



**Bank of Sydney**

Annual Report  
**2005**

**CONFIDENTIAL**

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)  
ABN 44 093 488 629**

**Annual Financial Report  
31 December 2005**

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**

**Directors' report**

**For the year ended 31 December 2005**

The directors present their report together with the financial report of Laiki Bank (Australia) Limited ("the company") for the year ended 31 December 2005 and the auditors report thereon.

**Directors**

The directors of the Company at any time during or since the year ended 31 December 2005 are:

Kikis N. Lazarides                      Appointed 26<sup>th</sup> March 2001

During the financial year he attended 4 of the 4 directors' meetings held during the time he held office.

Marios E. Lanitis                      Appointed 26<sup>th</sup> March 2001

During the financial year he attended 4 of the 4 directors' meetings held during the time he held office.

Rena Rouvitha Panou                  Appointed 27<sup>th</sup> June 2000

During the financial year she attended 0 of the 4 directors' meetings held during the time she held office.

Michael R. Erotokritos                Appointed 26<sup>th</sup> March 2001

During the financial year he attended 4 of the 4 directors' meetings held during the time he held office.

Christos Pavlou                        Appointed 26<sup>th</sup> March 2001  
Resigned 31<sup>st</sup> March 2005

During the financial year he attended 0 of the 1 directors' meetings held during the time he held office.

Nicholas Pappas                        Appointed 26<sup>th</sup> March 2001

During the financial year he attended 4 of the 4 directors' meetings held during the time he held office.

Greg Gav                                 Appointed 31<sup>st</sup> March 2005

During the financial year he attended 3 of the 3 directors' meetings held during the time he held office.



**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**

**Directors' report**

**For the year ended 31 December 2005**

**Dividends**

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

The directors do not recommend payment of a dividend in respect of the financial period ended 31 December 2005.

**Review of Operations**

At the end of December 2005 the company's loan portfolio was \$488.7m (2004: \$399.6m) and its retail deposits \$500.8m (2004: \$401.4m). This represents an increase of 22% in loans and an increase of 25% in deposits when compared to the balances in December 2004. The company had 118 employees as at the end of December (2004: 99).

**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.

**Laiki Bank (Australia) Limited  
Directors' report  
For the year ended 31 December 2005**

**Lead Auditors Independence Declaration**

The lead auditors' independence declaration is set out on page 49 and forms part of the directors' report for the financial year 2005.

**Indemnification and Insurance of Officers**


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

**Rounding Off**

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

Signed in accordance with the resolution of the directors:

  
Kikis N. Lazarides  
Director

  
Michael R. Erotokritos  
Director

Dated at Nicosia this 28<sup>th</sup> day of March 2006.

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

	Note	2005 \$'000	2004 \$'000
Interest income	2	39,488	31,706
Interest expense	4	26,651	20,964
Net interest income		12,837	10,742
Non-interest income	6	2,771	2,293
Net operating income		15,608	13,035
Operating expenses	7	12,163	10,260
Impairment losses on loans and advances	13	349	801
<b>Profit before income tax</b>		<b>3,096</b>	<b>1,974</b>
Income tax expense	8	6	-
<b>Profit after income tax</b>		<b>3,090</b>	<b>1,974</b>

The Income Statement is to be read in conjunction with the notes to and forming part of the financial report set out on pages 10 to 47.

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**

**Balance Sheets**

**As at 31 December**

	Note	2005 \$'000	2004 \$'000
<b>Assets</b>			
Cash and liquid assets	9	13,160	12,536
Due from other financial institutions	10	16,941	131,866
Held to maturity investments	11	117,075	-
Loans and advances	12	488,422	397,392
Derivative assets	14	98	-
Plant and equipment	16	4,084	3,403
Intangible assets	15	666	1,196
Deferred tax assets	21	236	-
Other assets	17	4,326	3,466
<b>Total assets</b>		<b>645,008</b>	<b>549,859</b>
<b>Liabilities</b>			
Due to other financial institutions	18	65,856	77,548
Deposits	19	500,853	401,405
Current tax liability		242	-
Derivative liabilities	14	49	-
Provisions	20	439	333
Other liabilities	22	7,940	5,975
<b>Total liabilities</b>		<b>575,379</b>	<b>485,261</b>
<b>Net assets</b>		<b>69,629</b>	<b>64,598</b>
<b>Equity</b>			
Contributed equity	23	70,000	70,000
Accumulated losses	24	(371)	(5,402)
<b>Total equity</b>		<b>69,629</b>	<b>64,598</b>

The balance sheet is to be read in conjunction with the notes to and forming part of the financial report set out on pages 10 to 47.



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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**

**Statement of Cash Flows**

**For the year ended 31 December**

	Note	2005 \$'000	2004 \$'000
<b>Cash flows from operating activities</b>			
Interest and commission receipts		42,259	32,501
Interest payments		(26,651)	(18,780)
Cash payments to employees and suppliers		(11,227)	(9,694)
		<b>4,381</b>	<b>4,027</b>
<i>(Increase) / decrease in operating assets</i>			
Investment held to maturity		2,760	-
Loans and advances		(89,143)	(77,723)
Other assets		(505)	-
<i>(Increase) / decrease in operating liabilities</i>			
Due to other financial institutions		(11,692)	40,046
Derivative assets/ liabilities		(61)	-
Deposits		99,448	85,978
Other liabilities		1,735	-
<b>Net cash used in operating activities</b>	32(b)	<b>6,923</b>	<b>52,328</b>
<b>Cash flows from investing activities</b>			
Payments for intangible assets		(79)	-
Payments for plant & equipment		(1,569)	(969)
Proceeds on disposal of plant and equipment		259	-
<b>Net cash used in investing activities</b>		<b>(1,389)</b>	<b>(969)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	10,000
<b>Net cash provided by financing activities</b>		<b>-</b>	<b>10,000</b>
<b>Net increase in cash held</b>		<b>5,534</b>	<b>61,359</b>
Cash at the beginning of the financial year		144,402	83,043
Transition adjustment	33 (3)	(119,835)	-
<b>Cash at the end of the financial year</b>	32(a)	<b>30,101</b>	<b>144,402</b>

The statement of cash flows are to be read in conjunction with the notes to and forming part of the financial report set out on pages 10 to 47.

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

	Note	2005 \$'000	2004 \$'000
<b>Equity reconciliations</b>			
<b>Contributed equity</b>			
Opening balance		70,000	60,000
Shares issued during the year		-	10,000
<b>Closing balance</b>		<b>70,000</b>	<b>70,000</b>
<b>Accumulated Losses</b>			
Opening balance		5,402	7,261
AIFRS transition adjustments	33(1)	(1,941)	115
Restated opening balance		<b>3,461</b>	<b>7,376</b>
Net profit after income tax		(3,090)	(1,974)
<b>Closing balance</b>		<b>371</b>	<b>5,402</b>

The statement of changes in equity are to be read in conjunction with the notes to and forming part of the financial report set out on pages 10 to 47.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)  
Notes to and forming part of the financial report  
For the year ended 31 December 2005**

**1 Summary of significant accounting policies**

Laiki Bank (Australia) Limited ("the company") is a company domiciled in Australia

The financial report was authorised for issue by the directors on 28<sup>th</sup> March 2006.

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 Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The financial report of the Company also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the Company's first financial report prepared in accordance with AIFRS and AASB 1 *First Time Adoption of AIFRS* has been applied. An explanation of how the transition to AIFRS has affected the reported balance sheet, income statement and cash flows of the Company is provided in note 33.

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 and 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.

With the exception of financial instruments, the comparative figures in respect of 2004 were restated to reflect these adjustments. The Company has taken the exemption available under AASB1 to only apply AASB 132 and AASB 139 from 1 January 2005. Refer to Note 1(h), 1(m) and 33 for details of the impact of this change in accounting policy.

**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 2005**

**1 Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

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

The financial report is presented in Australian dollars.

The company has not elected to early adopt any revised accounting standards. Accounting standards that have been issued but are not yet effective are not expected to have a significant impact on the company's financial report in the period of initial adoption.

**(b) 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(h) 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(i) for further details.

*Financial Liabilities:* This category includes non-derivatives 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(k).

**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 2005**

**1 Summary of significant accounting policies (continued)**

**(c) Impairment**

The carrying amounts of the company's 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 expensed in the reporting period in which it occurs.

**(d) 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 includes 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.

**(e) 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.

**(f) Intangible Assets**

All intangible assets are initially stated at cost. They have a finite useful life and are amortised using the straight line method.

The amortisation rates used are as follows:

	<b>2005</b>	<b>2004</b>
<b>Computer Software</b>	20%	20%

The amortisation rates used reflect the expected useful life of the asset. Amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Amortisation is expensed and any impairment charge is 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 2005**

**1 Summary of significant accounting policies (continued)**

**(g) Plant and Equipment**

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

*Complex assets*

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

*Useful lives*

All assets have limited useful lives and are depreciated 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 for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed.

The depreciation rates used for each class of asset are as follows:

	2005	2004
<hr/>		
<i>Plant and equipment</i>		
Leasehold improvements	10%	10%
Plant and equipment	10%	10%
Furniture and fittings	10%	10%
Computer hardware	20%	20%
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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 2005**

**1 Summary of significant accounting policies (continued)**

**(h) Loans and Advances**

*From 1 January 2004 to 31 December 2004*

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as an expense in the statement of financial performance.

The annual charge against profit for the doubtful debts reflects specific provisions (if any) and transfers to the general provision. The specific provisions are to cover all identified doubtful debts and the general provision is to cover unidentified risks inherent in the loan portfolio, which could emerge in the future.

Interest income on loans and advances is recognised on an accrual basis.

*Adjustments on transition: 1 January 2005*

On application of AASB 139, the recognition of the general provision of \$1,953,000, which was in place to cover unidentified risks inherent in the portfolio, is no longer permissible. On transition, the general provision has been reversed and the financial impact has been reflected against the opening accumulated losses.

*From 1 January 2005 to 31 December 2005*

Loans and advances are initially recorded at fair value and are subsequently measured at amortised cost using the effective interest rate method. Impairment of a loan is recognised when there is objective evidence that the Company will be unable to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the recoverable amount including amounts recoverable from guarantees and collateral.

**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 2005**

**1 Summary of significant accounting policies (continued)**

**(h) Loans and Advances (continued)**

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as an expense in the income statement.

The annual charge against profit for the doubtful debts reflects specific provisions which are to cover all identified doubtful debts.

Interest on loans and advances is recognised on an effective yield basis.

**(i) Investments held to maturity**

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 method. 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.

**(j) Foreign currency**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance 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 2005**

**1 Summary of significant accounting policies (continued)**

**(k) Deposits**

Deposits comprise current deposits, savings deposits, at call deposits and term deposits. Interest is recognised in the income statement using the effective yield method.

**(l) Taxation**

The income tax expense or revenue for the period is the tax payable on the current year's taxable income based on the Australian tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rate is applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

**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 2005**

**1 Summary of significant accounting policies (continued)**

**(m) Derivative Assets**

*From 1 January 2004 to 31 December 2004*

Interest rate swap agreements are entered only for hedging purposes and are accounted for in a manner consistent with the accounting treatment of the hedged item.

Profits and losses are recognised over the period in accordance with the original intent of the hedging transaction.

*Adjustments on transition: 1 January 2005*

The nature of the main adjustments to make this information comply with AASB132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are taken to the income statement. At the date of transition (1 January 2005) changes in the carrying amounts of derivatives are taken to retained earnings.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments – note 14
- Accumulated losses – note 24
- Explanation of transition to AIFRS – note 33

*From 1 January 2005 to 31 December 2005*

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. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

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.

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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 2005**

**1 Summary of significant accounting policies (continued)**

**(n) Leases**

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

**(o) 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 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 balance 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 balance 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 \$426,856 (2004: \$323,879).

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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 2005**

	2005 \$'000	2004 \$'000
<b>2 Interest income</b>		
Other parties	39,180	31,636
Related parties	308	70
	<u>39,488</u>	<u>31,706</u>

**3 Average assets and interest income**

The following table shows the daily average balance for each of the major categories of interest-bearing assets, the amount of interest revenue and the average interest rate (annualised).

	2005			2004		
	Average Balance \$'000	Interest \$'000	Average Rate %	Average Balance \$' 000	Interest \$' 000	Average Rate %
Cash held with central bank	15,135	559	3.69%	10,589	530	5.00%
Due from other financial institutions	15,402	890	5.78%	101,618	5,185	5.10%
Investments held to maturity	104,879	5,862	5.59%	-	-	-
Loans and advances	450,779	32,177	7.14%	365,114	25,991	7.12%
	<u>586,195</u>	<u>39,488</u>	<u>6.74%</u>	<u>477,321</u>	<u>31,706</u>	<u>6.64%</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 2005**

	2005	2004
	\$'000	\$'000
<b>4 Interest expense</b>		
Related parties	3,978	3,601
Other parties	22,673	17,363
	<u>26,651</u>	<u>20,964</u>

**5 Average liabilities and interest expense**

The following table shows the daily average balance for each of the major categories of interest-bearing liabilities, the amount of interest expense and the average interest rate (annualised).

	2005			2004		
	Average Balance \$' 000	Interest \$' 000	Average Rate %	Average Balance \$' 000	Interest \$' 000	Average Rate %
Clients' deposits	450,959	22,710	5.04%	355,262	17,330	4.88%
Overseas financial institution deposits	64,037	3,941	6.15%	64,023	3,634	5.68%
	<u>514,996</u>	<u>26,651</u>	<u>5.17%</u>	<u>419,285</u>	<u>20,964</u>	<u>5.00%</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 2005**

	2005	2004
	\$'000	\$'000
<b>6 Non-interest income</b>		
Fees and commission income	2,000	1,711
Net foreign exchange gain	709	582
Unrealised gain/loss on derivatives	62	-
	<u>2,771</u>	<u>2,293</u>
<b>7 Operating expenses</b>		
Staff expenses	6,432	5,037
Computer expenses	1,170	1,176
Marketing expenses	444	476
Occupancy costs (Note 33 (4)(e))	1,246	1,045
Printing, stationery and postage	276	154
Telephone expenses	177	169
Depreciation of property and equipment	631	605
Amortisation of intangibles	609	560
Other operating expenses	1,178	1,038
	<u>12,163</u>	<u>10,260</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 2005**

	2005	2004
	\$'000	\$'000
<b>8 Taxation</b>		
<b>(a) Income tax expense</b>		
Profit before tax	3,096	1,974
Prima facie income tax expense calculated at 30% on net profit	929	592
Non deductible expenses	11	-
Increase / (Decrease) in income tax due to:		
Provision for doubtful debts	20	240
Other Items	152	260
Recognition of previously unbooked deferred tax assets and liabilities	(236)	-
Income tax losses utilised, not previously brought to account	(870)	(1,092)
Income tax expense	<u>6</u>	<u>-</u>
Current tax expense	242	-
Deferred tax expense	(236)	-
Income tax expense	<u>6</u>	<u>-</u>
<b>(b) Deferred tax asset not taken to account</b>		
Tax losses	-	859
Temporary differences	-	739
Potential future income tax benefit from net loss not recognised as an asset	<u>-</u>	<u>1,598</u>

Unbooked tax losses have been fully utilised during the year ended 31 December 2005. Temporary differences previously unbooked have been brought to account during the year.

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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 2005

	2005	2004
	\$'000	\$'000
<b>9 Cash and liquid assets</b>		
Cash at bank	1,528	1,074
Cash held with central bank	11,632	11,462
	<u>13,160</u>	<u>12,536</u>
<b>10 Due from other financial institutions</b>		
Australia	13,530	103,882
Related parties	2,995	26,627
Other	416	1,357
	<u>16,941</u>	<u>131,866</u>
<b>Maturity analysis</b>		
At Call	16,941	130,810
Up to 1 month	-	840
1 to 3 months	-	192
3 to 12 months	-	24
	<u>16,941</u>	<u>131,866</u>
<b>11 Investments held to maturity</b>		
Bank Bills	106,523	-
Fixed term deposits - related parties	10,552	-
	<u>117,075</u>	<u>-</u>
<b>Maturity analysis</b>		
Up to 1 month	81,179	-
1 to 3 months	15,867	-
3 to 12 months	20,029	-
	<u>117,075</u>	<u>-</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 2005**

	Note	2005 \$'000	2004 \$'000
<b>12</b>	<b>Loans and advances</b>		
Loans and advances		445,652	369,115
Overdrafts		43,078	30,472
		<u>488,730</u>	<u>399,587</u>
Less -			
General provision for doubtful debts	13	-	(1,953)
Specific provision	13	(308)	(242)
		<u>(308)</u>	<u>(2,195)</u>
Net loans and advances		<u>488,422</u>	<u>397,392</u>
<b>Maturity analysis</b>			
Overdrafts		43,078	30,472
Up to 1 month		23,539	5,810
1 to 3 months		3,662	9,737
3 to 12 months		30,780	27,409
12 months to 5 years		51,148	70,116
Over 5 years		336,523	256,043
		<u>488,730</u>	<u>399,587</u>

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

	2005	2004
	\$'000	\$'000
<b>13 Provision for doubtful debts and impaired assets</b>		
<b>(a) Provisions for doubtful debts</b>		
<b>General provision</b>		
Opening balance	1,953	1,353
IFRS transition adjustment (Note 33(4)(b))	(1,953)	-
Adjusted opening balance	-	-
Charge to operating profit	-	600
Closing balance	-	1,953
<b>Specific provisions</b>		
Opening balance	242	41
Write off against provision	(283)	-
Charge to operating profit	349	201
Closing balance	308	242
Total general and specific provisions	308	2,195

**(b) Impaired assets**

Impaired loans and advances are reviewed and classified according to the categories outlined below:

- “Non-accrual loans” are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.
- “Restructured loans” arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required. The company has no such loans at the end of the period.
- “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 the end of 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 2005**

**13 Provision for doubtful debts and impaired assets (continued)**

**(b) Impaired assets (continued)**

- “Past due loans” are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If an impairment provision is required, the loan is included in non-accrual loans.

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.

The balances of non-accrual loans and past due loans are as follows:

	2005	2004
	\$'000	\$'000
Non-accrual loans	308	74
Past due loans	7,723	3,402
	<u>8,031</u>	<u>3,476</u>

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

**14 Derivative Financial Instruments**

The company enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment.

	2005 \$'000	2004 \$'000
<b>Assets</b>		
Interest rate swaps	-	-
Foreign currency forwards	98	-
	<hr/> 98	<hr/> -
<b>Liabilities</b>		
Interest rate swaps	49	-
Foreign currency forwards	-	-
	<hr/> 49	<hr/> -

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 obligation. All counterparties of swap agreements entered into are within the Laiki Bank Group.

The Company has taken the exemption available under AASB1 to only apply AASB 132 and AASB 139 from 1 January 2005. At the date of transition to these standards of 1 January 2005 a pre-tax net adjustment of a \$12,000 decrease in net assets was recognised representing the remeasurement of interest rate and foreign currency swaps to fair value.

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

	2005	2004
	\$'000	\$'000
<b>15 Intangible assets</b>		
Computer software		
At cost	3,084	3,005
Less: Accumulated amortisation	(2,418)	(1,809)
	<u>666</u>	<u>1,196</u>
Opening balance	1,196	1,470
Additions and transfers	79	286
Amortisation expense	(609)	(560)
Net book value	<u>666</u>	<u>1,196</u>
<b>16 Plant and equipment</b>		
Plant and equipment		
At cost	2,741	1,780
Less: Accumulated depreciation	(1,397)	(727)
	<u>1,344</u>	<u>1,053</u>
Leasehold		
At cost	3,677	3,161
Less: Accumulated depreciation	(937)	(811)
	<u>2,740</u>	<u>2,350</u>
Net book value	<u>4,084</u>	<u>3,403</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 2005**

**16 Plant and equipment (continued)**

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

	2005	2004
	\$'000	\$'000
<b>Plant and equipment at cost</b>		
Opening balance	1,053	1,180
Additions and transfers	582	201
Depreciation expense	(291)	(328)
	<u>1,344</u>	<u>1,053</u>
<b>Leasehold at cost</b>		
Opening balance	2,350	2,146
Additions and transfers	987	481
Net book value of disposal of assets	(257)	-
Depreciation expense	(340)	(277)
	<u>2,740</u>	<u>2,350</u>
	<u>4,084</u>	<u>3,403</u>
	2005	2004
	\$'000	\$'000
<b>17 Other assets</b>		
Interest receivable	3,652	3,455
Other (Note 33 (1)(b))	674	11
	<u>4,326</u>	<u>3,466</u>

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

	2005	2004
	\$'000	\$'000
<b>18 Due to other financial institutions</b>		
Overseas		
Foreign currency loan - parent entity	64,734	76,913
Related parties	1,122	635
	<u>65,856</u>	<u>77,548</u>
<b>Maturity analysis</b>		
At call	1,585	805
Up to 1 month	64,271	76,743
	<u>65,856</u>	<u>77,548</u>
<b>19 Deposits</b>		
Current	35,785	16,306
Savings	30,409	35,108
At call	48,165	53,205
Term	386,494	296,786
	<u>500,853</u>	<u>401,405</u>
<b>Maturity Analysis</b>		
At call	104,497	87,295
Up to 1 month	185,770	130,992
1 to 3 months	117,331	101,925
3 to 12 months	92,491	79,884
12 months to 5 years	764	1,309
	<u>500,853</u>	<u>401,405</u>
<b>20 Provisions</b>		
Provision for employee entitlements	<u>439</u>	<u>333</u>
Number of Employees	<u>118</u>	<u>99</u>

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

	2005	2004
	\$'000	\$'000
<b>21 Deferred income taxes</b>		
Deferred income tax assets and liabilities are attributable to the following items:		
<b>Deferred income tax liabilities</b>		
Provisions	299	-
Fair value of financial instruments	(15)	-
Fixed assets	(44)	-
Prepayments	(4)	-
	<u>236</u>	<u>-</u>
<b>22 Other liabilities</b>		
Interest payable	5,403	4,446
Other (Note 33 (1)(b))	2,537	1,529
	<u>7,940</u>	<u>5,975</u>
<b>23 Contributed equity</b>		
70,000,000 ordinary shares fully paid, at par.	<u>70,000</u>	<u>70,000</u>

100% of the Company's shares are owned by Cyprus Popular Bank Public Company Limited ("Laiki Bank Group").

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.



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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 2005**

	2005	2004
	\$'000	\$'000
<b>24 Accumulated losses</b>		
Accumulated losses at beginning of year	(5,402)	(7,261)
Transition adjustment on adoption of AIFRS	1,941	(115)
Net profit after income tax	3,090	1,974
Accumulated losses at end of year	<u>(371)</u>	<u>(5,402)</u>

**25 Financial instruments**

**(a) Interest rate risk**

The company enters into interest rate swap transactions to swap floating rate borrowings into fixed rates and vice versa. Maturities of swap contracts are principally between 6 months and five years.

The company's exposure to interest rate risk and the effective weighted average interest rate of classes of financial assets and financial liabilities is set out in the following table.

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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 2005**

**25 Financial instruments (continued)**

**(a) Interest rate risk (continued)**

2005	Note	Weighted Average Interest Rate %	Floating Interest Rate \$'000	Fixed interest maturing in:				Total \$'000
				1 Year or less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non- Interest bearing \$'000	
<b>Financial assets</b>								
Cash and liquid Assets	9	3.69%	11,632	-	-	-	1,528	13,160
Due from other financial institutions	10	5.78%	16,941	-	-	-	-	16,941
Investment held to maturity	11	5.59%	-	117,075	-	-	-	117,075
Loans and advances	12	7.14%	406,349	20,933	61,448	-	-	488,730
			<u>434,922</u>	<u>138,008</u>	<u>61,448</u>	<u>-</u>	<u>1,528</u>	<u>635,906</u>
<b>Financial liabilities</b>								
Due to other financial institutions	18	6.15%	65,687	-	-	-	169	65,856
Deposits	19	5.04%	290,102	209,987	764	-	-	500,853
			<u>355,789</u>	<u>209,987</u>	<u>764</u>	<u>-</u>	<u>169</u>	<u>566,709</u>
Interest rate swaps *				79,200	(79,200)			

\* Notional principal amounts

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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 2005**

**25 Financial instruments (continued)**

**(a) Interest rate risk (continued)**

2004	Note	Weighted Average Interest Rate %	Floating Interest Rate \$'000	Fixed interest maturing in:				Total \$'000
				1 Year or less \$'000	Over 1 to 5 Years \$'000	More than 5 Years \$'000	Non- Interest bearing \$'000	
<b>Financial assets</b>								
Cash and liquid Assets	9	4.60%	11,462	-	-	-	1,074	12,536
Due from other financial institutions	10	5.10%	12,031	119,835	-	-	-	131,866
Loans and advances	12	7.12%	321,942	7,323	10,214	60,108	-	399,587
			<u>345,435</u>	<u>127,158</u>	<u>10,214</u>	<u>60,108</u>	<u>1,074</u>	<u>543,989</u>
<b>Financial liabilities</b>								
Due to other financial institutions	18	5.68%	805	76,743	-	-	-	77,548
Deposits	19	4.88%	104,619	295,477	1,309	-	-	401,405
			<u>105,424</u>	<u>372,220</u>	<u>1,309</u>	<u>-</u>	<u>-</u>	<u>478,953</u>
Interest rate swaps *				52,600	(52,600)			

\* 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 2005**

**25 Financial instruments (continued)**

**(b) Foreign Exchange Risk**

The company does not hold a trading book (positions created from trading activities with a speculative purpose). All positions created from the company's retail activity are actively hedged with the parent entity. The company also has foreign exchange loans, which are fully hedged through entering into foreign exchange forward agreements.

**(c) Credit risk exposures**

*On Balance Sheet Financial instruments*

The credit risk on financial assets, is the carrying amount, net of any provision for doubtful debts. The company minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties.

*Off Balance Sheet Financial instruments*

Credit risk on off-balance sheet swaps is minimised, as counterparties are recognised financial intermediaries with acceptable ratings determined by a recognised rating agency.

**(d) Liquidity Risk**

The company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees, and from margin and other calls in cash settled derivatives. The company maintains cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

**(d) 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.

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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 2005**

**25 Financial instruments (continued)**

**(d) Net fair values of financial assets and liabilities (continued)**

**Loans and advances**

The carrying value of loans and advances is net of specific provision for doubtful debts and suspended interest. 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 approximated 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 follow:

	2005		2004	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
<b>Assets</b>				
Cash and liquid assets	13,160	13,160	12,536	12,536
Due from other financial institutions	16,941	16,941	131,866	131,866
Investments held to maturity	117,075	117,075	-	-
Derivative assets	98	98	-	-
Loans and advances	488,422	488,270	397,318	397,139
<b>Liabilities</b>				
Due to other financial institutions	65,856	65,856	77,548	77,548
Derivative liabilities	49	49	-	-
Deposits	500,853	500,853	401,405	401,405
<b>Off-Balance Sheet</b>				
Interest Rate Swaps	-	-	(102)	(13)

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

	2005	2004
	\$'000	\$'000
<b>26</b>		
<b>Commitments for expenditure</b>		
<b>Operating leases</b>		
Future operating lease rentals not provided for and payable:		
Not later than one year	891	768
Later than one year but no later than two years	879	446
Later than two years but no later than five years	2,142	1,120
Later than five years	1,775	398
	<u>5,687</u>	<u>2,732</u>
	2005	2004
	\$	\$
<b>27</b>		
<b>Auditors' remuneration</b>		
Amounts received or due and receivable by the Auditors of the company for:		
Auditing the financial report	112,530	77,700
Taxation services	43,832	34,300
	<u>156,362</u>	<u>112,000</u>
<b>28</b>		
<b>Directors' remuneration</b>		
	2005	2004
	No.	No.
<b>Directors' income</b>		
The number of directors of the company whose income from the company or related bodies corporate falls within the following bands:		
\$ 0 - \$ 9,999	8	7
	2005	2004
	\$	\$
Total income received, or due and receivable, by all directors of the company	<u>36,250</u>	<u>20,000</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 2005**

**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:

	2005 \$'000 Face value	2004 \$'000 Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	7,788	5,447
Commitments to extend credit	72,260	54,275
Derivative contracts : (notional principal)		
Interest rate swaps	79,200	63,400
Foreign exchange forwards	64,165	75,215

**30 Key management personnel disclosures**

The following were key management personnel of the consolidated entity at any time during the reporting period, unless otherwise indicated were directors for the entire period:

*Non-executive directors*

Mr K N Lazarides (Chairperson)  
Mr M E Lanitis  
Ms R Rouvitha Panou  
Mr M R Erotokritos  
Mr N Pappas  
Mr G Gav (appointed 31 March 2005)  
Mr P Abraam  
Mr C Pavlou (resigned 31 March 2005)

*Executives*

Mr M Michaelas (General Manager)  
Mr S Pasas (Head of Financial Control)  
Mr A Stavrou (Head of Credit and Financial Services)  
Mr P Agapiou (Head of Credit)  
Mr S Hadjikyriacou (Head of Branch Network)

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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 2005**

**30 Key management personnel disclosures (continued)**

**Transactions with key management personnel**

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

	2005	2004
	\$	\$
Short term employee benefits	<u>889,484</u>	<u>798,813</u>

Details of directors' remuneration are set out separately in Note 28.

**Loans and other transactions to key management personnel**

Loans to key management personnel	<u>16,561,032</u>	<u>2,880,875</u>
-----------------------------------	-------------------	------------------

For all loans to key management persons, interest is payable at prevailing market rates and are on normal commercial terms and conditions. These loans are well secured by first mortgages over the individuals' residences.

**Other key management personnel transactions with the company**

Key management persons of the company holds 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 was 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.

The amounts recognised during the year relating to key management personnel and their related parties were as follows:

Director	Transaction	Note	2005	2004
			\$	\$
Mr G Gav	Rental Incentive Payment	(i)	<u>259,000</u>	<u>-</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 G Gav. As part of this transaction, the company was paid an incentive payment and provided with a rent free period of 13 months. This transaction was entered into on normal terms and conditions.



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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

**30 Related parties transactions**

**(a) Transactions within the wholly-owned group**

During the financial year the company engaged in banking transactions with The Cyprus Popular Bank Public Company Limited, 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 The Cyprus Popular Bank Public Company Limited. All transactions were on normal commercial terms and conditions.

**(c) Parent entity**

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

**31 Financial reporting by segments**

The company does not have any separately reportable segments. The company provides retail and commercial banking facilities within the financial services industry in Australia.

**32 Notes to the statements of cash flows**

**(a) Reconciliation of cash**

For the purposes of the statements 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:

	2005	2004
	\$'000	\$'000
Cash	13,160	12,536
At call deposits	16,941	131,866
Total Cash and cash equivalents	<u>30,101</u>	<u>144,402</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 2005**

32 Notes to the statements of cash flows (continued)

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

	2005	2004
	\$'000	\$'000
Profit from ordinary activities after income tax	3,090	2,011
Add: non-cash items:		
Depreciation of non-current assets	1,240	1,165
Increase in provision for doubtful debts	66	801
Increase in provision for employee entitlements	106	-
Increase in tax provision	6	-
Net Increase in prepayments/accruals	(408)	-
Book profit on sale of plant and equipment	(2)	-
<i>Increases/(decreases) in assets and liabilities:</i>		
Investments held to maturity	2,760	-
Loans and advances	(89,143)	(77,723)
Derivative financial assets	(61)	
Other assets	(222)	(1,255)
Due to other financial institutions	(11,692)	40,046
Deposits	99,448	85,978
Other liabilities	1,735	1,305
Net cash used in operating activities	<u>6,923</u>	<u>52,328</u>

(c) Net reporting of certain cash flows

Cash flows arising from the following activities have been presented on a net basis in the statements 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.

(d) Financing facilities

Financing arrangements which are available to the group:

Standby credit facilities with related party	<u>4,088</u>	<u>3,850</u>
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At year-end the above facilities were unutilised.

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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 2005**

**33 Explanation of transition to Australian equivalents to IFRSs (AIFRS)**

**(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under AIFRS**

**(a) At date of transition to AIFRS: 1 January 2004**

	Note	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>Assets</b>				
Cash and liquid assets		18,143		18,143
Due from other financial institutions		64,900		64,900
Loans and advances		320,471		320,471
Plant and equipment	(d)	4,753	(1,470)	3,283
Intangible assets	(d)	-	1,470	1,470
Other assets	(e)	2,341	(74)	2,267
<b>Total assets</b>		<b>410,608</b>	<b>(74)</b>	<b>410,534</b>
<b>Liabilities</b>				
Due to other financial institutions		37,502		37,502
Deposits		315,427		315,427
Provisions		198		198
Other liabilities	(e)	4,742	41	4,783
<b>Total liabilities</b>		<b>357,869</b>	<b>41</b>	<b>357,910</b>
<b>Net assets</b>		<b>52,739</b>	<b>(115)</b>	<b>52,624</b>
<b>Equity</b>				
Contributed equity		60,000		60,000
Accumulated losses	(f)	(7,261)	(115)	(7,376)
<b>Total equity</b>		<b>52,739</b>	<b>(115)</b>	<b>52,624</b>

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)**  
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**For the year ended 31 December 2005**

**33 Explanation of transition to Australian equivalents to IFRSs (AIFRS) (Continued)**

**(b) At the end of the last reporting period under previous AGAAP: 31 December 2004**

	Note	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<b>Assets</b>				
Cash and liquid assets		12,536		12,536
Due from other financial institutions		131,866		131,866
Loans and advances		397,392		397,392
Plant and equipment	(d)	4,599	(1,196)	3,403
Intangible assets	(d)	-	1,196	1,196
Other assets	(e)	3,556	(90)	3,466
<b>Total assets</b>		<b>549,949</b>	<b>(90)</b>	<b>549,859</b>
<b>Liabilities</b>				
Due to other financial institutions		77,548		77,548
Deposits		401,405		401,405
Provisions		333		333
Other liabilities	(e)	5,913	62	5,975
<b>Total liabilities</b>		<b>485,199</b>	<b>62</b>	<b>485,261</b>
<b>Net assets</b>		<b>64,750</b>	<b>(152)</b>	<b>64,598</b>
<b>Equity</b>				
Contributed equity		70,000		70,000
Accumulated losses	(f)	(5,250)	(152)	(5,402)
<b>Total equity</b>		<b>64,750</b>	<b>(152)</b>	<b>64,598</b>

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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 2005**

**33 Explanation of transition to Australian equivalents to IFRSs (AIFRS) (Continued)**

**(c) Adjustment on transition to AASB 132 and AASB 139 as at 1 January 2005**

	Note	AIFRS 31 December 2004 \$'000	Adjustment on adoption of AASB 132 & 139 \$'000	AIFRS 1 January 2005 \$'000
<b>Assets</b>				
Cash and liquid assets		12,536		12,536
Due from other financial institutions	(a)	131,866	(119,835)	12,031
Investments held to maturity	(a)	-	119,835	119,835
Loans and advances	(b)	397,392	1,953	399,345
Derivative assets	(c)	-	-	-
Plant and equipment		3,403		3,403
Intangible assets		1,196		1,196
Other assets		3,466		3,466
<b>Total assets</b>		<b>549,859</b>	<b>1,953</b>	<b>551,812</b>
<b>Liabilities</b>				
Due to other financial institutions		77,548		77,548
Deposits		401,405		401,405
Derivative liabilities	(c)	-	12	12
Provisions		333		333
Other liabilities		5,975		5,975
<b>Total liabilities</b>		<b>485,261</b>	<b>12</b>	<b>485,273</b>
<b>Net assets</b>		<b>64,598</b>	<b>1,941</b>	<b>66,539</b>
<b>Equity</b>				
Contributed equity		70,000		70,000
Accumulated losses	(f)	(5,402)	1,941	(3,461)
<b>Total equity</b>		<b>64,598</b>	<b>1,941</b>	<b>66,539</b>

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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 2005**

33 Explanation of transition to Australian equivalents to IFRSs (AIFRS) (Continued)

<b>(2) Reconciliation of profit for the year ended 31 December 2004</b>				
	<b>Note</b>	<b>Previous AGAAP \$'000</b>	<b>Effect of transition to AIFRS \$'000</b>	<b>AIFRS \$'000</b>
Interest income		31,706		31,706
Interest expense		20,964		20,964
Net interest income		10,742		10,742
Non-interest income		2,293		2,293
<b>Net operating income</b>		<b>13,035</b>		<b>13,035</b>
Operating expenses	(d)	10,223	37	10,260
Impairment losses on financial instruments		801		801
<b>Profit from ordinary activities before income tax</b>		<b>2,011</b>		<b>1,974</b>
Income tax expense		-		-
<b>Profit from ordinary activities after income tax</b>		<b>2,011</b>		<b>1,974</b>

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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 2005**

**33 Explanation of transition to Australian equivalents to IFRSs (AIFRS) (Continued)**

**(3) Reconciliation of cash flow statement for the year ended 31 December 2004**

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement other than a reclassification from cash and cash equivalents to held to maturity.

**(4) Notes to the reconciliations**

**(a) Investments held to maturity**

In accordance with AASB 132 and AASB 139, bank bills and fixed term deposits have been reclassified from due from financial institutions to investments held to maturity. The financial impact is reflected on transition as at 1 January 2004.

**(b) General provision for doubtful debts**

On application of AASB 139, the recognition of a general provision to cover for unidentified risks inherent in the portfolio, is no longer permissible. On transition, the general provision has been reversed and the financial impact has been reflected against the accumulated losses as at 1 January 2005.

**(c) Derivative financial instruments fair value adjustment**

Derivative financial instruments are measured at their fair value in accordance with AASB132 and AASB 139. Changes in fair value are taken to the income statement. At the date of transition (1 January 2005) changes in the carrying amounts of derivatives are taken to accumulated losses.

**(d) Computer software**

An intangible asset, as defined by AASB 138 *Intangible Assets* is an identifiable non-monetary asset without physical substance. An asset meets the identifiability criteria of an intangible asset if it is separable, or capable of being separated, arises from a contractual or other legal rights and the entity controls the asset or has the power to obtain the future economic benefits flowing from the underlying asset.

Computer software, which has previously recognised under Plant and Equipment meets the above criteria and therefore, has been reclassified to Intangible assets effective from 1 January 2004.

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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 2005**

**33 Explanation of transition to Australian equivalents to IFRSs (AIFRS) (Continued)**

**(e) Lease costs**

AASB 117 *Accounting for Leases* prescribes that all payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Under AGAAP, the Company treated the costs relating to the lease of premises on an accruals basis and recognised operating lease expenses when incurred.

To comply with AASB 117, all payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. In addition, expected make good costs on termination have been capitalised as deferred liabilities and amortised over the remaining life of the asset on a straight line basis.

On transition date of 1 January 2004, an adjustment on has been made to opening accumulated losses.

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**(f) Accumulated Losses**

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The effect of the transition on accumulated losses of the changes set out above are as follows:

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	Note	1 January 2004 \$'000	1 January 2005 \$'000
Australian GAAP accumulated losses		(7,261)	(5,402)
General provision for doubtful debt	(b)	-	1,953
Fair value adjustment for derivative financial instruments	(c)	-	(12)
Lease costs	(e)	(115)	-
AIFRS restated accumulated losses		<b>(7,376)</b>	<b>(3,461)</b>

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**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 6 to 47, are in accordance with the Corporation Act 2001, including:
  - (a) giving a true and fair view of the financial position of the company as at 31 December 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  - (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.
  
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:

  
\_\_\_\_\_  
Kikis N. Lazarides  
Director

  
\_\_\_\_\_  
Michael R. Erotokritos  
Director

Dated at Nicosia this 28<sup>th</sup> day of March 2006.



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

To: the directors of Laiki Bank (Australia) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2005 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

John Teer  
Partner

Sydney

28 March 2005



## Independent audit report to the members of Laiki Bank (Australia) Limited

### *Scope*

We have audited the financial report of Laiki Bank (Australia) Limited ("the Company") for the financial year ended 31 December 2005, consisting of the income statement, statement of changes in equity, balance sheet, statement of cash flows, and the directors' declaration set out on pages 6 to 48. The Company's directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### *Audit opinion*

In our opinion, the financial report of Laiki Bank (Australia) Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's financial position as at 31 December 2005 and of its performance for the financial year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



KPMG

John Teer  
Partner

Sydney

28 March 2005



**Bank of Sydney**

Level 4, 219-223 Castlereagh Street  
Sydney NSW Australia