Bank Leumi (UK) plc
Annual Report
2011

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Bank Leumi (UK) plc

Bank Leumi (UK) plc Board of Directors

As at 31 December 2011

Zvi Itskovitch
Chairman

Lawrence M. Weiss **~
Chief Executive Officer

Collin E. Cumberland **~^

John Daly **~#^^

Robert Glatter *~#^^^

Walter K. Goldsmith *#***

Colin I. Lehmann **~*#***

Yoel Minz ~

Siegfried R. Ramseyer *~#**

Lesley J. Secretan **

Eric H. Senat ***

Gidon S. Suesskind **

^	*Retired from the Board as of 1 February 2012*
^^	*Retired from the Board as of 31 December 2011*
^^^	*Chairman as of 1 January 2012*
*	*Members of the Audit & Remuneration Committee*
**	*Members of the Executive Committee*
***	*Members of the Risk Committee*
~	*Members of the Credit Committee*
#	*Committee Chairman*

Bank Leumi (UK) plc and subsidiaries

As at 28 February 2012

Executive Management

Lawrence M. Weiss
Chief Executive Officer

Lesley J. Secretan
Chief Operating Officer

Simon P. Rothberg
Chief Risk Officer

Senior Management

Jonathan Watson
Chief Corporate Finance Officer

Christopher Barratt
Head of Private Banking

Paul Carroll
Head of Legal and Banking Documentation

David Griffiths
Head of Property Finance

Richard Guillaume
Managing Director Bank Leumi (Jersey) Limited

Paul Hird
Chief Executive Leumi ABL Limited

Paul Minkoff
Financial Controller

Dalia Ophir
Chief Information Officer

Idan Shapira
Head of Israeli Related Business and Media Finance

Robert Sherr
Head of Credit Risk Management

Lin Walling
Head of Human Resources

Company Secretary
Naomi Hillel

Auditors: KPMG Audit Plc, 15 Canada Square, London E14 5GL

Authorised & Regulated by The Financial Services Authority
Bank Leumi (UK) plc registered in England. Registration No.640370.
Registered Office: 20 Stratford Place London W1C 1BG Telephone 020 7907 8000 Facsimile 020 7907 8001

Relationship Banking 'Together we go further'

At Bank Leumi we work to establish a genuine partnership based on mutual trust and cooperation.

One of the largest subsidiaries of the Bank Leumi Group, Bank Leumi (UK) (BLUK) provides a wide range of financial services to UK and International clients. In 2012 the Bank marks its 110th anniversary. Throughout the decades BLUK has continued its focus on the highest standards of customer service and has an established reputation as a true relationship bank, offering a range of banking facilities to both commercial customers and private clients.

As a first class boutique bank, our specialist, experienced teams have expertise in structuring bespoke financing facilities. Where speed is critical, we provide an unbeatable service supported by fast decision making and excellent execution capabilities. We take the time to truly understand our customers' needs, building lasting relationships and taking a proactive approach as their requirements change.

In rapidly changing times BLUK continues to provide consistency and stability – valuable differentiators as customers seek to establish and build a real relationship with a bank that lives up to its promise. We enjoy a high reputation in the marketplace for our expertise in the following products and services:

1. Corporate Finance

Property Finance – Our Property Finance Team has solid technical skills in this highly specialised area and offers a tailored service in all aspects of property finance. Services for both UK and offshore borrowers include investment and development, dealing in commercial and residential property and hotels. We have a preference for shorter term financing and take a flexible approach to meet individual requirements. Within this sector we specialise in funding hotel development and in the construction of care homes and student accommodation.

Commercial Finance - Our experienced team of Relationship Managers is dedicated to providing a first class service to a wide range of commercial and corporate borrowers, particularly those engaged in International Trade.

Commodity Finance - The Commodity Finance Team specialises in the provision of short term transactional finance to physical traders of metals, energy and soft commodities. The team's expertise is based on a deep understanding of the commodities markets and the values that can be applied to the various grades and origins of commodities at given locations worldwide, together with use of the commodity futures markets to protect those prices, where necessary.

Media Finance – Using our specialist industry knowledge, BLUK offers Media Finance to support the growing and varied needs of the entertainment industry. Our Media Finance team is highly experienced in providing short to medium term financing for entities active in film, television production and distribution and music publishing.

Utilising the team's unique experience and expertise within the Media sector, BLUK is involved in syndicated facilities, as well as structuring bespoke bilateral credit facilities for clients. Whilst some transactions involve companies that have a worldwide presence, the Bank is primarily active across the UK, the US, France, Germany and Spain and can offer loan facilities in excess of £5 million to film producers, TV producers, film distributors and music publishers based in these countries.

Israel Business - The combination of our Israeli heritage as a member of the Bank Leumi Group, the longest established bank in Israel, and our well established UK presence and expertise gives us the edge when a deep understanding of the business cultures in both countries is required. Given the appeal of Israel as a trading partner, our multilingual Israeli Business Team has the perfect mix of skills and experience to handle any business opportunity connected with Israel.

Trade Finance - Our Trade Finance Team has a deserved reputation as one of the best global trade finance units in London due to its specialised industry and market knowledge coupled with highly efficient delivery. With all decisions made in London, a fast turnaround can be achieved whenever required. Our services include letters of credit, trade bill discounting, trade debtor finance, financing of credit insured transactions and the provision of bank and performance guarantees.

2. Asset Based Lending, Factoring and Invoice Discounting

Brighton based **Leumi ABL Limited** is the specialist asset based lending subsidiary of BLUK, offering a full range of tailored asset based lending products to growing businesses to improve their working capital. By combining Leumi ABL's invoice finance, stock finance and plant and machinery facilities with the tailored solutions from BLUK, clients can very often benefit from higher levels of funding than could be obtained elsewhere. Sales ledger management and bad debt protection are also available.

The combination of Leumi ABL's personal and pragmatic approach, continued focus on excellent client service and the ability to react speedily resulted in them receiving a number of industry awards including "Asset Based Lender of the Year" in the prestigious 2011 ACQ Awards.

3. Private Banking and Wealth Management

Relationship Banking - Our Private Banking Teams provide the comprehensive range of services demanded by today's high net worth clients. We operate from both onshore and offshore locations, enabling us to service UK citizens and non-domiciled residents as well as clients based throughout the world. Our executives speak a wide variety of languages and travel extensively to see clients on their home territory to develop the very best Private Banking relationships.

Our Services - We offer Wealth Management and Fiduciary Services. Our experienced teams of investment advisors provide personal, corporate and trust clients with a full range of services including advisory, execution only and safe custody facilities.

Planning - A carefully thought out investment strategy is essential. We work closely with clients to develop a plan to meet their financial objectives, having regard to their required return and attitude to risk. These factors are carefully assessed and it is only when these are fully understood that a particular strategy is recommended. The client's dedicated manager will regularly review the client's needs as external factors change and will discuss the investment strategy with the client to ensure objectives continue to be met successfully.

Accounts - We provide an extensive choice of money market facilities, deposit and investment accounts together with foreign exchange and securities trading facilities and derivative instruments for hedging purposes. Working closely with our Treasury Department, we are able to offer appropriately structured products to our clients which in many cases can be Capital Guaranteed.

Lending - As part of a Private Banking relationship, we provide lending facilities secured against UK property and investment portfolios to cover a variety of purposes.

International Offices - Where required, we can introduce clients to the most appropriate office of the wider Bank Leumi Group so they can continue to enjoy the benefits of our International Private Banking service and receive the high levels of client service they have come to expect.

4. Jersey Subsidiaries

Our wholly owned subsidiary, **Bank Leumi (Jersey) Limited**, offers a specialist range of offshore banking services to both personal and corporate clients.

As well as fixed term deposit accounts in all major currencies offering attractive interest rates, Bank Leumi (Jersey) provides highly competitive dealing rates in foreign exchange and securities, together with lending and advisory investment management services.

Our services in Jersey are further complemented by **Leumi Overseas Trust Corporation Limited**, which offers a comprehensive range of trust and international company services established and administered in a wide number of recognised jurisdictions.

5. Executive Mortgages

Our innovative Executive Mortgage product is designed to meet the specific needs of high-earning expatriate individuals seeking to buy a home in the UK. Mortgages are interest only, typically for a 5 year term. The mortgage may be domiciled in Jersey or London. We also offer the ability to switch borrowings between various currencies and can recommend the services of a currency manager, if required.

6. Treasury, Foreign Exchange and Money Markets

Our Dealing Room offers services in relation to foreign exchange, money market and derivative products which can be used to hedge against market movements. Direct access to our dealers is available for professional client investors and traders.

For further details of any of our products and services, please visit: www.bankleumi.co.uk

7. Social Responsibility

An integral part of the *Leumi Way*, Bank Leumi's ethical code of conduct, is the Bank's longstanding commitment to playing an active part in the lives of the communities in which it operates.

This goal is primarily achieved by the Bank's extensive involvement in a large number of activities and projects aimed at promoting issues such as social welfare, health, education and culture and arts.

BLUK shares this commitment and over the course of 2011 the Bank has supported the work of a wide range of charitable organisations dedicated to a variety of causes amongst which are child welfare, the fight against cancer and other serious illnesses and supporting the wounded members of the armed forces to name but a few.

In addition to the Bank's involvement on a corporate level, BLUK also encourages fundraising initiatives by members of staff. These have included not only the more 'traditional' physical challenges such as bike rides and marathons but also the more adventurous sky diving experiences.

The Bank has also initiated the Annual Jewish New Year Drawing Competition, which last year was in aid of the Schneider Children's Hospital. With over 300 entries, the competition not only raised funds for the hospital but also increased awareness as to the important work it performs.

For 2012, the Bank is planning the third Leumi (UK) bike ride challenge, which this year will be from Budapest to Vienna. Team Leumi will once again come together to raise funds for two chosen charities, details of which will follow in due course.

As before, corporate social responsibility remains a priority in the eyes of the Bank and it will make every effort to ensure its support throughout 2012 and for the future.

Chairman's Statement

I am pleased to present the Annual Report for 2011 of the Bank Leumi (UK) Group.

Tough economic conditions continued into 2011 as the Greek debt crisis spread quickly to a number of European countries and has now led to real concerns over the wider Eurozone. Concerns of a double dip recession remain as growth in the UK was subdued during 2011, with the fourth quarter showing a small contraction. It is likely that 2012 will continue to pose economic challenges as record low interest rates look set to continue in the medium term and the outlook for global growth remains fragile.

Against this background of continuing economic uncertainty, the Bank has performed well. With the market place for customer deposits remaining highly competitive, the Bank has continued to refresh its product offering to attract longer term deposits and to ensure liquidity ratios remain strong.

The Bank continues to play to its strength of providing true relationship banking, providing tailored solutions to meet customer requirements.

In line with Financial Reporting requirements, the detailed results for the year and a full business, operating and financial review can be found in the Report of the Directors.

Corporate Governance

Both the Board of Directors and Management continue to promote and maintain a sound system of corporate governance in compliance with applicable regulatory requirements, and annual reviews are conducted in all relevant areas.

Highlights of the Year Include:

- **Net profit of £12.1 million, compared with £6.4 million in 2010.**
- **Net interest income held steady in 2011 despite escalating costs of funding in a competitive market for customer deposits.**
- **The balance sheet grew by £35 million to £1,539 million, an increase of 2%.**
- **Customer lending grew by £50 million to £1,304 million, an increase of 4%. The main contributors to this growth were in the areas of trade with Israel, Media Finance, Property and asset-based lending (through our subsidiary Leumi ABL Limited).**
- **Customer deposits fell by £58 million to £985 million, a decrease of 6%. The decrease is attributable largely to one deposit which was withdrawn, as expected during the year due to the customer's business requirements.**
- **Leumi ABL Limited, our asset-based lending subsidiary, receiving a number of industry awards including "Asset Based Lender of the Year" in the prestigious 2011 ACQ Awards.**

Directors, Management and Staff

Sir Bernard Schreier, who had served on the board of Bank Leumi (UK) since April 1987 as a non-executive Director, retired on 2 March 2011. Sir Bernard was Deputy Chairman of the Board as well as Chairman of both the Executive and Credit Committees. An entrepreneur and a mechanical engineer by training, Sir Bernard came to the UK in the 1950's and later set up an open-cast mining and civil engineering company. Under Sir Bernard's leadership this company would grow to become a global player, employing several thousand people around the world. In June 2000 he received a knighthood in recognition of his extensive business achievements. Sir Bernard has brought a wealth of experience and knowledge to his term of office in Bank Leumi (UK), for which I am very grateful. I would like to take this opportunity on behalf of my fellow directors, the management and staff to thank Sir Bernard for his many years of loyal commitment and significant contribution to Bank Leumi (UK). We wish him a well deserved retirement.

I would also like to thank John Daly who, on 31 December 2011, retired from his position as non-executive director on the Board of Bank Leumi (UK) plc, Chairman of the Credit Committee and a member of the Executive Committee. Mr Daly was appointed to the Board in April 1988 and brought with him extensive banking experience which he gleaned from his many years at Barclays Bank. His contribution to Bank Leumi (UK) has been invaluable, with his banking knowledge coming into very good effect on the Bank's Credit Committee. After 24 years of dedicated service and commitment to the activities of the Bank, the Board would like to thank him for his tremendous contribution, and wish him the very best for a long and rewarding retirement

Collin Cumberland also retired from the Board of Directors on 1 February 2012. The Bank has seen substantial growth during the 14 years that Collin has been a member of Executive Management as Head of Commercial and Corporate Banking.

I would also like to thank my fellow Directors for their contribution over the past year. My special thanks are extended to our CEO Mr Larry Weiss for his leadership and enterprise in 2011, as well as to all the management and staff for their efforts and achievements despite the continuing challenging business environment which prevailed during 2011.

Zvi Itskovitch
Chairman of the Board of Directors

Report of the Directors

The Directors present their Report and the Accounts of Bank Leumi (UK) plc and subsidiaries for the year ended 31 December 2011.

Activities

Bank Leumi (UK) plc and its subsidiaries provide lending and related banking services to a wide range of commercial and corporate customers, and offer private clients a comprehensive Private Banking and Wealth Management capability.

The Bank was founded in 1959 and has its Head Office in London. The activity of the Leumi Group in England began in London in 1902 and we will celebrate its 110th anniversary this year.

On the Island of Jersey, Bank Leumi (UK) has a banking subsidiary, Bank Leumi (Jersey) Limited and a trust company, Leumi Overseas Trust Corporation Limited, which is fully owned by Bank Leumi (Jersey) Limited.

A further subsidiary, Leumi ABL Limited, is based in Brighton, and provides asset based finance.

All areas of the Bank place the highest emphasis on first class customer service, putting true relationship banking at the core of all its offerings. This service ethos, in combination with high quality solutions supported by specific product and market expertise, helps to differentiate Bank Leumi (UK) in a very competitive market.

Corporate Finance

In this area, the Bank's principal activities consist of financing property transactions; providing finance and related services to commercial customers engaged in international trade; financing film, television and music production and providing asset based finance.

As an established lender in the **property sector**, finance is provided for transactions in both the UK and Western Europe. The preference is for short term facilities to finance the purchase, development and sale of commercial and residential property for UK and overseas customers.

The Bank has a particular expertise in financing customers engaged in **international trade**, particularly UK importers, international commodity traders and Israeli businesses active in the UK and worldwide.

We have a specialist **media finance** team which allows us to provide short and medium term finance in the fields of television and film production, and music publishing.

Leumi ABL Limited undertakes **asset based lending** via the provision of factoring, invoice discounting, stock and plant and machinery finance to a wide range of businesses, enabling them to raise working capital against the value of their assets. Established in 2006, the company has grown rapidly and is proving to be a valuable addition to the Bank's range of services, increasing the ability to win business in a competitive marketplace.

All of these areas of activity are complemented by an excellent treasury and foreign exchange dealing room.

Private Banking and Wealth Management

During 2011, we continued to broaden both the products we offer and services we provide. We are continually reviewing our products in light of market conditions and in conjunction with our client needs, highlighted by the successful launch of the new Leumi branded debit card in the last quarter of 2011. The business, both in London and through our Jersey offices, continues to look at innovative ways of enhancing the returns available to our clients and ensuring that our offering is focused on providing the best possible solutions. 2012 will prove to be a challenging year as the continuing uncertainty in the global markets affects all our clients, allied to which we are also seeking to ensure that the introduction of the Retail Distribution Review, by 1 January 2013, has minimal impact upon our clients.

Our investment approach has the client at its core and we endeavour to offer tailor-made investment solutions which take in the specific needs, time horizons, and risk appetites of our clients. Our experienced team of investment managers are able to provide the full range of advisory and execution only services, demanded by high net worth clients, either onshore or offshore via our Bank and trust company based in Jersey. Given the continued low interest rate environment we are constantly reviewing and expanding our range of deposits and we continue to provide competitive rates to both existing and new customers of the Bank.

We offer traditional private banking services, investment accounts, foreign exchange and securities trading facilities and derivative instruments for hedging purposes. Our investment managers work closely with our Treasury Department to construct one-off deposit solutions for our clients; these deposits can be capital guaranteed or capital at risk, floored floating rate deposits, 'step-up' deposits or deposits which are linked to indices and currencies.

In addition, and through our dedicated credit team, we are able to offer secured lending facilities, specifically collateralised against investment portfolios and UK property.

General Economic Environment

2011 was a challenging and volatile year for global markets and at first glance it would seem that little has changed as we enter 2012. The Euro has reached another 15 month low against the US Dollar of sub 1.2700 and the Eurozone looks to remain a central focal point. Outside of the single currency the data is starting to look a little better, suggesting a possible two-speed recovery across the world. Global activity in December was at a nine month high, according to the JP Morgan/Markit all industry output index. The same index reported a 27 month low as recently as October 2011, so whilst the more optimistic will hope that October 2011 was the bottom of this economic predicament it may be a little premature to dictate that the trend has changed.

There are huge challenges facing the global economy, not least of all the threat of the China bubble bursting. But it is clear that for all its continuing problems the US economy is improving. America's manufacturing and services sectors grew at their fastest rate for nine months in December. The job situation in the US appears to be improving and recent figures showed that the jobless rate has decreased to 8.3% which is the lowest level since February 2009.

The UK has spent much of 2011 being led by events in the Eurozone. Unemployment remains high with recurring concerns that the UK could be heading for a double dip recession. Whilst there have been some efforts over the last year to boost the economy such as by cutting corporation tax, the UK remains in a precarious position with GDP falling by 0.2% in the last quarter of 2011.

2012 looks like it will be another year with little trend and high volatility. Global growth uncertainties and ongoing sovereign debt concerns in Europe are likely to remain dominant stories for the year ahead.

Interest Rates and Inflation

2011 was another year of all time lows for the UK interest rate market with the Bank of England keeping the base rate at 0.5% throughout the year. With inflation above the 2% target in

Report of the Directors *continued*

December 2010, at 3.7%, general consensus was that the Bank of England would raise rates in January; however the two committee member votes were not enough to move the base rate. By the time inflation hit 4.4% in February and Gross Domestic Product (GDP) forecasts were revised down, markets became increasingly confident that the Bank of England would tighten its monetary policy but more mixed economic data brought about a four way split in Monetary Policy Committee (MPC) voting in February. The market was sure the Bank would raise rates at their May meeting, but it was not to be as GDP for the first quarter was disappointing and there was a small decrease in the Consumer Price Index (CPI) from 4.4% in February to 4% in March. Rates remained on hold due to weakening growth and rising inflation with April's CPI above the target of 2% for the 51st time in the last 60 months. As growth became sluggish and CPI was heading toward the 5% level there was still no intervention but by September the MPC suggested that they may have to consider an additional round of Quantitative Easing (QE). In October the Bank of England had to reconsider their options following news that there was no growth in the UK in the second quarter and a worsening European Debt crisis forced action. The MPC voted for further QE and so increased the Bank of England's asset purchase program from £200 billion to £275 billion. The Chancellor of the Exchequer cut the UK's growth forecast in his Autumn budget, which further reiterated the Bank of England's need to keep rates unchanged in December and pushed the case for more QE in early 2012. There was some relief with regards to inflation with the CPI falling slightly from 5.2% in September to 4.2% in December and inflation is expected to decline steadily through 2012. The market sees no change on interest rates in 2012 unless there is significant economic growth.

The US Federal Reserve again maintained the Fed Funds rate within the range 0-0.25% throughout 2011. Their QE program came to an end in the spring and they have not extended this to QE3 yet.

The European Central Bank (ECB) started the year by keeping rates unchanged at 1%, but in April it raised its rate to 1.25% due to increased inflation. This rate was raised again in July. As 2011 progressed, the European debt crisis started to take hold and the bank was forced to cut rates in November by 25 basis points to 1.25% at the first meeting under new ECB president Mario Draghi. The rate was cut a further 0.25% in December to 1.00% as concern over growth in the Eurozone continued. Whilst the ECB rate has never been below 1%, 2012 could be the time for this to change.

Currencies

2011 was a consistently volatile year for foreign exchange markets. Whilst we did not match the peak in volatility that occurred in 2008, it has been incredibly challenging to pick out trends in what has been a difficult trading year. Patience and risk management have been the watchwords for the year and this looks likely to remain the case as we enter 2012.

The year began with a cautious optimism that things would start to improve and that the worst was behind us in many aspects. However both man-made and natural disasters in the year took their toll.

2011 began with a continuation of the Federal Reserve's second attempt at quantitative easing (otherwise known as QE2). The central bank purchased US$600 billion of securities on the open market, thereby diluting the Dollar which quickly weakened by over 10% relative to other major currencies, but began to rebound when the programme concluded at the end of June. Sterling against the US Dollar had picked up in early January to reach a peak of over 1.6700. However as fears of a double dip recession and Euro woes increased, Sterling was knocked to a year low of around 1.5270 in the third quarter of 2011. A volatile fourth quarter saw a short term rally for GBP/USD followed by a pull back to the year lows in an economic environment where safe haven was the focus.

Oil, like most commodities, benefited from the QE2 dilution of the Dollar. Prices continued their upward swing into May, but soon began a long decline when the global economic recovery faltered. China and other emerging economies began to show a slow down in growth, reflecting the weakening demand from the West. Commodity currencies, like the Australian Dollar, New Zealand Dollar and the Canadian Dollar, fell sharply as a result.

Europe has been the conductor of the foreign exchange orchestra for the last half of the year. Eurozone treaty principles blocked the path to a market acceptable solution to the debt quagmire, but the Euro remained above the US$1.30 level for most of the year. It has only recently come to light that the repatriation of assets by banks and companies to secure survival on the home front had bolstered the currency above analyst expectations. Euro rallied in the first quarter of 2011 from around 1.3200 to 18 month highs of nearly 1.5000. However increasing debt ratios, high bond prices and fear of country default led to EUR/USD closing the year on the low and as we enter 2012 the market seems to have 1.1877 in sight which is the all time low.

Capital Markets

Whilst Central Bank rates remained unchanged, low growth prospects and a flight to safety saw UK Gilt yields tumble. During 2011, the 5-year Gilt Benchmark fell from 2.5% high in February to its all-time current low of 1% and yields in US Treasuries echoed this pattern. Spreads widened between the Eurozone's respective governments' debt to record levels, with the German Bund performing the strongest. This flight to safety was prompted by further weakening in the Spanish and Italian economies and the increasing probability of a Greek default, pushing annual Greek 5 year debt yields from 13% to a Euro-era high of 52%. Gaining traction in 2011 were ultimately well-founded concerns over the core Eurozone countries' ability to drive growth for the region as a whole. As the year progressed, the region's growth forecasts were repeatedly cut as austerity measures and the urgent need to rebalance budgets lowered output. With no respite in sight, Standard & Poor's placed 15 Euro-area sovereigns on negative credit watch in December.

Unlike financial institution's issuance, corporate bond issuance in sterling and dollars was significantly higher than in 2010. Low Treasury rates enabled corporates to borrow cheaper than previously and investors searched for returns higher than Treasuries.

Capital and Liquidity

The Eurozone crisis deepened in 2011 as the PIIGS' (Portugal, Italy, Ireland, Greece and Spain) fiscal problems became daily news. As a result, throughout 2011, regulators have continued to stress the need for banks to raise fresh capital and strengthen their balance sheets. In the cases where banks are unable to raise new capital, regulators have enforced the need to decrease the amount of risk assets on their books. Regulation is becoming increasingly focused on getting banks to increase their capital adequacy ratios in order to avoid another financial crisis.

The Basel III committee introduced new capital rules this year when they increased capital requirements from 4% to 7%. By June 2011 the committee decided to add an extra 2.5% surcharge on top of the 7% requirement for banks that are deemed 'too big to fail'. For some regulators this was still not enough with Switzerland imposing a 19% requirement on UBS and Credit Suisse.

The Financial Services Authority (FSA), which regulates banks in the UK has not taken such strict measures, but did continue to encourage banks to increase their levels of capital and liquidity without a disruption to their lending activities which would be to the detriment of the economy as a whole. They have encouraged UK banks to increase long term funding where possible whilst meanwhile requesting that banks manage their balance sheet more responsibly so as to not increase their effect on an already fragile economy.

During 2011, Bank Leumi (UK) continued to work towards improving its liquidity position by introducing new deposit products to our clients and trying to attract longer term funding, while at the same time growing our asset book.

In 2012, regulators will be looking at tools which will help them mitigate risks in the financial sector in terms of capital and liquidity. These include maximum leverage ratios, more counter-cyclical capital and liquidity buffers. Regulators in the UK are looking to find a balance between increasing bank capital and liquidity whilst still promoting economic growth.

International Trade

Our international trade business is divided between two principal groups of customers – UK importers and distributors, and international traders in commodities. Both groups have been affected by the world-wide economic situation.

Importers rely upon demand from their UK customers, many of whom are in the retail sector and are thus themselves suffering from a significant fall in consumer demand as house prices tumble and job security weakens. Our policy is to support our long standing customers to the fullest extent possible in this difficult climate, offering stability and consistency.

The sharp fluctuations in commodity prices across the board in 2011 have been a challenge for our commodity trading customers. Our policy of dealing with only the top trading companies with strong balance sheets and diverse trading operations has meant that we have been able to provide support where required whilst still maintaining an acceptable risk profile.

We will continue to focus our efforts to deal with well managed and adequately capitalised customers who have experience in their industry.

Asset Based Lending

In the current economic climate, lending secured directly on the assets of a business supplemented by the very tight monitoring and control, which is a feature of this type of finance, can present a more acceptable risk profile than traditional bank lending.

Leumi ABL Limited has now been established for five years and in this relatively short period of time has been recognised as a significant presence within the UK asset based finance market. It is now attracting excellent business within its target middle market niche and has won several national industry awards in the past twelve months. Leumi Invoice Finance – the invoice discounting and factoring division aimed at smaller clients, has progressed well since its establishment in 2010, and this together with the launch of a block discounting facility, has broadened the scope of the company's offering.

The days when such finance was considered a 'lender of last resort' are long gone and we anticipate that Leumi ABL Limited will represent an increasingly significant proportion of our business as we move forward.

UK Property Market

2011 was another good year for our property loan portfolio, which has continued to perform well and shown strong profitability. Last year we forecast that 2011 should see the beginning of a period of sustained recovery for the UK as a whole. However, the well publicised problems of the Eurozone have proved to be a significant negative influence, the effects of which have been clearly felt in the UK. One effect has been that bank lending has continued to be constrained and the liquidity necessary to fuel recovery remains very limited.

On the plus side, our core market of residential development in London and the South East has been relatively strong and there are pockets of resilience throughout the UK which continue to supply opportunities for ourselves and our clients.

Our strategy of supporting our clients over the recent difficult years has strengthened our relationships and resulted in the resolution of a number of potential problems within our loan book. Overall improvement in the market will hasten this process of recovery but we remain cautious for the prospects for 2012. Nevertheless, our performance throughout the recession has been pleasing and, by concentrating on fundamentals and the careful analysis of each new proposal, we believe that we will continue to be successful.

Results

In line with the UK's generally accepted accounting principles, the balance sheet and profit and loss account have been presented in accordance with recent standards issued by the Accounting Standards Board as part of its project for convergence with International Financial Reporting Standards.

Profit and Loss Account

The net profit for the financial year 2011 amounted to £12.1 million compared to £6.4 million in 2010. The net return on capital employed for 2011 amounted to 10.5% compared to 6.1% in 2010.

The results for 2011 include the release of the £4.9 million contingency provision made in 2010 in respect of outstanding litigation, where the Court's decision was in the Bank's favour and a settlement was subsequently reached. Excluding the impact of this provision in both years, pre tax operating profit was £11.6 million in 2011 compared with £13.5 million in 2010. The result reflects a resilient performance in a continuing challenging economic environment.

Impairment losses in 2011 were contained at £3.8 million, compared with £4.2 million in 2010, continuing the improvement seen last year on containing loan losses at reasonable levels in difficult market conditions.

Operating income amounted to £43.0 million compared to £43.7 million in 2010.

Net interest income of £28.2 million was slightly ahead of last year, a commendable performance in the context of very competitive markets where costs of attracting term customer deposits have increased sharply with a resultant squeeze on interest margins. This result has been achieved through increased sophistication of internal transfer pricing techniques to ensure that customer lending is correctly priced in line with the market cost of funding.

Fees and commissions income of £12.2 million was in line with last year, with strong invoice discounting income and securities fees, mitigated by lower guarantee fees and bank charges.

Dealing profits decreased £0.8 million to £2.5 million due to lower margins and a more cautious approach in the light of difficult market conditions.

Administrative expenses increased by £1.4 million to £26.0 million, however 2010 included a one-off curtailment gain of £2.6 million in connection with the Bank's defined benefit pension scheme. Expenses in 2011 include a £0.6 million charge for staff restructuring costs following completion of a review of the Bank's management structure at the end of 2011. Going forward, the management structure will be more efficient and better aligned with the Bank's business model.

Report of the Directors *continued*

The asset based lending subsidiary, Leumi ABL Limited, generated a strong result with operating income higher by 8% on 2010 levels, with both fee and discount income performing strongly. This reflected an increase of 22% in the value of debts purchased during the year. At the same time costs have been maintained at similar levels to 2010, and strong portfolio management led to a reduction in impairment losses.

The Bank's subsidiary Bank Leumi (Jersey) Limited recorded a strong result with net interest income up 29% on last year and operating costs maintained at 2010 levels. Its subsidiary Leumi Overseas Trust Corporation Limited saw trust income fall marginally on 2010 levels.

Efficiency Ratio

An important measure of efficiency is the level of total expenditure compared to the level of total income. This efficiency ratio is calculated as total expenses divided by total income and expressed as a percentage.

The Group's efficiency ratio for 2011 was 64%, compared with 59% in 2010. The increase in 2011 largely reflects the one-off curtailment gain in 2010 in connection with the Bank's defined benefit pension scheme.

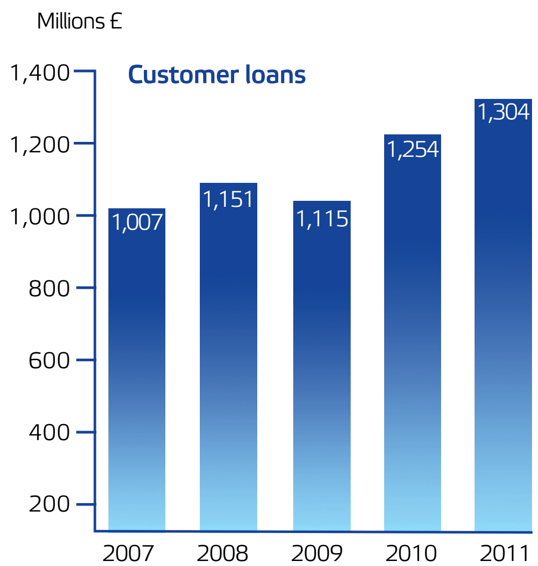
Balance Sheet

Total consolidated assets of Bank Leumi (UK) plc amounted to £1,539 million at the end of 2011 compared to £1,504 million at the end of 2010, a 2% increase.

Balance sheet – Customer Business

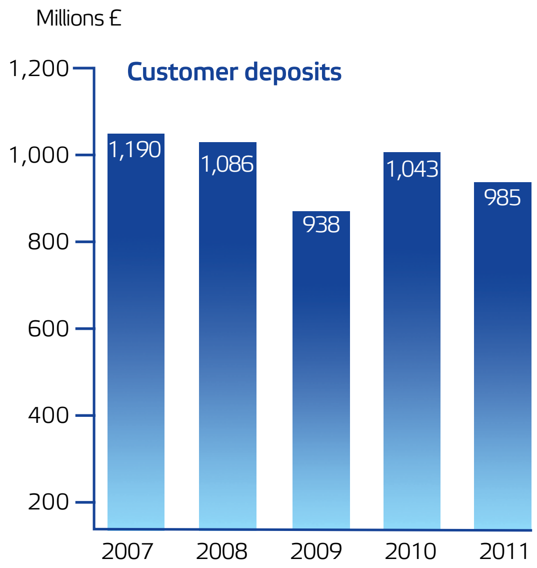
Customer lending increased to £1,304 million compared with £1,254 million the previous year, an increase of £50 million or 4%.

The trend in customer lending over the last five years is reflected in the graph below.



Customer deposits decreased to £985 million compared with £1,043 million the previous year, a decrease of £58 million or 6%. The decrease is attributable to one large deposit held by the Jersey Bank which left during the year, as expected to finance a customer's property development activities.

The trend in customer deposits over the last five years is reflected in the graph below.



Debt Securities

The Bank holds debt securities as part of its liquidity portfolio and also to generate increased interest margins on its excess deposits. Whilst the Bank's securities portfolio decreased overall during the year due to restricted opportunities to earn attractive returns, it did increase the size of its liquid assets buffer in line with requirements under the FSA's new liquidity framework. This buffer is all invested in UK Treasury Bills and debt issued by the European Investment Bank.

Capital

Both Bank Leumi (UK) and Bank Leumi (Jersey) continue to monitor their capital adequacy ratios under Basel II rules on a daily basis to ensure that capital held is always adequate to support the business transacted. For both entities the level of capital held remained in excess of regulatory limits throughout the year.

As part of the FSA's initiative to increase capital held by UK banks, Bank Leumi (UK) agreed with the FSA a level of Capital Planning Buffer to be held as part of the Bank's Pillar II requirements. To support this increased regulatory capital requirement and also to provide for future growth, our parent company, Bank Leumi le-Israel B.M. with the consent of its regulator the Bank of Israel agreed to inject £21 million additional capital into Bank Leumi (UK). This capital was received in early 2012 in the form of equity shares and subordinated debt (see Note 25).

Future Prospects

Each year, Bank Leumi (UK) prepares a three year plan in consultation with its parent company and this is approved by the Board of Directors. The plan for 2012 - 2014 was prepared in late 2011.

Against the background of continuing economic uncertainty in the Eurozone and minimal growth, a conservative approach has been taken in the preparation of the three year plan.

The Bank will continue its successful programme of launching new deposit products to support lending growth and ensure continuing strong levels of liquidity.

As part of our lending philosophy, Bank Leumi (UK) will continue to have a diversified portfolio of lending assets in the following sectors: Property Finance (residential development, hotels, student accommodation and care home development), Media Finance, Commercial Finance, Commodity Finance and Israeli related Finance. Asset based lending through our subsidiary, Leumi ABL Limited, is projected to grow strongly in 2012 with close co-operation on new deals with our Commercial Finance team.

The Bank is committed to growing Private Banking operation as it is an important source of deposits and it generates non-interest income. Bank Leumi (Jersey) and Leumi Overseas Trust Corporation are well placed to continue to grow in the Jersey market.

Through this selective growth and diversification of income streams, the Bank is expected to show solid income growth in 2012. There also remains continued focus on cost and efficiency savings to ensure strong levels of profitability.

Overall, it is the Directors' belief that Bank Leumi (UK) is well placed to deal with the challenges presented by the current environment.

Regulatory Environment

Historically the financial services industry has been governed by the Financial Services and Markets Act 2000, the effect of which empowers the Bank's regulator, the Financial Services Authority, and requires them to issue codes, make and enforce rules and provide guidance. Following the financial crisis, the Financial Services Act 2010 was enacted the principal aim of which is to provide additional powers focused on financial stability. Regulation continues to evolve and remains heavily impacted by the effects of European Directives aimed at creating a single European market for financial services.

Bank Leumi (UK) is conscious of regulatory developments and has clear procedures to keep it abreast of changes to the rules under which it must operate. During the course of 2011 we have continued to develop our systems and controls to comply with the FSA's strengthening of liquidity risk management requirements and the preparation of our Individual Liquidity Adequacy Assessment.

We monitor for changes that will arise from the creation of the Prudential Regulation Authority and the Financial Conduct Authority, and preparations to comply with FSA requirements in relation to the Recovery and Resolution Plans are underway.

The Bank's two Jersey subsidiaries operate under the laws and orders of Jersey, and the codes of practice issued by the States of Jersey Financial Services Commission. Close attention is paid to meeting strengthening regulatory developments as they occur.

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results.

The Bank has established an integrated risk management structure that clearly assigns ownership and management of specific risks to Executive and Senior Management. The Board approves the Group's risk appetite which is set out in detailed policy documentation. Independent Risk Control and Credit Risk Management Departments monitor that risk exposures are maintained within approved parameters and appetites. On an annual basis Risk Control facilitates and reviews risks arising from credit, operational, and market exposures together with regulatory and fraud issues. As part of the identification and review process, key controls are reviewed to ensure continued adequacy.

An "Executive Risk Committee" takes a strategic overview of risk and the risk management process, and formulates and agrees the processes for the control of risk. It also takes responsibility for regulatory risk issues. The Bank has three risk management committees which formulate the relevant strategies and policies for risks emanating from their areas of responsibility.

The three committees are:

Credit Risk Management Committee – responsible for all credit risk matters.

Market Risk Management Committee - responsible for all trading and market related risks and also has responsibility for the interest rate and liquidity risks of the Bank.

Operational Risk Management Committee - responsible for all operational related risks.

The Bank has a Board Risk Committee which is responsible for overseeing regulatory issues raised in these risk committees and for ensuring that all risk issues have considered debate and challenge.

Credit risk is managed by detailed policies and procedures which call for individual assessment of the credit quality of all counterparties, and a separate assessment of the quality of collateral held to mitigate the exposure. A credit grading system has been implemented and each individual rating is independently assessed before being agreed. This system is being upgraded to ensure that objective measures of risk are more focused. Concentration risk is carefully monitored by borrower concentration, industry sector and country. Limits sanctioned by the Board are applied to each of these areas.

The table below shows the value of the various types of eligible collateral held (according to FSA criteria) in order to mitigate the Bank's credit risk and consequently reduce the Bank's capital requirement on its credit risk exposures:

(Figures not audited)

	2011 £000's	2010 £000's
Cash	49,319	40,773
Bank guarantees	40,392	49,733
Securities	67,732	32,098
	157,443	122,604

Market risk is carefully monitored on a daily and weekly basis. Detailed policies have been established and agreed by the Board which set out the parameters of the Bank's proprietary positions and trades and these positions are reported weekly to the Market Risk Management Committee. Interest rate risk is controlled by way of a set of mismatch limits and liquidity is monitored daily and reported weekly with projections formulated covering the next time period. Trading Room activity is monitored independently by the Risk Control Department.

Operational exposures are monitored by way of a loss event reporting process which considers actual and potential losses arising from any operational event. These are regularly reported to the Operational Risk Management Committee. This committee also considers, approves and carefully monitors key operational system developments. A quarterly report is also submitted to the Board Risk Committee.

Management information in relation to risk is submitted via the risk management committees with summaries being provided to the Board, or its specific delegated sub committees.

Note 31 to the Annual Report provides further detail on the specifics of each of these risks faced by the Bank, and the approach it adopts to monitor and manage these risks. One area of recent focus by a number of financial bodies is additional disclosure on loan forbearance. The Bank has considered the recommendations made but concluded that its activities in this area are very limited. Specifically there are no significant credit concerns in the mortgage book, the area of initial focus by the FSA. In addition, arrangements for extending repayment terms or relaxing capital payment schedules are very limited and only apply to loans which are already subject to impairment reviews or demands for repayment. Note 31 to the Annual Report includes additional disclosures for these loans.

Board of Directors

The Directors as at 31 December 2011 are listed on page 1.

Mr Z Itskovitch was appointed as Director and Chairman of the Board on 1 March 2011.

Sir Bernard Schreier retired from the Board as of 2 March 2011.

The Directors retiring in rotation in accordance with the Company's Articles are Mr W Goldsmith, Mr Y Minz and Mr G Suesskind.

Mr W Goldsmith, Mr Y Minz and Mr G Suesskind, all of whom are eligible, offer themselves for re-appointment.

There are no Directors' service contracts in existence for the Directors proposed for re-election.

During the year the Bank provided cover for its Directors and Officers under Directors' and Officers' liability insurance policies.

Statement of Directors' responsibilities in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going-concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to Auditors

The Directors who held office at the date of the approval of the Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware, and each of the Directors has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of the information.

Creditor Payment Policy

The Bank's policy is to agree terms of payment with suppliers and these normally provide for payment within 30 days after the date of the invoice except where other arrangements have been negotiated. It is the policy of the Bank to abide by the agreed terms of payment provided the supplier performs according to the terms of the contract.

At 31 December 2011 the amount owed to trade creditors as a proportion of the amount invoiced by suppliers during the year was 18 days (2010: 16).

Share Ownership

As at 31 December 2011 Bank Leumi le-Israel B.M. Group held 99.80% of the issued share capital.

Employees

The average number of persons employed by the Group (including contract staff) in each week during the year was 197 (2010: 196) and the aggregate remuneration paid to all such persons amounted to £12,927,000 (2010: £12,842,000).

Charitable and Political Donations

Charitable donations during the year amounted to £14,676 (2010: £29,272). There were no political donations.

Auditors

KPMG Audit Plc have indicated their willingness to continue in office and a resolution to reappoint them, and to authorise the Directors to determine their remuneration will be submitted to the forthcoming Annual General Meeting.

By Order of the Board
Naomi Hillel
Company Secretary
28 February 2012
20, Stratford Place,
London W1C 1BG

Consolidated Profit and Loss Account

for the year ended 31 December 2011

	Notes	2011 £000's	2010 £000's
Interest receivable		45,956	39,048
Less: interest payable		(17,745)	(10,958)
Net interest income	3	28,211	28,090
Fees and commission receivable	4	12,209	12,210
Dealing profits		2,496	3,338
Net profit from other financial instruments carried at fair value	5	94	20
Operating income		43,010	43,658
Administrative expenses	6	(26,035)	(24,621)
Depreciation of fixed assets	19	(1,485)	(1,255)
Amortisation of goodwill	11	(130)	(77)
Operating profit before provisions		15,360	17,705
Net impairment losses	16	(3,799)	(4,194)
Provision for contingent liabilities and commitments	23	4,891	(4,891)
Profit on ordinary activities before Taxation	2	16,452	8,620
Taxation on ordinary activities	9	(4,340)	(2,244)
Profit for the financial year	10	12,112	6,376

All items dealt with in arriving at operating profit for 2011 and 2010 relate to continuing operations.
The notes on pages 14 to 38 form an integral part of the accounts.

Balance Sheet

for the year ended 31 December 2011

		Group		Bank	
Assets	Notes	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Cash and balances at central banks		2	2	2	2
Loans and advances to banks	14	146,630	145,511	145,403	144,390
Loans and advances to customers	15	1,303,643	1,253,979	1,153,746	1,104,475
Debt securities	17	69,644	86,808	62,452	77,501
Shares in group undertakings	18	-	-	18,973	18,973
Intangible fixed assets	11	229	306	-	-
Tangible fixed assets	19	5,568	5,975	5,245	5,621
Financial derivatives	31	9,003	4,538	9,185	4,887
Other assets	20	920	1,463	280	899
Prepayments and accrued income		2,836	3,046	1,852	1,538
Pension asset – net of deferred tax	30	844	2,345	844	2,345
Total assets	13	1,539,319	1,503,973	1,397,982	1,360,631
Liabilities					
Deposits by banks	21	349,960	261,503	349,960	261,503
Customer deposits	22	985,069	1,042,945	856,942	909,852
Financial derivatives	31	5,321	4,844	5,346	4,903
Other liabilities	23	2,481	2,784	1,361	1,643
Accruals and deferred income		5,122	5,591	4,290	5,119
Provision for liabilities and charges	23	-	4,891	-	4,891
Subordinated liabilities:					
Undated loan capital	24	72,636	72,619	72,636	72,619
Called up share capital	25	10,960	10,960	10,960	10,960
Share premium account	26	27,100	27,100	27,100	27,100
Available for sale reserve	26	(805)	(212)	(518)	(160)
Profit and loss account	26	81,475	70,948	69,905	62,201
Equity shareholders' funds	26	118,730	108,796	107,447	100,101
Total liabilities and shareholders' funds	13	1,539,319	1,503,973	1,397,982	1,360,631

The accounts have been approved and signed on behalf of the Board by:

Zvi Itskovitch, Chairman.
Walter K.Goldsmith, Director and Chairman of the Audit & Remuneration Committee.
Lawrence M.Weiss, Chief Executive Officer.
28 February 2012

Memorandum Items

	Notes	Group 2011 £000's	Group 2010 £000's	Bank 2011 £000's	Bank 2010 £000's
Contingent liabilities					
Acceptances and endorsements		2,773	1,945	2,773	1,945
Guarantees		76,263	110,165	73,513	107,778
Other contingent liabilities		31,901	19,068	31,901	19,068
	27	110,937	131,178	108,187	128,791
Commitments					
Lending commitments	27	445,875	306,417	476,676	303,526

Statement of Total Recognised Gains and Losses

	Notes	Group 2011 £000's	Group 2010 £000's	Bank 2011 £000's	Bank 2010 £000's
Profit for the financial year		12,112	6,376	9,289	4,246
Actuarial (loss)/profit recognised in the Pension scheme	30	(2,241)	2,351	(2,241)	2,351
Deferred tax arising on losses in the Pension scheme	20	656	(658)	656	(658)
Available for sale investments					
-Valuation losses taken to equity		(748)	(420)	(487)	(410)
-Tax on items taken directly to equity		155	116	129	115
Total recognised gains Recognised since 31 December 2010		9,934	7,765	7,346	5,644

The notes on pages 14 to 38 form an integral part of the accounts.

Notes to the Accounts

1. Accounting Policies

a. Basis of Accounting

The accounts have been prepared in accordance with UK Generally Accepted Accounting Practice.

The accounts are prepared on a going concern basis. This reflects the underlying strength of the Bank and its subsidiary undertakings, with capital and liquidity ratios significantly in excess of minimum regulatory limits. It also reflects the strong capital base of the Bank's parent company, Bank Leumi le-Israel B.M, and assurances it has given to the Bank to provide financial support if it were required.

As a consequence of this and the robust risk management framework the Bank has in place, the Directors believe that the Bank is well placed to manage its business risks successfully and reasonably expect it to continue in operational existence for the foreseeable future.

The principal accounting policies applied in the preparation of these consolidated statements are set out below. These policies have been consistently applied for all the years presented unless otherwise stated.

b. Basis of Consolidation

The consolidated accounts include the accounts of the Bank and its subsidiary undertakings made up to 31 December 2011. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

c. Foreign Currency Translation

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Trading profits from dealings in foreign currency securities are recorded in Sterling at the exchange rate prevailing at the end of the month in which they arise and any gains and losses arising are reflected in the profit and loss account.

d. Financial Instruments

Financial assets and financial liabilities are recognised in the balance sheet of the Group and the Bank when the Group and the Bank become a party to the contractual provisions of the instrument.

Loans and advances

Loans and advances are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. This is considered to be a reasonable approximation of fair value.

Impairment allowances

Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. The principal factors influencing whether an asset is considered impaired include adverse loan grading, breaches of formal covenants, adverse movement in the value of collateral, failure to maintain agreed collateral margins and non receipt of financial information requested. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial Liabilities and Equity

Financial liabilities are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. This is considered to be a reasonable approximation of fair value.

Equity instruments issued by the Bank are recorded as the proceeds received, net of direct issue costs.

Investments

Investments in debt securities and equity shares are recognised and derecognised on a trade date where a purchase or sale of an investment is under contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost including transaction costs.

At subsequent reporting dates, debt securities that the Bank has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit and loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments classified as either held-for-trading or available-for-sale are measured at subsequent reporting dates at fair value by reference to published price quotations. Where securities are held-for-trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. For available-for-sale investments designated as fair value through profit and loss, gains and losses arising from changes in fair value are included in net profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Derivative Financial Instruments

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices. The Bank uses foreign exchange forward contracts, interest rate swap contracts, cross-currency swaps, foreign exchange options and similar instruments to hedge these exposures.

In order to reduce the risk of derivative instruments sold to customers, the Bank's policy is to cover all open positions by purchasing matching derivatives in the market. The positive fair values of the purchased derivatives represent a counterparty risk which is monitored regularly and added to the counterparty total exposure.

Derivative financial instruments are initially recognised at fair value and are measured to fair value at subsequent reporting dates by reference to latest market prices. Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise as the Bank does not apply hedge accounting.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in profit or loss.

e. Fixed Assets

Fixed assets are stated in the balance sheet at cost, less depreciation and impairment. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Short leasehold buildings	unexpired period
Computer	3-6 years
Fixtures, fittings and furnishings	5 years

f. Investment in Subsidiary Undertakings

The Bank's investments in subsidiaries are stated at cost less impairment losses.

g. Operating Leases

Rentals payable and receivable under operating leases are accounted for on the straight-line basis over the periods of the leases and are included in Administrative expenses.

h. Pensions

The Bank has 2 sections to its pension provision for employees; (1) A defined benefit scheme, which was closed to new entrants from 1 June 2000, and (2) A defined contribution scheme which was set up for new employees; there is also a separate continuing defined contribution scheme operating within the Jersey subsidiaries.

The Invoice Discounting subsidiary, Leumi ABL Limited, offers eligible employees pension benefits on a defined contribution basis through its participation in the Bank's scheme. The assets of the scheme are held separately from the Bank in an independently administered fund.

(1) Defined Benefit Scheme

The assets of the defined benefit scheme are measured by third party investment managers, and are held separately in trust.

Valuations are prepared by an independent professionally qualified actuary at least triennially. These determine the level of contributions required to fund the benefits set out in the rules of the scheme and allow for the periodic increase of pensions in payment. The regular service cost of providing retirement benefits to employees during the period, together with the cost of any benefits relating to past service is charged to operating profit in the period. Liabilities arising from discretionary pension increases are charged to operating profit in the period that the increases are given. Gains or losses arising on a settlement or curtailment not allowed for in the actuarial assumptions are recognised in operating profit.

A credit representing the expected return on the assets of the retirement benefit pension scheme during the period is included within interest income. This is based on the market value of the assets of the scheme at the start of the financial period. A charge is included within interest income representing the expected increase in the liabilities of the retirement benefit pension scheme during the period. This arises from the liabilities of the scheme being one year closer to payment.

The difference between the market value of the assets and the present value of the accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax. Payments made to the scheme reduce the liability or increase the surplus.

Differences between actual and expected returns on assets during the period are recognised in the statement of total recognised gains and losses in the period, together with differences arising from changes in assumptions.

(2) Defined Contribution Scheme

For the defined contribution scheme the amount charged to operating profit in respect of pension costs is the Group's contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

i. Taxation

The charge for taxation is based on the profit or loss for the year, amended for permanent differences between the treatment of certain items for tax and accounting purposes.

Deferred tax is fully provided (in accordance with FRS 19) on timing differences using tax rates which are expected to apply on crystallisation of the timing differences. Deferred tax assets are recognised to the extent that recovery is probable.

j. Income Recognition

(1) Interest income

Interest income on financial assets measured at amortised cost or available for sale is calculated using the effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(2) Rendering of services and commissions

(i) Fees that are an integral part of the effective interest rate are deferred and recognised in the effective interest rate. When the financial instrument is measured at fair value, with the change in fair value recognised in profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

(ii) Fees earned as services are provided are recognised as revenue when services of value are provided with reference to the stage of completion.

(iii) Fees earned on the execution of a significant act are recognised as revenue when the significant act is completed.

(3) Dividend Income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

k. Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. Goodwill is capitalised and amortised on a straight line basis through the profit and loss account over its estimated useful life. Goodwill is reviewed for impairment when there are indications that the carrying value may not be recoverable.

l. Cash flow

Under FRS1 the Bank is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Bank in its own published consolidated accounts.

2. Profit on Ordinary Activities before Taxation

	Group	
	2011 £000's	2010 £000's
Profit on ordinary activities before tax is stated after		
(i) Crediting:		
Income from listed investments	844	1,131
Profits less losses on disposal of investment securities	396	714
(ii) Charging :		
Interest incurred with respect to subordinated liabilities	1,833	1,720
Hire of computers and equipment	45	28
Depreciation	1,485	1,256
Rentals paid on premises under operating leases, net of rental income of £100,000 (2010: £117,000)	660	691
Amortisation of goodwill	130	77

	Group	
Auditors' remuneration:	2011 £000's	2010 £000's
Audit of these accounts	157	152
Fees payable to the Company's auditor and its associates for other services:		
Audit of accounts of the Company's subsidiaries, pursuant to legislation	50	48
Audit-related Assurance Services	53	59
Tax Compliance	36	54
Tax Advisory Services	14	4
Other Assurance Services	8	8
Audit fees in respect of the Pension Scheme	4	3
Other services	124	-
Amounts receivable by un-associated auditors in respect of:		
Audit of accounts of the Company's subsidiaries, pursuant to legislation	33	31
Other services	4	75

3. Net Interest Income

	Group		Bank	
Interest Receivable:	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Loans and Advances to Banks	421	708	421	708
Loans and Advances to Customers	43,473	36,734	38,901	32,132
Debt Securities	844	1,131	712	1,003
Other Interest Earning Financial Assets	1,218	475	1,218	475
Total Interest Receivable	45,956	39,048	41,252	34,318
Interest Payable:				
Deposits by Banks	4,200	2,066	4,200	2,096
Customer Deposits	10,160	6,607	9,642	5,363
Subordinated Liabilities	1,833	1,720	1,833	1,720
Other Interest Bearing Financial Liabilities	1,552	565	1,552	565
Total Interest Payable	17,745	10,958	17,227	9,744
Net Interest Income	28,211	28,090	24,025	24,574

4. Fees And Commission Receivable

	Group		Bank	
Fees and Commissions:	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Banking Fees	9,992	10,010	4,343	4,843
Fund Management Fees	1,236	1,181	1,123	1,046
Trust Income	981	1,019	-	-
Total Fees and Commissions	12,209	12,210	5,466	5,889

5. Net profit/(loss) from other financial instruments carried at fair value

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Derivatives	94	20	(24)	(35)
Net profit/(loss)	94	20	(24)	(35)

6. Administrative Expenses

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Wages and salaries	12,927	12,842	9,081	9,087
Restructuring costs	623	117	623	117
Social security costs	1,323	1,133	1,032	1,004
Pension costs	1,101	(1,618)	909	(1,755)
Other administrative expenses	10,061	12,147	7,168	9,243
	26,035	24,621	18,813	17,696

Included in wages and salaries for the Group is £558,000 (2010: 646,000) in respect of share-based payments relating to the subsidiary Leumi ABL Limited. The expense relates to the purchase in 2010 by Bank Leumi (UK) plc of shares in Leumi ABL Limited held by the directors of Leumi ABL Limited. The transaction has been accounted for in accordance with FRS 20 share-based payment transactions and is recognised on a straight line basis over the estimated vesting period.

7. Directors' Emoluments and Loans

	2011 £	2010 £
The aggregate emoluments of the Directors of the Bank were:	1,246,640	1,010,629
Of which:		
Sums paid to Bank Leumi le-Israel B.M. in respect of Directors' fees	42,995	45,570
The highest paid Director	426,543	312,798

The highest paid Director received the above sum in salary and benefits. The Bank paid pension contributions of £Nil in respect of the highest paid Director (2010: £Nil). Pension contributions of £42,800 were paid by the Bank in respect of other Directors (2010: £41,245).

Three Directors left the Bank after 31 December 2010. Payments totalling £149,000 were made to these Directors in connection with their loss of office on retirement.

Loans were made by subsidiary companies to Directors of the Bank within the ordinary course of business and on normal commercial terms. The balance outstanding on these loans at the end of 2011 was £3,059,000 (2010: £1,917,000).

8. Employees

The average number of persons employed by the Group and Bank during the year was made up as follows:

	Group		Bank	
	2011	2010	2011	2010
Managers	66	61	50	45
Clerical Staff	130	133	95	99
Others	1	2	1	2
	197	196	146	146

9. Taxation

(a) Analysis of charge in year	2011 £000's	2010 £000's
UK Corporation Tax on profits of the year	4,020	1,189
Foreign Tax	174	115
Adjustment in respect of prior years	-	(106)
Total current tax	4,194	1,198
Deferred Tax (note 20)		
Timing differences	120	194
Related to Pension surplus	26	852
Tax on profit on ordinary activities	4,340	2,244

(b) Factors affecting tax charge for the period

The tax assessed for the period is lower (2010: lower) than the average rate of Corporation Tax for the year of 26.5% (2010: 28%).

The differences are explained below;	2011 £000's	2010 £000's
Profit on ordinary activities before tax	16,452	8,620
Corporation Tax in the UK at average rate of 26.5% (2010: 28%)	4,360	2,414
Effects of:		
Foreign Tax	(225)	(195)
Depreciation in excess of/(below) capital allowances	104	(7)
Expenses not deductible for tax	64	(793)
Adjustment for Prior Year Tax	-	(106)
Relief for implementation of FRS 26	(109)	(115)
Current Tax charge for period	4,194	1,198

(c) Factors that may affect future tax charges
The Group expects to claim Capital Allowances higher than the depreciation charge, which will reduce the tax charge.

No deferred tax is recognised on the un-remitted earnings of overseas subsidiaries. As the earnings are re-invested overseas no UK tax is expected to be payable on them in the foreseeable future.

10. Group Profit dealt with in the Accounts of Bank Leumi (UK) plc

As permitted by Part 15 Chapter 4 408 (3) of the Companies Act 2006 the profit and loss account for Bank Leumi (UK) plc has not been presented separately and the profit after tax dealt with in the accounts is £9,289,000 compared to £4,246,000 in 2010.

11. Intangible Fixed Assets

Goodwill	Acquisition of Subsidiary £000's
Cost at 1 January 2011	768
Cost at 31 December 2011	768
Amortisation at 1 January 2011	(462)
Amortisation charged in period	(77)
Amortisation at 31 December 2011	(539)
Net Book Value at 31 December 2011	229
Net Book Value at 31 December 2010	306

During the year additional goodwill of £53,000 was expensed directly to the profit and loss account in respect of an acquisition by Leumi ABL limited of a portfolio of clients.

The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises.

Goodwill outstanding relates to the acquisition of Riggs Bank & Trust Company (Channel Islands) Limited in 2005 and is amortised over a period of 10 years.

12. Related Party Transactions

The Bank is 99.80% owned by the parent company, Bank Leumi Le-Israel B.M. which is listed on the Israeli stock exchange and whose consolidated accounts are therefore publicly available. Balances with other entities of the worldwide Leumi Group are shown within the respective notes in the accounts. Profit and loss derived from other entities of the worldwide Leumi Group comprise net interest expense of £6,054,000 (2010: £3,798,000), other income £161,000 (2010:£199,000) and administrative expenses of £43,000 (2010: £16,000).

13. Currency Analysis of Assets and Liabilities

	Group		**Bank**	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Assets				
Denominated in sterling	851,953	803,591	764,358	703,436
Denominated in currencies other than sterling	687,366	700,382	633,624	657,195
Total Assets	1,539,319	1,503,973	1,397,982	1,360,631
Liabilities				
Denominated in sterling	778,439	740,715	692,477	647,972
Denominated in currencies other than sterling	760,880	763,258	705,505	712,659
Total Liabilities	1,539,319	1,503,973	1,397,982	1,360,631

14. Loans and Advances to Banks

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Repayable on demand	13,982	19,689	12,755	18,568
Remaining maturity of other loans and advances				
• 3 months or less	132,648	125,822	132,648	125,822
	146,630	145,511	145,403	144,390

Includes intra-group loans and advances of £5,618,000 (2010:£10,485,000).

15. Loans and Advances to Customers

	Group		Bank	
Analysed by remaining maturity:	2011 £000's	2010 £000's	2011 £000's	2010 £000's
• Over 5 years	971	16,218	971	16,218
• 5 years or less but over 1 year	314,872	324,762	232,258	214,429
• 1 year or less but over 3 months	265,436	329,389	214,112	299,751
• 3 months or less excluding repayable on demand	401,963	280,431	483,881	346,843
• Repayable on demand	343,456	344,010	245,280	265,348
• Impairment allowances (note 16)	(23,055)	(40,831)	(22,756)	(38,114)
	1,303,643	1,253,979	1,153,746	1,104,475
Amounts include:				
Due from subsidiary undertakings			110,589	91,773

	Group		Bank	
Analysed by industrial sector	2011 £000's	2010 £000's	2011 £000's	2010 £000's
(net of specific impairment)				
Property	418,055	444,431	296,156	312,523
Commerce	361,706	332,185	316,849	310,354
Industry	89,604	142,978	34,892	80,136
Other services	203,359	134,512	298,314	215,691
Hotels	111,530	93,796	111,530	93,797
Other	123,147	108,535	99,763	94,432
	1,307,401	1,256,437	1,157,504	1,106,933
Less collective impairment (note 16)	(3,758)	(2,458)	(3,758)	(2,458)
	1,303,643	1,253,979	1,153,746	1,104,475

Of the total amount outstanding to the largest industrial sector, property, £26.0 million (2010: £23.6 million) was covered by cash or bank guarantees.

16. Net impairment losses

	2011 Individual £000's	2011 Collective £000's	2011 Total £000's	2010 Individual £000's	2010 Collective £000's	2010 Total £000's
Group						
At 1 January	38,373	2,458	40,831	40,859	2,502	43,361
Charge against profits (net of recoveries)	2,499	1,300	3,799	4,238	(44)	4,194
Recoveries	110	-	110	21	-	21
Amount written off	(22,622)	-	(22,622)	(5,866)	-	(5,866)
FX Difference	937	-	937	(386)	-	(386)
Other Transfers	-	-	-	(493)	-	(493)
At 31 December	19,297	3,758	23,055	38,373	2,458	40,831

	2011 Individual £000's	2011 Collective £000's	2011 Total £000's	2010 Individual £000's	2010 Collective £000's	2010 Total £000's
Bank						
At 1 January	35,656	2,458	38,114	36,477	2,502	38,979
Charge against profits (net of recoveries)	2,373	1,300	3,673	3,940	(44)	3,896
Recoveries	110	-	110	21	-	21
Amount written off	(20,078)	-	(20,078)	(4,395)	-	(4,395)
FX Difference	937	-	937	(387)	-	(387)
Other Transfers	-	-	-	-	-	-
At 31 December	18,998	3,758	22,756	35,656	2,458	38,114

17. Debt Securities

	Group 2011 £000's	Group 2010 £000's	Bank 2011 £000's	Bank 2010 £000's
Debt securities				
Issued by:				
Government	34,973	46,102	34,973	46,102
Banks & Building Societies	34,671	40,706	27,479	31,399
Total debt securities	69,644	86,808	62,452	77,501
Debt securities				
Due within one year	47,844	45,237	44,130	43,311
Due one year and over	21,800	41,571	18,322	34,190
Total debt securities	69,644	86,808	62,452	77,501

Includes intra-group debt securities for both Bank and Group of £nil (2010: £nil).

The following table presents an analysis by rating agency designation of debt securities based on Moody's ratings or their equivalent.

	Group 2011 £000's	Group 2010 £000's	Bank 2011 £000's	Bank 2010 £000's
Aaa to Aa3	51,928	37,813	51,928	34,009
A1 to A3	15,722	48,995	10,524	43,492
Baa1 to Baa3	1,994	-	-	-
Total	69,644	86,808	62,452	77,501

18. Shares in Group Undertakings

The group undertakings below, all operate in Great Britain and are registered in England (unless otherwise shown).

Name	Activity		% Held
AIB Nominees Limited	Nominee		100%
AIB Trustees Limited	Trustee for the Retirement Benefit Scheme		100%
Leumi ABL Limited	Factoring and Invoice Discounting	++	100%
Bank Leumi (Jersey) Limited (Resident and registered in Jersey)	Banking Services	++	100%
Leumi Overseas Trust Corporation Limited (LOTC) (Resident and registered in Jersey)	Trust and Company Administration	*	
Stanhope Gate Nominees Limited. (Resident and registered in Jersey)	Corporate Nominee	+++	100%
27 Hill Street Nominees Limited (Resident and registered in Jersey)	Corporate Nominee	+++	100%

* Bank Leumi (Jersey) Limited holds 100% of the share capital of Leumi Overseas Trust Corporation Limited.

++ Book value of the investment in Leumi ABL Limited and Bank Leumi (Jersey) Limited are £2,763,519 and £16,209,288 respectively.

+++ Leumi Overseas Trust Corporation Limited holds 100% of the share capital of Stanhope Gate Nominees Limited and 27 Hill Street Nominees Limited.

19. Tangible Fixed Assets

	Leases of less than 50 years unexpired £000's	Computer and other equipment £000's	Total £000's
Group:			
Cost			
At 1 January 2011	4,244	11,903	16,147
Additions	50	1,028	1,078
At 31 December 2011	**4,294**	**12,931**	**17,225**
Accumulated depreciation and amortisation			
At 1 January 2011	1,455	8,717	10,172
Charge for year	312	1,173	1,485
At 31 December 2011	**1,767**	**9,890**	**11,657**
Net book value at 31 December 2011	**2,527**	**3,041**	**5,568**
Net book value at 31 December 2010	2,789	3,186	5,975
Bank:			
Cost			
At 1 January 2011	4,074	10,818	14,892
Additions	45	963	1,008
At 31 December 2011	**4,119**	**11,781**	**15,900**
Accumulated depreciation and amortisation			
At 1 January 2011	1,411	7,860	9,271
Charge for the year	294	1,090	1,384
At 31 December 2011	**1,705**	**8,950**	**10,655**
Net book value at 31 December 2011	**2,414**	**2,831**	**5,245**
Net book value at 31 December 2010	2,663	2,958	5,621

The above leasehold properties are occupied by the Bank for its operations.

20. Other Assets

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Assets awaiting settlement	792	1,215	195	686
Deferred taxation*	128	248	85	213
	920	1,463	280	899
***Deferred Taxation**				
Timing Differences				
At 1 January brought forward				
Capital Allowances	(359)	(289)	(364)	(294)
Empty Premises Provision	-	4	-	4
Collective Provision	420	504	420	504
Effective Interest Rate	174	209	174	209
Available for sale	(8)	(11)	(17)	(21)
Deferred tax arising on consolidation	21	25	-	-
Deferred Tax Asset brought forward	248	442	213	402
Charge to profit (Note 9)	(120)	(194)	(128)	(189)
Deferred Tax Asset carried forward	128	248	85	213

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Timing Differences				
At 31 December carried forward				
Capital Allowances	(327)	(359)	(327)	(364)
Collective Provision	300	420	300	420
Effective Interest Rate	124	174	124	174
Available for sale	(4)	(8)	(12)	(17)
Deferred tax arising on consolidation	35	21	-	-
Deferred Tax Asset carried forward	128	248	85	213
Deferred Tax Liability on Pension Surplus				
At 1 January brought forward	(912)	598	(912)	598
Credit/(Debit) to Statement of Recognised Gains & Losses	656	(658)	656	(658)
Charge to Profit (Note 9)	(26)	(852)	(26)	(852)
At 31 December carried forward (Note 30)	(282)	(912)	(282)	(912)

21. Deposits by Banks

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Repayable on demand	3,688	6,568	3,688	6,568
With agreed maturity dates or periods of notice, by remaining maturity:				
• 1 year or less but over 3 months	345,021	251,524	345,021	251,524
• 3 months or less	1,251	3,411	1,251	3,411
	349,960	261,503	349,960	261,503

Includes intra-group deposits for both Bank and Group of £349,000,000 (2010: £259,547,000).

22. Customer Deposits

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Repayable on demand	350,901	308,764	315,799	270,916
With agreed maturity dates or periods of notice, by remaining maturity:				
• 5 years or less but over 1 year	30,800	72,028	37,631	72,028
• 1 year or less but over 3 months	211,290	232,060	204,720	217,876
• 3 months or less	392,078	430,093	298,792	349,032
	985,069	1,042,945	856,942	909,852
Amounts include:				
Due to subsidiary undertakings			127,369	163,270

Includes intra-group customer deposits for the Bank of £13,166,000 and the Group of £20,703,000 (2010: Bank £13,002,000 and Group £21,404,000).

23. Other Liabilities

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Other Liabilities				
Taxation	998	692	543	97
Social Security payments	431	401	313	298
Liabilities awaiting settlement	1,052	1,691	505	1,248
	2,481	2,784	1,361	1,643

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Provision for liabilities and charges				
Provision for contingent liabilities and commitments	-	4,891	-	4,891

The contingent provision in 2010 related to outstanding litigation in respect of derivative trading losses incurred by one of the Bank's trading counterparties. The Bank was successful in defeating claims made by this counterparty and subsequently released the provision in 2011.

24. Subordinated Liabilities – Group and Bank

	Interest Fixing	2011 £000's	Rate of Interest	2010 £000's	Rate of Interest
Loan note 1 Dated	3 monthly	3,581	1.811%	3,581	1.499%
Loan note 2 Dated	3 monthly	1,250	1.686%	1,250	1.374%
Loan note 3 Dated	3 monthly	30,661	1.561%	30,656	1.249%
Loan note 4 Dated	3 monthly	7,517	1.494%	7,514	1.239%
Loan note 5 Dated	3 monthly	2,521	3.967%	2,519	3.739%
Loan note 6 Perpetual	3 monthly	17,040	5.061%	17,037	4.749%
Loan note 7 Perpetual	3 monthly	5,052	4.967%	5,049	4.739%
Loan note 8 Perpetual	3 monthly	5,014	1.894%	5,013	1.639%
		72,636		72,619	

The dated subordinated loan notes, all of which are issued to the parent company, are callable with a notice period of five years and one day given by either the Bank or the parent company. They can be called at the next interest payment date and after notice is given the redemption will take place following the expiration of five years and one day.

The perpetual subordinated loans have an indefinite maturity period, and any repayment of capital at the option of the Bank can be made at the earliest on the fifth anniversary of the date of drawdown of the loan. Advance notification of one month is required to be given to the Financial Services Authority before commencing repayments.

The rights of the subordinated loan holders are subordinated to the claims of all other creditors of the Bank.

25. Share Capital

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Equity Share Capital				
Authorised share capital: Ord. shares of £1	20,000	20,000	20,000	20,000
Issued share capital: Ord. shares £1 fully paid	10,960	10,960	10,960	10,960

The Issued share capital of Bank Leumi (UK) plc as at 31 December 2011 was £10,960 thousand (2010: £10,960 thousand). All Ordinary shares confer identical rights in respect of capital, dividends, voting and otherwise to holders.

The Group is subject to minimum capital requirements imposed by the Financial Services Authority (FSA), following guidelines developed by the Basel Committee on Banking Supervision and implemented in the UK via European Union Directives. The framework includes a risk-sensitive methodology for the allocation of regulatory capital for Credit Risk and includes a capital adequacy requirement for Operational Risk.

Minimum requirements under FSA's Basel rules are expressed as a ratio of capital resources to risk weighted assets (Solvency Ratio). Risk weighted assets are a function of risk weights applied to the Bank's assets using calculations developed by the Basel Committee on Banking Supervision. Under Basel II, effective from 1 January 2008, the Group has elected to adopt a standardised approach for credit and market risk, and the Basic Indicator Approach for Operational Risk.

Pillar 1 minimum capital requirements under Basel II are risk weighted assets multiplied by 8%, the internationally agreed minimum ratio. Under Pillar 2, the Group is subject to an overall regulatory capital requirement based on individual capital guidance (ICG) received from the FSA. The ICG imposes additional capital requirements in excess of Pillar 1 minimum capital requirements.

The Finance Department calculates on a weekly basis the Bank's Solvency Ratio and compares it against the ICG. An internal limit is also incorporated to ensure that a comfortable margin is maintained at all times to meet growth and sudden variations. The Solvency Ratio remained above the ICG at all times during the year.

25. Share Capital *continued*

The following table is an analysis of those items which comprise the regulatory capital base for the purposes of reporting to the FSA. Disclosure is given for the Solo level and Group, in line with how the Bank reports to the FSA, where the Solo level is the aggregation of the Bank and its subsidiary Leumi ABL Limited.

	Group		Solo Level	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Balance sheet:				
Share Capital	10,960	10,960	10,960	10,960
Share Premium	27,100	27,100	27,100	27,100
Profit & Loss Reserve	81,475	70,948	72,387	62,986
Less: goodwill recognised	(229)	(306)	-	-
Total Tier 1 Capital	119,306	108,702	110,447	101,046
Collective Provision	3,758	2,458	3,758	2,458
Undated subordinated debt	27,000	27,000	27,000	27,000
Total Upper Tier 2 Capital	30,758	29,458	30,758	29,458
Lower Tier 2 Capital – Dated subordinated debt	45,466	45,466	45,466	45,466
Total Tier 2 Capital	76,224	74,924	76,224	74,924
Less: investment in subsidiaries	-	-	(16,209)	(16,209)
Total regulatory capital	195,530	183,626	170,462	159,761

The amounts stated in respect of subordinated debt exclude accrued interest and so differ from those included in Note 24.

The Bank increased its regulatory capital in early 2012 by £21 million. This increase was in the form of £11 million dated subordinated debt issued on 2 February 2012 and £10 million equity share capital issued on 16 February 2012. Both the subordinated debt and equity share capital were issued to the Bank's parent.

26. Reconciliation of Movements in Shareholders' Funds

Group 2011

	Share Capital 2011 £000's	Share Premium Account 2011 £000's	Profit and Loss Account 2011 £000's	Available for Sale Reserve 2011 £000's	Total 2011 £000's
As at 1 January 2011	10,960	27,100	70,948	(212)	108,796
Profit for the year	-	-	12,112	-	12,112
Actuarial loss for the year	-	-	(2,241)	-	(2,241)
Deferred tax relating to pension asset	-	-	656	-	656
Fair value adjustment	-	-	-	(593)	(593)
At the end of the year	10,960	27,100	81,475	(805)	118,730

Bank 2011

	Share Capital 2011 £000's	Share Premium Account 2011 £000's	Profit and Loss Account 2011 £000's	Available for Sale Reserve 2011 £000's	Total 2011 £000's
As at 1 January 2011	10,960	27,100	62,201	(160)	100,101
Profit for the year	-	-	9,289	-	9,289
Actuarial loss for the year	-	-	(2,241)	-	(2,241)
Deferred tax relating to pension asset	-	-	656	-	656
Fair value adjustment	-	-	-	(358)	(358)
At the end of the year	10,960	27,100	69,905	(518)	107,447

26. Reconciliation of Movements in Shareholders' Funds *continued*

Group 2010	Share Capital 2010 £000's	Share Premium Account 2010 £000's	Profit and Loss Account 2010 £000's	Available for Sale Reserve 2010 £000's	Total 2010 £000's
As at 1 January 2010	10,960	27,100	62,879	92	101,031
Profit for the year	-	-	6,376	-	6,376
Actuarial gain for the year	-	-	2,351	-	2,351
Deferred tax relating to pension asset	-	-	(658)	-	(658)
Fair value adjustment	-	-	-	(304)	(304)
At the end of the year	10,960	27,100	70,948	(212)	108,796

Bank 2010	Share Capital 2010 £000's	Share Premium Account 2010 £000's	Profit and Loss Account 2010 £000's	Available for Sale Reserve 2010 £000's	Total 2010 £000's
As at 1 January 2010	10,960	27,100	56,262	135	94,457
Profit for the year	-	-	4,246	-	4,246
Actuarial gain for the year	-	-	2,351	-	2,351
Deferred tax relating to pension asset	-	-	(658)	-	(658)
Fair value adjustment	-	-	-	(295)	(295)
At the end of the year	10,960	27,100	62,201	(160)	100,101

27. Memorandum Items

The table below gives, for the Group, the notional principal amounts, credit equivalent amounts and risk weight of off-balance sheet transactions. The notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk or future liquidity requirements. All amounts can contractually be drawn on demand, although in the case of contingent liabilities the Bank expects the majority of facilities to expire unused, and for lending commitments most loans are provided under facilities which are contractually repayable on demand. The credit equivalent and risk weighted amounts have been calculated in accordance with the Financial Services Authority's guidelines implementing the EC Solvency Directive.

Group	**2011**				2010			
	Notional Principal £000's	Credit equivalent amount £000's	Risk weight %	Risk weighted amount £000's	Notional Principal £000's	Credit equivalent amount £000's	Risk weight %	Risk weighted amount £000's
Contingent Liabilities								
Acceptances	2,773	2,364	100%	2,364	1,945	1,618	100%	1,618
Guarantees	76,263	65,010	100%	65,010	110,165	81,545	100%	81,545
Documentary credits & short term trade related transactions	31,901	29,310	20%	5,862	19,068	17,768	20%	3,554
	110,937	96,685		73,237	131,178	100,931		86,717
Commitments								
Credit Lines and other commitments to lend	445,875	-		-	306,417	-		-

Includes intra-group contingent liabilities of £7,825,000 (2010:£19,522,000).

27. Memorandum Items *continued*

Bank

	2011				2010			
	Notional Principal £000's	Credit equivalent amount £000's	Risk weight %	Risk weighted amount £000's	Notional Principal £000's	Credit equivalent amount £000's	Risk weight %	Risk weighted amount £000's
Contingent Liabilities								
Acceptances	2,773	2,364	100%	2,364	1,945	1,618	100%	1,618
Guarantees	73,513	65,010	100%	65,010	107,778	81,545	100%	81,545
Documentary credits & short term trade related transactions	31,901	29,310	20%	5,862	19,068	17,768	20%	3,554
	108,187	96,685		73,237	128,791	100,931		86,717
Commitments								
Credit Lines and other commitments to lend	476,676	-		-	303,526	-		-

Includes intra-group contingent liabilities of £7,825,000 (2010:£19,522,000).

28. Other Commitments

	2011 £000's	2010 £000's
Capital expenditure contracted for:		
By the Group and Bank	68	98

Lease Commitments

At year end, annual commitments under non-cancellable operating leases were:

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Operating leases which expire				
- within 1 year	2	2	-	-
- 1 to 5 years	50	50	-	-
- over 5 years	859	839	760	745
	911	891	760	745

29. Segmental Analysis

In the opinion of the Directors there is only one class of business and this is conducted entirely from the United Kingdom and Channel Islands.

30. Pension

Pension benefits based on final pensionable salaries are available to the members of Bank Leumi (UK) Retirement Benefits Scheme, which is a defined benefit scheme with assets controlled by a Trustee and held separately from those of the Bank.

With effect from 1 June 2000 the defined benefit scheme was closed to new entrants and a defined contribution section of the scheme was established for all new employees. The pension cost charged to profits and paid was £285,913 (2010: £246,727) which was equivalent to 10% of members' pensionable salaries for the defined contribution section.

With regard to the defined benefit scheme, formal actuarial valuations of the scheme, using the attained age method, are carried out triennially (or more frequently) by a professionally qualified actuary independent of the Bank, the latest being carried out as at 1 January 2011. The Bank's ongoing contribution rate is 15.0%.

For the purposes of FRS17 a qualified independent actuary updated the results of the valuation to 31 December 2011 using the Projected Unit Valuation Method to obtain the figures in this disclosure note.

30. Pension *continued*

The overall return on assets is expected to decrease from an assumption of 6.39% per year to a revised return of 5.9%. This assumption reflects lower growth in equity based on current market positions and long term expected returns, and decreased returns on bonds as yields on corporate bonds have fallen over the year.

	At 31 December 2011 £000's	Expected long term return	At 31 December 2010 £000's	Expected long term return
Equities	13,629	7.00%	14,583	7.25%
Bonds	12,857	4.70%	11,249	5.40%
Other (cash)	(137)	3.50%	528	3.50%
Total market value of assets	26,349		26,360	
Present value of scheme's liabilities	(25,223)		(23,103)	
Surplus in the scheme	1,126		3,257	
Related deferred tax (liability) @ 25% (note 20)	(282)		(912)	
Net Pension asset	844		2,345	

	At 31 December 2011 £000's	As at 31 December 2010 £000's	At 31 December 2009 £000's	As at 31 December 2008 £000's
Total market value of assets	26,349	26,360	22,775	19,703
Present value of scheme's liabilities	(25,223)	(23,103)	(24,911)	(19,211)
Surplus/(Deficit) in the scheme	1,126	3,257	(2,136)	492
Actuarial (losses)/gains				
Scheme's assets	(1,232)	1,736	1,898	(6,215)
Scheme's liabilities	(1,009)	615	(4,692)	4,425
	(2,241)	2,351	(2,794)	(1,790)

The value of the scheme's liabilities has been determined by a qualified actuary based on the results of an actuarial valuation as at 31 December 2011 using the following assumptions:

	At 31 December 2011	At 31 December 2010
Discount rate	5.10%	5.70%
Expected return on scheme assets	5.90%	6.39%
Inflation (RPI)	2.80%	3.30%
Inflation (CPI)	2.10%	2.60%
Rate of increase in salaries	2.50%	2.50%
Rate of revaluation of pensions in deferment	2.10%	2.60%
Increases on pensions in payment in respect of service:		
Before April 1997	n/a	n/a
From April 1997 – June 2005	2.80%	3.30%
From July 2005	2.25%	2.50%
Assumed life expectancy on retirement age 65:		
Retiring today		
Males	22.6 years	22.6 years
Females	25.3 years	25.2 years
Retiring in 20 years		
Males	24.1 years	23.9 years
Females	26.9 years	26.2 years

30. Pension *continued*

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:
Increasing/decreasing the discount rate by 0.1% decreases/increases the scheme liabilities by £0.5 million.
Increasing/decreasing the inflation rate and salary increase rate by 0.1%, increases/decreases the scheme liabilities by £0.2 million.
Increasing life expectancy by allowing for a 75% weighting to the base table and a minimum improvement in mortality rates of 1.25% per annum increases the scheme liabilities by £0.6 million.

Movement in the present value of the scheme's liabilities	Year ended 31 December 2011 £000's	Year ended 31 December 2010 £000's
Liability at 1 January	23,103	24,911
Current service cost	593	588
Member contributions	130	133
Interest costs	1,311	1,420
Benefits paid by the plan	(665)	(543)
Expenses paid by the plan	(258)	(172)
Change due to settlements or curtailments	-	(2,619)
Actuarial losses/(gains)	1,009	(615)
Liability at 31 December	25,223	23,103
Movement in plan assets		
Fair value of assets at 1 January	26,360	22,775
Expected return on plan assets	1,670	1,586
Employer contributions	344	845
Member contributions	130	133
Benefit paid	(665)	(543)
Expenses paid	(258)	(172)
Actuarial (losses)/gains	(1,232)	1,736
Fair value of assets at 31 December	26,349	26,360
Amount charged to Operating Profit		
Current Service Cost	593	588
Gains on settlements or curtailments	-	(2,619)
Total Operating Charge/(Credit) to Administrative Expenses	593	(2,031)
Amount charged returned to interest income		
Expected return on assets	1,670	1,586
Interest on scheme liabilities	(1,311)	(1,420)
Net credit to interest income	359	166
Amount recognised in statement of total recognised gains and losses		
Actual less expected return on assets	(1,232)	1,736
Effect of change in assumptions on liabilities	(1,009)	615
Actuarial (Loss)/Gain recognised in statement of total recognised gains and losses	(2,241)	2,351

31. Financial Instruments

Classes of Financial Instruments

The Bank's main activities are:

Banking Lending, deposit taking and issuing of guarantees to third parties and activities in trade finance.

Investments Purchasing of debt securities.

Trading In derivatives.

Financial instruments, which comprise loans and deposits, debt securities, spot foreign exchange contracts and derivatives are used to reduce risks arising from the Bank's main activities.

Derivatives with customers are traded on a matching basis with banking counterparties to cover all open positions and eliminate market risk. In addition, the Bank sells forward foreign exchange contracts covered by expected future foreign currency income flow.

Debt securities are used to enhance the Bank's liquidity position, and include the Bank's Liquid Assets Buffer of high quality sovereign debt held to meet liquidity risk management requirements set by the Financial Services Authority. In addition, debt securities are held as collateral against lending.

Short term debtors and creditors are included in the disclosure in this note.

Financial asset and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned, and by the measurement basis. The amounts disclosed are in respect of the Group only on the basis that the Bank represents a significant proportion of the Group's balance sheet.

2011 **Assets**	Loans & receivables £000's	Available for sale £000's	Financial liabilities at amortised cost £000's	Derivatives £000's	Total £000's
Cash and balances at central banks	2	-	-	-	2
Loans and advances to banks	146,630	-	-	-	146,630
Loans and advances to customers	1,303,643	-	-	-	1,303,643
Debt securities – other	-	69,644	-	-	69,644
Financial derivatives	-	-	-	9,003	9,003
Total financial assets	1,450,275	69,644	-	9,003	**1,528,922**
Total non-financial assets					10,397
Total assets					**1,539,319**
Liabilities					
Deposits by banks	-	-	349,960	-	349,960
Customers deposits	-	-	985,069	-	985,069
Financial derivatives	-	-	-	5,321	5,321
Subordinated liabilities	-	-	72,636	-	72,636
Total financial liabilities	-	-	1,407,665	5,321	**1,412,986**
Total non-financial liabilities					7,603
Total liabilities					**1,420,589**
Equity shareholders' funds					118,730
Total liabilities and equity					**1,539,319**

31. Financial Instruments *continued*

2010

Assets	Loans & receivables £000's	Available for sale £000's	Financial liabilities at amortised cost £000's	Derivatives £000's	Total £000's
Cash and balances at central banks	2	-	-	-	2
Loans and advances to banks	145,511	-	-	-	145,511
Loans and advances to customers	1,253,979	-	-	-	1,253,979
Debt securities – other	-	86,808	-	-	86,808
Financial derivatives	-	-	-	4,538	4,538
Total financial assets	1,399,492	86,808	-	4,538	1,490,838
Total non-financial assets					13,135
Total assets					1,503,973
Liabilities					
Deposits by banks	-	-	261,503	-	261,503
Customers deposits	-	-	1,042,945	-	1,042,945
Financial derivatives	-	-	-	4,844	4,844
Subordinated liabilities	-	-	72,619	-	72,619
Total financial liabilities	-	-	1,377,067	4,844	1,381,911
Total non-financial liabilities					13,266
Total liabilities					1,395,177
Equity shareholders' funds					108,796
Total liabilities and equity					1,503,973

Risk Management

The Bank has an integrated Risk Management structure with risk independently monitored by Risk Control and Credit Risk Management Departments. Outside of regulatory risk, the Bank faces three main risk areas; Credit Risk, Operational Risk and Market Risk.

Under the Risk Management structure, committees have been established for each risk area which have the responsibility for recommending risk appetite and policy for approval by the Board and for ensuring that the Bank's aggregate risk remains within the risk appetite set by the Board. Risk arising out of the Bank's business is monitored daily, and the risk appetites are reviewed at regular intervals in light of prevailing market conditions.

(i) Credit Risk – This is one of the primary risks inherent in bank lending.

Credit risk can be defined as the risk that a borrower will not meet its obligations in relation to interest payments and loan repayments. Impairment allowances are provided for losses that have been incurred at the balance sheet date.

Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk, through an independent Credit Risk Management Department (CRMD).

The Bank's general policy is to mitigate credit risk by evaluating in every case the credit quality of the borrower and separately to evaluate the quality of the collateral. The Credit Risk Management Committee (CRMC) is responsible for credit risk. The responsibility for the day to day management of credit risk lies with the Management and Relationship Managers within the Private Banking and Corporate Finance Sectors.

31. Financial Instruments *continued*

The Bank uses internal credit ratings and credit grades to evaluate credit risk. It maintains a grading against all of its loans and advances according to the underlying credit quality. None of the loans and advances to banks are past due or impaired.

A summary of the grading for loans to customers is as follows:

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Neither past due nor impaired	1,226,712	1,198,476	1,080,161	1,052,829
Past due but not impaired	41,546	2,819	41,546	2,819
Impaired (net of specific provisions)	35,385	52,684	32,039	48,827
Total loans and advances	1,303,643	1,253,979	1,153,746	1,104,475

The internal grading for loans and advances that were neither past due nor impaired is as follows:

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Satisfactory credit quality	1,129,433	1,034,411	988,245	901,896
Weak credit quality	54,560	107,932	49,197	94,800
Highly weak credit quality	42,719	56,133	42,719	56,133
Total loans that were neither past due nor impaired	1,226,712	1,198,476	1,080,161	1,052,829

Loans are generally considered past due when a customer is in an on-going breach of covenants for 90 days or longer, or is unable to pay interest or capital or otherwise in regular breach of the terms of the facility. The past due category can also include loans where there is no concern over the creditworthiness of the counterparty but where there is a technical reason for inclusion such as a delay in documentation. Problem loans where the Bank holds sufficient collateral against its exposures will generally be classified as past due rather than impaired.

An analysis of loans classified as past due but not impaired is as follows:

	Group		Bank	
	2011 £000's	2010 £000's	2011 £000's	2010 £000's
Past due 90-180 days	7,983	-	7,983	-
Past due over 180 days but less than 1 year	26,792	2,819	26,792	2,819
Past due over 1 year	6,771	-	6,771	-
Total loans that were past due but not impaired	41,546	2,819	41,546	2,819

Loans are classified as impaired when the customer has ceased payment of interest and capital and it appears unlikely that the situation will improve or where an event of insolvency has occurred. It is reasonable to assume that some loss will be made.

Non performing loans are an aggregation of past due and impaired loans, and these are analysed as follows:

	Group		Bank	
	2011 %	2010 %	2011 %	2010 %
Non performing loans as a percentage of total loans and advances to customers	5.90	4.43	6.38	4.68
Specific provisions as a percentage of total non performing loans and advances to customers	20.05	40.88	20.52	40.84

31. Financial Instruments *continued*

(a) Derivatives

The Bank maintains strict controls limits on net open derivative positions. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank, which in relation to derivatives is only a small fraction of the notional values of the contract. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer in order that it can meet its commitments. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipment of goods to which they relate and therefore carry less risk than a direct borrowing.

With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The maximum exposure to credit risk on the financial assets at the balance sheet date was £1,810 million (2010: £1,622 million). This amount excludes any collateral which the Bank holds to mitigate its exposure. Collateral is held in the form of cash, debt and equity securities, security over property and bank guarantees.

Further details of our risk exposures are available in our Pillar 3 Disclosures on our website at:

www.bankleumi.co.uk/FullArticles/Regulatory_Disclosures/6599

(ii) Operational Risk - Operational risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Operational Risk Management Committee (ORMC) is responsible for operational risk, and assesses the implications of all operational issues and operational volumes. Responsibility for the day to day management of operational risk lies with the management of the Bank's operational departments.

Risk Control Department and Finance Department monitor certain transactions on a daily basis and Internal Audit conduct regular reviews of the Bank's systems of control. The Bank has implemented an operational loss event reporting procedure to identify actual and potential operational loss events.

(iii) Market Risk - relates to those risks inherent in the treasury operations of the Bank and those arising from the use of financial instruments.

The Market Risk Management Committee (MRMC) is responsible for market risk. The Senior Treasury Manager is responsible for the day to day management of market risk which includes liquidity risk, interest rate risk and foreign exchange rate risk.

Liquidity Risk - Liquidity risk can be defined as the risk that a bank could have difficulty in realising assets or raising funds in order to meet cash demands which will force the Bank to sell assets at a loss.

The Bank's general policies related to liquidity risk are to hold sufficient cash and marketable assets to match future cash flows from maturing assets and to have a diversified deposit base in terms of maturities and counterparties.

The liquidity risk is monitored daily by Finance Department which uses the ratio of net assets after including behaviour adjustments agreed with the FSA, divided by the total deposits within time bands of 0 to 8 days and 8 days to 1 month. As at 31 December 2011 the ratios for the above bands were +7.55% for 0-8 days (2010: 6.89%) and +18.31% for 8 days to 1 month (2010: 19.93%) compared with limits of 0% and -5%. Since 1 October 2010 the Bank also monitors its liquidity position according to contractual cash inflow and outflow information provided monthly to the FSA. From this data a number of statistics are derived including cash mismatches by time band, survival days, liquidity buffer requirements and structural funding ratios. The Bank is currently developing internal limits for some of these metrics which will be incorporated into the Bank's liquidity policies and procedures.

The Bank maintains sufficient liquidity capacity by maintaining an adequately diversified deposit base in terms of maturity, range of counterparties and concentration. It also ensures an appropriately matched future profile of cash flows from maturing assets.

The FSA liquidity rules require the Bank to build up a Liquid Assets Buffer comprising high quality Government securities. The size of the buffer required is determined by the results of the Bank's liquidity stress testing. Stress testing is performed weekly using a model which estimates the effect of different types of stresses on the Bank's cash inflows and outflows and, as part of the Bank's preparation of its Individual Liquidity Adequacy Assessment (ILAA), this model has been further developed during 2011. The Bank increased its Liquid Assets Buffer by £22 million during 2011 and the level currently stands at £41 million, invested in UK Treasury Bills and debt issued by the European Investment Bank.

The Bank continues to review its deposit product offering and regularly launches new products and revised interest rates in order to remain competitive. During the year the Bank was able to increase its money market line from its parent, Bank Leumi le Israel B.M., and combined with a steady level of customer deposits was able to maintain adequate liquidity levels throughout 2011.

Interest Rate Risk - Interest rate risk can be defined as the risk that arises from re-pricing mismatches in the Bank's books in an unstable interest rate period.

The Bank's general policy in relation to interest rate risk is to impose strict limits on re-pricing mismatches which will reduce possible losses.

31. Financial Instruments *continued*

Finance Department monitors the interest rate sensitivity gap on a regular basis, calculating the net exposure by major currency and by re-pricing band, categorised by the earlier of contractual re-pricing or maturity dates. The net exposure is determined as the Bank's money market position in cash (spot and forward) and securities, and after setting off the impact of interest rate swaps which hedge against specific positions. The net exposures are compared to limits imposed by the MRMC.

The table below summarises the analysis as at 31 December 2011, with positive amounts representing a future net liability, and negative amounts representing a future net asset.

2011	Money Market Position £m	FX Forwards £m	Securities £m	Less: Alco Position £m	Hedging Derivatives £m	Net Position £m	MRMC Limit £m
GBP							
0-4 months	(91.4)	78.2	(18.2)	14.7	8.8	(7.9)	30.0
5-7 months	24.8	(2.8)	(20.8)	(5.2)	-	(4.0)	20.0
8-13 months	34.2	(4.9)	-	(8.2)	(10.0)	11.1	10.0
Over 13 months	1.3	0.1	-	(1.3)	1.2	1.3	5.0
	(31.1)	70.6	(39.0)	-	-	0.5	65.0
USD							
0-4 months	160.2	(228.5)	(20.0)	41.1	20.0	(27.2)	50.0
5-7 months	14.8	0.1	-	(1.1)	-	13.8	30.0
8-13 months	68.3	-	-	(40.0)	(15.0)	13.3	20.0
Over 13 months	4.1	-	-	-	(5.0)	(0.9)	5.0
	247.4	(228.4)	(20.0)	-	-	(1.0)	105.0
EUR							
0-4 months	(80.9)	72.4	(6.3)	0.7	-	(14.1)	35.0
5-7 months	2.1	3.3	-	(0.7)	-	4.7	20.0
8-13 months	1.6	7.9	-	-	-	9.5	15.0
Over 13 months	0.5	(0.1)	-	-	-	0.4	5.0
	(76.7)	83.5	(6.3)	-	-	0.5	75.0

The GBP excess over the internal limit was corrected the next day with a forward foreign exchange contract. Included within the 0-4 month band are 35 day notice deposits where interest is fixed for 18 months on a 'step-up' basis. These deposits, together with balances shown as Alco positions, represent interest rate positions held by MRMC which are subject to separate monitoring. This enables the MRMC to distinguish its core interest rate risk from specific risks arising from strategic decisions.

Finance Department use the present value of the above assets and liabilities to calculate the possible loss of the Bank's economic value in the event of 1% movement in interest rates. The possible loss is monitored compared to a limit of 1.5% of the Bank's capital. At 31 December 2011 the possible loss, including Alco positions and 35 day notice 'step-up' accounts referred to above, was £0.8 million (2010: £1.0 million) compared with a limit of £1.5 million (2010: £1.4 million). In addition, Finance Department calculate the impact on the Group's earnings, including its subsidiaries, in the event of a 1% movement in interest rates, and this is compared with an internal limit of 3.5% of the Group's capital. As at 31 December 2011 the impact on earnings was 1.12% of the Group's capital (2010: 2.63%).

The 2010 equivalent analysis is shown below:

2010	Money Market Position £m	FX Forwards £m	Securities £m	Less: Alco Position £m	Hedging Derivatives £m	Net Position £m	MRMC Limit £m
GBP							
0-4 months	(86.7)	61.6	(9.1)	35.4	(1.2)	(0.0)	30.0
5-7 months	13.0	(4.5)	-	(3.3)	-	5.2	20.0
8-13 months	31.2	(1.4)	(5.1)	(32.1)	-	(7.4)	10.0
Over 13 months	8.2	(0.5)	(5.9)	-	1.2	3.0	5.0
	(34.3)	55.2	(20.1)	-	-	0.8	65.0
USD							
0-4 months	39.5	(103.6)	(20.0)	94.4	-	10.3	50.0
5-7 months	(37.0)	1.9	-	(0.5)	-	(35.6)	30.0
8-13 months	119.9	(4.7)	-	(93.9)	-	21.3	20.0
Over 13 months	3.6	-	-	-	-	3.6	5.0
	126.0	(106.4)	(20.0)	-	-	(0.4)	105.0
EUR							
0-4 months	21.9	(22.7)	(20.8)	0.9	-	(20.7)	35.0
5-7 months	2.4	5.2	-	-	-	7.6	20.0
8-13 months	7.7	5.7	-	(0.9)	-	12.5	15.0
Over 13 months	-	0.7	-	-	-	0.7	5.0
	32.0	(11.1)	(20.8)	-	-	0.1	75.0

31. Financial Instruments *continued*

Maturities of Financial Liabilities

The table below shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity.

For financial derivatives, the amounts included reflect the fair values at the balance sheet date as this is considered a good approximation of the liquidity risk exposure arising from these positions. In practice foreign exchange option positions can close out earlier than contractual maturity but as these are matched positions there would be no net impact on the Bank's cash flows.

At 31 December 2011	Demand £000's	Up to 3 months £000's	3-12 months £000's	1-5 years £000's	Over 5 years £000's	Group Total £000's
Liabilities						
Deposits by banks	3,688	1,251	345,021	-	-	349,960
Customers deposits	350,901	392,078	211,290	30,800	-	985,069
Financial derivatives	-	3,013	2,035	273	-	5,321
Subordinated liabilities	-	-	-	-	72,636	72,636
Total financial liabilities	354,589	396,342	558,346	31,073	72,636	1,412,986

At 31 December 2010	Demand £000's	Up to 3 months £000's	3-12 months £000's	1-5 years £000's	Over 5 years £000's	Group Total £000's
Liabilities						
Deposits by banks	6,568	3,411	251,524	-	-	261,503
Customers deposits	308,764	430,093	232,060	72,028	-	1,042,945
Financial derivatives	-	2,457	1,660	727	-	4,844
Subordinated liabilities	-	-	-	-	72,619	72,619
Total financial liabilities	315,332	435,961	485,244	72,755	72,619	1,381,911

Foreign Exchange Risk – Foreign exchange risk can be defined as the risk affecting open currency positions by fluctuations in exchange rates.

The Bank's general policy in relation to foreign exchange risk is to match all positions and limit the total net overnight open position to £6 million (2010: £6 million).

Overall responsibility to manage foreign exchange risk lies with the Chief Dealer. Risk Control Department monitor foreign exchange positions daily and the end of day positions are reported by Finance Department to Executive Management.

Overall foreign exchange open positions are very low and represent minimal risk.

As at 31 December 2011 the total open positions were £0.3 million (2010: £0.3 million) of which £0.2 million (2010: £0.2 million) was a long position and £0.1 million (2010: £0.1 million) was a short position giving a net long open position of £0.1 million (2010: £0.1 million).

Fair Values of Financial Assets and Liabilities

Floating rate loans and deposits fair value approximates to amortised cost carrying value. Fixed rate loans and deposits fair value is calculated based on discounting expected cash flows using current market interest rates and approximates to amortised cost carrying value.

Valuation of Financial Instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair value measurements using inputs that are not based on observable market data.

31. Financial Instruments *continued*

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2011 Level 1	2011 Level 2	2011 Total	2010 Level 1	2010 Level 2	2010 Total
Assets						
Debt securities	69,644	-	69,644	86,808	-	86,808
Financial derivatives	-	9,003	9,003	-	4,538	4,538
	69,644	9,003	78,647	86,808	4,538	91,346
Liabilities						
Financial derivatives	-	5,321	5,321	-	4,844	4,844

Note: There are no financial instruments measured according to Level 3 (2010: nil).

Derivative Financial Instruments and Trading Liabilities

The Bank holds derivatives for both hedging and non-hedging purposes. The derivatives held for hedging purposes are economic hedges including Interest Rate Swaps and Forward Rate Agreements, and ensure that the Bank keeps within its internal interest rate risk limits. These hedges do not meet the requirements for hedge accounting.

Foreign currency forwards represent commitments to purchase foreign and domestic currency.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, or interest rates or a combination of both of these. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. The risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

Foreign currency and other options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy or sell at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. Options may be either exchange-traded or negotiated between the Bank and a customer. The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The fair value of a derivative contract represents the amount at which that contract could be exchanged in an arm's length transaction, calculated at market rates at the balance sheet date. This equates to a replacement cost.

Structured deposits are contractual agreements offered to customers providing the opportunity to gain enhanced returns compared to market rates via exposure to selected financial markets. The Bank matches the risk on these deposits through the purchase or sale of options in those financial markets.

At 31 December 2011 the notional principal amounts and fair values of derivative instruments entered into with third parties were as follows:

	Notional principal 2011 £000's	**Year end positive fair values 2011 £000's**	**Year end negative fair values 2011 £000's**
Exchange Rate Contracts			
FX options	1,202	1	1
FX forwards	517,396	8,933	5,012
Total Exchange Rate Contracts	**518,598**	**8,934**	**5,013**
Total Interest Rate Contracts	**46,965**	**4**	**243**
Total Exchange Traded Equity Contracts	**4,444**	**65**	**65**
Total Derivative Contracts	**570,007**	**9,003**	**5,321**

Includes notional amounts of intra-group derivative instruments for both Bank and Group of £45,611,000 (2010: £27,241,000).

31. Financial Instruments *continued*

At 31 December 2010 the notional principal amounts and fair values of derivative instruments entered into with third parties were as follows:

	Notional principal 2010 £000's	Year end positive fair values 2010 £000's	Year end negative fair values 2010 £000's
Exchange Rate Contracts			
FX options	2,765	2	2
FX forwards	388,047	4,373	4,373
Total Exchange Rate Contracts	390,812	4,375	4,375
Total Interest Rate Contracts	15,214	41	347
Total Exchange Traded Equity Contracts	3,010	122	122
Total Derivative Contracts	409,036	4,538	4,844

Prior year numbers have been reclassified for consistency with current year treatment.

32. Ultimate Parent Company

The Bank is a subsidiary undertaking of Bank Leumi le-Israel B.M., which is incorporated in Israel.

The largest and smallest group in which they are consolidated is that headed by Bank Leumi le-Israel B.M. The consolidated accounts of this group are available to the public and may be obtained from the Head Office in Israel at P.O. Box 2, 24-32 Yehuda Halevi Street, Tel Aviv 65546, Israel.

33. Post Balance Sheet Events

There have been no material post-balance sheet events which would require adjustment to the 31 December 2011 accounts.

The increases to the Bank's issued share capital (£10 million) and issued subordinated debt (£11 million) are non adjusting post-balance sheet events. Further details are contained in Note 25 to the accounts.

Independent auditors' report to the members of Bank Leumi (UK) plc

We have audited the financial statements of Bank Leumi (UK) plc for the year ended 31 December 2011 as set out on pages 11 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at
www.frc.org.uk/apb/scope/private.cfm

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

M.Davies (Senior Statutory Auditor)
For and on behalf KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
28 February 2012

Notice to Shareholders of Annual General Meeting

Notice is hereby given that the Fifty Second Annual General Meeting of the Company will be held at 20, Stratford Place, London W1C 1BG on Tuesday, 22 May 2012 at 10.00am, for the purpose of considering and, if thought fit, approving the following Resolutions:

ORDINARY RESOLUTIONS

1. THAT, the Company's accounts for the financial year ended 31 December 2011 together with the Directors' report and the Auditors' report on those accounts, be received, considered and adopted.

2. THAT, Mr W Goldsmith, Mr Y Minz and Mr G Suesskind who retire by rotation in accordance with the Articles of Association of the Company and who, being eligible and willing to act, offer themselves for re-appointment, be re-appointed as Directors of the Company.

3. THAT, the ordinary remuneration of the Directors be approved.

4. THAT, KPMG Audit Plc be reappointed as auditors of the Company for a period prescribed by Section 489 of the Companies Act 2006, and that the Directors be authorised to determine their remuneration.

By Order of the Board
Naomi Hillel
Company Secretary

28 February 2012

20, Stratford Place
London W1C 1BG

NOTE
A member entitled to attend and vote may appoint one or more proxies to exercise all or any of his rights to attend, speak and vote on his behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member. Forms of proxy should be sent to Capita Registrars, The Registry, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU to arrive not later than 48 hours before the time appointed for the holding of the General Meeting.

The Israeli Economy in 2011

Economic Growth

Israel's Gross Domestic Product (GDP) grew by 4.8% in 2011 in real terms. The expansion of the Israeli economy took place in almost all sectors: exports, private consumption and fixed asset investments such as machinery, equipment and construction – both residential and non residential.

With its strong growth in 2010-2011, Israel, a member of the Organisation for Economic Co-operation and Development (OECD), has continued to maintain its economic growth well over the OECD average. Israel's growth advantage over OECD countries became highly noticeable during the 2008-2009 global recession, during which Israel's GDP rose by 5.4% whilst average GDP for OECD members fell by 3.1%, reflecting Israel's strong fundamentals compared to other countries.

The Sovereign Credit rating

Following the ongoing improvement in the state of the Israeli economy in previous years, the country's credit rating was increased by the various credit rating agencies in late 2007 and in early 2008. In September 2011 Israel's credit rating was further increased from A to A+ by Standard and Poor's.

Fiscal Policy

In 2011 the deficit in the state budget was 3.3% of GDP, compared to a target of 2.9% of GDP. This slight deviation of the deficit from its objective is attributed to a weakening of state tax revenues. Israel's fiscal path is subject to an explicit feedback rule with a target of government debt to GDP ratio of 60% of GDP, according to the Maastricht accord of the European Monetary Union.

The Exchange Rate, Inflation and Monetary Policy

The exchange rate of the Shekel appreciated during 2011 to an average rate of NIS 3.58: US$1 from NIS 3.73: US$1 in 2010. The resilience of the shekel, despite global financial turmoil seems to have been related to the country's strong economic fundamentals such as its solid external account position. This includes Israel's balance of payments, which continued to hold a large surplus in the current account along with a level of foreign currency reserves and no net external debt.

The Consumer Price Index (CPI) rose 2.2% in 2011, which is within the official price stability target of between 1% and 3%. A look at the primary components of the CPI change shows that housing is still a major contributor to inflation.

Performance of Tel-Aviv Stock Exchange Traded Shares

The negative trend that prevailed in the early part of 2011 in the Israeli stock market strengthened from July through to the end of the year. This continuing negative trend stems from a number of factors, including the deepening economic crisis in Europe, the geo-political uncertainty in Israel's neighbouring countries, domestic uncertainty in Israel's security, and the relatively rapid trend of interest rate hikes in the early months of 2011, followed by a reduction of Israeli economic growth prospects in 2012.

During 2011, the Israeli TA-25 index of blue chip shares declined 18%, and the TA-100 index of the most actively traded shares declined 20%. In 2011, the indices of the of the second-tier and small cap stocks experienced sharper declines than that of the TA-25 index. The TA-75 index of second-tier stocks and the Yeter-50 index of small cap shares declined 26% each in 2011. The sectors that experienced only moderate price declines relative to the average (the TA-100) included the industrial sectors. On the other hand, the sectors that experienced relatively large price declines continued to be the financial sectors, as well as holding and investment companies.

For further information on Bank Leumi (UK) plc Banking and Financial Services
please contact:

Corporate Finance

Chief Corporate Finance Officer
Jonathan Watson
020 7907 8067

Property Finance
David Griffiths
020 7907 8116

Israeli Related Business
Idan Shapira
020 7907 8182

Commodity Finance
Tatiana Epshteyn
020 7907 8137

Commercial Finance
Nicola South
020 7907 8195

Executive Mortgages
Rosalind Collins
020 7907 8113

Media Finance
Guillaume de Chalendar
020 7907 8150

Northern Business
Steve Cooper
01132 878487
07771 522907

Leumi ABL Limited

Chief Executive
Paul Hird
01273 716 201

Managing Director
Phil Woodward
01273 716 202

Operations Director
Alan Couzins
01273 716 203

Private Banking

Head of Private Banking
Christopher Barratt
020 7907 8072

Israeli Related Business
Lihi Pinto-Fryman
020 7907 8186

Premier Banking
Simon Yeshooa
020 7907 8100

International & UK Business
William Foster
020 7907 8178

Offshore Business

Bank Leumi (Jersey) Limited

Managing Director
Richard Guillaume
01534 702 525

Director Banking Services
David Cooper
01534 702 575

Leumi Overseas Trust Corporation Limited

Director Trust Services
John Germain
01534 702 530

Director Trust Services
Christopher Lees
01534 702 508

The Bank Leumi le-Israel Group International Addresses

ISRAEL

Bank Leumi le-Israel B.M.
24-32 Yehuda Halevi Street, Tel Aviv 65546
Telephone 972 3 514 8111
Facsimile 972 3 514 8656

Bank Leumi le-Israel has 264 branches in Israel

Leumi International & Private Banking Division
Tel Aviv
35 Yehuda Halevi Street
Tel Aviv 65546
Telephone 972 3 514 3313
Facsimile 972 3 514 9602

Subsidiary banking companies

Leumi Partners Limited
5 Azrieli Centre (Square Tower) 36th floor
Tel Aviv 67025
Telephone 972 3 514 1212
Facsimile 972 3 514 1275

Bank Leumi le-Israel Trust Company Limited
8 Rothschild Boulevard
Tel Aviv 66881
Telephone 972 3 517 0777
Facsimile 972 3 517 0770

EUROPE

UNITED KINGDOM

Bank Leumi (UK) plc
20 Stratford Place, London W1C 1BG
Telephone 44 (0) 20 7907 8000
Facsimile 44 (0) 20 7907 8001
www.bankleumi.co.uk

Leumi ABL Limited
Pacific House
126 Dyke Road
Brighton BN1 3TE
Telephone 44 (0) 01273 716 200
Facsimile 44 (0) 01273 716 210

CHANNEL ISLANDS

Bank Leumi (Jersey) Limited
PO Box 510, 2 Hill Street, St Helier
Jersey JE4 5TR
Telephone 44 (0) 1534 702 525
Facsimile 44 (0) 1534 617 446

Leumi Overseas Trust Corporation Limited
PO Box 510, 2 Hill Street, St. Helier
Jersey JE4 5TR
Telephone 44 (0) 1534 702 500
Facsimile 44 (0) 1534 702 570

SWITZERLAND

Leumi Private Bank Limited
Zurich Head Office
Dianastrasse 5, CH-8022, Zurich
Telephone 41 58 207 9111
Facsimile 41 58 207 9100
www.leumi.ch

Geneva
1, rue de la Tour-de-l'Ile, CH-1211 Geneva
Telephone 41 58 207 3555
Facsimile 41 58 207 3318

LUXEMBOURG

Bank Leumi (Luxembourg) S.A.
6D, Route de Treves
L-2633 Senningerberg, Luxembourg
Telephone 35 2 346 390
Facsimile 35 2 346 396
www.bankleumi.lu

USA

Bank Leumi USA
579 Fifth Avenue, New York, NY 10017
Telephone 1 917 542 2343
Facsimile 1 917 542 2254
www.leumiusa.com
3 branches in New York City

California
Beverly Hills
8383 Wilshire Boulevard, Suite 400,
Beverly Hills, CA 90211
Telephone 1 323 966 4700
Facsimile 1 323 966 4245
Additional branches in Los Angeles, Encino & Palo Alto

Illinois
Chicago
1 North LaSalle Street, Suite 200, Chicago, IL 60602
Telephone 1 312 419 4040
Facsimile 1 312 419 4044
Additional branch in Highland Park

Florida
Aventura
One Turnberry Place, 19495 Biscayne Boulevard, Suite 500,
Aventura FL 33180
Telephone 1 305 918 6960
Facsimile 1 305 918 6975
Additional branch in Boca Raton

Bank Leumi Group has branches and representative offices in Australia, Canada, Chile, France, Germany, Hong Kong, Mexico, Panama, Romania, South Africa, Uruguay and Venezuela.

www.bankleumi.com

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Bank Leumi (UK) plc