



Bank of Sydney

Annual Report
2009

Confidential

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
ABN 44 093 488 629
Annual Financial Report
31 December 2009**

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement
For the year ended 31 December 2009**

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

Corporate Governance

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

The major processes by which the Board fulfils its duties are described in the Corporate Governance Policy.

The Board has adopted the principles and practices of Prudential Standard APS510 "Governance".

Responsibilities and Functions of the Board

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

- Providing strategic direction and approving strategic policy objectives;
- Approving the annual budget and business plan;
- Evaluating and monitoring the Board's composition, processes and performance;
- Approving the appointment and removal of the General Manager;
- Approving the appointment and removal of the Company's external and internal auditors;
- Reviewing and approving the Company's annual financial statements and other published financial information;
- Approving the Company's risk management strategy and monitoring its effectiveness; and
- Reviewing and monitoring processes for compliance with APRA prudential regulations and all other regulatory and legislative requirements.

The Board may delegate a number of its responsibilities to management and its Committees. The responsibilities of management are detailed in the Company's Board Charter. Management has responsibility for managing the day-to-day operations of the Company, and for recommending policy and strategic direction for Board approval.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2009**

Board Size and Composition

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

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

Selection and Role of Chairman

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

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

Director Independence

The Board shall assess a Director's independence against the independence requirements of applicable laws, rules and regulations. The assessment criteria for Director independence is documented in the Company's Board Charter.

An independent Director is a non-executive Director who is free from any business or other association that could materially interfere with the exercise of a Director's unfettered and independent judgement. The Board must have a minimum of three independent Directors. The Board needs to assess and confirm the independence of all newly-appointed non-executive Directors. All Directors must re-affirm their independence annually.

Conflicts of Interest

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2009**

Board Performance

The Board recognises that it is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. To ensure the Board and Board Committees are working effectively, the Board must review and evaluate the performance of the Board and its Committees and each individual Director at least once a year. The Chairman must meet at least once a year with each Director to discuss each individual Director's performance. The Chairman must also meet at least once a year with the General Manager to discuss management's view of the Board's performance.

Board Operations

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

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

Audit Committee

The role, responsibility, composition and membership requirements of the Audit Committee are documented in the Company's Board Audit Committee Charter. The Audit Committee must comprise of at least three non-executive Directors and the majority of the members including the Chairman must be independent. Independence is determined against the independence requirements of applicable laws, rules and regulations.

The Audit Committee assists the Board in fulfilling its corporate governance and oversight responsibilities in relation to compliance with financial reporting and regulatory requirements, integrity of financial statements and reports, and external and internal audit functions. The Audit Committee must meet at least four times per year in scheduled meetings.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2009**

The members of the Audit Committee during the year were as follows:

- Nikolas T Hatzistergos (Chairman) (attended 4 of 4 meetings)
- Panayiotis Kounnis (attended 2 of 4 meetings)
- Nicholas Pappas (appointed 28/01/2009) (attended 4 of 4 meetings)

Board Risk Management Committee

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

The BRMC assists the Board in overseeing all risk management activities that are carried out throughout the Company for the purpose of identifying, evaluating and managing all key business risks.

The members of the Risk Management Committee during the year were as follows:

- Panayiotis Kounnis (attended 4 of 4 meetings)
- Greg Gav (appointed 28/01/2009) (attended 4 of 4 meetings)
- Peter Mavridis (appointed 28/01/2009) (attended 3 of 4 meetings)
- Nicholas Pappas (resigned 28/01/2009)
- Nikolas T Hatzistergos (resigned 28/01/2009)

Internal Control Framework

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2009**

Risk Management

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

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

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

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

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

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

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

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2009**

Whistleblower Policy

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

Ethical Standards

The Board expects Directors, management and employees to:

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

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Directors' report (continued)
For the year ended 31 December 2009**

Principal activities

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

Results

The net profit of the Company was \$5,085,000 (2008: profit of \$2,924,000). The result included provisions for impairment of loans and advances of \$82,000 (2008: \$781,000).

Risk Management

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

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

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

The Company does not trade for speculative purposes.

Dividends

No dividends have been paid or declared since the start of the financial year.

The directors do not recommend payment of a dividend in respect of the financial year ended 31 December 2009, (2008: Nil).

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Directors' report (continued)
For the year ended 31 December 2009**

Review of Operations

At 31 December 2009, the Company's gross loan portfolio was \$758.4m (2008: \$763.0m) and its retail deposits \$746.1m (2008: \$737.9m). This represents a decrease of 0.6% in loans and an increase of 1.1% in deposits when compared to the balances as at 31 December 2008. The Company had 118 employees as at 31 December 2009 (2008: 121).

State Of Affairs

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

Events subsequent to balance date

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

Likely developments

The directors believe on reasonable grounds that to include in this report further information regarding likely developments in the operations of the Company and the expected results of those operations in future financial years would be likely to result in unreasonable prejudice to the Company.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 13 and forms part of the directors' report for the financial year ended 31 December 2009.

Indemnification and Insurance of Officers

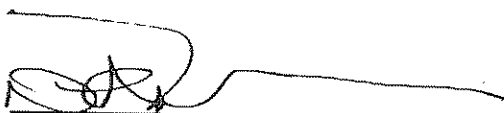
The Company has agreed to indemnify the directors and certain senior executives, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position with the Company, except where the liability arises out of conduct involving a lack of good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

**Laiki Bank (Australia) Limited
Directors' report (continued)
For the year ended 31 December 2009**

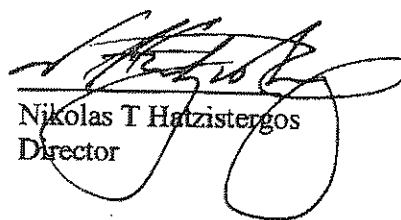
Rounding Off

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

Signed in accordance with the resolution of the directors:



Nicholas Pappas
Chairman



Nikolas T Hatzistergos
Director

Dated at Sydney on 10th March 2010.



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Laiki Bank (Australia) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Brendan Twining
Partner

Sydney

10 March 2010

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Income Statement
For the year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
Interest income	2	52,622	74,021
Interest expense	3	34,226	55,663
Net interest income		18,396	18,358
Non-interest income	4	3,953	2,301
Net operating income		22,349	20,659
Operating expenses	5	14,938	15,693
Impairment losses on loans and advances	11	82	781
Profit before income tax		7,329	4,185
Income tax expense	6	2,244	1,261
Net profit		5,085	2,924
Attributable to:			
Equity holders of the Company		5,085	2,924
Total net profit for the year		5,085	2,924

The Income Statement is to be read in conjunction with the notes to and forming part of the financial report set out on pages 20 to 72.

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Statement of Comprehensive Income
For the year ended 31 December 2009**

	Note	2009 \$'000	2008 \$'000
Net profit for the year	22	5,085	2,924
Other comprehensive income, net of income tax			
Cash flow hedges:			
Effective portion of changes in fair value		595	-
Net amount transferred to profit or loss		(204)	-
Fair value reserve (available for sale financial assets):			
Net amount transferred to profit or loss	23	201	(209)
Other comprehensive income for the period, net of income tax		592	(209)
Total comprehensive income for the year		5,677	2,715
Attributable to:			
Equity holders of the Company		5,677	2,715
Total comprehensive income for the year		5,677	2,715

The Statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial report set out on pages 20 to 72.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Balance Sheet
As at 31 December 2009

	Note	2009 \$'000	2008 \$'000
Assets			
Cash and liquid assets	7	10,715	37,848
Due from other financial institutions	8	13,404	31,022
Held to maturity investments	9	153,702	100,196
Loans and advances	10	757,468	761,883
Intangible assets	12	678	788
Plant and equipment	13	3,768	4,483
Deferred tax assets	14	759	997
Other assets	15	1,192	1,485
Total assets		941,686	938,702
Liabilities			
Due to other financial institutions	16	91,882	97,229
Deposits	17	746,071	737,892
Current tax liability		1,151	638
Derivative liabilities	18	841	4,315
Provisions	19	1,023	939
Other liabilities	20	3,835	6,483
Total liabilities		844,803	847,496
Net assets		96,883	91,206
Equity			
Contributed equity	21	80,000	80,000
Reserves	23	2,326	1,626
Retained profits	22	14,557	9,580
Total equity		96,883	91,206

The balance sheet is to be read in conjunction with the notes to and forming part of the financial report set out on pages 20 to 72.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Statement of Cash Flows
For the year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
Cash flows from operating activities			
Interest and commission receipts		53,205	82,628
Interest payments		(34,226)	(55,663)
Cash payments to employees and suppliers		(13,459)	(14,349)
Income tax paid		(1,396)	(1,865)
		4,124	10,751
<i>(Increase) / decrease in operating assets</i>			
Investment held to maturity		(53,506)	48,660
Loans and advances		4,333	(67,601)
Available for sale investments		-	(392)
Other assets		361	1,101
<i>Increase / (decrease) in operating liabilities</i>			
Due to other financial institutions		(5,347)	(6,344)
Deposits		8,179	41,285
Other liabilities		(2,546)	2,582
Net cash used in operating activities	34(b)	(44,402)	30,042
Cash flows from investing activities			
Payments for intangible assets		(151)	(389)
Payments for plant & equipment		(198)	(900)
Net cash used in investing activities		(349)	(1,289)
Net increase in cash held		(44,751)	28,753
Cash at the beginning of the financial year		68,870	40,117
Cash at the end of the financial year	34(a)	24,119	68,870

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial report set out on pages 20 to 72.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Statement of Changes in Equity
For the year ended 31 December 2009

	Contributed Equity	General reserve for credit losses	Available for sale reserve	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2009	80,000	2,053	(427)	-	9,580	91,206
Total comprehensive income for the year						
Profit or loss	-	-	-	-	5,085	5,085
Transfers from retained earnings to general reserve	-	108	-	-	(108)	-
Other comprehensive income, net of income tax						
Net amount transferred to profit or loss	-	-	201	(204)	-	(3)
Effective portion of changes in fair value	-	-	-	595	-	595
Total other comprehensive income	-	-	201	391	-	592
Total comprehensive income for the year	-	108	201	391	4,977	5,677
Balance at 31 December 2009	80,000	2,161	(226)	391	14,557	96,883

The Statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 20 to 72.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Statement of Changes in Equity
For the year ended 31 December 2008

	Contributed Equity	General reserve for credit losses	Available for sale reserve	Cash flow hedge reserve	Retained profits	Total Equity
Balance at 1 January 2008	80,000	2,115	(218)	-	6,594	88,491
Total comprehensive income for the year						
Profit or loss	-	(62)	-	-	2,924	2,924
Transfers from retained earnings to general reserve	-	-	-	-	62	-
Other comprehensive income, net of income tax						
Net amount transferred to profit or loss	-	-	(209)	-	-	(209)
Effective portion of changes in fair value	-	-	-	-	-	-
Total other comprehensive income	-	-	(209)	-	-	(209)
Total comprehensive income for the year	-	(62)	(209)	-	2,986	2,715
Balance at 31 December 2008	80,000	2,053	(427)	-	9,580	91,206

The Statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial report set out on pages 20 to 72.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report
For the year ended 31 December 2009

1 Summary of significant accounting policies

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

The financial report was authorised for issue by the directors on 10th March 2010.

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

(a) Basis of preparation

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

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

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

The financial report is presented in Australian dollars.

During 2008, the Company utilised the amendments to AASB 139 and AASB 7 "*Reclassification of Financial Assets*" and reclassified available-for-sale bonds to held-to-maturity financial assets. The Company elected to reclassify this financial asset due to the dislocation of global financial markets that occurred during the 2008 financial year, which is considered to be a rare circumstance in accordance with the requirements of the standard, and there being no longer an intention to hold for the purpose of selling or repurchasing in the near future. Under AASB 139, as amended, the reclassifications were made effective from 1st July 2008. Refer to note 9(b) for the fair value and carrying value of reclassified financial assets.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report
For the year ended 31 December 2009**

1 Summary of significant accounting policies

(a) Basis of preparation (continued)

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

(b) Interest

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

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

(c) Fees and commission income

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

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

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

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through the profit and loss, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(e) Cash and cash equivalents

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

(f) Due from other financial institutions

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

(g) Financial Instruments

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

Loans and advances: This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost, refer Note 1(i) for further details.

Held to maturity investments: This category includes non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company has a positive intention and ability to hold to maturity. They are measured at amortised cost, refer Note 1(h) for further details.

Available for sale investments: Available for sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available for sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

1 Summary of significant accounting policies (continued)

(g) Financial Instruments (continued)

Investments at fair value through the profit or loss: An instrument is classified at fair value through the profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in the profit or loss when incurred. Financial instruments at fair value through the profit or loss are measured at fair value, and changes therein are recognised in the profit or loss, refer Note 1(k) for further details.

Financial Liabilities: This category includes non-derivative financial liabilities that are not classified as held for trading or designated as fair value through the profit and loss. They are measured at amortised cost and further details on the Company's accounting for financial liabilities has been included in Note 1(o).

(h) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed and determinable payments that the Company's management has the positive intention and ability to hold to maturity. Held to maturity investments are initially recognised at fair value plus any transaction costs and subsequently measured at amortised cost using the effective interest rate method as described in Note 1(b).

Were the Company to sell other than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available for sale. This would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two years.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(i) Loans and Advances

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

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

The fair value hedges are tested for effectiveness both at inception and at each reporting date. When hedge effectiveness exists, the fixed loan is measured at fair value and any changes in fair value are recognised through the profit and loss. A hedge is effective when changes in the fair value of the hedging instrument and changes in the fair value or expected cash flows of the hedge item, offset within the range of 80% to 125%. Refer to Note 10 (b) for further details.

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

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(j) Impairment

Non-financial assets

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

Financial Assets

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

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

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

If there is objective evidence that an impairment loss on loans and advances or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable amount.

The recoverable amounts of originated loans and advances and held to maturity assets are calculated as the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(k) Derivative instruments

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

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are recognised at fair value. The gain or loss on remeasurement of fair value is recognised immediately in profit or loss through the income statement.

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

Cash flow hedges

The company has applied the cash flow hedge accounting model for the first time effective from 1st July 2009. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, probable forecast transaction which could affect profit or loss. The Company hedges against interest rate fluctuations associated with its floating rate deposit liabilities. This objective is achieved by entering into interest rate swaps whereby the Company receives floating interest and pays fixed interest. The hedging instrument in this case is the interest rate swap and the hedge item is the floating rate deposits.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. If the hedge is ineffective, changes in fair value are recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is terminated, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. Refer to note 23 for cash flow hedge reserve movement.

Other non-trading derivative

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

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

1 Summary of significant accounting policies (continued)

(1) Intangible Assets

Computer Software

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

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

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

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

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

The amortisation rates used are as follows:

	2009	2008
	20%	20%

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(m) Plant and Equipment

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

Useful lives

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

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

	2009	2008
Plant and equipment		
Leasehold improvements	10%	10%
Plant and equipment	10%	10%
Furniture and fittings	10%	10%
Computer hardware	20%	20%

(n) Foreign currency

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

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(o) Deposits

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

(p) Income Tax

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

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

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

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

(q) Leases

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(r) Employee entitlements

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

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

(ii) *Long service leave*

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

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

(iii) *Superannuation plan*

The Company contributes to a defined contribution superannuation plan. Contributions to the fund during the period were \$605,399 (2008: \$638,521).

(s) Financial guarantees

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

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

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

1 Summary of significant accounting policies (continued)

(t) Provisions

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

(u) New standards and interpretations not yet adopted

The AASB has issued new standards and amendments that are available for early adoption but are not mandatory for the 31 December 2009 reporting period. In some cases, these amendments relate to items which are not applicable to the Company. Those amendments which are applicable and which are likely to have an impact on the Company's disclosures but have not yet been applied by the Company in preparing this financial report are:

- *AASB 9 Financial Instruments: Recognition and Measurement*- becomes mandatory for the financial statements of the Company for the year ended 31 December 2013. It deals with classification and measurement of financial assets. The requirements of this standard represent significant changes from the existing requirements of AASB 139 in respect of financial assets.

The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the asset's contractual terms give rise on a specific date to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing AASB 139 categories of held to maturity, available for sale and loans and receivable.

- *AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASB's resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 31 December 2010 financial statements, are not expected to have a significant impact on the financial statements.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

1 Summary of significant accounting policies (continued)

(u) New standards and interpretations not yet adopted (continued)

- AASB 2009-8 *Amendments to Australian Accounting Standards- Group Cash-settled Share-based Payments Transactions* resolves diversity in practice regarding the attribution of cash-settled based payments between entities within a group. The amendments, which become mandatory for the Company's 31 December 2010 financial statements, are not expected to have a significant impact on the financial statements.

(v) 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 1(g) – Financial Instruments
- Note 1(t) - Provisions

Confidential

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
2		
Interest income		
Cash and liquid assets	270	610
Due from other financial institutions	1,397	674
Held to maturity investments - banks	4,983	6,135
Held to maturity investments - related party	176	1,235
Available for sale investments	-	5,241
Loans and advances	45,796	60,126
	<u>52,622</u>	<u>74,021</u>

	2009	2008
	\$'000	\$'000
3		
Interest expense		
Due to other financial institutions - banks	1,495	757
Due to other financial institutions – related party	4,303	7,134
Deposits	28,428	47,772
	<u>34,226</u>	<u>55,663</u>

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
4 Non-interest income		
Fees and commission income	2,857	3,078
Net foreign exchange gain	751	1,036
Unrealised gain/(loss) on derivatives	345	(1,813)
	<u>3,953</u>	<u>2,301</u>
5 Operating expenses		
Staff expenses	8,622	8,923
Computer expenses	1,045	1,161
Marketing expenses	537	654
Occupancy costs	1,801	1,797
Printing, stationary and postage	351	348
Telephone expenses	131	139
Depreciation of property and equipment	911	910
Amortisation of intangibles	261	226
Loss on disposal of plant and equipment	2	-
Other operating expenses	1,277	1,535
	<u>14,938</u>	<u>15,693</u>

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
6 Taxation		
(a) Income tax expense		
Current tax expense		
Current period	2,200	2,436
Adjustment for prior period	58	(483)
	<u>2,258</u>	<u>1,953</u>
Deferred tax expense		
Origination and reversal of temporary differences	5	(1,176)
Adjustment for prior period	(19)	484
	<u>(14)</u>	<u>(692)</u>
Total income tax expense	<u>2,244</u>	<u>1,261</u>
(b) Reconciliation between tax expense and pre-tax net profit		
Profit before tax	<u>7,329</u>	<u>4,185</u>
Income tax using the Company's tax rate of 30%	2,199	1,255
Non deductible expenses	6	5
Increase in income tax due to:		
Prior period underprovision	39	1
Income tax expense	<u>2,244</u>	<u>1,261</u>

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
7 Cash and liquid assets		
Cash at bank	2,290	2,407
Cash held with central bank	8,425	35,441
	<u>10,715</u>	<u>37,848</u>
8 Due from other financial institutions		
Australia	8,488	28,743
Related parties	2,617	1,007
Other	2,299	1,272
	<u>13,404</u>	<u>31,022</u>
Maturity analysis		
At Call	<u>13,404</u>	<u>31,022</u>
9 (a) Investments held to maturity		
Bank Bills	27,960	15,622
Floating rate notes	122,305	71,480
Fixed term deposits - related parties	3,437	13,094
	<u>153,702</u>	<u>100,196</u>
Maturity analysis		
Up to 1 month	35,810	9,876
1 to 3 months	8,744	13,803
3 to 12 months	21,416	11,293
12 months to 5 years	87,732	65,224
	<u>153,702</u>	<u>100,196</u>

9 (b) Reclassification of Available-for-sale instruments to held to maturity

As at 31/12/09 \$'000	Bank Bills	Floating Rate Notes	Total
Fair Value	-	65,090	65,090
Carrying Value	-	65,435	65,435

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

As at 31/12/08 \$'000	Bank Bills	Floating Rate Notes	Total
Fair Value	15,802	69,675	85,477
Carrying Value	15,622	71,480	87,102

In July 2008, the Company elected to reclassify its available for sale assets as held to maturity assets. If the Company did not reclassify its available-for-sale assets it would have recognised additional unrealised fair value losses of \$667,038 at 31 December 2009 (2008: Loss \$2,381,253).

	Note	2009 \$'000	2008 \$'000
10 (a) Loans and advances			
Loans and advances		708,113	707,852
Overdrafts		50,297	55,111
Gross loans and advances		758,410	762,963
Less -			
Specific provision	11	(942)	(1,080)
Net loans and advances		757,468	761,883

Maturity analysis (excluding provisions)

Overdrafts	50,297	55,111
Up to 1 month	20,300	14,587
1 to 3 months	40,486	12,738
3 to 12 months	72,143	84,267
12 months to 5 years	103,055	123,419
Over 5 years	472,129	472,841
	758,410	762,963

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

10 (b) Hedge accounting adjustment

Hedge accounting was applied effective 1 July 2008. The fair value of the interest rate swaps as at 31 December 2009 used for cash flow hedges was a loss of \$441,874. The fair value of the interest rate swaps as at 31 December 2009 used for fair value hedges was a loss of \$399,113.

Gross loans and advances	2009
	\$'000
Carrying amount	756,486
Fair value adjustment	1,924
Total	758,410

The fair value of the interest rate swaps as at 31 December 2008 was \$4.3m.

Gross loans and advances	2008
	\$'000
Carrying amount	758,469
Fair value adjustment	4,494
Total	762,963

	2009	2008
	\$'000	\$'000
11 Provision for impairment		
(a) Specific provisions		
Opening balance	1,080	305
Write off against provision	(220)	(6)
Recoveries recognised in income statement	(53)	(75)
Charge to income statement	135	856
Closing balance	942	1,080

The Company recognised interest income on impaired assets of \$821,020 (2008: \$Nil).

(b) Impaired Assets

- “Non-accrual loans” are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

11 Provision for impairment (continued)

(b) Impaired assets (continued)

- “Restructured loans” arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required. The Company had one such loan at year-end with a balance of \$4.9m (2008: Nil).
- “Assets acquired through the enforcement of security” are assets acquired in *full or partial settlement of a loan or similar facility through the enforcement of security arrangements. The Company has no such assets at year-end (2008: Nil).*
- “Past due loans” are when a counterparty has failed to make a payment when contractually due. Past due therefore includes all financial assets that are more than one day overdue.

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

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

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

11 Provision for impairment (continued)

(b) Impaired assets (continued)

	2009 \$'000	2008 \$'000
	Loans and advances to customers	Loans and advances to customers
Past due but not impaired	17,604	35,941
Impaired	5,028	6,727
Gross	22,632	42,668
Less: Specific provision	(942)	(1,080)
Net	21,690	41,588

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
12 Intangible assets		
Computer software		
At cost	4,201	4,050
Less: Accumulated amortisation	(3,523)	(3,262)
	<u>678</u>	<u>788</u>
Opening balance	788	625
Additions	151	389
Amortisation expense	(261)	(226)
Net book value	<u>678</u>	<u>788</u>
13 Plant and equipment		
Plant and equipment		
At cost	3,397	4,044
Less: Accumulated depreciation	(1,931)	(2,272)
	<u>1,466</u>	<u>1,772</u>
Leasehold		
At cost	4,757	5,118
Less: Accumulated depreciation	(2,455)	(2,407)
	<u>2,302</u>	<u>2,711</u>
Net book value	<u>3,768</u>	<u>4,483</u>

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

13 Plant and equipment (continued)

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

	2009 \$'000	2008 \$'000
Plant and equipment at cost		
Opening balance	1,772	1,477
Additions	94	639
Net book value of assets disposed during the year	(2)	(1)
Depreciation expense	(398)	(343)
	<u>1,466</u>	<u>1,772</u>
Leasehold property at cost		
Opening balance	2,711	3,017
Additions	104	261
Depreciation expense	(513)	(567)
	<u>2,302</u>	<u>2,711</u>
	<u>3,768</u>	<u>4,483</u>

14 Deferred tax assets

Deferred income tax assets are attributable to the following items:

Deferred tax assets

Provisions	844	838
Fixed assets	225	254
Fair value reserves	97	183
Total deferred tax asset	<u>1,166</u>	<u>1,275</u>

Deferred tax liabilities

Fair value of financial instruments	(201)	(54)
Bank Bills accrued interest	(39)	(224)
Cash flow hedge reserve	(167)	-
Total deferred tax liabilities	<u>(407)</u>	<u>(278)</u>

Net deferred tax asset	<u>759</u>	<u>997</u>
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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
15 Other assets		
Interest receivable	660	721
Other	532	764
	<u>1,192</u>	<u>1,485</u>
16 Due to other financial institutions		
Overseas		
Foreign currency loan - parent entity	39,864	32,929
Related parties	52,018	64,300
	<u>91,882</u>	<u>97,229</u>
Maturity analysis		
At call	291	242
Up to 1 month	24,848	32,815
1 to 3 months	66,743	64,172
	<u>91,882</u>	<u>97,229</u>
17 Deposits		
Current	63,845	56,691
Savings	41,552	40,680
At call	63,447	50,144
Term	577,227	590,377
	<u>746,071</u>	<u>737,892</u>
Maturity Analysis		
At call	168,844	128,206
Up to 1 month	163,060	309,565
1 to 3 months	246,774	209,571
3 to 12 months	166,971	88,580
12 months to 5 years	422	1,970
	<u>746,071</u>	<u>737,892</u>

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

18 Derivative Financial Instruments

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

	2009	2008
	\$'000	\$'000
Liabilities		
Interest rate swaps	841	4,315
	<u>841</u>	<u>4,315</u>

The Company uses foreign currency and interest rate swaps for hedging purposes only, which are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. All counterparties of swap agreements entered into are within the Marfin Popular Bank Group or with Australian Banks.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
19 Provisions		
Provision for employee entitlements		
Annual leave provision	614	612
Long service leave provision	409	327
	<u>1,023</u>	<u>939</u>
Number of Employees	<u>118</u>	<u>121</u>
20 Other liabilities		
Interest payable	1,297	1,112
Other	2,538	5,371
	<u>3,835</u>	<u>6,483</u>
21 Contributed equity		
80,000,000 (2008: 80,000,000) ordinary shares fully paid, at par.	<u>80,000</u>	<u>80,000</u>

100% of the Company's shares are owned by Marfin Popular Bank Public Co. Limited ("Marfin Popular Bank Group"), the ultimate parent entity which is incorporated in Cyprus.

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

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

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
22 Retained profits/ (accumulated losses)		
Retained profits at beginning of year	9,580	6,594
Net profit after income tax	5,085	2,924
Transfer (to) / from general reserve for credit losses	(108)	62
Retained profits at year-end	<u>14,557</u>	<u>9,580</u>
23 Reserves		
General Reserve for Credit Losses		
Opening Balance	2,053	2,115
Transfer (to) / from retained profits during the year	108	(62)
Closing Balance,	<u>2,161</u>	<u>2,053</u>
Available for sale reserve		
Opening Balance	(427)	(218)
Transfer (to) / from reserves during the year	201	(209)
Closing Balance	<u>(226)</u>	<u>(427)</u>
Cash flow hedge reserve¹		
Opening Balance	-	-
Transfer (to) / from reserves during the year	391	-
Closing Balance	<u>391</u>	<u>-</u>
Total Reserves	<u>2,326</u>	<u>1,626</u>

All reserve amounts are shown net of income tax.

¹ The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to the hedged transactions that have not yet occurred.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 Financial risk management

(a) Introduction and overview

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

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

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

The Board Audit Committee is responsible for monitoring compliance with the Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company. Internal Audit assists the Board Audit Committee in these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 Financial risk management (continued)

(b) Credit risk

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

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

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Committee. The General Manager is responsible for monitoring compliance with credit policies on a day to day basis. Credit Risk Management (CRM) reports directly to the General Manager and responsibilities include:

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

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

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk

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

On Balance Sheet Items

	2009		2008	
	\$'000		\$'000	
	Loans and advances	Impairment provision	Loans and advances	Impairment provision
Grades:				
1.	-	-	-	-
2.	82,218	-	65,952	-
3.	278,188	-	202,489	-
4.	294,250	-	404,001	-
5.	86,052	-	72,587	-
6.	12,514	-	11,054	-
7.	125	-	104	-
8.	-	-	-	-
9.	5,063	942	6,776	1,080
Total	758,410	942	762,963	1,080

The 2008 comparatives have been amended due to a change in the internal grading model. The Company moved from a subjective behavioural model to a more objective model based on input parameters relevant to its line of business. This approach represents a more robust approach to credit risk management.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 Financial risk management (continued)

(b) Credit risk (continued)

The table below represents the maximum exposure to credit risk of the Company as at 31 December 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures equal net carrying amounts as reported in the balance sheet.

	2009	2008
	\$'000	\$'000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Housing	327,871	338,354
Loans to corporate entities:		
- Large corporate customers	157,381	142,030
- Small and medium size enterprises (SMEs)	272,216	281,499
Due from other financial institutions	13,404	31,022
Investments held to maturity	153,702	100,196
Total	<u>924,574</u>	<u>893,101</u>
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	8,789	9,494
Loan commitments and other credit related liabilities	85,812	79,748
Total	<u>94,601</u>	<u>89,242</u>

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

24 Financial risk management (continued)

(b) Credit risk (continued)

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

31 December 2009

\$'000's

	Individuals (retail customers)	Corporate Entities		Total
		Large corporate customers	SMEs	
Past due up to 30 days	6,234	191	10,753	17,178
Past due 30- 60 days	281	-	15	296
Past due 60 - 90 days	62	-	41	103
Past due more than 90 days	27	-	-	27
Total	6,604	191	10,809	17,604

31 December 2008

\$'000's

	Individuals (retail customers)	Corporate Entities		Total
		Large corporate customers	SMEs	
Past due up to 30 days	14,603	1,879	14,511	30,993
Past due 30- 60 days	975	-	3,689	4,664
Past due 60 - 90 days	1	-	144	145
Past due more than 90 days	139	-	-	139
Total	15,718	1,879	18,344	35,941

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 Financial risk management (continued)

(b) Credit risk (continued)

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

	2009 \$000	2008 \$000
	Impaired Loans	Impaired Loans
Individual (retail customers)	45	254
Corporate Entities		
- SMEs	4,983	6,473
Total	5,028	6,727

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

Industry type	2009 \$000				2008 \$000			
		Corporate Entities		Total		Corporate Entities		Total
	Individuals (Retail Customers)	Large Corporate Entities	SMEs		Individuals (Retail Customers)	Large Corporate Entities	SMEs	
Manufacturing	-	1,111	15,491	16,602	297	3,682	12,685	16,664
Tourism	1,046	17,532	9,588	28,166	2,481	16,909	14,736	34,126
Domestic Trade	9,754	24,621	49,142	83,517	13,518	3,863	55,041	72,422
Construction	20,868	65,313	26,320	112,501	25,092	53,920	24,223	103,235
Housing	253,086	8,747	24,215	286,048	250,598	24,059	34,885	309,542
Personal	34,666	-	26,212	60,878	34,615	3,002	21,413	59,030
Professional	7,475	34,877	98,986	141,338	10,799	36,594	86,793	134,186
Other	975	5,180	22,263	28,418	958	-	31,720	32,678
Total	327,870	157,381	272,217	757,468	338,358	142,029	281,496	761,883

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 **Financial risk management (continued)**

(b) Credit risk (continued)

(iii) *Renegotiated Loans and Advances*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. There were no renegotiated loans that would otherwise be past due or impaired at year-end (2008: Nil).

(iv) *Settlement risk*

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

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

The table below presents an analysis of debt securities by rating agency designation at 31 December 2009, based on Standard & Poor's ratings or their equivalent.

	Held to maturity investments \$' 000	Total \$' 000
31 December 2009		
AAA	19,049	19,049
AA- to AA+	87,241	87,241
A- to A+	37,999	37,999
Lower than A-	9,413	9,413
Total	153,702	153,702
31 December 2008		
AA- to AA+	68,300	68,300
A- to A+	9,994	9,994
Lower than A-	21,902	21,902
Total	100,196	100,196

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

24 Financial risk management (continued)

(c) Market risk

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

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

Non-trading portfolios primarily arise from the interest rate management of the Company's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange risks arising from the Company's held-to-maturity and available-for-sale investments.

(i) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Company's interest rate gap position on non-trading portfolios is presented as follows. These are based on the contractual repricing date.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

24 Financial risk management (continued)

(c) Market risk (continued)

2009		The earlier of maturity or repricing date					
	Note	Floating Interest Rate \$'000	1 Year or less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non- Interest bearing \$'000	Total \$'000
Financial assets							
Cash and liquid Assets	7	8,425	-	-	-	2,290	10,715
Due from other financial institutions	8	5,393	8,001	-	-	10	13,404
Investment held to maturity	9	-	153,702	-	-	-	153,702
Loans and advances	10	676,306	26,846	46,950	7,366	-	757,468
		<u>690,124</u>	<u>188,549</u>	<u>46,960</u>	<u>7,366</u>	<u>2,300</u>	<u>935,289</u>
Financial liabilities							
Due to other financial institutions	16	291	91,326	-	-	265	91,882
Deposits	17	168,844	576,805	422	-	-	746,071
Derivative liabilities	18	-	-	-	-	841	841
		<u>169,135</u>	<u>668,131</u>	<u>422</u>	<u>-</u>	<u>1,106</u>	<u>838,794</u>
Interest rate swaps *			88,613	(88,613)			

* Notional principal amounts

Comparative 2008 table is set out on the next page.

Confidential

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 Financial risk management (continued)

(c) Market risk (continued)

2008	The earlier of maturity or repricing date						
Note	Floating Interest Rate \$'000	1 Year or less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non- Interest bearing \$'000	Total \$'000	
Financial assets							
Cash and liquid assets	7	15,434	20,007	-	-	2,407	37,848
Due from other financial institutions	8	30,783	234	-	-	5	31,022
Investments held to maturity	9	-	100,196	-	-	-	100,196
Loans and advances	10	674,245	30,397	49,640	7,601	-	761,883
		720,462	150,834	49,640	7,601	2,412	930,949
Financial liabilities							
Due to other financial institutions	16	242	96,735	-	-	252	97,229
Deposits	17	147,485	588,479	1,928	-	-	737,892
Derivative liabilities	18	-	-	-	-	4,315	4,315
		147,727	685,214	1,928	-	4,567	839,436
Interest rate swaps *			64,935	(64,935)			

* Notional principal amounts

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

24 Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign Exchange Risk

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

<u>31 December 2009</u> \$'000	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	400	70	53	10,192	-	10,715
Due from other financial institutions	2,598	2,292	15	8,492	7	13,404
Held to maturity investments	737	848	1,656	150,265	196	153,702
Loans and advances	-	-	-	757,468	-	757,468
Deferred tax assets	-	-	-	759	-	759
Plant and Equipment	-	-	-	3,768	-	3,768
Intangible assets	-	-	-	678	-	678
Other assets	-	-	-	1,192	-	1,192
Total assets	3,735	3,210	1,724	932,814	203	941,686
Due to other financial institutions	-	-	-	91,882	-	91,882
Deposits	9,349	5,400	1,651	729,476	195	746,071
Current tax liability	-	-	-	1,151	-	1,151
Derivative liabilities	-	-	-	841	-	841
Provisions	-	-	-	1,023	-	1,023
Other liabilities	-	-	-	3,835	-	3,835
Total liabilities	9,349	5,400	1,651	828,208	195	844,803
Shareholders' equity	-	-	-	96,883	-	96,883
Total liabilities and shareholders' equity	9,349	5,400	1,651	925,091	195	941,686
Net on-balance sheet position	(5,614)	(2,190)	73	7,723	8	0
Net notional position of derivative financial instruments*	5,932	2,192	-	(8,124)	-	-
Net currency position	318	2	73	(401)	8	0

*Derivatives used for banking book foreign currency exposure hedging.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

24 Financial risk management (continued)

(c) Market risk (continued)

(iii) Foreign Exchange Risk (continued)

<u>31 December 2008</u>	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	552	60	40	37,196	-	37,848
Due from other financial institutions	971	1,265	32	28,747	7	31,022
Held to maturity investments	7,694	3,422	1,979	87,101	-	100,196
Loans and advances	-	-	-	761,883	-	761,883
Deferred tax assets	-	-	-	997	-	997
Plant and Equipment	-	-	-	4,483	-	4,483
Intangible assets	-	-	-	788	-	788
Other assets	-	-	-	1,485	-	1,485
Total assets	9,217	4,747	2,051	922,560	7	938,702
Due to other financial institutions	-	-	-	97,229	-	97,229
Deposits	9,642	4,724	2,569	720,957	-	737,892
Current tax liability	-	-	-	638	-	638
Derivative liabilities	-	-	-	4,315	-	4,315
Provisions	-	-	-	939	-	939
Other liabilities	-	-	-	6,483	-	6,483
Total liabilities	9,642	4,724	2,569	830,561	-	847,496
Loan capital						
Shareholders' equity	-	-	-	91,206	-	91,206
Total liabilities and shareholders' equity	9,642	4,724	2,569	921,767	-	938,702
Net on-balance sheet position	(425)	23	(518)	913	7	-
Net notional position of derivative financial instruments*	-	-	-	-	-	-
Net currency position	(425)	23	(518)	913	7	-

*Derivatives used for banking book foreign currency exposure hedging.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

24 Financial risk management (continued)

(c) Market risk (continued)

(iii) Sensitivity Analysis

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

An increase or decrease of 50 basis points in the yield curve is expected to have an approximate impact of \$343,950 (2008: \$321,000) on profit or loss and the balance sheet.

An increase in currency exchange rates by 10% is expected to have an approximate impact of \$6,361 (2008: Nil) on the profit and loss and balance sheet. A decrease in currency exchange rates by 10% is expected to have an approximate impact of \$16,642 (2008: \$4,230).

(d) Liquidity Risk

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

The Company measures and manages this risk based on an analysis of the maturity profile. Due to the nature and scale of the Company's business, a scenario-based approach to measurement and management of liquidity risk is not considered appropriate at this time.

The management of liquidity risk for the Company is based on the following:

(i) Measurement and limitation of maturity profile

The maturity profile is measured on a daily basis by monitoring the mismatch of maturing assets against maturing liabilities within prescribed maturity buckets. The cumulative maturity mismatch must be positive out to seven days with an internal trigger of 1% and the cumulative negative mismatch out to one month must not exceed 25% of total liabilities.

(ii) Minimum liquidity holdings

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

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

24 Financial risk management (continued)

(d) Liquidity Risk (continued)

(iii) *Diversified funding mix*

The Company aims to achieve a diversified funding mix by limiting deposits taken from any individual customer or any group of related customers, including other entities within the Marfin Group, to 7% of total liabilities. Any large liquidity exposure in excess of 7% of liabilities must be approved only after an assessment of the impact on the Company's liquidity position is carried out.

The Company also has established sources of wholesale funding so as not to be totally reliant on retail funding.

(iv) *Uncommitted credit lines*

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

(v) *Contingency plan*

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

Residual contractual maturities of financial liabilities

The table below shows the undiscounted cash flows of the Company's financial liabilities on the basis of their earliest possible contractual maturity. The expected cash flows on these instruments vary significantly from this analysis. For example, deposits from customers are expected to maintain a stable or increasing balance.

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

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Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

24 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2009

<u>\$'000</u>	Repayable on demand	3 months or less	Over 3 mths but less than 1 yr	Over 1 but less than 5 yrs	Over 5 yrs	Total
<i>Non-derivative liabilities</i>						
Due to other financial institutions	556	91,387	-	-	-	91,943
Deposits	168,665	409,739	172,012	801	-	751,217
	<u>169,221</u>	<u>501,126</u>	<u>172,012</u>	<u>801</u>	<u>-</u>	<u>843,160</u>
<i>Derivative liabilities</i>						
Derivatives held for hedging:						
- Interest rate swaps	-	(486)	(1,080)	(2,316)	(603)	(4,485)
	<u>-</u>	<u>(486)</u>	<u>(1,080)</u>	<u>(2,316)</u>	<u>(603)</u>	<u>(4,485)</u>
Total	<u>169,221</u>	<u>500,640</u>	<u>170,932</u>	<u>(1,515)</u>	<u>(603)</u>	<u>838,675</u>

31 December 2008

<u>\$'000</u>	Repayable on demand	3 months or less	Over 3 mths but less than 1 yr	Over 1 but less than 5 yrs	Over 5 yrs	Total
<i>Non-derivative liabilities</i>						
Due to other financial institutions	494	97,240	-	-	-	97,734
Deposits	147,515	496,106	96,733	3,070	-	743,424
	<u>148,009</u>	<u>593,346</u>	<u>96,733</u>	<u>3,070</u>	<u>-</u>	<u>841,158</u>
<i>Derivative liabilities</i>						
Derivatives held for hedging:						
- Interest rate swaps	21	(147)	(1,123)	(2,491)	(278)	(4,018)
	<u>21</u>	<u>(147)</u>	<u>(1,123)</u>	<u>(2,491)</u>	<u>(278)</u>	<u>(4,018)</u>
Total	<u>148,030</u>	<u>593,199</u>	<u>95,610</u>	<u>579</u>	<u>(278)</u>	<u>837,140</u>

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

25 Capital Management

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

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

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

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

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

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

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

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

25 Capital Management (continued)

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

	Note	2009 \$'000	2008 \$'000
Tier 1 Capital			
Ordinary share capital	21	80,000	80,000
Retained profits	22	14,557	9,580
Less Deductions:			
Intangible assets	12	678	788
Deferred tax assets (net)	14	759	997
Fair value of cash flow hedges	23	391	-
Total		92,729	87,795
Tier 2 Capital			
General reserve for credit losses	23	2,161	2,053
Total		2,161	2,053
Total regulatory capital		94,890	89,848
Risk weighted assets²		618,376	588,747
Capital ratios			
Total regulatory capital as % of risk weighted assets		15.35%	15.26%
Total tier 1 capital as % of risk weighted assets		15.00%	14.91%

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

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

26 Financial instruments

Net fair values of financial assets and liabilities

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

Cash and liquid assets

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

Due from other financial institutions

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

Held to maturity investments

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

Loans and advances

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

Due to other financial institutions and deposits

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

Interest rate swaps

The net fair value of interest rate swap instruments have been determined by valuing them at the current market quoted rates.

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

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

26 Financial instruments (continued)

	2009		2008	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and liquid assets	10,715	10,715	37,848	37,848
Due from other financial institutions	13,404	13,404	31,022	31,022
Investments held to maturity	153,702	152,908	100,196	99,025
Loans and advances	757,468	756,016	761,883	770,842
Liabilities				
Due to other financial institutions	91,882	91,882	97,229	97,229
Derivative liabilities	841	841	4,315	4,315
Deposits	746,071	741,247	737,892	729,669

Fair value hierarchy

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

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

	Level 1	Level 2	Level 3	Total
31 December 2009				
Derivative liabilities	-	841	-	841
Total	-	841	-	841
31 December 2008				
Derivative liabilities	-	4,315	-	4,315
Total	-	4,315	-	4,315

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

	2009	2008
	\$'000	\$'000
27		
Commitments for expenditure		
Operating leases		
Future operating lease rentals not provided for and payable:		
Not later than one year	1,238	1,037
Later than one year but no later than two years	915	996
Later than two years but no later than five years	2,750	1,969
Later than five years	888	895
	<u>5,791</u>	<u>4,897</u>
	2009	2008
	\$	\$
28		
Auditors' remuneration		
Amounts paid or due and payable to the Auditors of the Company for:		
Auditing the financial report	162,250	135,583
Taxation services	19,882	17,050
Other assurance services	42,900	10,450
	<u>225,032</u>	<u>163,083</u>

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

29 Commitments and contingencies

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

Details of financial instruments with off-balance sheet risk are as follows:

	2009 \$'000 Face value	2008 \$'000 Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	8,789	9,494
Commitments to extend credit	85,812	79,748

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

30 Directors' remuneration

	2009	2008
	No.	No.
Directors' income		
The number of directors of the Company whose income from the Company or related bodies corporate falls within the following bands:		
\$ 0 - \$ 9,999	2	3
\$ 20,000 - \$ 29,999	-	3
\$ 30,000 - \$ 39,999	3	1
\$ 40,000 - \$ 49,999	1	-
	<hr/>	<hr/>
	2009	2008
	\$	\$
Total income received, or due and receivable, by all directors of the Company.		
Short term benefits	155,000	107,917
Total benefits	<hr/>	<hr/>
	155,000	107,917

31 Key management personnel disclosures

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

Non-executive directors

Mr N Pappas (Chairman)
Mr N T Hatzistergos
Mr G Gav
Mr C Stylianides
Mr P Kounnis
Mr P Mavridis

Executives

Mr M Athanasiou (General Manager)
Mr S Pasas (Head of Financial Control)
Mr S Hadjikyriacou (Head of Branch Network)
Mr S Pambris (Head of Credit and Financial Services)
Mr V Rinaldi (Head of Internal Audit)
Mr A Christou (Head of Business and Retail Lending)

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

32 Key management personnel disclosures (continued)

Transactions with key management personnel

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

	2009	2008
	\$	\$
Short term employee benefits	1,231,879	937,808
Long term benefits	6,719	5,867
Other long term benefits	73,109	55,078
	<hr/>	<hr/>
Total benefits	1,311,707	998,753

Details of directors' remuneration are set out separately in Note 30. 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:

Loans to key management personnel	9,257,515	9,457,500
Deposit accounts	1,491,886	6,637,500

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

Other key management personnel transactions with the Company

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

One of these 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:

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

Director	Transaction	Note	2009	2008
			\$	\$
Mr Greg Gav	Rental Payments	(i)	<u>478,488</u>	<u>464,553</u>

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

32 Related parties transactions

(a) Transactions within the wholly-owned group

During the financial year the Company engaged in banking transactions with Marfin Popular Bank Public Co. Ltd, and its wholly owned subsidiaries. All transactions were on normal terms and conditions.

(b) Transactions with other related parties

During the period the Company engaged in banking transactions with associated companies of Marfin Popular Bank Public Co. Ltd. All transactions were on normal commercial terms and conditions.

(c) Parent entity

The parent entity of Laiki Bank (Australia) Limited is Marfin Popular Bank Public Co. Ltd, a Company incorporated in Cyprus.

33 Financial reporting by segments

The Company does not have any separately reportable segments.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009

34 Notes to the statement of cash flows

(a) Reconciliation of cash

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

	2009	2008
	\$'000	\$'000
Cash	10,715	37,848
At call deposits	13,404	31,022
Total Cash and cash equivalents	<u>24,119</u>	<u>68,870</u>

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

	2009	2008
	\$'000	\$'000
Profit from ordinary activities after income tax	5,085	2,924
Add: non-cash items:		
Depreciation of non-current assets	1,172	1,136
Increase in provision for doubtful debts	82	781
Increase in provision for employee entitlements	84	223
Increase/(Decrease) in tax provision	848	(604)
Net Increase/(Decrease) in prepayments/accrual:	221	(16)
Loss on sale of plant and equipment	2	1
(Decrease)/Increase in derivative financial instruments	(3,370)	6,306
<i>(Increases)/decreases in assets and increases/(decreases) in liabilities:</i>		
Investments held to maturity	(53,506)	48,660
Loans and advances	4,333	(67,601)
Available for sale investments	-	(392)
Other assets	361	1,101
Due to other financial institutions	(5,347)	(6,344)
Deposits	8,179	41,285
Other liabilities	(2,546)	2,582
Net cash used in operating activities	<u>(44,402)</u>	<u>30,042</u>

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2009**

34 Notes to the statements of cash flows (continued)

(c) Net reporting of certain cash flows

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

- (i) Money market trading activities and retail 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.

35 Events subsequent to balance date

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

Laiki Bank (Australia) Limited


Directors' declaration

In the opinion of the directors of Laiki Bank (Australia) Limited:


1. The financial statements and notes, set out on pages 14 to 72, are in accordance with the Corporation Act 2001, including:
 - (a) giving a true and fair view of the Company's financial position as at 31 December 2009 and of their performance, for the financial year ended on that date;
 - (b) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (c) the financial report also complies with International Financial Reporting Standards as disclosed in note 1 (a).

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Nicholas Pappas
Chairman



Nikolaos T Hatzistergos
Director

Dated at Sydney on 10th March 2010.



Independent auditor's report to the members of Laiki Bank (Australia) Limited

Report on the financial report

We have audited the accompanying financial report of Laiki Bank (Australia) Limited (the Company), which comprises the statement of financial position as at 31 December 2009, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 35 and the directors' declaration set out on pages 14 to 73.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.



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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Laiki Bank (Australia) Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1a).

KPMG

Brendan Twining
Partner

Sydney

10 March 2010



Bank of Sydney

Level 4, 219-223 Castlereagh Street
Sydney NSW Australia