	1	-	-	-	-
C. Stylianides	1	-	-	-	-	-
P. Kounnis	1	-	-	-	-	-
P. Mavridis	1	-	-	-	-	-

* Note – Mr Wakim attended all three Board Audit Committee and Board Risk Management Committee Meetings for the 2011 year.

Principal activities

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

Results

The net profit of the Company was \$2,768,000 (2010: profit of \$5,503,000). The result included reversal of impairment losses for loans and advances of \$18,000 (2010: \$739,000).

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 2011

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 2011 (2010: Nil).

Review of Operations

At 31 December 2011, the Company's gross loan portfolio was \$769.0m (2010: \$772.3m) and its customer deposits \$926.2m (2010: \$843.8m). This represents a decrease of 0.43% in loans and an increase of 9.78% in deposits when compared to the balances as at 31 December 2010. The Company had 146 employees as at 31 December 2011 (2010: 122).

State Of Affairs

On 28th February 2011, Bank of Beirut s.a.l. acquired a majority 85% shareholding in the Company from Marfin Popular Bank Public Co. Limited (MPB). Before the transaction, 100% of the Company's shares were owned by MPB. On 2nd March 2011 Bank of Beirut s.a.l. injected a further \$80 million of capital into the Company. As a result of these two transactions, Bank of Beirut s.a.l. now owns 92.5% of the Company and MPB remains a minority shareholder holding 7.5% of the Company.

Effective 2nd March 2011, the Company changed its name to Beirut Hellenic Bank Ltd from Laiki Bank (Australia) Limited.

Since the change in the ownership structure, the Company has continued its strategy to operate as a retail bank to meet the financial needs of individual and small to medium enterprise customers. This has been reinforced by the opening of five additional branches during the financial year to bring the total number of branches to fifteen.

In addition, the Company has expanded its product range to include Trade Finance, leveraging from the strength of the Bank of Beirut s.a.l. in this area, to meet the needs of trade importers and exporters, particularly to the Middle Eastern and Mediterranean regions.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Report (continued)
For the year ended 31 December 2011

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Likely developments

The directors believe on reasonable grounds that inclusions in this report of further information regarding likely developments in the operations of the 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.

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 25th April 2012.

The Board of Directors
Beirut Hellenic Bank Ltd
219-223 Castlereagh Street St
SYDNEY NSW 2000

25 April 2012

Dear Board Members

Beirut Hellenic Bank Ltd

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

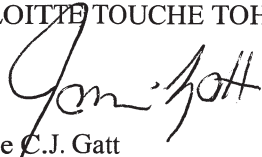
As lead audit partner for the audit of the financial statements of Beirut Hellenic Bank Ltd for the financial year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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 2011

	Note	2011 \$'000	2010 \$'000
Interest income	2	78,324	62,507
Interest expense	3	(56,303)	(43,253)
Net interest income		22,021	19,254
Non-interest income	4	4,070	3,713
Net operating income		26,091	22,967
Operating expenses	5	(22,129)	(15,846)
Reversal of impairment losses on loans and advances	11	18	739
Profit before income tax		3,980	7,860
Income tax expense	6	1,212	2,357
Profit for the year		2,768	5,503
Attributable to:			
Equity holders of the Company		2,768	5,503
Profit for the year		2,768	5,503

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 2011

	Note	2011 \$'000	2010 \$'000
Net profit for the year	23	2,768	5,503
Other comprehensive income, net of income tax			
Cash flow hedges:			
Effective portion of changes in fair value		(695)	(94)
Net amount transferred to income statement		(208)	(405)
Fair value reserve (available for sale financial assets):			
Net amount transferred to income statement	24	59	145
Other comprehensive income for the period, net of income tax		<u>(844)</u>	<u>(354)</u>
Total comprehensive income for the year		<u>1,924</u>	<u>5,149</u>
Attributable to:			
Equity holders of the Company		<u>1,924</u>	<u>5,149</u>
Total comprehensive income for the year		<u>1,924</u>	<u>5,149</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 2011

	Note	2011 \$'000	2010 \$'000
Assets			
Cash and liquid assets	7	12,450	12,284
Due from other financial institutions	8	29,597	33,327
Amortised cost investments	9	395,334	169,337
Loans and advances	10	768,783	772,145
Derivative financial assets	18	253	331
Intangible assets	12	2,372	667
Plant and equipment	13	5,606	3,248
Deferred tax assets	14	1,436	783
Other assets	15	2,697	492
Total assets		1,218,528	992,614
Liabilities			
Due to other financial institutions	16	870	42,906
Deposits	17	926,197	843,751
Current tax liability		-	569
Derivative liabilities	18	2,879	826
Subordinated liabilities	19	99,340	-
Provisions	20	1,724	1,333
Other liabilities	21	3,562	1,197
Total liabilities		1,034,572	890,582
Net assets		183,956	102,032
Equity			
Contributed equity	22	160,000	80,000
Reserves	24	1,443	2,007
Retained profits	23	22,513	20,025
Total equity		183,956	102,032

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



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Statement of Cash Flows
For the year ended 31 December 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Interest and commission receipts		82,311	64,974
Interest payments		(51,423)	(40,035)
Cash payments to employees and suppliers		(19,986)	(14,977)
Income tax paid		(2,926)	(2,928)
		7,976	7,034
(Increase) / decrease in operating assets			
Due from other financial institutions - other		16	(16)
Loans and advances		3,266	(13,279)
Other assets		(1,584)	170
Increase / (decrease) in operating liabilities			
Due to other financial institutions		(42,500)	(48,624)
Deposits		78,518	94,110
Other liabilities		2,011	(1,891)
Net cash used in operating activities	35(b)	47,703	37,504
Cash flows from investing activities			
Payments for intangible assets		(2,062)	(232)
Payments for plant and equipment		(3,133)	(376)
Payments for amortised cost investments		(224,384)	(15,420)
Net cash used in investing activities		(229,579)	(16,028)
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		(3,548)	21,476
Cash at the beginning of the financial year		45,595	24,119
Cash at the end of the financial year	35(a)	42,047	45,595

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 2011

	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)
Statement of Changes in Equity
For the year ended 31 December 2011

	Contributed Equity	General reserve for credit losses	Available for sale reserve	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2010	80,000	2,161	(226)	391	14,557	96,883
Total comprehensive income for the year						
Profit or loss	-	-	-	-	5,503	5,503
Transfers from retained earnings to general reserve	-	35	-	-	(35)	-
Other comprehensive income, net of income tax						
Net amount transferred to profit or loss	-	-	145	(405)	-	(260)
Effective portion of changes in fair value	-	-	-	(94)	-	(94)
Total other comprehensive income	-	-	145	(499)	-	(354)
Total comprehensive income for the year	-	35	145	(499)	5,468	5,149
Balance at 31 December 2010	80,000	2,196	(81)	(108)	20,025	102,032

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 2011**

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 25th April 2012.

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 2011

1. Summary of significant accounting policies

(b) Changes in accounting Policies

The Company has early adopted AASB 9 Financial Instruments issued in December 2010 with a date of initial application of 1 January 2011.

The requirements of AASB 9 represent a significant change from the classification and measurement requirements in AASB139 "Financial Instruments: Recognition and Measurement" in respect of financial assets. AASB 9 contains two primary measurement categories for financial assets: amortised cost and fair value. Unless it is designated as measured at fair value, a financial asset is 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 specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. The standard eliminates the existing AASB139 categories of held to maturity, available-for-sale and loans and receivables.

On initial adoption of AASB 9, the Company assessed that all its financial assets met the definition of amortised costs category based on the business model applicable at the time. This classification was applied retrospectively.

There was no impact on the Income Statement or Statement of Financial Position as the basis of measurement did not change.

For more information and details of the new classification see note 1 (i).



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 2011

(c) 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 transaction 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.

(d) 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.

(e) 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.

(f) Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to derivatives that do not qualify for hedge accounting and are held for risk management purposes, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.



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 2011

1. Summary of significant accounting policies

(g) Cash and cash equivalents

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

(h) Due from other financial institutions

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

(i) Financial Instruments

The Company is a financial institution that offers an extensive range of financial instruments. Non-derivative financial instruments are classified and measured as follows by the Company.

In 2011 (following adoption of AASB9):

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 (i) and (k) 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 9 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 2011

(i) Financial Instruments (continued)

Financial Liabilities: The Bank classifies its financial liabilities as measured at amortised cost. This category includes non-derivative financial liabilities that are not classified as fair value through the profit and loss. They are measured at amortised cost and further details on the Company's accounting for financial liabilities have been included in Note 1(q).

In 2010 (prior to adoption of AASB 9):

Loans and advances: This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost.

Held to maturity investments: This category includes non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company has a positive intention and ability to hold to maturity. They are measured at amortised cost.

Available for sale investments: Available for sale investments are non-derivative investments that are not designated as another category of financial assets. All other available for sale investments are carried at fair value.

Investments at fair value through the profit or loss: An instrument is classified at fair value through the profit or loss if it is held for trading or is designated as such upon initial recognition. 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.

(j) Amortised cost investments

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(c).

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 2011

1. Summary of significant accounting policies

(k) Loans and advances

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

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 10 (b) for further details.

Impairment of a loan is recognised when objective evidence 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(c).



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 2011

(l) 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 2011

1. Summary of significant accounting policies

(l) 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 the adjusted pledged value of collateral. 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.

(m) 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 cost. Subsequent to initial recognition, derivative financial instruments are recognised at fair value. 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 2011

(m) Derivative instruments (continued)

Cash flow hedges

The Company has applied the cash flow hedge accounting model for the first time effective from 1st July 2009. 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 23 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 2011

1. Summary of significant accounting policies

(n) 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:

2011	2010
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 2011

(o) Plant and Equipment

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

Useful lives

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

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods are reviewed annually to ensure they appropriately reflect residual values and estimated useful lives. When changes are made, adjustments are reflected prospectively in current and future periods only. The depreciation rates used for each class of asset are as follows:

	2011	2010
Plant and equipment		
Leasehold improvements	10%	10%
Plant and equipment	10%	10%
Furniture and fittings	10% to 20%	10%
Computer hardware	20% to 25%	20%
Motor vehicle	20%	N/A

(p) Foreign currency

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

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



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 2011

1. Summary of significant accounting policies

(q) 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 (c).

(r) Income Tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

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 2011

(s) Leases

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

(t) 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 \$904,138 (2010: \$640,729).

(u) 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 2011

(v) 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.

(w) Adoption of new and revised standards

The Company has adopted all mandatory Australian Accounting Standards and Interpretations for annual reporting periods beginning on or after 1 January 2011. Adoption of these Standards and Interpretations has not had any effect on the financial position or performance of the Company or the disclosures.

(x) 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 2011. 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 2011

(y) Use of estimates and judgements

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

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

The following are the critical judgements and estimates that the directors have made in the process of applying the 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 27, 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 27 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed disclosure of carrying amounts and estimated fair value of financial assets and liabilities.

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

- **Impairment**

As described in note 1 (l), 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 2011

	2011	2010
	\$'000	\$'000
2 Interest Income		
Cash and liquid assets	532	370
Due from other financial institutions	1,854	999
Amortised cost investments		
- banks	16,823	7,407
- related party	125	405
Loans and advances	58,990	53,326
	<u>78,324</u>	<u>62,507</u>
	2011	2010
	\$'000	\$'000
3 Interest expense		
Due to other financial institutions		
- banks	1,726	1,064
- related party	21	4,363
Deposits	47,796	37,826
Subordinated liabilities - parent company	2,712	-
FX Swaps - parent company	4,048	-
	<u>56,303</u>	<u>43,253</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 2011

	2011	2010
	\$'000	\$'000
4 Non-Interest Income		
Net fees and commission income	2,794	2,620
Net Income from sale of securities	253	-
Net foreign exchange gain	1,074	1,052
Unrealised gain/(loss) on derivatives	(51)	41
	4,070	3,713
5 Operating expenses		
Staff expenses	12,577	9,330
Computer expenses	1,737	1,219
Occupancy costs	2,140	1,825
Depreciation of property and equipment	903	880
Amortisation of intangibles	357	243
Marketing expenses	1,404	637
Other operating expenses	3,011	1,712
	22,129	15,846



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 2011

	2011 \$'000	2010 \$'000
6 Taxation		
(a) Income tax expense		
Current tax expense		
Current period	1,475	2,218
Adjustment for prior period	4	11
	<u>1,479</u>	<u>2,229</u>
Deferred tax expense		
Deferred tax expense recognised in the current year	(395)	146
Adjustment to deferred tax attributable to TOFA	46	-
Adjustment for prior period	82	(18)
	<u>(267)</u>	<u>128</u>
Total income tax expense	<u>1,212</u>	<u>2,357</u>
(b) Reconciliation between tax expense and pre-tax net profit		
Profit before tax	<u>3,980</u>	<u>7,860</u>
Income tax using the Company's tax rate of 30%	1,195	2,358
Non-deductible expenses	13	6
Prior period under provision	4	(7)
Income tax expense	<u>1,212</u>	<u>2,357</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 2011

	2011	2010
	\$'000	\$'000
7 Cash and liquid assets		
Cash at bank	2,723	2,450
Cash held with central bank	9,727	9,834
	<u>12,450</u>	<u>12,284</u>
8 Due from other financial institutions		
Australia	29,291	31,647
Related parties	231	776
Other	75	904
	<u>29,597</u>	<u>33,327</u>
Residual Maturity analysis		
At Call	29,597	33,311
1 to 3 months	-	4
3 to 12 months	-	12
	<u>29,597</u>	<u>33,327</u>
9 Amortised cost investments		
Bank Bills	41,970	19,956
Floating rate notes	313,609	116,633
Fixed term deposits - related parties	27,948	32,748
Fixed term deposit- Local Banks	11,807	-
	<u>395,334</u>	<u>169,337</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 2011

	2011	2010
	\$'000	\$'000
9 Amortised cost investments (continued)		
Residual Maturity Analysis (excluding provisions)		
Up to 1 month	78,730	36,143
1 to 3 months	6,656	18,384
3 to 12 months	13,469	25,277
12 months to 5 years	296,479	89,533
	<u>395,334</u>	<u>169,337</u>

Prior to the adoption of AASB 9 on 1 January 2011, the Company's entire investment portfolio was classified as held to maturity investments. AASB 9 eliminates the category of held to maturity, available for sale and loans and receivable, and only contains two primary measurement categories for financial assets: amortised cost and fair value. After early adoption of AASB 9, the Company's investment portfolio at 31 December 2011 was classified as amortised cost investments.

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.

During the year 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). In accordance with AASB 9 the Company will reclassify 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 their fair value at the same date is \$20.2 million. The negative difference between the carrying value and the fair value of \$12,519 will be accounted for in the income statement for the financial period starting on 1 January 2012.

As at the end of the reporting period, the Company held an amount of \$11.6m with Westpac Banking Corporation (Westpac) as a security deposit for a payment agency agreement entered into between Westpac and 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 2011

	Note	2011 \$'000	2010 \$'000
10 (a) Cash and liquid assets			
Loans and advances		717,280	718,822
Overdrafts		51,681	53,519
Gross loans and advances		768,961	772,341
Less -			
Collective provision	11	(141)	(151)
Specific provision	11	(37)	(45)
Net loans and advances		768,783	772,145

Residual Maturity analysis (excluding provisions)

Overdrafts	51,681	53,519
Up to 1 month	45,431	55,264
1 to 3 months	22,481	15,384
3 to 12 months	70,151	78,973
12 months to 5 years	86,253	121,971
Over 5 years	492,964	447,230
	768,961	772,341

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

Refer to Note 25 for additional disclosures to meet requirements of AASB7 – *Financial Instruments: Disclosures*.

10 (b) Hedge accounting adjustment

Hedge accounting was applied effective 1 July 2008. The fair value of the interest rate swaps as at 31 December 2011 used for cash flow hedges was negative \$1,195,700. The fair value of the interest rate swaps as at 31 December 2011 used for fair value hedges was negative of \$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 2011

10 (b) Hedge accounting adjustment (continued)

	2011	2010
	\$'000	\$'000
Gross loans and advances		
Carrying amount	768,540	771,572
Fair value adjustment	421	769
Total	768,961	772,341
	2011	2010
	\$'000	\$'000

11 Provision for impairment

(a) Collective provisions

Opening balance	151	-
Recoveries recognised in income statement	(10)	(49)
Charge to income statement	-	200
Closing balance	<u>141</u>	<u>151</u>

Specific provisions

Opening balance	45	942
Write off against provision	-	(7)
Recoveries recognised in income statement	(8)	(910)
Charge to income statement	-	20
Closing balance	<u>37</u>	<u>45</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 2011

	2011 \$'000	2010 \$'000
11 (a) Provision for impairment (continued)		
Reconciliation of impairment losses / (recoveries) of impairment losses		
Collective provisions		
-recoveries	(10)	(49)
-current year charge	-	200
Specific provisions		
-recoveries	(8)	(910)
-current year charge	-	20
Impairment gain	(18)	(739)

The Company did not recognise any material interest income on impaired assets as at 31 December 2011. (2010: 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 2010. (2010: 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 (2010: 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 2011

11 Provision for impairment (continued)

(b) Impaired assets (continued)

Under AASB 139, impairment losses are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts. The 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:

	2011	2010
	\$'000	\$'000
Loans and advances to customers		
Past due but not impaired	24,440	25,449
Impaired	579	65
Gross impaired assets	25,019	25,514
Less: Specific provision	(37)	(45)
Net impaired assets	24,982	25,469

Refer to Note 25 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 2011

	2011 \$'000	2010 \$'000
12 Intangible assets		
Computer software		
At cost	3,205	4,433
Less: Accumulated amortisation	(833)	(3,766)
	2,372	667
Opening balance	667	678
Additions	2,061	232
Amortisation expense	(356)	(243)
Net book value	2,372	667
13 Plant and equipment		
Plant and equipment		
At cost	4,461	3,713
Less: Accumulated depreciation	(2,673)	(2,300)
	1,788	1,413
Leasehold		
At cost	5,959	4,772
Less: Accumulated depreciation	(2,239)	(2,937)
	3,720	1,835
Motor Vehicle		
At cost	120	-
Less: Accumulated depreciation	(22)	-
	98	-
Net book value	5,606	3,248



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 2011

13 Plant and equipment (continued)

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

	2011	2010
	\$'000	\$'000
Plant and equipment at cost		
Opening balance	1,413	1,466
Additions	809	361
Net book value of assets disposed during the year	(9)	(16)
Depreciation expense	(425)	(398)
	1,788	1,413
Leasehold property at cost		
Opening balance	1,835	2,302
Additions	2,399	15
Net book value of assets disposed during the year	(58)	-
Depreciation expense	(456)	(482)
	3,720	1,835
Motor Vehicle at cost		
Opening balance	-	-
Additions	120	-
Depreciation expense	(22)	-
	98	-
	5,606	3,248



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 2011

14 Deferred tax assets

Deferred income tax assets are attributable to the following items:

	2011	2010
	\$'000	\$'000
Deferred tax assets		
Provisions	877	639
Cash flow hedge reserve	432	46
Fixed assets	238	247
Fair value reserves	27	35
Total deferred tax asset	1,574	967
Deferred tax liabilities		
Fair value of financial instruments	(127)	(170)
Bank Bills accrued interest	(10)	(13)
Unrealised FX gain	(1)	(1)
Total deferred tax liabilities	(138)	(184)
Net deferred tax asset	1,436	783

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

	2011	2010
	\$'000	\$'000
Deferred tax assets		
Opening balance	783	759
Deferred tax credit/(charges) to income statement	267	(128)
Deferred tax credit recognized in equity	386	152
Net deferred tax asset	1,436	783



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
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For the year ended 31 December 2011

	2011 \$'000	2010 \$'000
15 Other assets		
Income tax prepayment	888	-
Other	1,809	492
	2,697	492
16 Due to other financial institutions		
Due to other financial institutions		
- parent entity	229	9,857
- related party	641	33,049
	870	42,906
Residual Maturity analysis		
At call	870	396
Up to 1 month	-	9,820
1 to 3 months	-	32,690
	870	42,906

The parent entity in 2011 refers to Bank of Beirut s.a.l (2010: Marfin Popular Bank Public Co. Limited) and the related party in 2011 refers to wholly owned subsidiaries and associated companies of Bank of Beirut s.a.l (2010: Marfin Popular Bank Group). Please refer to note 33 (a) for details of changes in related party relationship in 2011.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
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		2011	2010
		\$'000	\$'000
17	Deposits		
	Current	70,683	66,132
	Savings	148,687	38,408
	At call	85,194	134,414
	Term	621,633	604,797
		926,197	843,751

Residual Maturity Analysis

At call	304,564	238,954
Up to 1 month	89,323	119,096
1 to 3 months	231,035	242,054
3 to 12 months	301,025	243,643
12 months to 5 years	250	4
	926,197	843,751



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 2011

18 Derivative Financial Instruments

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

	2011	2010
	\$'000	\$'000
Asset		
Interest rate swaps- Local banks	67	331
Foreign currency forwards- parent entity	186	-
	<u>253</u>	<u>331</u>
Liabilities		
Interest rate swaps - Local banks	1,358	697
- Other	180	129
Foreign currency forwards - parent entity	1,319	-
Foreign currency forwards - Other	22	-
	<u>2,879</u>	<u>826</u>

The Company uses foreign currency, interest rate swaps and forwards for hedging purposes only. These represent commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This credit risk is mitigated through dealing only with either the Bank of Beirut s.a.l or with Australian Banks, except for the ones entered with Marfin Popular Banks Public Co. Limited prior to 2010.

During the year, all interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges. The interest rate swaps payments and receipts and the interest payments on the deposit occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the term of the hedged item. In 2011, the cash flow hedge was 100% effective and no ineffectiveness was recognized in the income statement.

For two interest rate swap contracts designated as fair value hedge, the hedged item, which is the carrying value of two fixed rate loans, was adjusted by a positive amount of \$59,744. The other side of the entry was recognised as a gain in the income statement. At the same time an offsetting amount of \$52,317, representing movement in the fair value of the interest rate swaps, was also included in the income statement.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
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For the year ended 31 December 2011

	2011 \$'000	2010 \$'000
19 Subordinated liabilities		
Subordinated notes issued	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.</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>		
20 Provisions		
Provision for employee entitlements		
Annual leave provision	848	612
Long service leave provision	633	495
Make good provision	243	226
	<u>1,724</u>	<u>1,333</u>
Number of Employees	<u>146</u>	<u>122</u>
21 Other liabilities		
Bank cheques issued awaiting clearance	1,484	750
Other	2,078	447
	<u>3,562</u>	<u>1,197</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 2011

22 Contributed equity

	2011	2010
	\$'000	\$'000
160,000,000 ordinary shares fully paid	160,000	80,000

On 28th February 2011, Bank of Beirut s.a.l. acquired a majority 85% shareholding in the Company from Marfin Popular Bank Public Co. Limited ("MPB"). Before the transaction, 100% of the Company's shares were owned by MPB. On 2nd March 2011 Bank of Beirut s.a.l. injected a further AUD80 million of capital into the Company. As a result of these two transactions, Bank of Beirut s.a.l. now owns 92.5% of the Company and MPB remains a minority shareholder holding 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 2011

	2011	2010
	\$'000	\$'000
23 Retained profits		
Retained profits at beginning of year	20,025	14,557
Net profit after income tax	2,768	5,503
Transfer to general reserve for credit losses	(280)	(35)
Retained profits at year-end	<u>22,513</u>	<u>20,025</u>
24 Reserves		
General Reserve for Credit Losses		
Opening Balance	2,196	2,161
Transfer from retained profits during the year	280	35
Closing Balance	<u>2,476</u>	<u>2,196</u>
Available for sale reserve		
Opening Balance	(81)	(226)
Transfer from reserves during the year	59	145
Closing Balance	<u>(22)</u>	<u>(81)</u>
Cash flow hedge reserve		
Opening Balance	(108)	391
Transfer (to) / from reserves during the year	(903)	(499)
Closing Balance	<u>(1,011)</u>	<u>(108)</u>
Total Reserves	<u>1,443</u>	<u>2,007</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 2011

25 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. The Board has established the Risk and Compliance Committee, which 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 2011

25 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 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.
- 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 2011

25 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	2011 \$'000		2010 \$'000	
		Loans and advances	Impairment provision	Loans and advances	Impairment provision
1.	Low/Insignificant	-	-	-	-
2.	Minimal	77,467	1	80,410	1
3.	Moderate	230,153	3	285,956	1
4.	Acceptable	358,294	5	310,164	2
5.	Acceptable with care	84,584	81	78,683	92
6.	Management Attention	15,984	47	15,968	30
7.	High	1,900	4	1,095	23
8.	High & Problematic	533	2	4	-
9.	Very High & Problematic	46	35	61	47
10.	Loss	-	-	-	-
Total		768,961	178	772,341	196

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 11(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 2011

25 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 2011 and 2010, 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.

	2011	2010
	\$'000	\$'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Retail	342,703	337,102
Loans to corporate entities:		
- Large corporate customers	108,662	114,778
- Small and medium size enterprises (SMEs)	317,596	320,461
Due from other financial institutions	29,597	33,327
Amortised costs investments	395,334	169,337
Total	1,193,892	975,005
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	7,290	5,996
Loan commitments and other credit related liabilities	54,811	100,212
Letters of credit	12,280	-
Total	74,381	106,208

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 \$1,581 million as at 31 December 2011.

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 2011

25 Financial risk management (continued)

(b) Credit risk (continued)

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

31 December 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

31 December 2010

\$'000's

	Corporate Entities			Total
	Individuals (retail customers)	Large corporate customers	SMEs	
Past due up to 30 days	9,359	1,301	13,478	24,138
Past due 30 - 60 days	509	-	147	656
Past due 60 - 90 days	401	-	-	401
Past due more than 90 days	254	-	-	254
Total	10,523	1,301	13,625	25,449

The Company holds collateral with carrying value totalling \$53.7m for assets which are past due but not impaired as at 31 December 2011.



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 2011

25 Financial risk management (continued)

(b) Credit risk (continued)

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

	2011	2010
	\$'000	\$'000
Impaired Loans		
Individual (retail customers)	573	52
Corporate Entities		
- SMEs	-	13
Total	<u>573</u>	<u>65</u>

The Company holds collaterals with carrying value totalling \$0.75m for the impaired assets as at 31 December 2011.

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	2011 \$000				2010 \$000			
		Corporate Entities		Total		Corporate Entities		Total
	Individuals (Retail Customers)	Large Corporate Entities	SMEs		Individuals (Retail Customers)	Large Corporate Entities	SMEs	
Manufacturing	-	-	15,103	15,103	-	-	15,805	15,805
Tourism	1,279	19,563	11,273	32,115	975	17,788	10,613	29,376
Domestic Trade	6,172	23,807	40,340	70,319	7,769	1,103	65,441	74,313
Construction	26,933	37,041	38,764	102,738	23,064	41,450	28,911	93,425
Housing	266,724	10,706	29,853	307,283	262,701	14,280	30,457	307,438
Personal	36,847	1,915	34,847	73,609	36,690	1,915	33,094	71,699
Professional	3,423	14,933	91,397	109,753	4,975	34,633	99,088	138,696
Other	1,325	697	56,019	58,041	825	3,608	36,960	41,393
Total	342,703	108,662	317,596	768,961	337,000	114,777	320,368	772,145

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 2011

25 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 (2010: 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.

The table below presents an analysis of investments by rating agency designation at 31 December 2011, based on Standard & Poor's ratings or their equivalent.

	2011	2010
	\$'000	\$'000
Amortised cost investments		
AAA	29,343	39,668
AA- to AA+	199,526	67,928
A- to A+	128,522	25,006
Lower than A-	12,143	36,735
Unrated	25,800	-
Total	395,334	169,337



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 2011

25 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 25 (c) (iii) for result of sensitivity analysis on interest rate movement using PVBP methodology.

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

The following tables represent the Company's non-trading portfolios by the earlier of contractual repricing or maturity date as at 31 December 2011 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 2011

25 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 costs investments	9	-	395,334	-	-	-	395,334
Loans and advances	10	709,808	26,914	27,797	4,264	-	768,783
Derivative financial assets	18	-	186	-	-	67	253
Intangible Assets	12	-	-	-	-	2,372	2,372
Plant and Equipment	13	-	-	-	-	5,606	5,606
Deferred tax assets	14	-	-	-	-	1,436	1,436
Other assets	15	-	-	-	-	2,697	2,697
		721,124	450,441	27,797	4,264	14,902	1,218,528
Financial liabilities							
Due to other financial institutions	16	870	-	-	-	-	870
Deposits	17	304,564	621,383	250	-	-	926,197
Derivative financial liabilities	18	-	1,341	-	-	1,538	2,879
Subordinated liabilities	19	-	99,340	-	-	-	99,340
Provisions	20	-	-	-	-	1,724	1,724
Other Liabilities	21	-	-	-	-	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

Comparative 2010 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 2011

25 Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

2010	Note	The earlier maturity or repricing date					Total \$'000
		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	9,834	-	-	-	2,450	12,284
Due from other financial institutions	8	2,307	31,004	-	-	16	33,327
Amortised cost investments	9	-	169,337	-	-	-	169,337
Loans and advances	10	704,403	29,625	31,376	6,741	-	772,145
Derivative financial assets	18	-	-	-	-	331	331
Intangible Assets	12	-	-	-	-	667	677
Plant and Equipment	13	-	-	-	-	3,248	3,248
Deferred tax assets	14	-	-	-	-	783	783
Other assets	15	-	-	-	-	492	492
		716,544	229,966	31,376	6,741	7,987	992,614
Financial liabilities							
Due to other financial institutions	16	396	42,510	-	-	-	42,906
Deposits	17	238,954	604,793	4	-	-	843,751
Derivative financial liabilities	18	-	-	-	-	826	826
Provisions	20	-	-	-	-	1,333	1,333
Other Liabilities	21	-	-	-	-	1,766	1,766
		239,350	647,303	4	-	3,925	890,582
Interest rate swaps ²			39,347	(39,347)			
Interest rate gap		477,194	(377,990)	(7,975)	6,741	4,062	102,032

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 2011

25 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 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
Derivative liabilities	-	-	-	2,879	-	2,879
Subordinated 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 2011

25 Financial risk management (continued)

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

31 December 2010 \$'000	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	313	194	59	11,718	-	12,284
Due from other financial institutions	701	892	60	31,654	20	33,327
Amortised cost investments	11,433	8,923	1,368	146,795	818	169,337
Loans and advances	-	-	-	772,145	-	772,145
Deferred tax assets	-	-	-	783	-	783
Derivative financial asset	-	-	-	331	-	331
Plant and Equipment	-	-	-	3,248	-	3,248
Intangible assets	-	-	-	667	-	667
Other assets	-	-	-	492	-	492
Total assets	12,447	10,009	1,487	967,833	838	992,614
Due to other financial institutions	-	-	-	42,906	-	42,906
Deposits	12,231	9,726	1,412	819,557	825	843,751
Current tax liability	-	-	-	569	-	569
Derivative liabilities	-	-	-	826	-	826
Provisions	-	-	-	1,333	-	1,333
Other liabilities	-	-	-	1,197	-	1,197
Total liabilities	12,231	9,726	1,412	866,388	825	890,582
Shareholders' equity	-	-	-	102,032	-	102,032
Total liabilities and shareholders' equity	12,231	9,726	1,412	968,420	825	992,614
Net on-balance sheet position	216	283	75	(587)	13	-
Effect of derivatives held for risk management	-	-	-	-	-	-
Net currency position	216	283	75	(587)	13	-

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 2011

25 Financial risk management (continued)

(c) Market risk (continued)

(iii) Sensitivity Analysis

The management of interest rate and foreign exchange risk against interest gap 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 \$406,950 (2010: \$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 \$1,751 (2010: \$5,999) 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 \$2,141 (2010: \$10,733).

(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 2011

25 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 2011

25 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

Comparative 2010 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 2011

25 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2010 \$'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	396	42,220	-	-	-	42,616
Deposits	238,356	358,844	253,754	144	-	851,098
Interest payable	-	746	-	-	-	746
	238,752	401,810	253,754	144	-	894,460
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	(205)	(381)	(1,179)	(278)	(2,043)
Off balance sheet commitments						
Bank guarantee	5,996	-	-	-	-	5,996
Loan commitments	100,212	-	-	-	-	100,212
	106,208	-	-	-	-	106,208
Total	344,960	401,605	253,373	(1,035)	(278)	998,625

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 2011

26 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 2011

26 Capital Management (continued)

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

	Note	2011 \$'000	2010 \$'000
Tier 1 Capital			
Ordinary share capital	22	160,000	80,000
Retained profits	23	22,513	20,025
Available for sale and cash flow reserve	24	(1,033)	-
Less Deductions:			
Intangible assets	12	2,372	667
Deferred tax assets (net)	14	1,436	783
Fair value of cash flow hedges	24	(1,011)	(108)
Total		178,683	98,683
Tier 2 Capital			
General reserve for credit losses	24	2,476	2,196
Total		2,476	2,196
Total regulatory capital		181,159	100,879
Risk weighted assets¹		735,634	657,118
Capital ratios			
Total regulatory capital as % of risk weighted assets		24.63%	15.35%
Total tier 1 capital as % of risk weighted assets		24.29%	15.02%

¹ The requirements of the Base I 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 2011

27 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.

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 2011

27 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:

	2011		2010	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and liquid assets	12,450	12,450	12,284	12,284
Due from other financial institutions	29,597	29,597	33,327	33,327
Investments amortised cost	395,334	388,412	169,337	168,308
Derivative financial assets	249	249	312	312
Loans and advances	768,783	769,622	772,145	771,688
Liabilities				
Due to other financial institutions	870	870	42,906	42,906
Derivative financial liabilities	2,755	2,755	671	671
Deposits	926,197	926,197	843,751	843,751
Subordinated Liabilities	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 2011

27 Financial instruments (continued)

Fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
31 December 2011				
Derivative assets	-	249	-	249
Total	-	249	-	249
Derivative liabilities	-	2,755	-	2,755
Total	-	2,755	-	2,755

	Level 1	Level 2	Level 3	Total
31 December 2010				
Derivative assets	-	312	-	312
Total	-	312	-	312
Derivative liabilities	-	671	-	671
Total	-	671	-	671

	2011 \$'000	2011 \$'000
--	----------------	----------------

28 Commitments for expenditure

Operating leases

Future operating lease rentals not provided for and payable

Not later than one year	1,874	1,325
Later than one year but no later than two years	1,759	1,288
Later than two years but no later than five years	3,803	3,247
Later than five years	1,068	839
	<u>8,504</u>	<u>6,699</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 2011

	2011	2010
	\$	\$
29 Auditors' remuneration		
Amounts paid or due and payable to the Auditors of the Company for:		
Auditing the financial report	206,250	190,410
Taxation services	18,700	19,250
Other assurance services	6,270	57,200
	231,220	266,860

All amounts include 10% GST. 2011 remuneration were due to Deloitte Touche Tohmatsu Australia (2010:KPMG)

30 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:

	2011	2010
	\$'000	\$'000
	Face value	Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	7,290	5,996
Commitments to extend credit	54,811	100,212
Letter of Credit	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 2011

31 Directors' remuneration

	2011	2010
	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	8	2
\$ 20,000 - \$39,999	-	3
\$ 40,000 - \$69,999	1	-
\$ 70,000 - \$79,999	2	-
\$ 120,000 - \$129,999	1	1
	12	6

	2011	2010
	\$	\$

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

Short term benefits	301,635	155,000
Other long term benefits	27,147	-
Total benefits to non-executive directors	328,782	155,000

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 32.



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 2011

32 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 (Chairman)
 Mr N T Hatzistergos
 Mr G Gav
 Mr S Bracks
 Mr E Alouf
 Mr M Athanasiou
 Mr F Chaker
 Mr P Mavridis (Resigned on 28 February 2011)
 Mr P Kounnis (Resigned on 28 February 2011)
 Mr C Stylianides (Resigned on 28 February 2011)
 Mr H El-Bikai (Alternate Director to 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 V Rinaldi (Head of Risk, Compliance & IS)

Transactions with key management personnel

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

	2011	2010
	\$	\$
Short term benefits	2,206,307	1,467,468
Long term benefits	17,505	12,461
Other long term benefits	181,664	83,368
Total benefit	<u>2,405,476</u>	<u>1,563,297</u>

Details of non-executive directors' remuneration are set out separately in Note 31. 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 2011

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:

	2011	2010
	\$	\$
Loans to key management personnel	8,907,749	9,812,540
Deposit accounts	(815,978)	(1,877,769)

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
			\$	\$
Rental Payments	Rental Payments	(i)	593,966	581,093

(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 2011

33 Related parties transactions

(a) Changes in related parties relationship in 2011

Before 28th February 2011, 100% of Company's shares were owned by Marfin Popular Bank Public Co. Limited (Marfin Popular Bank Group). So for the 2010 comparative figures in this report, related parties were defined as Marfin Popular Bank Public Co. Limited as well as its wholly owned subsidiaries and associated companies. On 28th February 2011 Bank of Beirut s.a.l acquired a majority 85% shareholding and have since become the Company's parent entity, and Marfin Popular Bank Group ceased to be defined as related parties. Please refer to note 21 for details of the changes in the Company's shareholding during 2011.

(b) 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, 16 and 19 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, 16 and 19 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 32. The Related party disclosures in Income Statement do not include interest income or expense on Key Management Personnel loans and deposits.

34 Financial reporting by segments

The Company does not have any separately reportable segments.



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 2011

35 Notes to the statement of cash flows

(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:

	2011	2010
	\$'000	\$'000
Cash	12,450	12,284
Due from other financial institutions - at call deposits	29,597	33,311
Total Cash and cash equivalents	42,047	45,595

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

	2011	2010
	\$'000	\$'000
Profit from ordinary activities after income tax	2,768	5,503
Add: non-cash items:		
Depreciation and amortisation of non-current assets	1,260	1,123
Decrease in provision for doubtful debts	(9)	(890)
Increase/(Decrease) in collective provisions	(10)	151
Increase in provision for employee entitlements	374	84
Decrease in tax provision	(1,714)	(571)
Net Increase/(Decrease) in prepayments/accruals	938	(354)
Profit/(Loss) on sale of plant and equipment	(128)	16
Increase/(Decrease) in derivative financial instruments	1,618	(372)
(Increases)/decreases in assets and increases/ (decreases)in liabilities:		
Due from other financial institutions - others	16	(16)
Interest accruals	2,878	2,344
Loans and advances	3,266	(13,279)
Other assets	(1,583)	170
Due to other financial institutions	(42,500)	(48,624)
Deposits	78,518	94,110
Other liabilities	2,011	(1,891)
Net cash used in operating activities	47,703	37,504



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 2011

35 Notes to the statements of cash flows (continued)

(c) Net reporting of certain cash flows

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

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

36 Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.



Bank of Sydney Ltd (formerly Beirut Hellenic Bank Ltd)
Director's Declaration
For the year ended 31 December 2011

1. In the opinion of the directors of the Company:
- (a) the financial statements and notes, set out on pages 19 to 81, 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 2011 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 25th April 2012.



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

We have audited the accompanying financial report of Beirut Hellenic Bank Ltd (“the Entity”), which comprises the statement of financial position as at 31 December 2011, 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 is free from material misstatement, whether due to fraud or error. In Note 1(a), 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.

Deloitte.

Auditor's Independence Declaration

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

Opinion

In our opinion:

- (a) the financial report of Beirut Hellenic Bank Ltd 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 2011 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(a).



DELOITTE TOUCHE TOHMATSU



Jamie C.J. Gatt
Partner

Chartered Accountants
Sydney, 25 April 2012





Bank of Sydney

Expect more
from us



Savings Account





Bank of Sydney

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