Bank of Sydney

Annual Report

2022

We’re with you.

At Bank of Sydney, we strive to provide genuine value to our people, customers, communities and partners.

We’re proud of our multicultural, community banking foundations and strong relationships with our customers. We believe in the power of real human connection. We go the extra mile, providing outstanding service by taking the time to understand your situation and needs, and real value with a range of great products and services.

Contents

A Message from our Chairman

It is with pride that I reflect on how well Bank of Sydney has endured the external pressures of the last few years, by demonstrating admirable strength and resilience in a challenging market.

When coupled with one of the most significant periods of internal transformation in its history, the Bank has emerged a far stronger organisation, with a proactive approach to managing external conditions, a heightened risk culture, and consistent and prudent lending practices.

The Bank's steadfast adherence to high credit standards resulted in a successful 2022. And in our current position, the Board of Directors is confident that the Bank will continue to deliver upon its aspirations. Of course, this is primarily due to the ongoing support of our people, our customers, our communities and our partners – to whom we are deeply grateful.

I would also like to take this opportunity on behalf of our Board to thank our long-serving CEO, Miltos Michaelas, for his unwavering commitment to Bank of Sydney. As he departs the Bank in 2023, we wish him and his family all the best in their return to Cyprus.

It is without doubt that our consistent focus on our strategy is providing strong, positive momentum, all of which augurs well for the future. Our goals continue to be ambitious - and we remain committed to achieving them.

I certainly look forward to another year of inspiring collaboration, new opportunities and achievements.

Best wishes,
Nicholas Pappas AM

A Message from our CEO

2022 was a year of unique challenges, with political, financial, climate and social events continuing to impact local and global markets. As a bank that thrives on human connection, it's been great to see our people, customers and communities reconnect in-person and enjoy events together again. And I'm pleased to report that, despite some tough challenges, we were able to achieve impressive progress - particularly in the second half of the year - that enabled us to deliver a positive outcome.

We continued to invest heavily in our people, and it's been great to see their skill sets develop and evolve as part of our transformation journey. There has also been a range of significant improvements to our systems and processes, including:

- Faster customer management and onboarding through the implementation of our new lending platform, Nucleus' NeoOne.
- More efficient customer contact and communication programs via use of Salesforce Customer Relationship Management (CRM).
- Enhanced accessibility of business systems through the implementation of Microsoft Azure Middleware.

These initiatives will continue to drive better internal and external outcomes for the Bank in the years to come.

As we move into 2023, my time as CEO at Bank of Sydney will come to an end as I return to my home of Cyprus. I have complete confidence in the strength of our Board, Executive Team and our people, to keep delivering our strategic plan. Because of this, I truly believe the Bank is well positioned to deliver on our growth aspirations at the end of this year and for the years ahead.

My heart is full as I think of all we have achieved together over the past six years and I extend my gratitude and best wishes to the people of Bank of Sydney, and our customers, communities and partners. All of you have made a wonderful and valued contribution to my tenure as CEO, to the organisation as a whole, and to our journey together.

Miltos Michaelas

Thank you and kind regards,
Miltos Michaelas

Our Strategy

We have maintained a consistent and persistent focus on our strategic plan. There are four complementary pillars, each providing crucial support throughout each phase of the Bank's journey. These have remained relevant and integral in driving and guiding the business towards enduring, sustainable development.

Business growth

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

People

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

Customer experience

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

Operational performance

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

We are dedicated to upholding our strategic plan and providing greater outcomes and genuine value to all our stakeholders.

In this report you'll find a review of our strategy, highlights and performance in 2022.

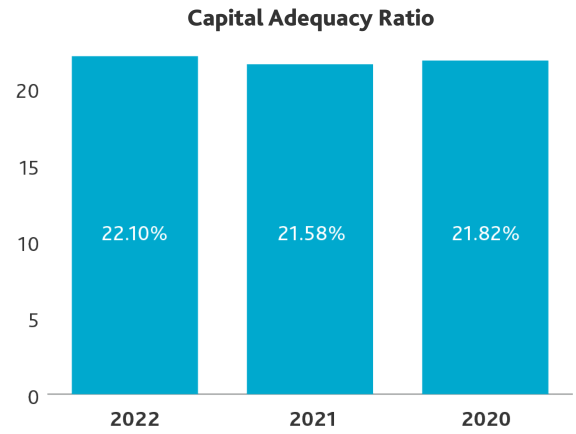
Business Growth

A sense of normality was restored in 2022, as we shifted back to regular operating conditions, economic activity picked up and unemployment levels decreased significantly. However, the global economy and geo-political events caused inflationary challenges. Whilst the previous years saw record low cash rate levels, 2022 saw eight consecutive cash rate increases totalling 3%.

Despite the rapidly evolving macro-economic environment, the Bank remained committed to delivering strong results. We continued to offer competitive banking products and services whilst largely completing our transformation journey to deliver long term benefits to our customers.

With an increase of $7.3m (110%) from 2021, we successfully recorded a Net Profit After Tax of $13.9m, which has propelled our total equity to $332.0m and sustained our strong Capital Adequacy Ratio of 22.10% (+0.53%). Moreover, the new capital framework developed by APRA which is effective 1 January 2023 has further bolstered our capital, giving us a strong capital position.

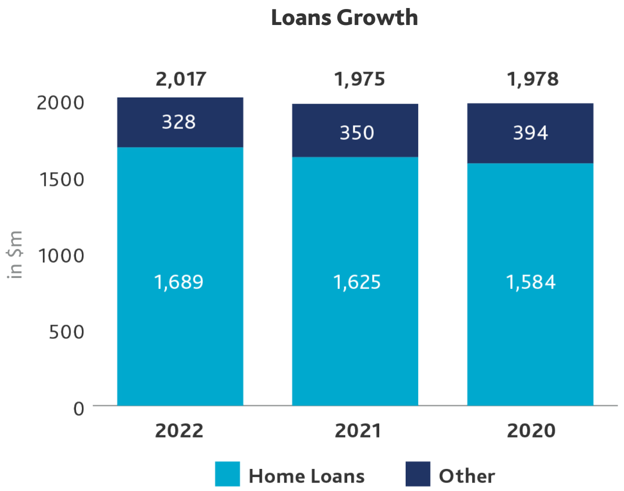
Our profitability was primarily driven by an increase in our net interest income to $54.0m (+18.5%) and a reduction in our operating costs to $38.9m (-3.1%).

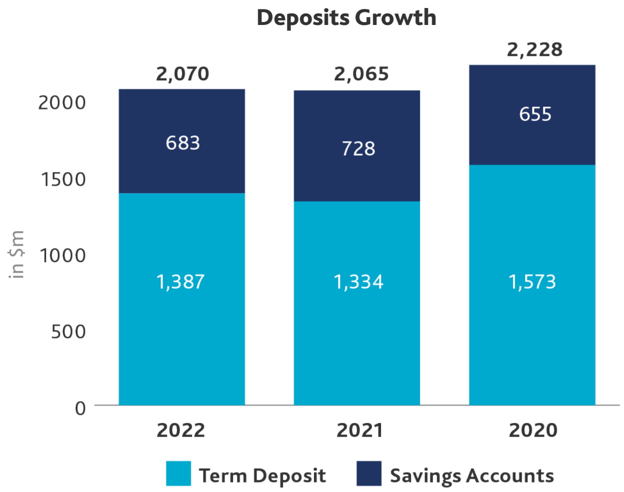


Market conditions and a focus on preserving our margin resulted in our Net Interest Margin increasing from 1.97% to 2.81%, an improvement of 84 bps, in 2022.

Our careful lending strategy allowed us to withstand pandemic-related credit risks while still providing excellent customer support. We have maintained a healthy loan portfolio and our provision as a proportion of total lending assets of 0.07% continues to be significantly below industry averages.

In 2022, we grew our core lending segment of Home Loans by 4% whilst our commercial lending balances remained steady.





With our strong performance, capital position, liquidity levels and credit metrics in mind, as well as our nearly completed transformation program, the Bank is very well positioned to grow and deliver sustainable profits that better serve our customers and communities.

People

Our Team

At Bank of Sydney, we place great importance on the experience and wellbeing of our employees.

It has been wonderful to welcome back staff, community and partnership events in 2022, and provide greater opportunities for staff to engage with the support of our Social Committee.

To ensure that our people feel supported and valued, we've maintained a focus on feedback to better understand the needs and concerns of our staff, and address them accordingly.

We've also carried out several key initiatives to promote employee care and wellness. All staff have access to the Lifeworks' Employee Assistance Program which supports them with a range of tools and resources. We've also introduced Wellbeing and Personal Development seminars, as well as keeping a flexible hybrid working model.

It's important to recognise the hard work and dedication of our people, and therefore there are a number of recognition programs, employee awards and events to celebrate our team's achievements and foster a positive, collaborative work culture.

At Bank of Sydney, we are committed to nurturing an environment where our people feel supported, valued and empowered.

Chris Apostolides
Employee of the year 2022 winner

Our Employee of the Year, Chris Apostolides has shown great leadership qualities and exceptionally demonstrated our core values. He has delivered outstanding results and customer service, significantly contributing to Bank of Sydney's success in 2022.

People

Our Community

At Bank of Sydney, we truly believe in supporting, strengthening and celebrating our community partners. An active role is taken in engaging and collaborating with different sectors, including community groups, academic institutions, the arts, financial education mentoring, grassroots, and sporting organisations. Notably, in 2022, this included our annual Grant for Good and the continuation of our commercial partnership with Sydney FC.

Grant for Good

For the second year running, our annual $20k community grant was announced to provide help to projects and organisations that promote social inclusion activities, health and wellbeing, sports and other fields.

The winner of our 2022 Grant for Good was PlateItForward, a not-for-profit organisation which empowers people from vulnerable, disadvantaged and at-risk Sydney communities to overcome barriers to social and economic participation. Their work focuses on understanding the individual and collective needs of these communities. PlateItForward responds to these needs through targeted delivery of projects and programs that build social cohesion, food security, and community and economic participation.

The grant will be used to fund 1.5 months' worth of food and goods, to deliver a minimum of 5,400 free meals through their Social Meal program.

Sydney FC partnership

We've continued to support Sydney FC as their Official Banking Partner through the 2021/2022 and 2022/2023 seasons. In particular, 2022 marked a celebration of the eagerly awaited return of Sydney FC to their newly refurbished stadium. While the club focused on bringing their A-game during the season, Bank of Sydney remained committed to providing excellent customer service and supporting the team both on and off the field.

Customer Experience

Bank of Sydney's commitment to our people, customers, communities and partners remains unwavering.

In 2022, we delivered key transformation projects to enhance services for our customers and support our period of growth into 2023. Our focus has been to provide greater banking experiences through improvements in efficiency and communication.

To support our customers and their changing needs, we've continued to prioritise exceptional personal service, while investing in Smart ATMs and 24/7 lobbies to provide greater accessibility.

Our customer contact and communication programs will be more efficient with the implementation of our new Customer Relationship Management (CRM) platform. The platform will allow us to better understand feedback and deliver improved customer service.

Faster onboarding and customer management is being provided through the implementation of our new lending platform, Nucleus' NeoOne.

Safeguarding our customers' data and information is of paramount importance and we continue to invest in customer data management and security to ensure their protection.

Our partnerships with Brokers are very important to us, and we remain dedicated to building meaningful relationships through personal connection, events and initiatives. As a result of this commitment, we've gained valuable insights which have helped improve our services to better meet the needs of our Brokers and their clients.

Operational Performance

In 2022, there was a continued commitment to improve operational efficiencies, reduce operational risks, strengthen the Bank's infrastructure and improve products, processes and services for our people.

Key initiatives included:

Operational efficiency improvements through the centralisation of branch operational tasks, delivery of digital forms and workflow enhancements, and dashboard reporting.

Enhanced risk and governance controls particularly in non-financial risk areas such as cyber security and data protection. Additional people and systems have been deployed in operational functions to ensure the Bank's obligations to customers, business partners and regulators continue to be effectively managed.

Greater business system accessibility through the implementation of Microsoft Azure. This will enable the Bank to facilitate the system integration for critical business functions such as Open Banking, onboarding new customer loans and other future API-driven processing, and ensure fast and accurate data sharing. With this in place, key business systems were also consolidated and legacy systems can be retired to improve accessibility.

Improved efficiency through IT product and service enhancements. Improvements for staff were delivered through the introduction of VPN remote access, Microsoft Teams and a new incident and service request workflow system. Additionally, end-of-life IT assets were decommissioned, the Bank transitioned to a new IT managed-service provider, as well as improvements to security through network segmentation.

Consumer Data Right (Open Banking) final requirements for data holders were all successfully delivered in 2022, enabling the Bank to become fully compliant with the CDR rules.

Looking Forward

In 2023, Bank of Sydney will be highly focused on sustainable growth, while continuing to take a conservative approach.

We're focused on delivering an ambitious target in the year ahead and are well supported by the people and tools we need to succeed.

Our new platforms will enable our people to focus on higher value actions in a way that benefits our customers and drives further efficiencies.

Overall, we aim to make 2023 a year in which our people feel liberated and empowered to deliver even better service. We're sure our customers will notice this too.

Having laid the right foundations, we're looking forward to a period of fresh opportunity, continued growth and shared success. With this in mind, 2023 and the next few years are shaping up to be a truly exciting, confident and promising time for the Bank.

Governance

2022

Board of Directors

Dr Nicholas Pappas AM

Chairman of the Board of Directors

Dr. Pappas is a Sydney lawyer. In addition to his role as Board Chairman, he chairs the Bank's Nominations and Remuneration Committee and serves on the Audit Committee and Board Budgetary Review Committee. He is Chairman of South Sydney District Rugby League Football Club Limited ('the Rabbitohs') and South Sydney Members Rugby League Club Limited. He also serves on the Boards of the Steve Waugh Foundation – Australia, the Hellenic Club Limited and Melbourne's Hellenic Museum.

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

Ben Edney

Chairman of the Board Risk Management Committee & Credit Review Committee

Mr. Edney is Chairman of the Board Risk Management Committee and Credit Review Committee. He is an accomplished finance industry expert with 30 years domestic and international experience with National Australia Bank and KPMG in advisory, risk and restructuring. In addition to his directorship with Bank of Sydney, Mr. Edney is also chairman of Williams Holdings Limited in New Zealand, a director of Nimble Money Limited and Managing Director of Lempriere Capital and agPAY Pty Ltd.

Nikolas Hatzistergos

Chairman of the Board Audit Committee & Budgetary Review Committee

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

The Hon Steve Bracks AC

Independent Non-Executive Director

The Hon Steve Bracks AC was Premier of Victoria for almost eight years (1999-2007). He now advises several leading Australian finance and service sector corporations. He was appointed Chancellor of Victoria University in May 2021. Mr. Bracks chairs Maurice Blackburn Lawyers, the Melbourne Cricket Ground (MCG) Trust, the AFL Strategic Community Investment Fund Advisory Board, and The Shannon Company. He is a non-executive Director of Cbus Property. In November 2022 he was appointed by the Australian Government as Australia's Special Representative for the Greater Sunrise gas project in the Timor Sea. He chaired the Cbus Superannuation Fund from 2009 to 2021. He is a member of the Australian Republican Movement's Republican Advisory Panel. Mr. Bracks is an honorary chair of the Trade Union Education Foundation and was an honorary adviser to the former Prime Minister of Timor-Leste, Xanana Gusmao from 2007 to 2017.

Board of Directors

Gregory Gav

Independent Non-Executive Director

Mr. Gav is Director of Mars Property Group.

Sarkis Nassif

Non-Executive Director

Mr. Nassif has more than 35 years of experience in investment, development, and construction. He is the Founder and Chief Executive Officer of Sydney based, Holdmark Property Group and has led and contributed to the property industry at large.

In 2019, Mr. Nassif was awarded the prestigious EBA accolade for best medium to large business, and in 2017 he was awarded the Property Person of the Year by Urban Taskforce.

Mr Nassif also leads significant philanthropic work that extends to a number of medical, educational, health and community organisations both domestically within Australia and internationally.

Fouad Chaker

Non-Executive Director

Mr. Chaker is also the Senior Executive Officer at Bank of Beirut, with more than 45 years of banking experience.

Roger Dagher

Non-Executive Director

Mr. Dagher is also the Group Chief Financial Officer at Bank of Beirut, with more than 30 years of banking experience.

John Elisher

General Counsel & Company Secretary

Mr. Elisher joined Bank of Sydney in May 2019 and was appointed as company secretary in August 2019. Furthermore, he is a member of the Executive Team and leads the legal department and customer advocacy function in his role as General Counsel.

He commenced his legal career in private practice working for a multidisciplinary firm. He more recently worked in federal government agencies in multiple executive roles. Mr. Elisher holds Bachelor degrees in Commerce & Law, a Master of Laws and has completed a Corporate Governance Program from Wharton Business School.

Leadership Team

Miltos Michaelas

Chief Executive Officer

Miltos is the Chief Executive Officer (CEO) of Bank of Sydney, Australia. He has held this position since 2016 and has also had a long association with the organisation leading its set up and growth between 2001-2006.

Furthermore, Miltos has extensive experience as an International C-suite Executive and Board member. In particular he has been in charge of a number of international banking operations and also led the deleverage effort of a large financial group, earning him significant experience in M&A. Miltos has served as a member or Chairman with a number of board of directors, primarily in banking and financial services.

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

Victor Andersson

Chief Financial Officer

Victor is the Chief Financial Officer (CFO) and is responsible for managing the Finance, Treasury, Data Management and Strategic Planning functions of the Bank. Victor has extensive experience within retail banking, with over 18 years spent in financial and regulatory disciplines across Australia and the UK.

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

Chiqui Biaro

Chief Audit Officer

Chiqui is the Chief Audit Officer (CAO) and is responsible for providing independent assurance on the adequacy and operating effectiveness of risk management, governance and internal control processes within the bank. Chiqui joined Bank of Sydney in 2012.

Chiqui has more than 20 years' experience in internal and external audit in Australia and overseas. She holds a Bachelor of Science in Accounting and a Master's degree in Business Administration. She is a Certified Internal Auditor (CIA), a Certified Information Systems Auditor (CISA) and CPA (Phil).

Chris Chew

Chief Technology Officer

Chris is the Chief Technology Officer (CTO), appointed August 2019. In this role, he leads the Technology division to deliver the Bank's IT strategy. Chris will focus on the development and execution of our Digital and Core Banking agenda, which will enable and deliver our business strategy.

Chris has extensive experience in various leadership roles in banking and financial services, with a proven track record of over 25 years in leading large complex change and improving cost-efficiency, service quality and business outcomes.

Chris holds a Masters of Technology in software engineering and technology management from Macquarie University.

Leadership Team

Gary English

Chief Risk Officer

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

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

Bill Kalpouzanis

Chief Operations Officer

Bill is the Chief Operations Officer (COO) and is responsible for overseeing and managing Bank of Sydney's Operations, Transformation, Payments, Digital Platforms and Products. Bill's focus is on simplifying Bank's procedures through digitisation, implement cost efficiency strategies, improve our customer service and drive bank's digital strategy. Bill has more than 25 years of banking experience in Europe and Australia, as well as invaluable knowledge and expertise on how banking is rapidly evolving due to his previous experience within the Fintech industry. He also has extensive leadership experience and roles in Banking, Transformations, Digital, Financial Technology and Program Management.

Bill holds a Master of Science in Finance, and is a certified Financial Risk Manager (FRM) by GARP and Project Management Professional (PMP).

Fawaz Sankari

Chief Banking Officer

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

With more than 25 years of banking experience in Retail and Corporate and Institutional Banking, Fawaz has previously held senior executive roles with NAB and CBA Group, and holds directorships on various external boards in both the education and business-commerce sectors. Fawaz is a Justice of the Peace Volunteer and holds a Master of Business Administration from the Australian Institute of Management.

Belinda Sathurayar

Head of People & Culture

Belinda is the Head of People and Culture and responsible for driving the people agenda to achieve the Bank's strategic goals. With over 20 years' experience in human resource management within professional services, Belinda is a strategic people partner that drives the business throughout the employee lifecycle to foster an engaging and safe work environment.

Prior to joining Bank of Sydney, Belinda has held various senior human resource leadership positions within assurance, financial, legal and accounting firms. Belinda has studied at the Australian Human Resources Institute and holds a Diploma in Management at the University of Sydney.

Diana Sitnikoski

Chief - Credit Operations

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

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

Financial Statements

2022

Bank of Sydney Ltd
Directors' report
For the year ended 31 December 2022

The Directors present their report together with the financial report of the Bank of Sydney Ltd ('the Bank' and 'the Consolidated Entity'), for the year ended 31 December 2022 and the audit report thereon.

Directors

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

Dr Nicholas Pappas AM
Chairman and Non-Executive Independent Director
Appointed 26 March 2001

Mr Greg Gav
Non-Executive Independent Director
Appointed 31 March 2005

Mr Nikolas T Hatzistergos
Non-Executive Independent Director
Appointed 28 August 2006

Hon Steve Bracks AC
Non-Executive Independent Director
Appointed 18 May 2011

Mr Fouad Chaker
Non-Executive Director
Appointed 28 February 2011

Mr Roger Dagher
Non-Executive Director
Appointed 7 July 2016

Mr Ben Edney
Non-Executive Director
Appointed 15 March 2017

Mr Sarkis Nassif
Non-Executive Director
Appointed 15 May 2020

Company Secretary

Mr John Elisher
Appointed 29 August 2019

Directors' Meetings

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

	Board Operations		Board Audit Committee		Board Risk Management Committee		Board Nominations and Remuneration Committee	
Directors	**No. of meetings eligible to attend**	**No. of meetings attended**	**No. of meetings eligible to attend**	**No. of meetings attended**	**No. of meetings eligible to attend**	**No. of meetings attended**	**No. of meetings eligible to attend**	**No. of meetings attended**
N.G. Pappas AM	6	6	6	5	-	-	1	1
N.T. Hatzistergos	6	4	6	5	-	-	1	1
G.Gav	6	6	-	-	6	5	-	-
H.S. Bracks AC	6	5	-	-	-	-	-	-
F. Chaker	6	6	-	-	-	-	-	-
B. Edney	6	6	-	-	6	6	-	-
R. Dagher	6	6	6	6	6	6	1	1
S. Nassif	6	6	-	-	-	-	-	-

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

Bank of Sydney Ltd

Directors' report (continued)

For the year ended 31 December 2022

Principal Activities

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

Results

The net profit of the Consolidated Entity was $13,928k (2021: profit of $6,622k). The result included reversal of provisions for impairment losses for Loans and Advances of $900k (2021: $205k reversal). At 31 December 2022, the Consolidated Entity's net loan portfolio was $2,019m (2021: $1,972m) and its customer deposits were $2,078m (2021: $2,064m).

Dividends

The Directors declared no dividends in respect of the financial year ended 31 December 2022 (2021: Nil).

No dividends were paid in 2022 with respect to the financial year ended 31 December 2021.

State Of Affairs

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

Subsequent Events

As at year end, a credit exposure of $3.7m was in default and in the process of refinancing. The exposure was ultimately discharged in full in February 2023. This was determined to be an adjusting subsequent event and the related expected credit loss provision benefit of $1.1m was recognised in the 2022 financial results.

No other events have occurred subsequent to 31 December 2022 that require disclosure or adjustment to these financial statements.

Likely Developments

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

Auditor's Independence Declaration

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

Indemnification and Insurance of Officers and Auditors

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

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

Bank of Sydney Ltd
Directors' Report (continued)
For the year ended 31 December 2022

Rounding Off

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

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

On behalf of the Directors:

Nicholas Pappas Chairman	Nikolas Hatzistergos Non-Executive Independent Director

Sydney, 27 April 2023

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

28 April 2023

Dear Board Members

Auditor's Independence Declaration to Bank of Sydney Limited

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

As lead audit partner for the audit of the financial report of Bank of Sydney Limited and its subsidiary the year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. Jones

Rebecca Jones
Partner
Chartered Accountants

Bank of Sydney Ltd

Consolidated Statement of Profit and Loss

For the year ended 31 December 2022

		Consolidated		Company	
	Notes	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Interest income	2	74,577	56,835	69,274	48,407
Interest expense	3	(20,664)	(11,338)	(20,664)	(11,338)
Net interest income		**53,913**	**45,497**	**48,610**	**37,069**
Non-interest income	4	3,739	4,129	8,837	12,277
Net operating income		**57,652**	**49,626**	**57,447**	**49,346**
Operating expenses	5	(39,812)	(40,366)	(39,607)	(40,086)
Reversal of / (Provision for) impairment losses on financial assets measured at amortised cost	11	900	205	900	205
Profit before income tax		**18,740**	**9,465**	**18,740**	**9,465**
Income tax expense	6	(4,812)	(2,843)	(4,812)	(2,843)
Profit for the year		**13,928**	**6,622**	**13,928**	**6,622**
Attributable to:					
Equity holders of the Consolidated Entity		**13,928**	**6,622**	13,928	6,622
Profit for the year		**13,928**	**6,622**	**13,928**	**6,622**

The Consolidated Statement of Profit and Loss is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 87.

Bank of Sydney Ltd

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2022

		Consolidated		Company	
	Notes	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Profit for the year		**13,928**	**6,622**	**13,928**	**6,622**
Cash flow hedges:					
Effective portion of changes in fair value		1,327	1,833	1,327	1,833
Other comprehensive income for the period, net of income tax	26	1,327	1,833	1,327	1,833
Total comprehensive income for the year		**15,255**	**8,455**	**15,255**	**8,455**
Attributable to:					
Equity holders of the Consolidated Entity		15,255	8,455	15,255	8,455
Total comprehensive income for the year		**15,255**	**8,455**	**15,255**	**8,455**

The Consolidated Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 87.

Bank of Sydney Ltd

Consolidated Statement of Financial Position

For the year ended 31 December 2022

	Notes	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Assets					
Cash and liquid assets	7	62,241	47,541	62,241	47,541
Due from other financial institutions	8	54,918	93,463	16,940	39,599
Investment at amortised cost	9	502,568	447,900	502,568	447,900
Loans and advances	10(a)	2,019,179	1,972,403	2,019,179	1,972,403
Derivative financial assets	20	819	58	819	58
Intangible assets	12	14,776	12,704	14,776	12,704
Property, plant and equipment	13	48,700	51,930	48,700	51,930
Investment property	14	19,432	19,964	19,432	19,964
Deferred tax assets	15	2,585	3,090	2,585	3,090
Other assets	16	9,999	8,011	47,977	61,875
Total assets		**2,735,217**	**2,657,064**	**2,735,217**	**2,657,064**
Liabilities					
Due to other financial institutions	17	4,983	4,572	4,983	4,572
Borrowings	18	281,341	251,596	281,341	251,596
Deposits	19	2,078,313	2,063,994	2,078,313	2,063,994
Derivative financial liabilities	20	121	1,275	121	1,275
Provisions	21	4,332	4,053	4,332	4,053
Lease liabilities	22	4,610	6,649	4,610	6,649
Other liabilities	23	29,495	8,158	29,495	8,158
Total liabilities		**2,403,195**	**2,340,297**	**2,403,195**	**2,340,297**
Net assets		**332,022**	**316,767**	**332,022**	**316,767**
Equity					
Contributed equity	24	230,000	230,000	230,000	230,000
Retained profits	25	97,580	81,456	97,580	81,456
Reserves	26	4,442	5,311	4,442	5,311
Total equity		**332,022**	**316,767**	**332,022**	**316,767**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 87.

Bank of Sydney Ltd

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

		Consolidated		Company	
	Notes	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Cash flows from operating activities					
Interest and commission receipts		72,490	64,212	72,285	63,932
Interest payments		(14,499)	(13,437)	(14,499)	(13,437)
Cash payments to employees and suppliers		(32,598)	(34,258)	(32,393)	(33,978)
Bad debts written off		(82)	-	(82)	-
Income tax paid		(4,876)	(2,487)	(4,876)	(2,488)
		20,435	**14,031**	**20,435**	**14,030**
(Increase) / decrease in operating assets					
Loans and advances		(42,488)	2,869	(42,488)	2,869
Derivative assets		753	4,891	753	4,891
Other assets		(1,988)	2,064	13,898	(1,638)
Increase / (decrease) in operating liabilities					
Due to other financial institutions		411	902	411	902
Deposits		8,154	(165,526)	8,154	(165,526)
Derivative liabilities		742	(142)	742	(142)
Other liabilities		21,143	(12,242)	21,143	(12,242)
Net cash (used in) / provided by operating activities	35(b)	**7,162**	**(153,153)**	**23,048**	**(156,856)**
Cash flows from investing activities					
Payments for intangible assets		(4,500)	(4,526)	(4,500)	(4,526)
Payments for property, plant & equipment		(550)	(3,568)	(550)	(3,568)
Payments for investment property		-	-	-	-
Purchase of investments at amortised cost		(117,200)	(153,750)	(53,665)	7,219
Proceeds from investments at amortised cost		63,535	160,969	-	-
Net cash provided by investing activities		**(58,715)**	**(875)**	**(58,715)**	**(875)**
Cash flows from financing activities					
Repayments of lease liabilities		(2,039)	(1,414)	(2,039)	(1,414)
Proceeds from drawdown of Term Funding Facility		345	189,128	345	189,128
Proceeds from securities sold under repurchase agreements		29,400	-	29,400	-
Proceeds from issue of shares		-	-	-	-
Net cash provided by financing activities		**27,706**	**187,714**	**27,706**	**187,714**
Net increase / (decrease) in cash held		**(23,847)**	**33,685**	**(7,961)**	**29,982**
Cash at the beginning of the financial year		141,009	107,323	87,144	57,162
Cash at the end of the financial year	35(a)	**117,161**	**141,009**	**79,183**	**87,144**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 87.

Bank of Sydney Ltd

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

Consolidated (2022)	Notes	Contributed Equity	General reserve for credit losses	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2022		**230,000**	**6,579**	**(1,268)**	**81,456**	**316,767**
Transfers from general reserve to retained earnings	26	-	(2,197)	-	2,197	-
Profit and loss		-	-	-	**13,923**	**13,928**
Other comprehensive income, net of income tax						
Effective portion of changes in fair value		-	-	1,327	-	**1,327**
Net amount transferred to profit and loss		-	-	-	-	-
Total other comprehensive income		-	-	**1,327**	-	**1,327**
Total comprehensive income for the year		-	-	**1,327**	**13,928**	**15,255**
Issue of share capital	24	-	-	-	-	-
Balance at 31 December 2022		**230,000**	**4,383**	**59**	**97,580**	**332,022**

Consolidated (2021)	Notes	Contributed Equity	General reserve for credit losses	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2021		**230,000**	**6,401**	**(3,101)**	**75,249**	**308,549**
Opening balance adjustment:						
- *SaaS arrangements accounting policy change*	1(ac)	-	-	-	(237)	**(237)**
Transfers from retained earnings to general reserve	26	-	179	-	(179)	-
Profit and loss		-	-	-	**6,622**	**6,622**
Other comprehensive income, net of income tax						
Net amount transferred to profit and loss		-	-	1,833	-	**1,833**
Effective portion of changes in fair value		-	-	-	-	-
Total other comprehensive income		-	-	**1,833**	-	**1,833**
Total comprehensive income for the year		-	-	**1,833**	**6,622**	**8,455**
Issue of share capital	24	-				-
Balance at 31 December 2021		**230,000**	**6,579**	**(1,268)**	**81,456**	**316,767**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 87.

Bank of Sydney Ltd

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2022

Company	Notes	2022 Contributed Equity	General reserve for credit losses	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2022		**230,000**	**6,579**	**(1,268)**	**81,456**	**316,767**
Transfers from general reserve to retained earnings	26	-	(2,197)	-	2,197	-
Profit and loss		-	-	-	**13,923**	**13,928**
Other comprehensive income, net of income tax						
Effective portion of changes in fair value		-	-	1,327	-	**1,327**
Net amount transferred to profit and loss		-	-	-	-	-
Total other comprehensive income		-	-	**1,327**	-	**1,327**
Total comprehensive income for the year		-	-	**1,327**	**13,928**	**15,255**
Issue of share capital	24	-	-	-	-	-
Balance at 31 December 2022		**230,000**	**4,383**	**59**	**97,580**	**332,022**

Company	Notes	2021 Contributed Equity	General reserve for credit losses	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2021						
Opening balance adjustment:						
- *SaaS arrangements accounting policy change*	1(ac)	-	-	-	(237)	**(237)**
Transfers from retained earnings to general reserve	26	-	179	-	(179)	-
Profit and loss		-	-	-	**6,622**	**6,622**
Other comprehensive income, net of income tax						
Net amount transferred to profit and loss		-	-	1,833	-	**1,833**
Effective portion of changes in fair value		-	-	-	-	-
Total other comprehensive income		-	-	**1,833**	-	**1,833**
Total comprehensive income for the year		-	-	**1,833**	**6,622**	**8,455**
Issue of share capital	24	-	-	-	-	-
Balance at 31 December 2021		**230,000**	**6,579**	**(1,268)**	**81,456**	**316,767**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 29 to 87.

Bank of Sydney Ltd

Notes to and forming part of the financial report

For the year ended 31 December 2022

1 Summary of significant accounting policies

(a) General information

Bank of Sydney Ltd ('the Company') is a Company domiciled in Australia. Its registered address is Level 1, 62 Pitt Street, Sydney, New South Wales.

The Company established a Residential Mortgage Backed Securitisation Trust with its legal name as 'BHB Residential Securities Trust 1' ('the Trust'). The Company acts as subscriber, manager and seller of the Trust. Perpetual Corporate Trust Limited is the Trustee. The Trust is a 100% owned subsidiary of the Company since inception. Please refer to Note 37 for further details.

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

The financial report was authorised for issue by the Directors on 27 April 2023.

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

(b) Basis of preparation

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

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

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

The financial report is presented in Australian dollars.

(c) Basis of consolidation

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

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

Bank of Sydney Ltd

Notes to and forming part of the financial report

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(d) Interest

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

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

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses ('ECLs')) except for those loans that are in Stage 3, in line with the Australian Accounting Standards.

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

(e) Fees and commission income

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

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

Annual fees

Annual fees are charged to recover administrative costs related to credit cards and loan accounts. These are recognised over time when the performance obligations are met.

Line fees

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

Other fees and commissions

Other fees and commissions which are not directly attributable to the loans and advances are recognised at a point in time when the performance obligation associated with the fee is performed.

(f) Net foreign exchange gain/loss

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

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

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

(h) Due from other financial institutions

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

(i) Financial instruments

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

Financial assets

i. Amortised cost

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

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

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

ii. Fair value through other comprehensive income (“FVTOCI”)

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

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

iii. Fair value through profit or loss (“FVTPL”)

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

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

Financial liabilities

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

Derivative financial liabilities are measured at FVTPL.

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(j) Securitisation Cost

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

(k) Impairment

Non-financial assets

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

Financial assets

Collective impairment provision

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

i. Measurement and recognition of ECL

The ECL is calculated as outlined below:
ECL = Exposure at Default * Probability of Default * Loss Given Default

Exposure at Default ('EAD')

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

Probability of Default ('PD')

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

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

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

Loss Given Default (LGD)

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Collective impairment provision (continued)

ii. 3 Stage approach

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

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

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

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

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

Stage 2	Number of Days Past Due	Customer Rating[1]	Hardship Flag[2]	Restructure Flag
Retail Products	=>30 days <90 days	=>6 =<8	✓	✓
Business Loans	=>30 days <90 days	=>6 =<8	✓	✓
Commercial Property	=>30 days <90 days	=>6 =<8	✓	✓
Commercial Construction	=>30 days <90 days	=>6 =<8	✓	✓

1: The Consolidated Entity uses an internal customer rating process which grades customers from 1-10.
2: This includes COVID-19 hardships where the Bank's customers requested loan repayment deferral periods.

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

Stage 3	Number of Days Past Due	Customer Rating[1]
Retail Products	=>90 days	=>9
Business Loans	=>90 days	=>9
Commercial Property	=>90 days	=>9
Commercial Construction	=>90 days	=>9

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

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(k) Impairment (continued)

Collective impairment provision (continued)

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

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

iii. Macro-economic overlay

The Consolidated Entity applies a macro-economic overlay to adjust the ECL for the impacts of macro-economic factors. The basis of the calculations takes into consideration key macro-economic factors, being medium & long-term debt, domestic credit growth and budget balance. These are used to determine three scenarios: Base case, Good Case and Bad Case. Relative weightings are then applied to each scenario to determine the final macro-economic adjusted ECL. In 2020, a further overlay had been applied to take into account the expected increase in the probability of default as payment deferral periods granted to customers of the Bank in response to the Covid-19 pandemic were due to expire in the first half of 2021. Whilst the Covid-19 pandemic conditions continued through out 2021, the economic implications became more clear as the Australian economy rebounded from its contraction in 2020. As such, in the prior year, the Bank wrote back the Covid-19 overlay that it has determined to no longer be required.

Specific provision

Specific provisions are considered for all customer loans and advances that are past 90 days overdue and where a loss is anticipated. For all treasury assets and trade exposures with bank counterparties specific provisions are raised when the external rating of the counterparty drops to below investment grade. A specific provision is raised for any estimated shortfall between the Consolidated Entity's exposure and the net realisable value of the financial asset.

Write offs

The Consolidated Entity writes off a financial asset where there is information indicating that there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Consolidated Entity's recovery procedures. Any recoveries made are recognised in the statement of profit and loss.

(l) Derivative instruments

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

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

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

Cash flow hedges

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(l) Derivative instruments (continued)

Cash flow hedges (continued)

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

(m) Borrowings

In 2020, in response to the Covid-19 pandemic and to stimulate the economy, the Reserve Bank of Australia ('RBA') provided Authorised Deposit-taking Institutions ("ADI's") access to the Term Funding Facility ("TFF"), a low cost funding facility with a 3 year term. There were no additional terms and conditions associated with the TFF, other than the pledging of securities that meet the RBA eligibility criteria, as collateral. The Consolidated Entity accesses this funding by entering into repurchase agreements with the RBA.

The TFF is accounted for as borrowings with the securities pledged as collateral and accordingly is carried at amortised cost. As the funding is, in effect, a below market interest loan from a Government entity, the difference between a market rate for an instrument with similar terms and conditions at inception and the 25 basis points (10 bps in subsequent tranches) is recognised as a Government Grant under AASB 120 Accounting for Governemnt grants and Disclosure of Government Assistance. The government grant is presented as part of the TFF liability.

Interest relating to securities lending and repurchase agreements are recognised as interest expenses in the profit and loss, using the EIR method, over the expected life of the agreements. The benefits of the grant are deducted from the interest expense and recognised systematically in line with the interest expense charges. As such, the net interest expense will reflect the TFF cost of borrowing of 25 basis points (10 basis point for subsequent tranches).

Refer to Note 18 for more details.

(n) Intangible assets

Computer software

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

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

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

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

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

The amortisation rates used are as follows:

2022	2021
10% to 20%	10% to 20%

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

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

Useful lives

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

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

	2022	2021
Property, plant and equipment		
Land and buildings*	2.50%	2.50%
Leasehold improvements	10%	10%
Property, plant and equipment	10% - 33%	10% - 33%
Furniture and fittings	10% - 33%	10% - 33%
Computer hardware	10% - 25%	10% - 25%
Motor vehicle	13%	13%

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

(p) Investment property

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

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

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

	2022	2021
Investment Property - Building	2.50%	2.50%

(q) Income tax

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

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(q) Income tax (continued)

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

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

(r) Tax consolidation

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

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

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

(s) Leases

Lessee accounting

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

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

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

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

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(s) Leases (continued)

Lessee accounting (continued)

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

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

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

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

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

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

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

Lessor accounting

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

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

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

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(t) Deposits

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

(u) Employee entitlements

i. Wages, salaries, annual leave and sick leave

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

ii. Long service leave

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

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

iii. Superannuation plan

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

(v) Financial guarantees and letters of credit

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

After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with Note 1(k) (impairment) or

(ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15.

(w) Derecognition of financial assets

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(x) Provisions

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

(y) Use of estimates and judgements

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

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

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

Fair value of financial instruments

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

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

Impairment

Non-Financial assets

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

In 2022, in efforts to contain rising inflation, the Reserve Bank of Australia sharply increased the cash rate in the second half of the financial year. The rapidly rising interest rate environment has had a negative impact on business sentiment, including the commercial property sector. Whilst confidence and sentiment in the sector as fallen, there has been no objective evidence that commercial asset values have been impacted. The Consolidated Entity's tenanted spaces remain in demand and accordingly no impairment has been assessed.

The calculation of recoverable amount requires the Consolidated Entity to estimate the expected future cash flows, future credit losses and suitable discount rate in order to calculate present value.

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(y) Use of estimates and judgements (continued)

Financial assets

Management estimates and judgements are applied when:

Assessing the Consolidated Entity's business model

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

Calculating impairment provisions for financial assets

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

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

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

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

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

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

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

(z) Foreign currency

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

1 Summary of significant accounting policies (continued)

(aa) Application of new and revised standards

In the current year, the Consolidated Entity has applied a number of amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022, and therefore relevant for the current year end, including:

The following accounting standards and pronouncements were also mandatorily adopted for the financial year.
- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments;

These did not have a material impact on adoption.

(ab) Standards and Interpretations issued not yet adopted

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

- AASB 2021-2 *Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates (applies from 1 January 2023)*; and
- AASB 2021-5 *Amendments to Australian Accounting Standards - Deferred Tax related to Assets and Liabiltiies arising from a Single Transaction (applies from 1 January 2023)*

(ac) Changes in accounting policies - Software-as-a-Service (SaaS) arrangements

During the year ended 31 December 2021, the Consolidated Entity revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangments with cloud and managed services providers. The change in accounting policy resulted from the implementation of agenda decisions issued by the IFRS Interpretation Committee (IFRIC) clarifying its interpretation of how current accounting standards apply to these type of arrangements.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received.

The change was made as an opening retained earnings adjustment of $237k for the 2021 year.

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
2 Interest income				
Cash and liquid assets	479	66	479	66
Due from other financial institutions	482	16	41	(51)
Investments at amortised cost				
- banks	8,843	5,387	8,843	5,387
- related party	-	-	-	-
Loans and advances	64,773	51,366	41,355	31,198
Other interest income – related parties				
- Parent company	-	-	-	-
- BHB Residential Securities Trust Series 1	-	-	18,556	11,807
	74,577	**56,835**	**69,274**	**48,407**
3 Interest expense				
Due to other financial institutions				
- banks	654	2,146	654	2,146
- related party	190	213	190	213
Deposits	19,303	8,595	19,303	8,595
Other borrowings - repurchase agreement	407	279	407	279
Interest expense - leases	110	105	110	105
	20,664	**11,338**	**20,664**	**11,338**
4 Non-interest income				
Net fees and commission income	1,826	1,934	3,885	4,089
Gain from sale of securities	-	-	-	-
Net foreign exchange gain/(loss)	(310)	1,684	(310)	1,684
Unrealised gain/(loss) on derivatives	1,514	(318)	1,514	(318)
Other Securitisation trust income			3,039	5,993
Rental income	709	829	709	829
	3,739	**4,129**	**8,837**	**12,277**
5 Operating expenses				
Staff expenses	20,444	20,002	20,444	20,002
Computer expenses	6,717	6,018	6,717	6,018
Occupancy costs	1,171	1,306	1,171	1,306
Depreciation of property, plant and equipment	3,411	3,686	3,411	3,686
Amortisation of intangibles	2,258	1,915	2,258	1,915
Marketing expenses	1,095	962	1,095	962
Other operating expenses	4,716	6,477	4,511	6,197
	39,812	**40,366**	**39,607**	**40,086**

The Bank received a GST refund of $1.9m, net of commission, which relates to the purchase of 62 Pitt Street in 2019. At the time of the purchase, the Bank capitalised the original GST amount of $4.9m paid as part of the building.

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
6 Taxation				
(a) Income tax expense				
Current tax expense				
Current period	4,553	3,861	4,553	3,861
Adjustment for prior period	161	(636)	161	(636)
	4,714	**3,225**	**4,714**	**3,225**
Deferred tax expense				
Deferred tax expense recognised in the current year	(63)	254	(63)	254
Adjustment for prior period	161	(636)	161	(636)
	98	**(382)**	**98**	**(382)**
Total income tax expense	**4,812**	**2,843**	**4,812**	**2,843**
(b) Reconciliation between tax expense and pre-tax net profit				
Profit before tax	**18,740**	**9,465**	**18,740**	**9,465**
Income tax using the Consolidated Entity's tax rate of 30%	5,622	2,840	5,622	2,840
Prior Year adjustment	-	-	-	
Non-assessable GST Refund	(835)		(835)	-
Non-deductible expenses	25	3	25	3
Income tax expense	**4,812**	**2,843**	**4,812**	**2,843**
7 Cash and liquid assets				
Cash at bank	1,910	2,618	1,910	2,618
Cash held with central bank	60,331	44,923	60,331	44,923
	62,241	**47,541**	**62,241**	**47,541**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
8 Due from other financial institutions				
Within Australia	42,906	80,645	4,928	26,781
Related parties - Bank of Beirut s.a.l.	32	52	32	52
Overseas	11,983	12,771	11,983	12,771
Less: Impairment Loss Allowance	(3)	(5)	(3)	(5)
	54,918	**93,463**	**16,940**	**39,599**
Impairment Loss Allowance				
Opening balance	(5)	(19)	(5)	(19)
Reversal / (Charge) to consolidated statement of profit and loss	2	14	2	14
Closing balance	**(3)**	**(5)**	**(3)**	**(5)**

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

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Residual maturity analysis				
Up to 1 month	54,921	93,468	16,943	39,604
1 to 3 months	-	-	-	-
Less: Impairment Loss Allowance	(3)	(5)	(3)	(5)
	54,918	**93,463**	**16,940**	**39,599**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
9 Investments at amortised cost				
Certificate of Deposits	119,337	53,984	119,337	53,984
Floating rate notes	344,974	294,925	344,974	294,925
Fixed rate bonds	38,545	99,304	38,545	99,304
Less: Impairment Loss Allowance	(288)	(313)	(288)	(313)
	502,568	**447,900**	**502,568**	**447,900**
Residual maturity analysis				
Up to 1 month	37,002	30,018	37,002	30,018
1 to 3 months	111,710	116,031	111,710	116,031
3 to 12 months	68,263	22,678	68,263	22,678
12 months to 5 years	279,735	273,330	279,735	273,330
Over 5 years	6,146	6,156	6,146	6,156
Less: Impairment Loss Allowance	(288)	(313)	(288)	(313)
	502,568	**447,900**	**502,568**	**447,900**
Impairment Loss Allowance				
Opening balance	(313)	(204)	(313)	(204)
Reversal / (Charge) to consolidated statement of profit and loss	25	(109)	25	(109)
Closing balance	**(288)**	**(313)**	**(288)**	**(313)**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Notes	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
10 Loans and advances					
(a) Loans and advances					
Loans and advances					
- Held by Parent entity		1,232,451	1,375,999	1,232,451	1,375,999
- Held by BHB Residential Securities Trust Series 1		774,755	584,264	774,755	584,264
Overdrafts		13,421	14,550	13,421	14,550
Gross loans and advances		**2,020,627**	**1,974,813**	**2,020,627**	**1,974,813**
Less:					
- Collective provision	11	(1,436)	(2,371)	(1,436)	(2,371)
- Specific provision	11	(12)	(39)	(12)	(39)
Net loans and advances		**2,019,179**	**1,972,403**	**2,019,179**	**1,972,403**
Residual maturity analysis (excluding provisions)					
Overdrafts		13,431	14,567	13,431	14,567
Up to 1 month		13,062	51,087	13,062	51,087
1 to 3 months		1,868	1,810	1,868	1,810
3 to 12 months		79,048	20,333	79,048	20,333
12 months to 5 years		43,752	71,732	43,752	71,732
Over 5 years		1,869,466	1,815,284	1,869,466	1,815,284
		2,020,627	**1,974,813**	**2,020,627**	**1,974,813**

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

(b) Internal Securitisation

As further disclosed in Note 37 – Internal Securitisation, $429m (2021: $452m) of Residential Mortgages have been transferred and are held by a controlled subsidiary, BHB Residential Securities Trust 1, as part of an internal securitisation.

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
11 Provision for Impairment				
(a) Provision for Impairment				
Collective provisions				
Opening balance	(2,371)	(2,594)	(2,371)	(2,594)
(Charged) / Reversal to consolidated statement of profit and loss	934	223	934	223
Closing balance	**(1,437)**	**(2,371)**	**(1,437)**	**(2,371)**
Specific provisions				
Opening balance	(39)	(21)	(39)	(21)
(Charged) / Reversal to consolidated statement of profit and loss	27	(18)	27	(18)
Recoveries recognised in income statement	-	-		
Reversal to consolidated statement of profit and loss	-	-		
Closing balance	**(12)**	**(39)**	**(12)**	**(39)**
Reconciliation of impairment losses				
Collective provisions				
- current year (charge)/reversal	934	223	934	223
Specific provisions				
- current year (charge)/reversal	27	(18)	27	(18)
Impairment Loss Allowance				
- current year (charge)/reversal	27	-	27	-
Write off of Interest	(7)	-	(7)	-
Write off of loan Principal	(81)	-	(81)	-
Impairment (loss) / reversal of loss	**900**	**205**	**900**	**205**

The Consolidated Entity did not recognise interest income on impaired assets as at 31 December 2022. (2021: Nil).

(b) Impaired assets

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

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Loans and advances to customers				
- Past due but not impaired	29,225	24,891	29,225	24,891
- Impaired	12	39	12	39
Gross impaired and past due loans	**29,237**	**24,930**	**29,237**	**24,930**
Less: Specific provision	(12)	(57)	(12)	(57)
Net impaired and past due loans	**29,225**	**24,873**	**29,225**	**24,873**

Refer to Note 27(b) for further details.

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Notes	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
12 Intangible assets					
Computer software					
At cost		22,610	18,545	22,610	18,545
Less: Accumulated amortisation		(7,834)	(5,841)	(7,834)	(5,841)
		14,776	**12,704**	**14,776**	**12,704**
Opening balance		12,704	10,501	12,704	10,501
Additions		4,500	4,526	4,500	4,526
Transfer to Retained Earnings due to accounting policy change	1(ac)	-	(339)	-	(339)
Net book value of assets disposed during the year		(170)	(69)	(170)	(69)
Amortisation expense		(2,258)	(1,915)	(2,258)	(1,915)
Net book value		**14,776**	**12,704**	**14,776**	**12,704**

	Notes	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
13 Property, plant and equipment					
Property, plant and equipment					
At cost		6,145	6,152	6,145	6,152
Less: Accumulated amortisation		(2,364)	(1,944)	(2,364)	(1,944)
		3,781	**4,208**	**3,781**	**4,208**
Leasehold improvements					
At cost		4,075	4,360	4,075	4,360
Less: Accumulated amortisation		(3,052)	(3,373)	(3,052)	(3,373)
		1,023	**987**	**1,023**	**987**
Motor Vehicle					
At cost		59	59	59	59
Less: Accumulated amortisation		(51)	(43)	(51)	(43)
		8	**16**	**8**	**16**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
13 Property, plant and equipment (continued)				
Right of Use Asset				
At cost	12,016	12,807	12,016	12,807
Less: Accumulated amortisation	(8,043)	(6,889)	(8,043)	(6,889)
	3,973	**5,918**	**3,973**	**5,918**
Land and Buildings				
At cost	41,834	41,834	41,834	41,834
Less: Accumulated amortisation	(1,919)	(1,033)	(1,919)	(1,033)
	39,915	**40,801**	**39,915**	**40,801**
Net book value	**48,700**	**51,930**	**48,700**	**51,930**

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

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Property, plant and equipment at cost				
Opening balance	4,208	1,691	4,208	1,691
Additions	221	2,957	221	2,957
Transfer	-	-		
Net book value of assets disposed during the year	(45)	(58)	(45)	(58)
Depreciation expense	(603)	(382)	(603)	(382)
	3,781	**4,208**	**3,781**	**4,208**
Leasehold improvements at cost				
Opening balance	987	1,112	987	1,112
Additions	282	124	282	124
Transfer	-	-	-	-
Net book value of assets disposed during the year	(17)	(6)	(17)	(6)
Depreciation expense	(229)	(243)	(229)	(243)
	1,023	**987**	**1,023**	**987**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
13 Property, plant and equipment (continued)				
Motor vehicles at cost				
Opening balance	16	23	16	23
Additions	-	-	-	-
Depreciation expense	(8)	(7)	(8)	(7)
	8	**16**	**8**	**16**
Right of use asset at cost				
Opening balance	5,918	7,067	5,918	7,067
Additions	47	487	47	487
Disposal of right of use assets due to branch closure	(838)	-	(838)	-
Depreciation expense	(1,154)	(1,636)	(1,154)	(1,636)
	3,973	**5,918**	**3,973**	**5,918**

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

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Land and Buildings at cost				
Opening balance	40,801	41,687	40,801	41,687
Additions	-	-	-	-
Transfers (Refer to Note 14)	-	-	-	-
Depreciation expense	(886)	(886)	(886)	(886)
	39,915	**40,801**	**39,915**	**40,801**
Net book value	**48,700**	**51,930**	**48,700**	**51,930**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
14 Investment property				
Investment property				
At cost	21,310	21,310	21,310	21,310
Less: Accumulated amortisation	(1,878)	(1,346)	(1,878)	(1,346)
	19,432	**19,964**	**19,432**	**19,964**

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

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Investment property at cost				
Opening balance	19,964	20,497	19,964	20,497
Additions	-	-	-	-
Transfers (Refer to Note 13)	-	-		
Depreciation expense	(532)	(533)	(532)	(533)
	19,432	**19,964**	**19,432**	**19,964**

15 Deferred tax assets

Deferred income tax assets are attributable to the following items:

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Deferred tax assets				
Provisions	2,054	2,202	2,054	2,202
Cash flow hedge reserve	-	543	-	543
Fixed assets	403	165	403	165
Leased asset	191	220	191	220
Total deferred tax asset	**2,648**	**3,130**	**2,648**	**3,130**
Deferred tax liabilities				
Securitisation start-up costs	(28)	(30)	(28)	(30)
Cash flow hedge reserve	(25)	-	(25)	-
Prepaid balances	(10)	(10)	(10)	(10)
Total deferred tax liabilities	**(63)**	**(40)**	**(63)**	**(40)**
Net deferred tax asset	**2,585**	**3,090**	**2,585**	**3,090**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Notes	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
15 Deferred tax assets (continued)					
Reconciliation of balances of net deferred tax assets are set out below:					
Deferred tax assets					
Prior year ending balance		3,090	4,129	3,090	4,129
Deferred tax credit/(debit) to income statement	6(a)	63	(253)	63	(253)
Deferred tax charges recognised in equity for cash flow hedge		(568)	(786)	(568)	(786)
Net deferred tax asset		**2,585**	**3,090**	**2,585**	**3,090**

16 Other assets

Prepayments	2,711	2,568	2,711	2,568
Other	7,288	5,443	45,266	59,307
	9,999	**8,011**	**47,977**	**61,875**

Other comprises mainly sundry debtors and other miscellaneous debit balances.

17 Due to other financial institutions

Parent entity - Bank of Beirut s.a.l.	33	68	33	68
Australia	-	-	-	-
Overseas	4,950	4,504	4,950	4,504
	4,983	**4,572**	**4,983**	**4,572**

Please refer to Note 34 for further details on related parties and transactions in during the financial year.

18 Borrowings

Term Funding Facility	251,941	251,596	251,941	251,596
Securities sold and under repurchase agreements	29,400	-	29,400	-
	281,341	**251,596**	**281,341**	**251,596**

As at 31 December 2022, the Consolidated Entity has drawn down $251.9m (2021: $251.6m) from the TFF (Facility limit of $251.6m). As detailed in Note 1(m), to access the TFF, the Consolidated Entity is required to pledge securities that meet the RBA eligibility criteria as collateral. The Consolidated Entity retains risks and rewards of these securities, and therefore does not derecognise these assets. The following is the carrying value of A-Notes from the Consolidated Entity's internal securitisation provided to the RBA for this purpose.

Pledged value				
BHB Residential Securities Trust 1 - A Notes	**298,450**	**452,010**	**298,450**	**452,010**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
19 Deposits				
Current	512,813	537,977	512,813	537,977
Savings	170,144	189,938	170,144	189,938
Term	1,395,356	1,336,079	1,395,356	1,336,079
Total deposits	**2,078,313**	**2,063,994**	**2,078,313**	**2,063,994**

20 Derivative financial instruments

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

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Assets				
Interest rate swaps designated as cash flow hedge - Local banks	747	-	747	-
Foreign currency forwards not designated in a hedging relationship - Other	72	58	72	58
	819	**58**	**819**	**58**
Liabilities				
Interest rate swaps designated as cash flow hedge				
- Local banks	-	1,148	-	1,148
Foreign currency forwards not designated in a hedging relationship - Other	121	127	121	127
	121	**1,275**	**121**	**1,275**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

20 Derivative financial instruments (continued)

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

Cash flow hedges

Consolidated	2022 $'000					
	Notional Amounts				Carrying Amount	
	Within 1 year	1 through 5 years	Over 5 years	**Total**	Assets	Liabilities
Interest rate risk						
Interest rate contracts	-	11,000	6,000	**17,000**	747	-
Hedge of variable rate liabilities	-	11,000	6,000	**17,000**	747	-
Weighted average fixed interest rate						
Hedge of variable rate liabilities	-	3.06%	2.98%	**3.03%**		

Consolidated	2021 $'000					
	Notional Amounts				Carrying Amount	
	Within 1 year	1 through 5 years	Over 5 years	**Total**	Assets	Liabilities
Interest rate risk						
Interest rate contracts	72,000	8,000	6,000	**86,000**	-	(1,148)
Hedge of variable rate liabilities	72,000	8,000	6,000	**86,000**	-	(1,148)
Weighted average fixed interest rate						
Hedge of variable rate liabilities	0.05%	0.05%	0.06%	**0.05%**		

Company	2022 $'000					
	Notional Amounts				Carrying Amount	
	Within 1 year	1 through 5 years	Over 5 years	**Total**	Assets	Liabilities
Interest rate risk						
Interest rate contracts	-	11,000	6,000	**17,000**	747	-
Hedge of variable rate liabilities	-	11,000	6,000	**17,000**	747	-
Weighted average fixed interest rate						
Hedge of variable rate liabilities	-	3.06%	2.98%	**3.03%**	-	-

Company	2021 $'000					
	Notional Amounts				Carrying Amount	
	Within 1 year	1 through 5 years	Over 5 years	**Total**	Assets	Liabilities
Interest rate risk						
Interest rate contracts	72,000	8,000	6,000	**86,000**	-	(1,148)
Hedge of variable rate liabilities	72,000	8,000	6,000	**86,000**	-	(1,148)
Weighted average fixed interest rate						
Hedge of variable rate liabilities	0	0.05%	0.06%	**0.05%**	-	-

Bank of Sydney Ltd

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

For the year ended 31 December 2022

20 Derivative financial instruments (continued)

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

Consolidated	2022 $'000				
	Line item in the statement of financial position where the hedging instrument is located	Hedge ineffectiveness recognised in profit or loss	Changes in fair values used for calculating hedge ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Discontinued hedges
Cash flow hedges					
Interest rate risk	Derivative instruments	-	1,895	59	-

Consolidated	2021 $'000				
	Line item in the statement of financial position where the hedging instrument is located	Hedge ineffectiveness recognised in profit or loss	Changes in fair values used for calculating hedge ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Discontinued hedges
Cash flow hedges					
Interest rate risk	Derivative instruments	-	2,619	(1,268)	-

Company	2022 $'000				
	Line item in the statement of financial position where the hedging instrument is located	Hedge ineffectiveness recognised in profit or loss	Changes in fair values used for calculating hedge ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Discontinued hedges
Cash flow hedges					
Interest rate risk	Derivative instruments	-	1,895	59	

Company	2021 $'000				
	Line item in the statement of financial position where the hedging instrument is located	Hedge ineffectiveness recognised in profit or loss	Changes in fair values used for calculating hedge ineffectiveness	Cash flow hedge reserve	
				Continuing hedges	Discontinued hedges
Cash flow hedges					
Interest rate risk	Derivative instruments	-	2,619	(1,268)	

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

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

20 Derivative financial instruments (continued)

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

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

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
21 Provisions				
Annual leave provision	2,003	1,959	2,003	1,959
Long service leave provision	1,689	1,539	1,689	1,539
Make good provision	640	555	640	555
	4,332	**4,053**	**4,332**	**4,053**

22 Lease liabilities

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

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Undiscounted lease liability				
Within 1 year	1,317	1,497	1,317	1,497
Over 1 year but less than 5 years	3,795	5,328	3,795	5,328
Over 5 years	-	644	-	644
	5,112	**7,469**	**5,112**	**7,469**
Present value of lease liability	**4,610**	**6,649**	**4,610**	**6,649**

23 Other liabilities

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

24 Contributed Equity

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
230,000,000 ordinary shares fully paid (2021 - 230,000,000 ordinary shares fully paid)	**230,000**	**230,000**	**230,000**	**230,000**

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

There was no additional capital raised during the financial year ended 31 December 2022 (2021: $nil).

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
25 Retained profits				
Retained profits at beginning of year	81,456	75,249	81,456	75,249
Opening balance adjustments	-	(237)	-	(237)
Net profit after income tax	13,923	6,622	13,923	6,622
Transfer (to) / from general reserve for credit losses	2,197	(179)	2,197	(179)
Retained profits at year-end	**97,580**	**81,456**	**97,580**	**81,456**
26 Reserves				
Equity reserve for credit losses				
Opening Balance	6,579	6,401	6,579	6,401
Transfer (to)/from retained profits during the year	(2,197)	179	(2,197)	179
Closing Balance	**4,383**	**6,579**	**4,383**	**6,579**
Cash flow hedge reserve				
Opening Balance	(1,268)	(3,101)	(1,268)	(3,101)
Movement through Other Comprehensive Income	1,327	1,833	1,327	1,833
Closing Balance	**59**	**(1,268)**	**59**	**(1,268)**
Total reserves	**4,442**	**5,311**	**4,442**	**5,311**

All reserve amounts are shown net of income tax. An Equity Reserve for Credit Losses (ERCL) represents a reserve established to cover credit losses estimated but not certain to arise which is over and above any specific provisions raised for impaired assets.

27 Financial risk management

(a) Introduction and overview

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

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

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(a) Introduction and overview (continued)

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

(b) Credit risk

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

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

i. Management of credit risk

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

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

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

ii. Exposure to credit risk

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

On balance sheet items

Consolidated	2022 $'000			
Customer rating	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Customer ratings 1-5: Low risk to acceptable.	1,967,344	5,117	10	**1,972,471**
Customer ratings 6-8: Management attention to High risk	-	43,192	4,951	**48,143**
Customer ratings 9-10: Impaired	-	-	13	**13**
Total gross carrying amount	**1,967,344**	**48,309**	**4,974**	**2,020,627**
Loss allowance	**(953)**	**(201)**	**(294)**	**(1,448)**
Carrying Amount	**1,966,391**	**48,108**	**4,680**	**2,019,179**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

In response to the Covid-19 pandemic and ensuing impacts on the domestic economy, the Bank allowed its customers to enter into temporary loan repayment deferrals under its Covid hardship program. These loan repayment deferrals ended during the financial year ended 31 December 2021. As per Note 1(k) the request by a customer for a loan repayment deferral was judged to be a SICR and as such any such exposure under Covid hardship was transferred into Stage 2 of the Bank's ECL model. Post the COVID-19 pandemic the loan book has grown, however the quality of the portfolio has remained strong. The provision has decreased as a result of a commercial exposure which carried a significant provision in 2021 having settled as a post year-end adjusting event in 2022.

On balance sheet items

Consolidated

Customer rating	2021 $'000 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Customer ratings 1-5: Low risk to acceptable.	1,922,693	1,172	1,785	**1,925,650**
Customer ratings 6-8: Management attention to High risk	-	41,923	7,190	**49,113**
Customer ratings 9-10: Impaired	-	-	50	**50**
Total gross carrying amount	**1,922,693**	**43,095**	**9,025**	**1,974,813**
Loss allowance	**(947)**	**(109)**	**(1,354)**	**(2,410)**
Carrying Amount	**1,921,746**	**42,986**	**7,671**	**1,972,403**

Company

Customer rating	2022 $'000 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Customer ratings 1-5: Low risk to acceptable.	1,967,344	5,117	10	**1,972,471**
Customer ratings 6-8: Management attention to High risk	-	43,192	4,951	**48,143**
Customer ratings 9-10: Impaired	-	-	13	**13**
Total gross carrying amount	**1,967,344**	**48,309**	**4,974**	**2,020,627**
Loss allowance	**(953)**	**(201)**	**(294)**	**(1,448)**
Carrying Amount	**1,966,391**	**48,108**	**4,680**	**2,019,179**

Company

Customer rating	2021 $'000 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Customer ratings 1-5: Low risk to acceptable.	1,922,693	1,172	1,785	**1,925,650**
Customer ratings 6-8: Management attention to High risk	-	41,923	7,190	**49,113**
Customer ratings 9-10: Impaired	-	-	50	**50**
Total gross carrying amount	**1,922,693**	**43,095**	**9,025**	**1,974,813**
Loss allowance	**(947)**	**(109)**	**(1,354)**	**(2,410)**
Carrying Amount	**1,921,746**	**42,986**	**7,671**	**1,972,403**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

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

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Credit risk exposures relating to on-balance sheet:				
Cash and liquid assets	62,241	47,541	62,241	47,541
Loans and advances to customers:				
Loans to individuals:				
- Retail	1,698,436	1,634,380	1,698,436	1,634,380
Loans to corporate entities:			-	-
- Commercial - non property	175,595	192,387	175,595	192,387
- Commercial - property	146,596	148,046	146,596	148,046
Due from other financial institutions	54,921	93,468	16,943	39,604
Investments at amortised cost	502,856	448,213	502,856	448,213
Derivative financial assets	819	58	819	58
Total	**2,641,464**	**2,564,093**	**2,603,486**	**2,510,229**
Credit risk exposures relating to off-balance sheet items:				
Financial guarantees	6,202	7,074	6,202	7,074
Loan commitments and other credit related liabilities	254,748	285,452	254,748	285,452
Trade finance contingencies	41,605	28,412	41,605	28,412
Total	**302,555**	**320,938**	**302,555**	**320,938**

The Consolidated Entity holds collateral and other credit enhancements to cover its credit risks associated with on balance sheet and off balance sheet credit risk exposures for approximately 98.7% of its total loan book. The estimated value of collateral and other credit enhancements amounts to $4,751 million as at 31 December 2022 ($4,216 million as at 31 December 2021). The estimated value of collateral is based on market value of the collateral and is not capped to the value of the exposure. The average LVR for its loan portfolio is 61.3%.

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

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

Consolidated	2022 $'000			
	Individuals (retail customers)	Commercial Non-Property	Commercial Property	Total
Past due up to 30 days	16,601	3,461	-	**20,062**
Past due 30- 60 days	2,790	-	-	**2,790**
Past due 60 - 90 days	1,339	79	-	**1,418**
Past due more than 90 days	4,955	-	-	**4,955**
Total	**25,685**	**3,540**	**-**	**29,225**

Consolidated	2021 $'000			
	Individuals (retail customers)	Commercial Non-Property	Commercial Property	Total
Past due up to 30 days	12,505	1,468	-	**13,973**
Past due 30- 60 days	1,224	-	-	**1,224**
Past due 60 - 90 days	715	-	-	**715**
Past due more than 90 days	3,967	1,604	3,408	**8,979**
Total	**18,411**	**3,072**	**3,408**	**24,891**

Company	2022 $'000			
	Individuals (retail customers)	Commercial Non-Property	Commercial Property	Total
Past due up to 30 days	16,601	3,461	-	**20,062**
Past due 30- 60 days	2,790	-	-	**2,790**
Past due 60 - 90 days	1,339	79	-	**1,418**
Past due more than 90 days	4,955	-	-	**4,955**
Total	**25,685**	**3,540**	**-**	**29,225**

Company	2021 $'000			
	Individuals (retail customers)	Commercial Non-Property	Commercial Property	Total
Past due up to 30 days	12,505	1,468	-	**13,973**
Past due 30- 60 days	1,224	-	-	**1,224**
Past due 60 - 90 days	715	-	-	**715**
Past due more than 90 days	3,967	1,604	3,408	**8,979**
Total	**18,411**	**3,072**	**3,408**	**24,891**

The Consolidated Entity holds collateral with pledged amount totalling $34.5m for assets which are past due but not impaired as at 31 December 2022 ($35.5m as at 31 December 2021). The pledged amount of collateral is based on market value of the collateral and is capped to the value of the total approved loan limit.

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL

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

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

Three scenarios will be applied to determine the final adjusted provision amount with the weightings as follows:
Base Case: 50% Weighting
Good Case: 20% Weighting
Bad Case: 30% Weighting

Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process. The table below analyse the movement of the gross balance (gross of provision) of customer loans and advances during the year, excluding trade exposures. For trade exposure please refer to the table on page 67.

	2022 $'000s			
Consolidated	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening Gross Loans & Advances 1 January 2022	1,893,363	43,091	9,019	**1,945,473**
Movements:				
Closed Loans	(278,972)	(4,423)	(2,796)	**(286,191)**
New Loans	401,978	828	1	**402,807**
Transfer to Stage 1	1,812	(1,504)	(308)	**-**
Transfer to Stage 2	(7,792)	11,927	(4,135)	**-**
Transfer to Stage 3	(1,819)	(953)	2,772	**-**
Movement in Balances	(48,200)	(661)	416	**(48,445)**
Write-Offs	-	-	-	-
Balance as at 31 December 2022	**1,960,370**	**48,305**	**4,969**	**2,013,644**

	2021 $'000s			
Consolidated	**Stage 1**	**Stage 2***	**Stage 3**	**Total**
Opening Gross Loans & Advances 1 January 2021	1,607,565	240,703	3,112	**1,851,380**
Movements:				
Closed Loans	(323,858)	(53,298)	-	**(377,156)**
New Loans	543,407	2,454	-	**545,861**
Transfer to Stage 1	148,000	(145,502)	(2,498)	**-**
Transfer to Stage 2	(19,105)	19,105	-	**-**
Transfer to Stage 3	-	(8,466)	8,466	**-**
Movement in Balances	(62,646)	(11,905)	(61)	**(74,612)**
Write-Offs	-	-	-	-
Balance as at 31 December 2021	**1,893,363**	**43,091**	**9,019**	**1,945,473**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

Company	**2022 $'000s** Stage 1	Stage 2	Stage 3	Total
Opening Gross Loans & Advances 1 January 2022	1,893,363	43,091	9,019	**1,945,473**
Movements:				
Closed Loans	(278,972)	(4,423)	(2,796)	**(286,191)**
New Loans	401,978	828	1	**402,807**
Transfer to Stage 1	1,812	(1,504)	(308)	**-**
Transfer to Stage 2	(7,792)	11,927	(4,135)	**-**
Transfer to Stage 3	(1,819)	(953)	2,772	**-**
Movement in Balances	(48,200)	(661)	416	**(48,445)**
Write-Offs	-	-	-	-
Balance as at 31 December 2022	**1,960,370**	**48,305**	**4,969**	**2,013,644**

Company	**2021 $'000s** Stage 1	Stage 2*	Stage 3	Total
Opening Gross Loans & Advances 1 January 2021	1,607,565	240,703	3,112	**1,851,380**
Movements:				
Closed Loans	(323,858)	(53,298)	-	**(377,156)**
New Loans	543,407	2,454	-	**545,861**
Transfer to Stage 1	148,000	(145,502)	(2,498)	**-**
Transfer to Stage 2	(19,105)	19,105	-	**-**
Transfer to Stage 3	-	(8,466)	8,466	**-**
Movement in Balances	(62,646)	(11,905)	(61)	**(74,612)**
Write-Offs	-	-	-	-
Balance as at 31 December 2021	**1,893,363**	**43,091**	**9,019**	**1,945,473**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

	2022 $'000s			
Consolidated	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening ECL 1 January 2022	859	110	1,315	**2,283**
Movements:				
Closed Loans	(155)	(15)	(446)	**(616)**
New Loans	267	3	-	**270**
Transfer to Stage 1	30	(11)	(19)	**-**
Transfer to Stage 2	(2)	725	(723)	**-**
Transfer to Stage 3	(1)	(2)	3	**-**
Increases due to change in credit risk	188	146	134	**468**
Decreases due to change in credit risk	(241)	(754)	23	**(972)**
Write-Offs	-	-	-	**-**
Provisions as at 31 December 2022	**945**	**202**	**287**	**1,433**

	2021 $'000s			
Consolidated	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening ECL 1 January 2021	924	1,143	544	**2,610**
Movements:				
Closed Loans	(155)	(218)	-	**(373)**
New Loans	322	3	-	**325**
Transfer to Stage 1	975	(712)	(263)	**-**
Transfer to Stage 2	(15)	15	-	**-**
Transfer to Stage 3	-	(88)	88	**-**
Increases due to change in credit risk	35	59	1,135	**1,229**
Decreases due to change in credit risk	(1,227)	(92)	(189)	**(1,508)**
Write-Offs	-	-	-	**-**
Provisions as at 31 December 2021	**859**	**110**	**1,315**	**2,283**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

Company	2022 $'000s Stage 1	Stage 2	Stage 3	Total
Opening ECL 1 January 2022	859	110	1,315	**2,283**
Movements:				
Closed Loans	(155)	(15)	(446)	**(616)**
New Loans	267	3	-	**270**
Transfer to Stage 1	30	(11)	(19)	**-**
Transfer to Stage 2	(2)	725	(723)	**-**
Transfer to Stage 3	(1)	(2)	3	**-**
Increases due to change in credit risk	188	146	134	**468**
Decreases due to change in credit risk	(241)	(754)	23	**(972)**
Write-Offs	-	-	-	**-**
Provisions as at 31 December 2022	**945**	**202**	**287**	**1,433**

Company	2021 $'000s Stage 1	Stage 2	Stage 3	Total
Opening ECL 1 January 2021	924	1,143	544	**2,610**
Movements:				
Closed Loans	(155)	(218)	-	**(373)**
New Loans	322	3	-	**325**
Transfer to Stage 1	975	(712)	(263)	**-**
Transfer to Stage 2	(15)	15	-	**-**
Transfer to Stage 3	-	(88)	88	**-**
Increases due to change in credit risk	35	59	1,135	**1,229**
Decreases due to change in credit risk	(1,227)	(92)	(189)	**(1,508)**
Write-Offs	-	-	-	**-**
Provisions as at 31 December 2021	**859**	**110**	**1,315**	**2,283**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

iii. Impaired assets and calculation of ECL (continued)

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

Consolidated	2022 $'000					
	Gross Balance			ECL		
	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade
Stage 1	54,921	502,856	7,049	1	288	2
Stage 2	-	-	-	-	-	-
Stage 3	32	-	-	1	-	-
Total	**54,953**	**502,856**	**7,049**	**2**	**288**	**2**

Consolidated	2021 $'000					
	Gross Balance			ECL		
	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade
Stage 1	93,468	448,213	29,329	3	313	87
Stage 2	-	-	-	-	-	-
Stage 3	52	-	-	2	-	-
Total	**93,520**	**448,213**	**29,329**	**5**	**313**	**87**

Company	2022 $'000					
	Gross Balance			ECL		
	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade
Stage 1	54,921	502,856	7,049	1	288	2
Stage 2	-	-	-	-	-	-
Stage 3	32	-	-	1	-	-
Total	**54,953**	**502,856**	**7,049**	**2**	**288**	**2**

Company	2021 $'000					
	Gross Balance			ECL		
	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade	Due from other financial institutions	Investments at amortised cost	Loan and advances-Trade
Stage 1	93,468	448,213	29,329	3	313	87
Stage 2	-	-	-	-	-	-
Stage 3	52	-	-	2	-	-
Total	**93,520**	**448,213**	**29,329**	**5**	**313**	**87**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(b) Credit risk (continued)

iv. Settlement risk

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

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

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

Consolidated	2022 $'000		
	Investments at amortised cost	Due from other financial institutions	Total
Aa3 - Aa1	126,207	46,892	**173,099**
A3 - A1	277,034	4,315	**281,349**
Baa3 - Baa1	99,616	3,679	**103,295**
Unrated	-	32	**32**
Total	**502,857**	**54,918**	**557,775**

Consolidated	2021 $'000		
	Investments at amortised cost	Due from other financial institutions	Total
Aa3 - Aa1	167,554	31,707	**199,261**
A3 - A1	215,149	57,412	**272,561**
Baa3 - Baa1	65,510	4,295	**69,805**
Unrated	-	49	**49**
Total	**448,213**	**93,463**	**541,676**

Company	2022 $'000		
	Investments at amortised cost	Due from other financial institutions	Total
Aa3 - Aa1	126,207	8,914	**135,121**
A3 - A1	277,034	4,315	**281,349**
Baa3 - Baa1	99,616	3,679	**103,295**
Unrated	-	32	**32**
Total	**502,857**	**16,940**	**519,797**

Company	2021 $'000		
	Investments at amortised cost	Due from other financial institutions	Total
Aa3 - Aa1	167,554	(22,157)	**145,397**
A3 - A1	215,149	57,412	**272,561**
Baa3 - Baa1	65,510	4,295	**69,805**
Unrated	-	49	**49**
Total	**448,213**	**39,599**	**487,812**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk

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

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

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

i. Interest rate risk

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

Refer to Note 27(c)(iii) for result of sensitivity analysis on interest rate movement.

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

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

Consolidated		2022 $'000					
		The earlier of maturity or repricing date					
	Notes	Floating Interest Rate[1]	1 Year or less	Over 1 to 5 Years	More than 5 Years	Non-interest bearing	Total
Financial assets							
Cash and liquid assets	7	62,241	-	-	-	-	**62,241**
Due from other financial institutions	8	54,806	112	-	-	-	**54,918**
Investments at amortised cost	9	344,974	131,189	20,258	6,147	-	**502,568**
Loans and advances	10	1,788,587	51,108	179,483	-	-	**2,019,179**
Derivative financial assets	20	819	-	-	-	-	**819**
		2,251,427	**182,409**	**199,741**	**6,147**	**-**	**2,639,725**
Financial liabilities							
Due to financial institutions	17	4,983	-	-	-	-	**4,983**
Borrowings	18	-	91,868	189,473	-	-	**281,341**
Deposits	19	680,960	1,384,925	12,428	-	-	**2,078,313**
Derivative financial liabilities	20	121	-	-	-	-	**121**
		686,064	**1,476,793**	**201,901**	**-**	**-**	**2,364,758**
Interest rate swaps[2]		17,000	-	(11,000)	(6,000)	-	-
Interest rate gap		**1,582,363**	**(1,294,384)**	**(13,160)**	**147**	**-**	**274,967**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

i. Interest rate risk (continued)

Consolidated		2021 $'000					
		The earlier of maturity or repricing date					
	Notes	Floating Interest Rate[1]	1 Year or less	Over 1 to 5 Years	More than 5 Years	Non-interest bearing	Total
Financial assets							
Cash and liquid assets	7	47,541	-	-	-	-	**47,541**
Due from other financial institutions	8	93,351	112	-	-	-	**93,463**
Investments at amortised cost	9	294,925	114,208	32,611	6,156	-	**447,900**
Loans and advances	10	1,701,865	60,950	209,588	-	-	**1,972,403**
Derivative financial assets	20	58	-	-	-	-	**58**
		2,137,740	**175,270**	**242,199**	**6,156**	**-**	**2,561,365**
Financial liabilities							
Due to financial institutions	17	4,572	-	-	-	-	**4,572**
Borrowings	18	-	-	251,596	-	-	**251,596**
Deposits	19	720,418	1,342,536	1,040	-	-	**2,063,994**
Derivative financial liabilities	20	1,275	-	-	-	-	**1,275**
		726,265	**1,342,536**	**252,636**	**-**	**-**	**2,321,437**
Interest rate swaps[2]		86,000	(72,000)	(8,000)	(6,000)	-	-
Interest rate gap		**1,497,475**	**(1,239,266)**	**(18,437)**	**156**	**-**	**239,928**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

i. Interest rate risk (continued)

Company		2022 $'000					
		The earlier of maturity or repricing date					
	Notes	Floating Interest Rate[1]	1 Year or less	Over 1 to 5 Years	More than 5 Years	Non-interest bearing	Total
Financial assets							
Cash and liquid assets	7	62,241	-	-	-	-	**62,241**
Due from other financial institutions	8	16,828	112	-	-	-	**16,940**
Investments at amortised cost	9	344,974	131,189	20,258	6,147	-	**502,568**
Loans and advances	10	1,788,587	51,108	179,483	-	-	**2,019,179**
Derivative financial assets	20	819	-	-	-	-	**819**
		2,213,449	**182,409**	**199,741**	**6,147**	**-**	**2,601,747**
Financial liabilities							
Due to financial institutions	17	4,983	-	-	-	-	**4,983**
Borrowings	18	-	91,868	189,473	-	-	**281,341**
Deposits	19	680,960	1,384,925	12,428	-	-	**2,078,313**
Derivative financial liabilities	20	121	-	-	-	-	**121**
		686,064	**1,476,793**	**201,901**	**-**	**-**	**2,364,758**
Interest rate swaps[2]		17,000	-	(11,000)	(6,000)	-	-
Interest rate gap		**1,544,385**	**(1,294,384)**	**(13,160)**	**147**	**-**	**236,989**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

i. Interest rate risk (continued)

Company		2021 $'000					
		The earlier of maturity or repricing date					
	Notes	Floating Interest Rate[1]	1 Year or less	Over 1 to 5 Years	More than 5 Years	Non-interest bearing	Total
Financial assets							
Cash and liquid assets	7	47,541	-	-	-	-	**47,541**
Due from other financial institutions	8	39,487	112	-	-	-	**39,599**
Investments at amortised cost	9	294,925	114,208	32,611	6,156	-	**447,900**
Loans and advances	10	1,701,865	60,950	209,588	-	-	**1,972,403**
Derivative financial assets	20	58	-	-	-	-	**58**
		2,083,876	**175,270**	**242,199**	**6,156**	**-**	**2,507,501**
Financial liabilities							
Due to financial institutions	17	4,572	-	-	-	-	**4,572**
Borrowings	18	-	-	251,596	-	-	**251,596**
Deposits	19	720,418	1,342,536	1,040	-	-	**2,063,994**
Derivative financial liabilities	20	1,275	-	-	-	-	**1,275**
		726,265	**1,342,536**	**252,636**	**-**	**-**	**2,321,437**
Interest rate swaps[2]		86,000	(72,000)	(8,000)	(6,000)	-	-
Interest rate gap		**1,443,611**	**(1,239,266)**	**(18,437)**	**156**	**-**	**186,064**

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

ii. Foreign exchange risk

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

Consolidated	2022 $'000					
	EUR	USD	GBP	AUD	Other currency	Total
Cash and liquid assets	312	174	37	61,718	-	62,241
Due from other financial institutions	1,343	8,328	2,320	42,903	24	54,918
Investments at amortised cost	-	-	-	502,568	-	502,568
Loans and advances	-	8,943	-	2,010,235	-	2,019,178
Derivative financial asset	-	-	-	819	-	819
Intangible assets	-	-	-	14,776	-	14,776
Property, plant and equipment	-	-	-	48,700	-	48,700
Investment Property	-	-	-	19,431	-	19,431
Deferred tax assets	-	-	-	2,585	-	2,585
Other assets	-	-	-	10,001	-	10,001
Total assets	**1,655**	**17,445**	**2,357**	**2,713,736**	**24**	**2,735,217**
Due to other financial institutions	-	-	-	4,983	-	4,983
Borrowings	-	-	-	281,341	-	281,341
Deposits	13,683	22,510	2,374	2,039,746	-	2,078,313
Derivative liabilities	-	-	-	121	-	121
Provisions	-	-	-	4,332	-	4,332
Lease liabilities	-	-	-	4,610	-	4,610
Other liabilities	-	-	-	29,495	-	29,495
Total liabilities	**13,683**	**22,510**	**2,374**	**2,364,628**	**-**	**2,403,195**
Net on-balance sheet position	**(12,028)**	**(5,065)**	**(17)**	**349,108**	**24**	**332,022**
Effect of derivatives held for risk management	10,000	4,800	-	-	-	14,800
Net currency position	**(2,028)**	**(265)**	**(17)**	**349,108**	**24**	**346,822**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

ii. Foreign exchange risk (continued)

Consolidated	2021 $'000					
	EUR	USD	GBP	AUD	Other currency	Total
Cash and liquid assets	242	205	54	47,040	-	47,541
Due from other financial institutions	1,641	8,956	2,210	80,639	17	93,463
Investments at amortised cost	-	-	-	447,900	-	447,900
Loans and advances	-	31,963	-	1,940,440	-	1,972,403
Derivative financial asset	-	-	-	58	-	58
Intangible assets	-	-	-	12,704	-	12,704
Property, plant and equipment	-	-	-	51,930	-	51,930
Investment Property	-	-	-	19,964	-	19,964
Deferred tax assets	-	-	-	3,090	-	3,090
Other assets	-	-	-	8,011	-	8,011
Total assets	**1,883**	**41,124**	**2,264**	**2,611,776**	**17**	**2,657,064**
Due to other financial institutions	-	-	-	4,572	-	4,572
Borrowings	-	-	-	251,596	-	251,596
Deposits	23,174	33,894	2,266	2,004,658	2	2,063,994
Derivative liabilities	-	-	-	1,275	-	1,275
Provisions	-	-	-	4,053	-	4,053
Lease liabilities	-	-	-	6,649	-	6,649
Other liabilities	-	-	-	8,158	-	8,158
Total liabilities	**23,174**	**33,894**	**2,266**	**2,280,961**	**2**	**2,340,297**
Net on-balance sheet position	**(21,291)**	**7,230**	**(2)**	**330,815**	**15**	**316,767**
Effect of derivatives held for risk management	15,934	(3,277)	-	-	-	12,657
Net currency position	**(5,357)**	**3,953**	**(2)**	**330,815**	**15**	**304,110**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

ii. Foreign exchange risk (continued)

Company	2022 $'000					
	EUR	USD	GBP	AUD	Other currency	Total
Cash and liquid assets	312	174	37	61,718	-	62,241
Due from other financial institutions	1,343	8,328	2,320	4,925	24	16,940
Investments at amortised cost	-	-	-	502,568	-	502,568
Loans and advances	-	8,943	-	2,010,235	-	2,019,178
Derivative financial asset	-	-	-	819	-	819
Intangible assets	-	-	-	14,776	-	14,776
Property, plant and equipment	-	-	-	48,700	-	48,700
Investment Property	-	-	-	19,431	-	19,431
Deferred tax assets	-	-	-	2,585	-	2,585
Other assets	-	-	-	47,979	-	47,979
Total assets	**1,655**	**17,445**	**2,357**	**2,713,736**	**24**	**2,735,217**
Due to other financial institutions	-	-	-	4,983	-	4,983
Borrowings	-	-	-	281,341	-	281,341
Deposits	13,683	22,510	2,374	2,039,746	-	2,078,313
Derivative liabilities	-	-	-	121	-	121
Provisions	-	-	-	4,332	-	4,332
Lease liabilities	-	-	-	4,610	-	4,610
Other liabilities	-	-	-	29,495	-	29,495
Total liabilities	**13,683**	**22,510**	**2,374**	**2,364,628**	**-**	**2,403,195**
Net on-balance sheet position	**(12,028)**	**(5,065)**	**(17)**	**349,108**	**24**	**332,022**
Effect of derivatives held for risk management	10,000	4,800	-	-	-	14,800
Net currency position	**(2,028)**	**(265)**	**(17)**	**349,108**	**24**	**346,822**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

ii. Foreign exchange risk (continued)

Company	2021 $'000					
	EUR	USD	GBP	AUD	Other currency	Total
Cash and liquid assets	242	205	54	47,040	-	47,541
Due from other financial institutions	1,641	8,956	2,210	26,775	17	39,599
Investments at amortised cost	-	-	-	447,900	-	447,900
Loans and advances	-	31,963	-	1,940,440	-	1,972,403
Derivative financial asset	-	-	-	58	-	58
Intangible assets	-	-	-	12,704	-	12,704
Property, plant and equipment	-	-	-	51,930	-	51,930
Investment Property	-	-	-	19,964	-	19,964
Deferred tax assets	-	-	-	3,090	-	3,090
Other assets	-	-	-	61,875	-	61,875
Total assets	**1,883**	**41,124**	**2,264**	**2,611,776**	**17**	**2,657,064**
Due to other financial institutions	-	-	-	4,572	-	4,572
Borrowings	-	-	-	251,596	-	251,596
Deposits	23,174	33,894	2,266	2,004,658	2	2,063,994
Derivative liabilities	-	-	-	1,275	-	1,275
Provisions	-	-	-	4,053	-	4,053
Lease liabilities	-	-	-	6,649	-	6,649
Other liabilities	-	-	-	8,158	-	8,158
Total liabilities	**23,174**	**33,894**	**2,266**	**2,280,961**	**2**	**2,340,297**
Net on-balance sheet position	**(21,291)**	**7,230**	**(2)**	**330,815**	**15**	**316,767**
Effect of derivatives held for risk management	15,934	(3,277)	-	-	-	12,657
Net currency position	**(5,357)**	**3,953**	**(2)**	**330,815**	**15**	**304,110**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(c) Market risk (continued)

iii. Sensitivity analysis

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

Interest Rate Sensitivity

The sensitivity analysis on interest rate risk is performed using the methodology of GAP IRR (Interest Rate Risk Gap Analysis). The GAP IRR methodology is a method of measuring interest rate sensitivity by classifying interest rate sensitive assets, liabilities and off-balance sheet items. The instruments are split into specific pre-defined time buckets according to their maturity for fixed rate instruments, or till next re-pricing date for variable rate instruments. The size of the gap position can then be determined in each of the respective time buckets. The Bank monitors and manages the impact of changes in interest rates on the Bank's profitability through tactical actions which are discussed and managed by the Bank's ALCO on an ongoing basis. A cumulative gap can also then be given after summing up the individual time bucket gaps. Result of the analysis is as follows:

	Increase / (decrease) to profit			
	Consolidated		Company	
	2022 $	2021 $	2022 $	2021 $
Increase in yield curve of 200 basis points (2021: 50 basis points)	3,423,835	233,229	3,423,835	233,229
Decrease in yield curve of 200 basis points (2021: 50 basis points)	(3,423,835)	(233,229)	(3,423,835)	(233,229)

Exchange Rate Sensitivity

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

	Increase / (decrease) to profit			
	Consolidated		Company	
	2022 $	2021 $	2022 $	2021 $
Increase in exchange rates of 10%	(12,084)	(6,028)	(12,084)	(6,028)
Decrease in exchange rates of 10%	14,769	7,368	14,769	7,368

(d) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting obligations from its financial instruments. In response to the Covid-19 pandemic, the RBA made available a 3 year funding facility to assist with liquidity for ADIs. The Bank has fully drawn on that facility in 2021 and remains fully drawn as at 31 December 2022. Refer to Note 18 for more details.

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

Measurement and limitation of maturity profile

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

The gross nominal outflow disclosed below is the contractual, undiscounted cash flow on the financial liability. The balances include the expected interest payable on maturity. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement. As an ADI the Bank is a regulated entity and it is required to have a strong control environment in relation to managing liquidity risk. Furthermore, the Bank produces and submits extensive regular reporting in relation to liquidity to the regulator.

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(d) Liquidity risk (continued)

Consolidated	2022 $'000					
	Repayable on demand	3 months or less	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Over 5 years	Total
Non-derivative liabilities						
Due to other financial institutions	4,983	-	-	-	-	**4,983**
Borrowings	-	29,400	62,468	189,473	-	**281,341**
Deposits	512,813	994,709	558,364	12,428	-	**2,078,314**
	517,796	**1,024,109**	**620,832**	**201,901**	**-**	**2,364,638**
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	-	-	-	-	**-**
- Foreign currency swaps	-	119	2	-	-	**121**
	-	**119**	**2**	**-**	**-**	**121**
Off balance sheet commitments						
Bank guarantee	6,202	-	-	-	-	**6,202**
Loan commitments	254,748	-	-	-	-	**254,748**
Trade Finance contingencies	41,605	-	-	-	-	**41,605**
	302,555	**-**	**-**	**-**	**-**	**302,555**
Total	**820,351**	**1,024,228**	**620,834**	**201,901**	**-**	**2,667,314**

Consolidated	2021 $'000					
	Repayable on demand	3 months or less	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Over 5 years	Total
Non-derivative liabilities						
Due to other financial institutions	4,572	-	-	-	-	**4,572**
Borrowings	-	-	-	251,596	-	**251,596**
Deposits	537,977	996,138	528,839	1,040	-	**2,063,994**
	542,549	**996,138**	**528,839**	**252,636**	**-**	**2,320,162**
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	49	408	216	476	**1,149**
- Foreign currency swaps	-	126	-	-	-	**126**
	-	**175**	**408**	**216**	**476**	**1,275**
Off balance sheet commitments						
Bank guarantee	7,074	-	-	-	-	**7,074**
Loan commitments	285,452	-	-	-	-	**285,452**
Trade Finance contingencies	28,412	-	-	-	-	**28,412**
	320,938	**-**	**-**	**-**	**-**	**320,938**
Total	**863,487**	**996,313**	**529,247**	**252,852**	**476**	**2,642,375**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

27 Financial risk management (continued)

(d) Liquidity risk (continued)

Company	2022 $'000					
	Repayable on demand	3 months or less	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Over 5 years	Total
Non-derivative liabilities						
Due to other financial institutions	4,983	-	-	-	-	**4,983**
Borrowings	-	29,400	62,468	189,473	-	**281,341**
Deposits	512,813	994,709	558,364	12,428	-	**2,078,314**
	517,796	**1,024,109**	**620,832**	**201,901**	**-**	**2,364,638**
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	-	-	-	-	**-**
- Foreign currency swaps	-	119	2	-	-	**121**
	-	**119**	**2**	**-**	**-**	**121**
Off balance sheet commitments						
Bank guarantee	6,202	-	-	-	-	**6,202**
Loan commitments	254,748	-	-	-	-	**254,748**
Trade Finance contingencies	41,605	-	-	-	-	**41,605**
	302,555	**-**	**-**	**-**	**-**	**302,555**
Total	**820,351**	**1,024,228**	**620,930**	**201,901**	**-**	**2,667,314**

Company	2021 $'000					
	Repayable on demand	3 months or less	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Over 5 years	Total
Non-derivative liabilities						
Due to other financial institutions	4,572	-	-	-	-	**4,572**
Borrowings	-	-	-	251,596	-	**251,596**
Deposits	537,977	996,138	528,839	1,040	-	**2,063,994**
	542,549	**996,138**	**528,839**	**252,636**	**-**	**2,320,162**
Derivative liabilities						
Derivatives held for hedging:						
- Interest rate swaps	-	49	408	216	476	**1,149**
- Foreign currency swaps	-	126	-	-	-	**126**
	-	**175**	**408**	**216**	**476**	**1,275**
Off balance sheet commitments						
Bank guarantee	7,074	-	-	-	-	**7,074**
Loan commitments	285,452	-	-	-	-	**285,452**
Trade Finance contingencies	28,412	-	-	-	-	**28,412**
	320,938	**-**	**-**	**-**	**-**	**320,938**
Total	**863,487**	**996,313**	**529,247**	**252,852**	**476**	**2,642,375**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

28 Capital management

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

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

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

Various limits are applied to elements of the capital base.

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

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

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

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

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

Full disclosures required under Pillar 3, per prudential standard APS 330 "Public Disclosure", are provided on the Consolidated Entity's website.

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Tier 1 Capital	306,526	294,819	306,526	294,819
Add Tier 2 Capital: General reserve for credit losses	7,702	9,399	7,702	9,399
Total Regulatory Capital	**314,228**	**304,218**	**314,228**	**304,218**
Risk weighted assets	1,421,564	1,409,998	1,421,564	1,409,998
Capital Ratios				
Total regulatory capital as % of risk weighted assets	22.10%	21.58%	22.10%	21.58%
Total Tier 1 capital as % of risk weighted assets	21.56%	20.91%	21.56%	20.91%

Bank of Sydney Ltd

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

For the year ended 31 December 2022

29 Fair value measurement

Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

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

		2022 $'000		2021 $'000	
Consolidated	**Financial instruments measured at**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Assets					
Cash and liquid assets	Amortised cost	62,241	62,241	47,541	47,541
Due from other financial institutions	Amortised cost	54,918	54,918	93,463	93,463
Investments at amortised cost	Amortised cost	502,568	473,818	447,900	448,991
Loans and advances	Amortised cost	2,019,179	2,009,526	1,972,403	1,971,424
Derivative financial assets	FVTPL	819	819	58	58
Liabilities					
Due to other financial institutions	Amortised cost	4,983	4,983	4,572	4,572
Securities sold and under repurchase agreements	Amortised cost	281,341	281,341	251,596	251,596
Deposits	Amortised cost	2,078,313	2,076,315	2,063,994	2,065,153
Derivative financial liabilities	FVTPL	-	-	1,148	1,148

Bank of Sydney Ltd

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

For the year ended 31 December 2022

29 Fair value measurement (continued)

Company	Financial instruments measured at	2022 $'000 Carrying value	2022 $'000 Fair value	2021 $'000 Carrying value	2021 $'000 Fair value
Assets					
Cash and liquid assets	Amortised cost	62,241	62,241	47,541	47,541
Due from other financial institutions	Amortised cost	16,940	16,940	39,599	39,599
Investments at amortised cost	Amortised cost	502,568	473,818	447,900	448,991
Loans and advances	Amortised cost	2,019,179	2,009,526	1,972,403	1,971,424
Derivative financial assets	FVTPL	819	819	58	58
Liabilities					
Due to other financial institutions	Amortised cost	4,983	4,983	4,572	4,572
Securities sold and under repurchase agreements	Amortised cost	281,341	281,341	251,596	251,596
Deposits	Amortised cost	2,078,313	2,076,315	2,063,994	2,065,153
Derivative financial liabilities	FVTPL	-	-	1,148	1,148

Fair value hierarchy

The different levels have been defined as follows:

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

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

30 Auditors' remuneration

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

	Consolidated 2022 $	Consolidated 2021 $	Company 2022 $	Company 2021 $
Audit or review of the financial report				
Group	43,659	35,112	43,659	35,112
Local statutory reporting	184,225	154,655	184,225	154,655
Statutory assurance services required by legislation to be provided by the auditor	68,720	63,641	68,720	63,641
Other assurance and agreed-upon procedures under legislation or contractual arrangements	76,230	34,650	76,230	34,650
Taxation services	68,011	62,370	68,011	62,370
Other non-audit services	5,775	30,030	5,775	30,030
Total	**446,620**	**380,457**	**446,620**	**380,457**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

31 Commitments and contingencies

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

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

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Credit related instruments:				
Letters of Guarantee given in the normal course of business	6,202	7,074	6,202	7,074
Commitments to extend credit	254,748	285,452	254,748	285,452
Trade finance contingencies	41,605	28,412	41,605	28,412
Total	**302,555**	**320,938**	**302,555**	**320,938**

32 Directors' remuneration

Directors' income

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

	Consolidated		Company	
	2022	2021	2022	2021
$80,000 - $89,999	2	2	2	2
$90,000 - $99,999	3	3	3	3
$100,000 - $109,999	2	2	2	2
$150,000 - $159,999	1	1	1	1
	8	**8**	**8**	**8**

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

	$	$	$	$
Short term benefits	745,015	745,014	745,015	745,014
Other long term benefits	86,948	83,175	86,948	83,175
Total benefits to non-executive Directors	**831,963**	**828,189**	**831,963**	**828,189**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

33 Key management personnel disclosures

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

Non-executive Directors	Executives
Mr Nicholas Pappas AM (Chairman)	Mr Miltiades Michaelas (Chief Executive Officer)
Mr Nikolas T Hatzistergos	Mr Victor Andersson (Chief Financial Officer)
Mr Greg Gav	Mr Bill Kalpouzanis (Chief Operating Officer)
Mr Hon Steve Bracks AC	Mr Gary English (Chief Risk Officer)
Mr Fouad Chaker	Mr Fawaz Sankari (Chief Banking Officer)
Mr Ben Edney	Ms Diana Sitnikoski (Chief - Credit Operations)
Mr Roger Dagher	Mr Chris Chew (Chief Technology Officer)
Mr Sarkis Nassif	Mr John Elisher (General Counsel & Company Secretary) - effective from 7 February 2022
	Ms Belinda Sathurayar (Head of People & Culture) - effective from 31 October 2022

Transactions with key management personnel

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

	Consolidated		Company	
	2022 $	2021 $	2022 $	2021 $
Short term benefits	2,867,734	2,450,027	2,867,734	2,450,027
Long term benefits	51,082	60,815	51,082	60,815
Other long term benefits	176,617	162,387	176,617	162,387
Total benefit	**3,095,433**	**2,673,229**	**3,095,433**	**2,673,229**

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

Loans and other transactions to key management personnel

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

	Consolidated		Company	
	2022 $	2021 $	2022 $	2021 $
Loans to key management personnel	22,452,762	22,097,118	22,452,762	22,097,118
Deposit accounts	22,562,964	43,255,730	22,562,964	43,255,730

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

Bank of Sydney Ltd

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

For the year ended 31 December 2022

33 Key management personnel disclosures (continued)

Other key management personnel transactions with the Consolidated Entity

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

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

		Consolidated		Company	
Director	Transaction	2022 $	2021 $	2022 $	2021 $
Mr Greg Gav	Rental Payments	-	295,091	-	295,091
Mr Sarkis Nassif	Rental Payments	53,533	194,950	53,533	194,950

34 Related party transactions

a) Transactions within the wholly-owned group

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

(b) Transactions with other related parties

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

(c) Ultimate parent entity

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

(d) Key Management Personnel

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

35 Notes to the statement of cash flows

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

(a) Reconciliation of cash

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Cash	62,241	47,541	62,241	47,541
Due from other financial institutions - at call deposits	54,920	93,468	16,942	39,604
Total Cash and cash equivalents	**117,161**	**141,009**	**79,183**	**87,145**

Bank of Sydney Ltd

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

For the year ended 31 December 2022

35 Notes to the statement of cash flows (continued)

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

	Consolidated		Company	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Profit from ordinary activities after income tax	**13,928**	**6,622**	**13,928**	**6,622**
Add: non-cash items:				
Depreciation and amortisation of non-current assets	5,671	5,603	5,671	5,602
Increase/(Decrease) in specific provision	(20)	18	(20)	18
Increase/(Decrease) in ECL	(962)	(223)	(962)	(223)
Increase in provision for employee entitlements	250	727	250	727
Decrease in tax provision	(64)	253	(64)	253
Net Increase in accruals	2,048	983	2,048	982
Loss on writing off Property, plant and equipment	1,070	235	1,070	235
Loss from Loan write offs	(7)	(2)	(7)	(2)
Increase in derivative financial instruments	(1,514)	318	(1,514)	318
(Increases)/decreases in assets and increases/(decreases)in liabilities:				
Loans and advances	(42,481)	2,871	(42,481)	2,871
Derivative Assets	753	4,891	753	4,891
Other assets	(1,988)	2,064	13,898	(1,638)
Due to other financial institutions	411	902	411	902
Deposits	8,154	(165,526)	8,154	(165,526)
Derivative liabilities	742	(142)	742	(142)
Other liabilities	21,171	(12,747)	21,172	(12,747)
Net cash used in operating activities	**7,162**	**(153,153)**	**23,048**	**(156,856)**

(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

As at year end, a credit exposure of $3.7m was in default and in the process of refinancing. The exposure was ultimately discharged in full in February 2023. This was determined to be an adjusting subsequent event and the related expected credit loss provision benefit of $1.1m was recognised in the 2022 financial results.

No other events have occurred subsequent to 31 December 2022 that require disclosure or adjustment to these financial statements.

Bank of Sydney Ltd

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

For the year ended 31 December 2022

37 Parent entity information

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

38 Securitisation

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

Name of securitisation	Principal activity	Place of incorporation and operation	Proportion of ownership interest by the Consolidate Entity
BHB Residential Securities Trust 1	Contingent Liquidity Reserve Facility	Australia	100%

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

On 22 February 2022 and 22 December 2022, the Company carried out "top-ups" of the Trust in order to meet Securitisation contingency funding requirements, which includes buying back of Class A Notes previously issued in 2021. The end result was the reissue of new Class A notes with a carrying amount of $730.3m after a redemption of the notes of value $814.7m. There was also a redemption of Class B Notes of $8m (2021: $3m redeemed).The additional proceeds from the Note Issues were used to purchase a further parcel of triple A rated Residential Mortgage Loans from the Company. Class A Notes qualify as eligible securities for repurchase with the Reserve Bank of Australia.

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

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

Internal Securitisation assets

	2022 $'000	2021 $'000
Residential Mortgage	774,755	584,264
Cash and accrued income	37,978	53,864
	812,733	**638,128**

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

Directors Declaration

Bank of Sydney Ltd

In the opinion of the Directors of the Consolidated Entity:

(a) the financial statements, set out on pages 23 to 87, are in accordance with the Corporation Act 2001, including:

i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and of its performance, for the financial year ended on that date;

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

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

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

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

On behalf of the Directors

Nicholas Pappas
Chairman

Nikolas Hatzistergos
Non-Executive Independent Director

Sydney, 27 April 2023

Deloitte.

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

Opinion

We have audited the financial report of Bank of Sydney Limited and its subsidiary (the "Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the director's declaration.

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

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report included in the Consolidated Entity's annual financial report for the year ended 31 December 2022, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. Jones

Rebecca Jones
Partner
Chartered Accountants
Sydney, 28 April 2023

Bank of Sydney

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