



Bank of Sydney

Annual Report
2007

CONFIDENTIAL

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
ABN 44 093 488 629
Annual Financial Report
31 December 2007**

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Table of Contents

	Page No.
Corporate Governance Statement	3 - 8
Directors' report	9 - 12
Lead Auditor's Independence Declaration	13
Income Statements	14
Balance Sheets	15
Statement of Cash Flows	16
Statement of Changes in Equity	17
Notes to and forming part of the financial report	18 - 66
Director's declaration	67
Independent Auditor's Report	68

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement
For the year ended 31 December 2007**

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 ensure 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 2007**

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.

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd) Corporate Governance Statement (continued) For the year ended 31 December 2007

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. The Audit Committee has its own charter detailing the manner in which the committee is to 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 2007**

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

- Nikolas T Hatzistergos (Chairman) (attended 5 of 5 meetings),
- Peter Abraam (attended 3 of 5 meetings)
- Panayiotis Kounnis (appointed 26 September 2007) (attended 3 of 3 meetings)
- Petros Petrou (resigned 26 September 2007) (attended 2 of 2 meetings)
- Greg Gav (Alternate) (attended 1 of 1 meeting).

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.

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.

CONFIDENTIAL

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Corporate Governance Statement (continued)
For the year ended 31 December 2007**

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.

Management 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.

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.

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd) Corporate Governance Statement (continued) For the year ended 31 December 2007

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.

CONFIDENTIAL

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Directors' report
For the year ended 31 December 2007**

The directors present their report together with the financial report of the Company for the year ended 31 December 2007 and the audit report thereon.

Directors

The directors of the Company at any time during or since the year ended 31 December 2007 are:

Nicholas Pappas Appointed 26th March 2001
 Appointed as Chairman on 28th August 2006

During the financial year he attended 6 of the 6 directors' meetings held during the time he held office.

Greg Gav Appointed 31st March 2005

During the financial year he attended 6 of the 6 directors' meetings held during the time he held office.

Peter Abraam Appointed 11th September 2002

During the financial year he attended 6 of the 6 directors' meetings held during the time he held office.

Petros G Petrou Appointed 28th August 2006
 Resigned 6th July 2007

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

Michalis Louis Appointed 28th August 2006
 Resigned 11th April 2007

During the financial year he attended 2 of the 2 directors' meetings held during the time he held office.

Nikolas T Hatzistergos Appointed 28th August 2006

During the financial year he attended 5 of the 6 directors' meetings held during the time he held office.

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd) Directors' report (continued) For the year ended 31 December 2007

Christos Stylianides Appointed 25th July 2007

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

Panayiotis Kounnis Appointed 26th September 2007

During the financial year he attended 2 of the 2 directors' meetings held during the time he held office.

Principal activities

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

Results

The net profit of the Company was \$5,198,000 (2006: profit of \$3,882,000). The result included provisions for impairment of loans and advances of \$52,000 (2006: \$3,000).

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 2007, (2006: Nil).

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd) Directors' report (continued) For the year ended 31 December 2007

Review of Operations

At 31 December 2007, the Company's gross loan portfolio was \$695.4m (2006: \$589.5m) and its retail deposits \$696.6m (2006: \$605.9m). This represents an increase of 18% in loans and an increase of 15% in deposits when compared to the balances as at 31 December 2006. The Company had 129 employees at 31 December 2007 (2006: 132).

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 auditors' independence declaration is set out on page 13 and forms part of the directors' report for the financial year ended 31 December 2007.

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 2007**

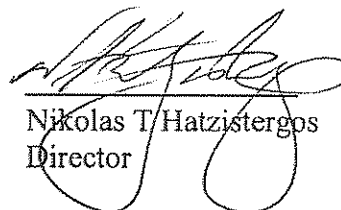
Rounding Off

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
Director



Nikolas T. Hatzistergos
Director

Dated at Sydney this 9th day of April 2008.



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 2007 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

9 April 2008

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Income Statements
For the year ended 31 December 2007

	Note	2007 \$'000	2006 \$'000
Interest income	2	60,392	48,239
Interest expense	4	43,256	32,714
Net interest income		17,136	15,525
Non-interest income	6	4,734	3,906
Net operating income		21,870	19,431
Operating expenses	7	14,453	13,928
Impairment losses on loans and advances	13	52	3
Profit before income tax		7,365	5,500
Income tax expense	8	2,167	1,618
Net profit	25	5,198	3,882

The Income Statements are to be read in conjunction with the notes to and forming part of the financial report set out on pages 18 to 66.

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Balance Sheets
As at 31 December 2007

	Note	2007 \$'000	2006 \$'000
Assets			
Cash and liquid assets	9	21,997	13,646
Due from other financial institutions	10	18,120	1,012
Held to maturity investments	11	54,094	143,685
Loans and advances	12	695,063	589,275
Available for sale investments	14	94,762	-
Derivative assets	15	1,991	1,049
Intangible assets	16	625	520
Plant and equipment	17	4,494	4,304
Deferred tax assets	18	124	386
Other assets	19	2,477	1,267
Total assets		893,747	755,144
Liabilities			
Due to other financial institutions	20	103,573	57,905
Deposits	21	696,607	605,894
Current tax liability		552	1,238
Derivative liabilities	15	-	270
Provisions	22	716	601
Other liabilities	23	3,808	5,725
Total liabilities		805,256	671,633
Net assets		88,491	83,511
Equity			
Contributed equity	24	80,000	80,000
Reserves	26	1,897	1,953
Retained profits	25	6,594	1,558
Total equity		88,491	83,511

The balance sheets are to be read in conjunction with the notes to and forming part of the financial report set out on pages 18 to 66.

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Statements of Cash Flows
For the year ended 31 December 2007

	Note	2007 \$'000	2006 \$'000
Cash flows from operating activities			
Interest and commission receipts		63,914	51,415
Interest payments		(43,256)	(32,714)
Cash payments to employees and suppliers		(13,338)	(12,367)
Income tax paid		(2,591)	(772)
		4,729	5,562
<i>(Increase) / decrease in operating assets</i>			
Investment held to maturity		89,591	(25,125)
Loans and advances		(105,839)	(99,464)
Available for sale investments		(94,979)	-
Other assets		(1,282)	(111)
<i>Increase / (decrease) in operating liabilities</i>			
Due to other financial institutions		45,668	(7,951)
Deposits		90,713	101,049
Other liabilities		(1,910)	1,852
Net cash used in operating activities	37(b)	26,691	(24,188)
Cash flows from investing activities			
Payments for intangible assets		(255)	(323)
Payments for plant & equipment		(977)	(957)
Proceeds on disposal of plant and equipment		-	25
Net cash used in investing activities		(1,232)	(1,255)
Cash flows from financing activities			
Proceeds from issue of shares		-	10,000
Net cash provided by financing activities		-	10,000
Net increase in cash held		25,459	(15,443)
Cash at the beginning of the financial year		14,658	30,101
Cash at the end of the financial year	37(a)	40,117	14,658

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial report set out on pages 18 to 66.

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Statements of Changes in Equity
For the year ended 31 December 2007

	Note	2007 \$'000	2006 \$'000
Equity reconciliations			
Contributed equity			
Opening balance		80,000	70,000
Shares issued during the year		-	10,000
Closing balance		80,000	80,000
Retained profit / (accumulated losses)			
Opening balance		1,558	(371)
Net profit after income tax		5,198	3,882
Amount transferred to General Reserve for Credit Losses		(162)	(1,953)
Closing balance		6,594	1,558
Reserves			
General Reserve for Credit Losses	26	2,115	1,953
Available for sale reserve	26	(218)	-
		1,897	1,953

The statements 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 18 to 66.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report
For the year ended 31 December 2007**

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 9th April 2008.

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 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 historical 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.

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 2007**

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

During the period, the Company has adopted AASB 7 Financial Instruments: Disclosures, and a complementary amendment to AASB 101 Presentation of Financial Statements - Capital Disclosures. This has impacted the type and amount of disclosures in these financial statements, however has had no impact on the reported profits or the financial position of the Company. Comparative information has also been provided.

(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.

(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.

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 2007**

1 Summary of significant accounting policies (continued)

(f) Due from other financial institutions

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

(g) Financial Instruments

The Company is a financial institution that offers an extensive range of financial instruments. 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.

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).

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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 2007**

1 Summary of significant accounting policies (continued)

(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.

(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. 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, Note 1(j).

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 2007**

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 of a group of these 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 help to maturity investments carried at amortised costs 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 2007**

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. As the Company has not utilised hedge accounting all derivatives are recognised at fair value through profit or loss.

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.

(l) 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.

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 2007

1 Summary of significant accounting policies (continued)

(l) Intangible Assets (continued)

The amortisation rates used are as follows:

2007	2006
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.

(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:

	2007	2006
Plant and equipment		
Leasehold improvements	10%	10%
Plant and equipment	10%	10%
Furniture and fittings	10%	10%
Computer hardware	20%	20%

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 2007

1 Summary of significant accounting policies (continued)

(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.

(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.

**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 2007**

1 Summary of significant accounting policies (continued)

(p) Income Tax (continued)

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

(q) Leases

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

(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.

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 2007

1 Summary of significant accounting policies (continued)

(r) Employee entitlements (continued)

(iii) Superannuation plan

The Company contributes to a defined contribution superannuation plan. Contributions to the fund during the period were \$636,320 (2006: \$501,846).

(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.

(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 31 December 2007 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:

- AASB101 *Presentation of Financial Statements* – impacts classification and content of the financial statements, including the presentation of a statement of comprehensive income.
- AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB101* – amends numerous standards arising from the application of AASB101.

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 2007

	2007 \$'000	2006 \$'000
2 Interest income		
Cash and liquid assets	812	793
Due from other financial institutions	845	551
Held to maturity investments - banks	5,703	6,981
Held to maturity investments – related party	860	610
Available for sale investments	2,829	-
Loans and advances	49,343	39,304
	<u>60,392</u>	<u>48,239</u>

3 Average assets and interest income

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

	2007			2006		
	Average Balance \$'000	Interest \$'000	Average Rate %	Average Balance \$' 000	Interest \$' 000	Average Rate %
Cash held with central bank	16,908	812	4.80%	16,947	793	4.68%
Due from other financial institutions	14,460	845	5.84%	8,839	551	6.23%
Investments held to maturity	101,819	6,563	6.45%	131,315	7,479	5.70%
Available for sale investments	44,306	2,829	6.39%	-	-	-
Loans and advances	643,678	49,343	7.67%	543,772	39,416	7.25%
	<u>821,171</u>	<u>60,392</u>	<u>7.35%</u>	<u>700,873</u>	<u>48,239</u>	<u>6.88%</u>

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 2007

	2007	2006
	\$'000	\$'000
4 Interest expense		
Due to other financial institutions - banks	851	58
Due to other financial institutions – related party	4,876	3,502
Deposits	37,529	29,154
	<u>43,256</u>	<u>32,714</u>

5 Average liabilities and interest expense

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

	2007			2006		
	Average Balance \$' 000	Interest \$' 000	Average Rate %	Average Balance \$' 000	Interest \$' 000	Average Rate %
Clients' deposits	649,538	37,529	5.78%	559,009	29,154	5.22%
Local financial institution deposits	12,587	795	6.32%	-	-	-
Overseas financial institution deposits	71,565	4,932	6.89%	56,743	3,560	6.27%
	<u>733,690</u>	<u>43,256</u>	<u>5.90%</u>	<u>615,752</u>	<u>32,714</u>	<u>5.31%</u>

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 2007

	2007	2006
	\$'000	\$'000
6 Non-interest income		
Fees and commission income	2,507	2,359
Net foreign exchange gain	1,015	816
Unrealised gain/(loss) on derivatives	1,212	731
	<u>4,734</u>	<u>3,906</u>
7 Operating expenses		
Staff expenses	8,293	7,802
Computer expenses	1,355	1,257
Marketing expenses	534	638
Occupancy costs	1,596	1,316
Printing, stationary and postage	311	315
Telephone expenses	186	171
Depreciation of property and equipment	784	702
Amortisation of intangibles	150	468
Loss on disposal of plant and equipment	1	25
Other operating expenses	1,243	1,234
	<u>14,453</u>	<u>13,928</u>

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 2007

	2007	2006
	\$'000	\$'000
8 Taxation		
(a) Income tax expense		
Current tax expense		
Current period	1,945	1,746
Adjustment for prior period	(41)	-
	<u>1,904</u>	<u>1,746</u>
Deferred tax expense		
Origination and reversal of temporary differences	268	(128)
Adjustment for prior period	(5)	-
	<u>263</u>	<u>(128)</u>
Total income tax expense	<u>2,167</u>	<u>1,618</u>
(b) Reconciliation between tax expense and pre-tax net profit		
Profit before tax	7,365	5,500
Income tax using the Company's tax rate of 30%	2,209	1,650
Non deductible expenses	4	13
Increase / (Decrease) in income tax due to:		
Prior period overprovision	(46)	-
Other Items	-	(45)
Income tax expense	<u>2,167</u>	<u>1,618</u>

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 2007

	2007	2006
	\$'000	\$'000
9 Cash and liquid assets		
Cash at bank	19,735	1,744
Cash held with central bank	2,262	11,902
	<u>21,997</u>	<u>13,646</u>
10 Due from other financial institutions		
Australia	15,669	723
Related parties	2,301	175
Other	150	114
	<u>18,120</u>	<u>1,012</u>
Maturity analysis		
At Call	18,120	1,012
	<u>18,120</u>	<u>1,012</u>
11 Investments held to maturity		
Bank Bills	32,221	126,893
Fixed term deposits - related parties	19,056	16,792
Fixed term deposits – local banks	2,817	-
	<u>54,094</u>	<u>143,685</u>
Maturity analysis		
Up to 1 month	20,375	55,499
1 to 3 months	14,728	49,204
3 to 12 months	18,991	38,982
	<u>54,094</u>	<u>143,685</u>

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 2007

	Note	2007 \$'000	2006 \$'000
12	Loans and advances		
	Loans and advances	639,276	537,366
	Overdrafts	56,092	52,167
	Gross loans and advances	695,368	589,533
	Less -		
	Specific provision	13 (305)	(258)
		(305)	(258)
	Net loans and advances	695,063	589,275
	Maturity analysis (excluding provisions)		
	Overdrafts	55,660	51,793
	Up to 1 month	11,114	28,975
	1 to 3 months	15,592	6,159
	3 to 12 months	27,391	18,924
	12 months to 5 years	156,452	113,795
	Over 5 years	429,159	369,887
		695,368	589,533

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 2007

	2007	2006
	\$'000	\$'000
13 Provision for impairment		
(a) Specific provisions		
Opening balance	258	308
Write off against provision	(5)	(53)
Recoveries	(223)	(108)
Charge to income statement	275	111
Closing balance	305	258
Total specific provision	305	258

(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 year-end.
- “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.

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 2007

13 Provision for impairment (continued)

(b) Impaired assets (continued)

- “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:

	2007 \$'000	2006 \$'000
	Loans and advances to customers	Loans and advances to customers
Past due but not impaired	43,681	80,976
Impaired	1,472	2,449
Gross	45,153	83,425
Less: Specific provision	(305)	(258)
Net	44,848	83,167

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 2007

	2007	2006
	\$'000	\$'000
14 Available for sale investments		
Bank Bills	41,449	-
Floating Rate Notes	53,313	-
	<u>94,762</u>	<u>-</u>
Up to 1 month	4,916	-
1 to 3 months	26,470	-
3 to 12 months	12,063	-
12 months to 5 years	51,313	-
	<u>94,762</u>	<u>-</u>

15 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.

	2007	2006
	\$'000	\$'000
Assets		
Interest rate swaps	1,933	1,049
Foreign currency forwards	58	-
	<u>1,991</u>	<u>1,049</u>
Liabilities		
Foreign currency forwards	-	270
	<u>-</u>	<u>270</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 obligation. All counterparties of swap agreements entered into are within the Laiki Bank Group and Australian Banks.

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 2007

	2007	2006
	\$'000	\$'000
16 Intangible assets		
Computer software		
At cost	3,661	3,406
Less: Accumulated amortisation	(3,036)	(2,886)
	<u>625</u>	<u>520</u>
Opening balance	520	666
Additions	255	322
Amortisation expense	(150)	(468)
Net book value	<u>625</u>	<u>520</u>
17 Plant and equipment		
Plant and equipment		
At cost	3,415	2,991
Less: Accumulated depreciation	(1,938)	(1,676)
	<u>1,477</u>	<u>1,315</u>
Leasehold		
At cost	4,856	4,313
Less: Accumulated depreciation	(1,839)	(1,324)
	<u>3,017</u>	<u>2,989</u>
Net book value	<u>4,494</u>	<u>4,304</u>

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 2007

17 Plant and equipment (continued)

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

	2007 \$'000	2006 \$'000
Plant and equipment at cost		
Opening balance	1,315	1,344
Additions	440	306
Net book value of assets disposed during the year	(9)	(25)
Depreciation expense	(269)	(310)
	<u>1,477</u>	<u>1,315</u>
Leasehold at cost		
Opening balance	2,989	2,740
Additions	543	650
Net book value of assets disposed during the year	-	(9)
Depreciation expense	(515)	(392)
	<u>3,017</u>	<u>2,989</u>
	<u>4,494</u>	<u>4,304</u>

18 Deferred tax assets

Deferred income tax assets are attributable to the following items:

Deferred tax assets

Provisions	503	464
Fixed assets	218	147
Unpaid Super contribution	-	13
Total deferred tax asset	<u>721</u>	<u>624</u>

Deferred tax liabilities

Fair value of financial instruments	(597)	(234)
Prepayments	-	(4)
Total deferred tax liabilities	<u>(597)</u>	<u>(238)</u>

Net deferred tax asset

	<u>124</u>	<u>386</u>
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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 2007

	2007	2006
	\$'000	\$'000
19 Other assets		
Interest receivable	1,847	861
Other	630	406
	<u>2,477</u>	<u>1,267</u>
20 Due to other financial institutions		
Australia	14,916	2,000
Overseas		
Foreign currency loan - parent entity	33,368	353
Related parties	55,289	55,552
	<u>103,573</u>	<u>57,905</u>
Maturity analysis		
At call	889	2,451
Up to 1 month	48,072	15,314
1 to 3 month	54,612	40,140
	<u>103,573</u>	<u>57,905</u>
21 Deposits		
Current	53,117	38,777
Savings	40,350	36,266
At call	50,418	51,661
Term	552,722	479,190
	<u>696,607</u>	<u>605,894</u>
Maturity Analysis		
At call	132,483	115,809
Up to 1 month	216,948	208,603
1 to 3 months	217,498	170,956
3 to 12 months	127,333	107,586
12 months to 5 years	2,345	2,940
	<u>696,607</u>	<u>605,894</u>

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 2007

	2007	2006
	\$'000	\$'000
22 Provisions		
Provision for employee entitlements		
Annual leave provision	490	411
Long service leave provision	226	190
	<u>716</u>	<u>601</u>
Number of Employees	<u>129</u>	<u>132</u>
23 Other liabilities		
Interest payable	1,206	1,193
Other	2,602	4,532
	<u>3,808</u>	<u>5,725</u>
24 Contributed equity		
80,000,000 (2006: 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 ("Laiki 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.

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 2007

	2007	2006
	\$'000	\$'000
25 Retained profits/ (accumulated losses)		
Retained profits/(accumulated losses) at beginning of year	1,558	(371)
Net profit after income tax	5,198	3,882
Transfer to general reserve for credit losses	(162)	(1,953)
Retained profits at year-end	<u>6,594</u>	<u>1,558</u>
26 Reserves		
General Reserve for Credit Losses		
Opening Balance	1,953	-
Transfer from retained profits during the year	162	1,953
Closing Balance	<u>2,115</u>	<u>1,953</u>
Available for sale reserve		
Opening Balance	-	-
Transfer to reserves during the year	(218)	-
Closing Balance	<u>(218)</u>	<u>-</u>
Total Reserves	<u>1,897</u>	<u>1,953</u>

27 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.

**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 2007**

27 Financial risk management (continued)

(a) Introduction and overview (continued)

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO) Credit committees, which are responsible for developing and monitoring risk management policies in their specified areas. These committees report regularly to the Board on their activities.

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.

(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 it 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.

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 2007**

27 Financial risk management (continued)

(b) Credit risk (continued)

- The review of the financial analyses, including notes on trends of management and audited accounts.
- Ensure that lending at all times is within the regulations, recommendations and instructions of the Australian Prudential Regulatory Authorities credit policies
- To add recommendations to applications pertaining to new or revised facilities and those raised for periodic reviews, taking account of the trends indicated by the financial analysis.
- 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.

(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 net carrying amounts.

On Balance Sheet Items

	2007 \$'000		2006 \$'000	
	Loans and advances	Impairment provision	Loans and advances	Impairment provision
Grades:				
1.	7,734	-	9,218	-
2.	568,497	-	489,050	-
3.	56,025	-	52,550	-
4.	51,579	-	21,791	-
5.	4,090	-	10,387	-
6.	1,393	-	1,283	-
7.	4,360	-	2,547	-
8.	218	-	-	-
9.	1,472	305	2,707	258
Total	695,368	305	589,533	258

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 2007**

27 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 2007 and 2006, 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.

	2007	2006
	\$000	\$000
Credit risk exposures relating to on-balance sheet:		
Loans and advances to customers:		
Loans to individuals:		
- Housing	293,031	238,302
Loans to corporate entities:		
- Large corporate customers	136,384	114,346
- Small and medium size enterprises (SMEs)	265,648	236,627
Due from other financial institutions	18,120	1,012
Investments held to maturity	54,094	143,685
Available for sale investments	94,762	-
Derivative financial instruments	1,991	1,049
Total	864,030	735,021
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	9,832	8,895
Loan commitments and other credit related liabilities	73,310	103,309
Total	83,142	112,204

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 2007

27 Financial risk management (continued)

(b) Credit risk (continued)

The credit quality of the portfolio of loans and advances that were neither past due nor impair should be assessed by reference to the internal rating system utilised by Laiki Bank Australia.

31 December 2007

Loans and advances to customers

	Individuals (retail customers)		Corporate entities		Loans and advances to banks
	Housing	Large corporate customers	SMEs	Total loans and advances to customers	
Grades:					
1.	4,987	15	2,708	7,710	165,745
2.	236,952	100,968	198,314	536,234	-
3.	18,919	8,484	21,464	48,867	-
4.	7,324	24,006	16,962	48,292	-
5.	2,774	-	432	3,206	-
6.	55	-	1,338	1,393	-
7.	1,600	-	322	1,922	-
Total	272,611	133,473	241,540	647,624	165,745

31 December 2006

Grades:					
1.	6,185	16	435	6,636	142,415
2.	185,950	70,628	178,751	435,329	-
3.	9,459	16,807	14,271	40,537	-
4.	2,738	6,940	3,708	13,386	-
5.	2,301	-	4,039	6,340	-
6.	628	38	368	1,034	-
Total	207,261	94,429	201,572	503,262	142,415

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 2007

27 **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 are presented in the table below.

31 December 2007

	Individuals (retail customers)	Corporate Entities		Total
		Large corporate customers	SMEs	
Past due up to 30 days	12,409	537	22,019	34,965
Past due 30- 60 days	3,158	2,372	1,240	6,770
Past due 60 - 90 days	914	-	-	914
Past due more than 90 days	522	-	508	1,030
Total	17,003	2,909	23,767	43,679

31 December 2006

	Individuals (retail customers)	Corporate entities		Total
		Large corporate customers	SMEs	
Past due up to 30 days	21,017	16,283	29,477	66,777
Past due 30- 60 days	2,532	-	3,426	5,958
Past due 60 - 90 days	102	-	220	322
Past due more than 90 days	2,593	3,635	1,691	7,919
Total	26,244	19,918	34,814	80,976

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 2007

27 **Financial risk management (continued)**

(b) Credit risk (continued)

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the subsidiary as security, is presented in the table below.

	2007 \$000	Fair Value of Collateral	2006 \$000	Fair Value of Collateral
Individual (retail customers)	1,215	1,311	2,468	2,740
Corporate Entities				
- SMEs	257	-	239	24
Total	1,472	1,311	2,707	2,764

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

Industry type	2007 \$000				2006 \$000			
	Corporate Entities			Total	Corporate Entities			Total
	Individuals (Retail Customers)	Large Corporate Entities	SMEs		Individuals (Retail Customers)	Large Corporate Entities	SMEs	
Manufacturing	1,729	4,742	16,932	23,403	1,114	941	18,308	20,363
Tourism	3,088	18,131	14,089	35,308	5,777	190	8,553	14,520
Domestic Trade	18,396	13,237	47,552	79,185	16,211	18,431	42,587	77,229
Construction	33,330	90,065	121,116	244,511	22,684	80,369	118,827	221,880
Housing	223,838	5,328	39,376	268,542	180,429	8,821	29,652	218,902
Personal	9,804	2,009	9,348	21,161	7,119	-	2,356	9,475
Credit cards	-	-	-	-	-	-	-	-
Professional	2,125	2,871	8,786	13,782	3,356	5,544	9,152	18,052
Other	721	-	8,450	9,171	1,767	-	7,087	8,854
Total	293,031	136,383	265,649	695,063	238,457	114,296	236,522	589,275

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 2007**

27 **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 (2006: 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 2007, based on Standard & Poor's ratings or their equivalent.

	Held to maturity investments \$' 000	Available for sale investments \$' 000	Total \$' 000
31 December 2007			
AA- to AA+	2,817	48,903	51,720
A- to A+	17,743	32,970	50,713
Lower than A-	33,534	12,889	46,423
Total	54,094	94,762	148,856
31 December 2006			
AAA	19,877	-	19,877
AA- to AA+	4,995	-	4,995
A- to A+	69,062	-	69,062
Lower than A-	49,751	-	49,751
Total	143,685	-	143,685

**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 2007**

27 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.

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 2007

27 Financial risk management (continued)

(c) Market risk (continued)

2007	Note	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	
Financial assets							
Cash and liquid Assets	9	19,735	-	-	-	2,262	21,997
Due from other financial institutions	10	18,078	-	-	-	42	18,120
Investment held to maturity	11	-	54,094	-	-	-	54,094
Loans and advances	12	604,041	31,941	55,348	3,733	-	695,063
Available for sale investments	14	-	94,762	-	-	-	94,762
Derivative assets	15	-	-	-	-	1,991	1,991
		641,854	180,797	55,348	3,733	4,295	886,027
Financial liabilities							
Due to other financial institutions	20	-	102,449	-	-	1,124	103,573
Deposits	21	143,299	550,958	2,350	-	-	696,607
		143,299	653,407	2,350	-	1,124	800,180
Interest rate swaps *			83,777	(83,777)			

* Notional principal amounts

Comparative 2006 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 2007

27 Financial risk management (continued)

(c) Market risk (continued)

2006	Note	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	
Financial assets							
Cash and liquid assets	9	11,902	-	-	-	1,744	13,646
Due from other financial institutions	10	1,012	-	-	-	-	1,012
Investments held to maturity	11	-	143,685	-	-	-	143,685
Loans and advances	12	492,933	28,005	64,825	3,253	259	589,275
Derivative assets	15	-	-	-	-	1,049	1,049
		<u>505,847</u>	<u>171,690</u>	<u>64,825</u>	<u>3,253</u>	<u>3,052</u>	<u>748,667</u>
Financial liabilities							
Due to other financial institutions	20	-	55,453	-	-	2,452	57,905
Deposits	21	318,909	284,045	2,940	-	-	605,894
Derivative liabilities	15	-	-	-	-	270	270
		<u>318,909</u>	<u>339,498</u>	<u>2,940</u>	<u>-</u>	<u>2,722</u>	<u>664,069</u>
Interest rate swaps *			78,790	(78,790)			

* Notional principal amounts

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 2007

27 **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 2007</u>	CYP	EUR	USD	STG	AUD	OTHER	TOTAL
\$'000						CURR	
Cash and liquid assets	51	353	57	68	21,468		21,997
Due from other financial institutions	-	2,301	109	-	15,668	42	18,120
Held to maturity investments	-	8,254	10,957	2,662	32,221	-	54,094
Available for sale investments	-	-	-	-	94,762	-	94,762
Derivative assets	-	-	-	-	1,991	-	1,991
Loans and advances	-	-	-	-	695,063	-	695,063
Deferred tax assets	-	-	-	-	124	-	124
Plant and Equipment	-	-	-	-	4,494	-	4,494
Intangible assets	-	-	-	-	625	-	625
Other assets	-	-	-	-	2,477	-	2,477
Total assets	51	10,908	11,123	2,730	868,893	42	893,747
Due to group companies	62	-	-	3	103,508	-	103,573
Deposits	-	9,824	11,360	2,662	672,761	-	696,607
Current tax liability	-	-	-	-	552	-	552
Derivative liabilities	-	-	-	-	-	-	-
Provisions	-	-	-	-	716	-	716
Other liabilities	-	-	-	-	3,808	-	3,808
Total liabilities	62	9,824	11,360	2,665	781,345	-	805,256
Shareholders' equity	-	-	-	-	88,491	-	88,491
Total liabilities and shareholders' equity	(62)	(9,824)	(11,360)	(2,665)	(869,836)	-	(893,747)
Net on-balance sheet position	(11)	1,084	(237)	65	(943)	42	-

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 2007

27 **Financial risk management (continued)**

(c) **Market risk (continued)**

(iii) **Foreign Exchange Risk (continued)**

<u>31 December 2006</u>	CYP	EUR	USD	STG	AUD	OTHER CURR	TOTAL
Cash and liquid assets	107	275	45	6	13,213	-	13,646
Due from other financial institutions	114	-	110	62	722	4	1,012
Held to maturity investments	995	6,059	6,069	3,669	126,893	-	143,685
Available for sale investments	-	-	-	-	-	-	-
Derivative assets	-	-	-	-	1,049	-	1,049
Loans and advances	-	-	-	-	589,275	-	589,275
Deferred tax assets	-	-	-	-	386	-	386
Plant and Equipment	-	-	-	-	4,304	-	4,304
Intangible assets	-	-	-	-	520	-	520
Other assets	-	-	-	-	1,267	-	1,267
Total assets	1,216	6,334	6,224	3,737	737,629	4	755,144
Due to group companies	230	355	-	-	57,320	-	57,905
Deposits	1,087	5,859	6,250	3,664	589,034	-	605,894
Current tax liability	-	-	-	-	1,238	-	1,238
Derivative liabilities	-	-	-	-	270	-	270
Provisions	-	-	-	-	601	-	601
Other liabilities	-	-	-	-	5,725	-	5,725
Total liabilities	1,317	6,214	6,250	3,664	654,188	-	671,633
Loan capital	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	83,511	-	83,511
Total liabilities and shareholders' equity	(1,317)	(6,214)	(6,250)	(3,664)	(737,699)	-	(755,144)
Net on-balance sheet position	(101)	120	(26)	73	(70)	4	-

**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 2007**

27 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 \$350,000 (2006: \$225,000) on profit or loss and the balance sheet.

An increase or decrease in currency exchange rates by 10% is expected to have an approximate impact of \$94,000 (2006: \$7,000) on the profit and loss and balance sheet.

(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 twenty five per cent of total liabilities.

(ii) Minimum liquidity holdings

The Company ensures that the Minimum Liquidity Holdings standard, specified by APRA of 12% of liabilities in high quality assets, 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 2007**

27 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 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.

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 2007

27 Financial risk management (continued)

(d) Liquidity Risk (continued)

31 December 2007

<u>\$'000</u>	Repayable on demand	3 months or less	Over 3 m but less than 1 yr	Over 1 but less than 5 yrs
<i>Non-derivative liabilities</i>				
Due to other financial institutions	-	118,573	-	-
Deposits	132,483	431,729	136,835	2,978
	132,483	550,302	136,835	2,978
Total	132,483	550,302	136,835	2,978

31 December 2006

<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
<i>Non-derivative liabilities</i>				
Due to other financial institutions	-	59,906	-	-
Deposits	115,809	377,371	114,368	4,068
	115,809	437,277	114,368	4,068
<i>Derivative liabilities</i>				
Derivatives held for hedging :				
- Foreign exchange derivatives	-	778	-	-
	-	778	-	-
Total	115,809	438,055	114,368	4,068

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 2007

28 Capital Management

The Company's regulator, Australian Prudential Regulatory 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, currently 13%.

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.

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 2007

28 Capital Management

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

	Note	2007 \$'000	2006 \$'000
Tier 1 Capital			
Ordinary share capital	24	80,000	80,000
Retained profits	25	6,594	1,558
Less Deductions:			
Intangible assets	16	625	520
Deferred tax assets	18	124	386
Total		<u>85,845</u>	<u>80,652</u>
Tier 2 Capital			
General reserve for credit losses	26	2,115	1,953
Total		<u>2,115</u>	<u>1,953</u>
Total regulatory capital		<u>87,960</u>	<u>82,605</u>
Risk weighted assets		604,313	557,966
Capital ratios			
Total regulatory capital as % of risk weighted assets		14.56%	14.80%
Total tier 1 capital as % of risk weighted assets		14.21%	14.45%

**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 2007**

29 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 short term.

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:

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 2007

29 Financial instruments (continued)

	2007		2006	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and liquid assets	21,997	21,997	13,646	13,646
Due from other financial institutions	18,120	18,120	1,012	1,012
Investments held to maturity	54,094	52,887	143,685	141,402
Available for sale investments	94,762	94,762	-	-
Derivative assets	1,991	1,991	1,049	1,049
Loans and advances	695,063	693,796	589,275	588,339
Liabilities				
Due to other financial institutions	103,573	103,573	57,905	57,905
Derivative liabilities	-	-	270	270
Deposits	696,607	689,543	605,894	600,391

	2007	2006
	\$'000	\$'000
30 Commitments for expenditure		
Operating leases		
Future operating lease rentals not provided for and payable:		
Not later than one year	1,077	978
Later than one year but no later than two years	935	880
Later than two years but no later than five years	1,899	1,916
Later than five years	1,333	1,356
	<u>5,244</u>	<u>5,130</u>

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 2007

	2007	2006
	\$	\$
31 Auditors' remuneration		
Amounts received or due and receivable by the Auditors of the Company for:		
Auditing the financial report	120,480	104,800
Taxation services	27,003	23,261
	<u>147,483</u>	<u>128,061</u>

32 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:

	2007	2006
	\$'000	\$'000
	Face value	Face value
Credit related instruments:		
Letters of Guarantee given in the normal course of business	9,832	8,895
Commitments to extend credit	73,310	103,309

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 2007

33 Directors' remuneration

	2007	2006
	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	4	10
\$ 20,000 - \$ 29,999	4	-
	2007	2006
	\$	\$
Total income received, or due and receivable, by all directors of the Company.		
Short term benefits	91,667	67,417
Total benefits	<u>91,667</u>	<u>67,417</u>

34 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 P Abraam
Mr C Stylianides (Appointed 25 July 2007)
Mr P Kounnis (Appointed 26 September 2007)
Mr P G Petrou (Resigned 6 July 2007)
Mr M Louis (Resigned 11 April 2007)

Executives

Mr M Athanasiou (General Manager)
Mr S Pasas (Head of Financial Control)
Mr A Stavrou (Head of Credit and Financial Services)
Mr P Agapiou (Head of Credit) – Resigned 23 February 2007
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 2007**

34 Key management personnel disclosures (continued)

Transactions with key management personnel

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

	2007	2006
	\$	\$
Short term employee benefits	840,273	893,121
Long term benefits	5,270	4,954
Other long term benefits	28,460	26,753
	<hr/>	<hr/>
Total benefits	874,003	924,828
	<hr/>	<hr/>

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

Loans and other transactions to key management personnel

Loans to key management personnel	20,043,000	15,170,731
	<hr/>	<hr/>

For all loans to key management personnel, interest is payable at prevailing market rates and are on normal commercial terms and conditions. These loans are secured by assets.

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:

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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 2007**

Director	Transaction	Note	2007	2006
			\$	\$
Mr Greg Gav	Rental Payments	(i)	<u>368,629</u>	<u>30,642</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.

35 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.

36 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.

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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 2007

37 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:

	2007 \$'000	2006 \$'000
Cash	21,997	13,646
At call deposits	18,120	1,012
Total Cash and cash equivalents	<u>40,117</u>	<u>14,658</u>

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

	2007 \$'000	2006 \$'000
Profit from ordinary activities after income tax	5,198	3,882
Add: non-cash items:		
Depreciation of non-current assets	934	1,172
Increase in provision for doubtful debts	52	3
Increase in provision for employee entitlements	115	162
(Decrease)/Increase in tax provision	(424)	846
Net Increase in prepayments/accruals	65	218
Book profit on sale of plant and equipment	1	9
Increase in derivative financial instruments	(1,212)	(730)
<i>(Increases)/decreases in assets and liabilities:</i>		
Investments held to maturity	89,591	(25,125)
Loans and advances	(105,839)	(99,464)
Available for sale investments	(94,979)	-
Other assets	(1,282)	(111)
Due to other financial institutions	45,668	(7,951)
Deposits	90,713	101,049
Other liabilities	(1,910)	1,852
Net cash used in operating activities	<u>26,691</u>	<u>(24,188)</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 2007**

37 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 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.

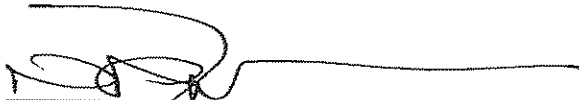
Laiki Bank (Australia) Limited

Directors' declaration

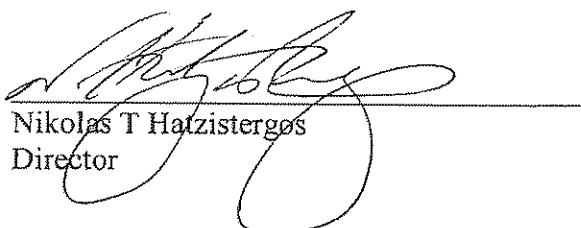
In the opinion of the directors of Laiki Bank (Australia) Limited:

1. The financial statements and notes, set out on pages 14 to 66, 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 2007 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:



Nicholas Pappas
Director



Nikolas T Hatzistergos
Director

Dated at Sydney this 9th day of April 2008.



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 balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 37 and the directors' declaration set out on page 67.

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.

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.



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 2007 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

John Teer
Partner

Sydney

9 April 2008



Bank of Sydney

Level 4, 219-223 Castlereagh Street
Sydney NSW Australia