

# Bank Leumi (UK) plc Annual Report

## 2008



together we go further

# Board of Directors

as at 31 December 2008

**Eitan Raff**  
Chairman

**Sir Bernard Schreier**  
Deputy Chairman \*\*#~#

**Lawrence M. Weiss**  
Managing Director  
& Chief Executive Officer \*\*~

**Collin E. Cumberland** \*\*~

**John Daly** \*\*~

**Robert Glatter** \*~

**Walter K. Goldsmith** \*#

**Colin I. Lehmann** ~

**David R. Meller** \*\*

**Yoel Minz** ~

**Siegfried R. Ramseyer** \*~

**Lesley J. Secretan** \*\*

**Eric H. Senat** \*\*

**Gidon S. Suesskind**

*\* Members of the Audit Committee*

*\*\* Members of the Executive Committee*

*~ Members of the Credit Committee*

*# Committee Chairman*

# Bank Leumi (UK) plc

Executive Management

**Lawrence M. Weiss**  
Managing Director and Chief Executive Officer

**Collin E. Cumberland**  
Director of Commercial, Corporate and Private Banking

**Lesley J. Secretan**  
Director of Finance & Operations

## Internal Audit, Compliance & Risk Management

**Gordon Cripps**  
Head of Internal Audit

**Simon Rothberg**  
Head of Risk Control & Compliance

**Robert Sherr**  
Head of Credit Risk Management

**David Magee**  
Money Laundering Reporting Officer

**Naomi Hillel**  
Company Secretary

Auditors: KPMG Audit Plc, One Canada Square, London E14 5AG

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Bank Leumi (UK) plc registered in England. Registration No. 640370. Authorised & Regulated by The Financial Services Authority

# Relationship Banking 'Together we go further'

At Bank Leumi the customer's needs come first. We work to establish a genuine partnership.

## 1. Corporate and Commercial Banking Services

**For trade with Israel: your ideal partner** - Given the appeal of Israel as a trading partner, our multilingual Israeli Business Team is ideally suited to handle any business connected with that country. Our UK expertise, combined with the fact that we are a member of the Bank Leumi Group (the longest established bank in Israel), enables us to offer a service which combines a close understanding of the business cultures in both countries.

**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 knowledge and highly efficient delivery. 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.

**Property Finance** - We specialise in all aspects of property finance including investment, development and dealing in commercial and residential property and hotels, for both UK and offshore borrowers. We have preference for shorter term financing and have the flexibility to meet individual requirements.

**Commercial Finance** - The Bank has an experienced team of account managers 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 focus of the Commodity Finance team is the provision of short term transactional finance to physical traders of the main commodity groups, principally metals and soft commodities. The team's expertise, built up over many years, lies in 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.

## 2. Factoring and Invoice Discounting

These services are available via **Leumi ABL Ltd**. Established during 2006, we have an experienced team in place who are able to deliver cash flow solutions to businesses against the strength of their assets – principally receivables. Sales ledger management and bad debt protection are also available.

## 3. Private Banking and Wealth Management

**Relationship Banking** - Our Private Banking teams provide the comprehensive range of services demanded by today's wealthy 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 are able to offer investment banking, wealth management and fiduciary services. Our experienced teams of investment managers can offer personal, corporate and trust clients a full range of services including advisory, execution only and safe custody facilities.

**Planning** - A carefully thought out investment strategy is essential. We work 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 and requirements as external factors change and will discuss the investment strategy with them to ensure that their objectives continue to be successfully met.

**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 can provide lending facilities secured against UK property or investment portfolios to cover a variety of purposes.

**International Offices** - Where necessary, we can introduce clients to the most appropriate office of the wider Bank Leumi Group so that they can continue to enjoy the benefits of our International Private Banking service. This includes arranging bank accounts and mortgages in Israel where required.

## 4. Offshore Services

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 advisory Investment Management services.

The Bank's 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

We have developed an innovative mortgage product aimed principally at high-earning expatriate individuals seeking to buy a home in the UK. Mortgages are interest only, typically for a 5 year term and the mortgage may be domiciled in Jersey which can be tax efficient in certain cases. 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 & 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.

# Chairman's Statement

I am pleased to present the Bank Leumi (UK) Group's Annual Report for 2008.

The business environment has been dominated by the global financial crisis which has been far more severe and longer lasting than was anticipated at the outset. Fortunately the fundamentals of our business remain strong with liquidity and capital ratios well above regulatory thresholds, and core operating results ahead of last year. However it would be difficult to remain immune from the effects of the economic backdrop, and with some of our customers experiencing financial difficulties we have needed to increase the level of our impairment provisions. The resultant net loss has taken the shine off what would otherwise have been a resilient performance in difficult market conditions.

We have continued with our policy of relationship banking. Our aim is to provide all of our customers with the highest quality service, and this policy continues to drive our achievements in the marketplace.

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.

## Results Highlights

### Profit and Loss Account

**The group reported a net loss of £4.0 million for the 2008 financial year compared to a net profit of £12.1 million last year.**

The loss arises due to impairment provisions of £24.1 million compared with £2.5 million in 2007. The provisions reflect a small number of specific customer situations, an impairment charge against the Bank's holding of a Lehman Brothers bond, and a prudent increase to the Bank's collective impairment provision.

**Operating profit for 2008 of £18.0 million compared with £19.4 million in 2007, a decrease of 7%.**

Operating profit includes a net loss of £9.9 million relating to fair value of financial instruments and overshadows an otherwise strong operating performance. Interest, fees and dealing profits are all ahead of 2007 levels, and operating expenses increased by a modest 3%.

### Balance Sheet

**The balance sheet has continued to grow, with total assets increasing by 10% to £1.6 billion.**

**Customer lending reached £1,151 million compared with £1,007 million in 2007, an increase of £144 million or 13%.**

Of the increase, £52 million arises in our asset-based lending subsidiary Leumi ABL Ltd which has seen rapid growth.

**Customer deposits decreased to £1,086 million from £1,190 million in 2007, a decrease of £104 million or 9%.**

Most of the decrease can be attributed to one customer whose deposits are now placed with another group entity. Further reductions have been seen through a reduction of Israeli corporates investing in the UK as a result of the economic downturn.

## Highlights of the Year Include:

- **Rapid growth at our asset-based lending subsidiary Leumi ABL Ltd, delivering its first year of profits since being established in 2006.**
- **Strong income from net interest, up 10%, and fees and commissions, up 23%.**
- **Improved scope of our Private Banking offering, with ability to provide the full range of advisory and execution only services.**
- **Holding up of the Bank's core liquidity and capital ratios, with the Credit Crunch having no adverse affect on the Bank's funding levels.**

## Directors, Management and Staff

Firstly I would like to welcome Lawrence M. Weiss who took up the post of Managing Director and CEO of Bank Leumi (UK) plc in December 2008. I wish him success in these challenging times.

It should be noted that Miki Friedman left office and returned to Israel in June 2008. During the interim period until Mr Weiss took office, Collin Cumberland and Lesley Secretan served as joint acting CEO's and I wish to extend my appreciation for their efforts during this period.

I would also like to welcome Colin Lehmann who was appointed to the Board in March 2008, as well as Yoel Minz and Gidon Suesskind, both of whom have worked in the Leumi Group for many years and were appointed to the Board of the Bank in May 2008.

I would also like to thank Michael Bar-Haim who resigned from the Board in February 2008 for his contribution.

I would like to thank my fellow Directors, especially Sir Bernard Schreier, Deputy Chairman, for their leadership and contribution over the past year. I would also like to extend special thanks to the Management and Staff for their efforts and achievements despite the difficult business environment which prevailed throughout the year.



Eitan Raff  
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 2008.

## Activities

Bank Leumi (UK) 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 continues the activity of the Leumi Group in England that began in London in 1902. The Bank has its Head Office in London, and has a branch in Manchester covering the North of England.

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 Ltd is based in Brighton, and provides asset based finance – principally via factoring and invoice discounting services.

## Commercial and Corporate Banking

In this area, the Bank's principal activities consist of financing property transactions; providing services to customers engaged in international trade 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.

Leumi ABL Ltd 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 an increasingly 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 2008 we have restructured the Private Banking area. We now have specialised multi-lingual private banking relationship managers working in dedicated teams providing a wide range of services to three distinct geographic client groups – Domestic, International and Israeli.

We have improved the scope of our Private Banking offering and our experienced team of investment advisors 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 the Channel Islands.

We also offer an extensive choice of money market facilities, including deposit and investment accounts, foreign exchange and securities trading facilities and derivative instruments for hedging purposes. These types of transaction are completed working closely with our Treasury Department. We can also offer appropriately structured products to our worldwide investors.

Lending facilities are available, secured on UK property or investment portfolios.

## General Economic Environment

The year has been overshadowed by the global financial crisis, with economies around the world suffering from the fallout from the Credit Crunch and the resultant impact on the banking system.

UK economic growth, as measured by year-on-year GDP figures, gradually slowed in 2008. After flat growth in the second quarter the next two quarters saw negative GDP growth of 0.6% and 1.5% respectively. As is the case for many other countries, the negative growth officially confirmed a period of recession in the UK which some expect to be more severe and prolonged than has ever been experienced.

The number of people unemployed in the UK rose to nearly 2 million by the end of 2008, the highest figure for more than a decade. With the economic situation causing an increasing number of firms to fail and others being forced to take cost-reduction measures, unemployment levels are set to increase further with predictions of 3 million by the end of 2009.

## Interest Rates and Inflation

As the cost of heating, food and fuel rose sharply through most of 2008, there were concerns that the Consumer Price Index (CPI), the UK Government's measure for inflation, would rise above the Bank of England's target of 3%. The concerns were realised during the third quarter as crude oil hit a record high of \$147 a barrel in July (a doubling of price in six months) and the CPI climbed to just over 5%, a level not seen since the early 1990's. Inflation eased in the final quarter as the rapidly slowing global economy pulled the rug with breathtaking speed, and oil prices fell to around \$50 in December.

UK base rates started the year at 5.5% and two quarter point cuts in February and April left rates at 5% at the beginning of October. Then in October the world's major central banks united in the first ever coordinated cut in benchmark interest rates. The stubborn refusal of LIBOR to go down for most of the year forced the Bank of England into its most radical series of interest cuts since World War II. UK base rates fell 3% during the last quarter to end the year at 2%, the lowest level since 1951. Two subsequent cuts in January and February 2009 left UK base rates at 1%.

The story was little different in the US with two emergency inter-meeting rate cuts taking rates to a 0 - 0.25% target range by the end of the year. The Euro zone however seemed more resilient and the ECB actually raised rates 0.25% to 4.25% in July to stem inflationary pressures, before successive cuts in the final quarter reduced the key lending rate to 2.5% by the end of the year.

## Currencies

The Pound weakened significantly during the second half of the year against both the US Dollar and the Euro. With the Pound versus the US Dollar exchange rate trading around 2.00 during most of the year, the rate depreciated 27% in the final two quarters to end the year at 1.46. The Pound versus the Euro depreciated 7% during the first half to a rate of 1.26, and then a further 17% during the last quarter to end the year at 1.05.

There was also a dramatic swing during the year in the Euro versus US Dollar exchange rate. During the first half of the year as the US Federal Reserve was cutting rates, the Euro versus US Dollar exchange rate traded at historic highs, setting an all time high level of 1.60. Then, as the Credit Crunch took its stranglehold, the market turned in favour of the US Dollar in the second half of the year which saw the Dollar appreciate by 21% at one stage before closing the year 5% up on the Euro at a rate of 1.39.

### Capital Markets

A sprawling global crisis of confidence emerged during 2008, dragging financial markets into unprecedented levels of volatility. The year began with the US housing market correction already in progress. Falling housing prices and financial-sector write-downs were elements of this correction that gained momentum during 2008.

By the second quarter, major global equity indices had recovered some of the losses inflicted since the start of the year, which included some falls similar in size to those last seen after the September 11 attacks. However, high volatility and a worsening economic outlook led investors into seeking risk-free assets such as Government debt.

By the year end, the major US, European and UK equity indices had lost in the region of 30% of their value since the start of the year. Financial shares were one of the worst affected, hit by record write-downs on their portfolios of mortgage backed securities and an uncertainty about the value of the remaining assets.

The continuing nervousness towards deteriorating mortgage assets on the books of commercial and investment banks led to a series of takeovers, bankruptcies and government interventions amongst financial firms.

Global equity-related underwriting volume in 2008 fell to the lowest level since 2003, as difficult market conditions diminished the appeal of this method of financing. Global public offering volumes reduced drastically during the year, falling 71% from 2007 levels. Debt markets slowed to a halt during the fourth quarter, with 2008 full year global debt underwriting activity 38% lower than the previous year.

### Liquidity

As the negative sentiment from 2007 carried into the New Year, lenders became progressively more reluctant to offer financing. This accentuated pressure on institutions with a high dependence on wholesale funding and eventually led to the downfall of Northern Rock as an independent institution. In March, Bear Stearns became the first US investment bank to face collapse but in a last-ditch rescue it was bailed out by JP Morgan, with federal guarantees. During this period, the US Federal Reserve made \$200 billion of funds available to banks and other institutions to try to stimulate inter-bank lending.

The global financial crisis deepened in the third quarter with stress at the two largest US mortgage corporations and the failure of Lehman Brothers in September. The US government sought a long-term solution and in October the US Senate approved a \$700 billion financial rescue bill. This was subsequently followed by an additional \$800 billion package to stabilise the financial system and encourage lending.

The UK government launched its own bail-out in October with the Bank of England announcing a £500 billion package, providing £200 billion in short-term lending support, a £50 billion Bank Recapitalisation Fund, and £250 billion guarantees for eligible lending between British banks. This led to the Royal Bank of

Scotland, Lloyds TSB and HBOS receiving capital injections totalling £37 billion. With a further dip in confidence in the banking sector in early 2009, the government announced an insurance scheme to cover bad debts as well as a £50 billion fund to enable the Bank of England to provide direct lending to UK Corporates.

## Bank Leumi Positioning

### Liquidity

Despite the difficult market conditions the Bank's liquidity position has remained strong throughout the year. This is demonstrated by its liquidity ratios which are calculated daily and which have remained significantly in excess of minimum regulatory limits at all times. As part of the liquidity monitoring process, the Bank performs daily stress testing of its liquidity ratios to maintain a focus on circumstances which might lead to deterioration.

### Banking exposure

Bank Leumi (UK) has no direct exposure to the sub prime mortgage business, or to other packages of debt referred to as 'toxic' assets. It does have an investment portfolio consisting of floating and fixed rate bonds issued by large banking institutions. The bonds are held as part of the Bank's liquidity portfolio and also to generate increased interest margins on its excess deposits. The portfolio includes Lehman Brothers which has subsequently been written down to its market value with the resulting impairment charge impacting profits for the year. Most of the other bonds have unrealised losses which have been taken through reserves on the basis that there is no expectation to sell in the short term and that ultimately the values will recover as maturity dates are reached.

The make up of the investment portfolio is constantly reviewed, both at the Market Risk Management Committee (MRMC) which meets weekly, and the newly formed Nostro Investment Management Committee which includes members from the Capital Markets Division in Tel Aviv. In the current economic climate the Bank has adopted a more cautious approach towards new investment, whilst at the same time taking advantage of good opportunities as and when they arise.

The Bank's money market exposures to banking institutions have been subject to increased monitoring during the past twelve months. In consultation with our parent company, a list of 'approved' banks with whom deposits can be placed has been agreed, and this list and associated limits is kept under constant review. A summary of all banking exposures, covering money market, investment securities and derivatives, is prepared weekly and submitted to both the MRMC and the Capital Markets Division in Tel Aviv.

### UK Property Market

Although the second half of 2008 proved to be a period of turmoil in the financial markets, our property loan portfolio performed well and continued to be very profitable. The questions remain, how long will current market conditions continue, and will we see further deterioration? All banks face serious challenges and the key feature is a lack of confidence, arising out of uncertainty, which is preventing the flow of available finance necessary to fuel the beginnings of a recovery.

The worst hit sector is the lower end of the residential market which has long been one of our core areas of activity. The lack of available mortgage finance is hampering sales to a large degree but balancing this is the strength of the rental market which will enable many developers to weather the current storm by renting out completed developments until the market improves. Fortunately, the challenges facing our Bank in the property sector are manageable

and we take a medium term view in supporting our clients. In the meantime, we consider that the steps we have taken to identify and manage potentially problematic elements of our loan book will serve to protect our position.

We remain open for business and consider that notwithstanding the difficulties apparent in the sector there will continue to be good opportunities for both the Bank and our clients, although we will continue to apply rigorous analysis in order to ensure that the fundamentals of each proposal are sound.

**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 thus themselves suffering from a significant fall in consumer demand as house prices tumble and job security weakens. With many also buying in dollars from mainly Far-Eastern suppliers and selling in sterling, the weakening of the pound against the dollar has had an added adverse impact.

Commodity markets were subject to extreme price volatility in 2008. We will continue to refocus our efforts to deal with well managed and adequately capitalised customers who have experience in their industry.

**Asset Based Lending**

In the economic climate in which we find ourselves, lending secured directly on the assets of a business and which is subject to 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.

In a relatively short period of time Leumi ABL has established an enviable presence within the UK asset based finance market and is now attracting good business within its target middle market niche.

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

**Business Review**

Many of the specific markets in which the Bank and its subsidiaries operate experience a high degree of competition. The Bank is a niche player in the markets in which it specialises. In the UK our major competitors can be drawn from the major high street banks that offer any one of our niche services. Other competitors are the Israeli banks operating in London, of which Bank Leumi (UK) plc is the largest.

**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 ASB as part of its project for convergence with IFRS.

**Balance Sheet and Profitability**

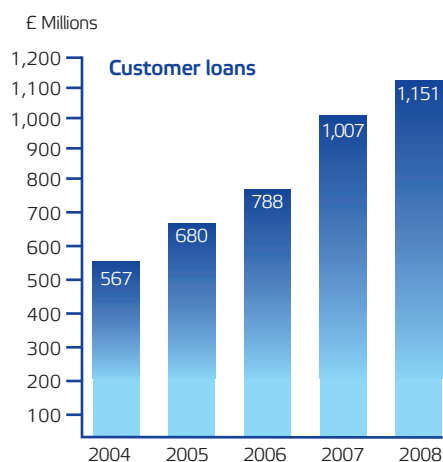
**Balance Sheet**

**Total consolidated assets of Bank Leumi (UK) plc amounted to £1,573 million at the end of 2008 compared to £1,423 million at the end of 2007, an 11% increase.**

**Customer lending increased to £1,151 million compared with £1,007 million the previous year, an increase of £144 million or 14%.**

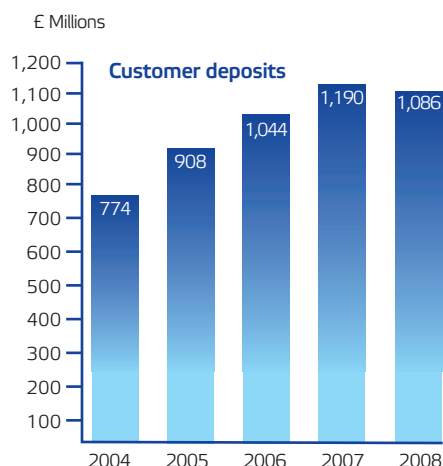
**Balance sheet – Customer Business**

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



Customer Deposits decreased to £1,086 million compared with £1,190 million the previous year, a decrease of £104 million or 9%. This decrease can be attributed to one customer whose deposits are now placed with another group entity.

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



## Debt Securities

During 2008 the level of debt securities fell slightly. The Bank holds debt securities as part of its liquidity portfolio and also to generate increased interest margins on its excess deposits. In the current economic climate the Bank has adopted a more cautious approach towards new investment, whilst at the same time taking advantage of good opportunities as and when they arise. Increased collaboration with the Capital Markets Division of our parent company has provided further expertise in the investment decision process.

## Capital

During 2008 the Group increased its capital base to support the growth in its assets, caused by higher levels of customer lending and by the impact, in the final quarter, of significant shifts in global currency markets which increased the Sterling value of our foreign currency denominated assets. The capital increase was achieved through a combination of £10 million equity, of which £5 million was allocated to our subsidiary Bank Leumi (Jersey) Ltd, and £30 million subordinated loan capital drawn from the Parent Company.

The European version of Basel II the Capital Requirement Directive was fully implemented in the UK on 1st January 2008. Both Bank Leumi (UK) and Bank Leumi (Jersey) monitor their capital adequacy under Basel II rules on a daily basis to ensure that capital held is always adequate to support the business transacted.

## Profit and Loss Account

The Group made a net loss of £4.0 million in 2008, compared to a profit of £12.1 million in 2007. Leumi ABL and Jersey subsidiaries contributed profits of £0.8 million and £1.3 million respectively, the former recording its first year of profits.

The Group loss is attributable to two principal causes:

1. Included in operating profit is a net loss on financial instruments carried at fair value of £9.9 million (2007: £0.6 million loss). The reduction in fair values was caused against a background of exceptionally volatile markets experienced during the last quarter of the year.

If the effect of this item is excluded from the figures, operating performance has been strong with total operating profit amounting to £27.9 million compared to £20.0 million in 2007, an increase of 39% which is considered to be an excellent performance in very difficult economic conditions.

2. Impairment losses increased significantly in 2008 to £24.1 million, compared with £2.5 million in 2007. The losses reflect a small number of large specific situations occurring during the year as a result of the impact of the severe economic downturn and exceptional movements in financial markets, with approximately £12 million attributable to commodities customers. The Bank's collective impairment provision was increased by £2.8 million during the year to reflect the general increased risk inherent in the lending portfolio. The losses also include a £3.1 million impairment charge against the Bank's holding of a Lehman Brothers bond, recognised to reflect the bond's market value following Lehman's collapse in September.

Total operating income was £39.1 million compared to £39.9 million in 2007. Excluding the £9.9 million reduction in fair values referred to above, total operating income would have been £49.0 million, an increase of 23%. Both net interest and fee income have shown impressive growth during the year. Net interest income increased 11% to £31.5 million, as the bank was able to benefit from its position as a net lender in the market. Fees and commissions increased by 29% to £12.1 million with strong growth in lending fees. Dealing profits were up 89% at £5.3 million

with significantly higher levels of foreign exchange and derivatives income.

Administrative expenses were contained to £20.1 million from £19.6 million in 2007, an increase of only 3%.

2008 saw rapid growth at our asset-based lending subsidiary Leumi ABL Ltd. Having been established in the middle of 2006, this was the business' first year of profits which, at £0.8 million after tax, were significantly ahead of plan. The year saw £525 million of client turnover (2007: £331 million) and funds advanced to clients doubled to £98 million at the end of 2008.

For the Bank's subsidiary Bank Leumi (Jersey), the deposit base grew an impressive 52% to £363 million, and customer lending grew 16% to £151 million. Net profit of £1.3 million was 15% below last year, mainly due to lower interest margins caused by the widening gap between Base and LIBOR rates. Non interest income was up on last year, including higher trust income from its subsidiary Leumi Overseas Trust Corporation Ltd.

## 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 efficiency ratio for 2008 was 54%, compared with 51% in 2007. For the Bank only, the 2008 ratio is 51%, compared with 48% in 2007.

## Future prospects

Each year, Bank Leumi (UK) plc prepares a three year plan in consultation with its parent company and this is approved by the Board of Directors. The plan for 2009 - 2011 was prepared in late 2008.

Against a background of the enormous uncertainty in world economies and financial markets, a conservative approach was taken to future prospects when preparing this plan. It was anticipated that whilst income could be expected to fall off to a degree in 2009, the Group would return to profit and in later years there would be opportunities to increase both income and return on capital as the situation improved.

Whilst it is still the Directors' belief that business can be gained even in these difficult times, recent experience with provisions and a worsening of the external financial environment will mean that prospects for 2009 in particular are likely to be more difficult than forecast.

As a result, a very stringent approach will be taken when evaluating new business opportunities. In addition, the Bank's principal focus will be on maintaining close contact with existing customers to ensure that any which are in difficulty are identified at an early stage so that appropriate action can be taken.

Overall, with the benefit of increased capital subscribed by the parent company and with a strong liquidity position, it is the Directors' belief that Bank Leumi (UK) plc is well placed to deal with the challenges presented by the current environment.

## Regulatory Environment

The financial services industry is 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. Regulation continues to evolve, more recently towards a more principles based regime, however it continues to be heavily impacted by the effects of European Directives aimed at creating a single European market for financial services.

Bank Leumi (UK) plc is conscious of regulatory change and has a structure and established procedures to keep it abreast of changes to the rules under which it must operate. During the course of 2008 the focus has been on consolidating the requirements arising from the implementation of the Capital Requirements Directive (the European equivalent of Basel II), and the Markets in Financial Instruments Directive (MiFID) which has led to significant change to the rules by which investment business is governed; but also in embedding an ethical cultural in meeting the FSA's Treating Customers Fairly initiative. We continue to monitor developments relating to their Retail Distribution Review.

The Bank's two Jersey subsidiaries operate under the laws and orders of Jersey, and the codes of practice issued by the Jersey Financial Services Commission. The present regulatory environment is relatively stable although there have been recent developments with the introduction of the Code of Practice for Deposit Business with which we comply.

### 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. An independent Risk Control Department, under the management of a Risk Control Manager, monitors that risk exposures are maintained within approved parameters and appetites. On an annual basis this unit facilitates and reviews risks arising from credit, operations and market exposures and 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. There are three further risk 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.

Credit risk is controlled by way of individual assessment of the credit quality of each counterparty, 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. Concentration risk is carefully monitored by borrower concentration, industry sector and country. Limits sanctioned by the Board are applied to each of these areas.

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.

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.

### Board of Directors

The present Directors are listed on page 3.

The Directors retiring in rotation in accordance with the Company's Articles are Mr. E. Raff, Mr. W.K. Goldsmith and Mr. D. Meller.

Mr. E. Raff and Mr. W.K. Goldsmith both of whom are eligible, offer themselves for re-election.

Mr. C.I. Lehmann who was appointed in March 2008, Messrs. Y. Minz and G.S. Suesskind who were appointed in May 2008 and Mr. L.M. Weiss who was appointed in December 2008, are retiring in accordance with the Company's Articles and are offering themselves for re-election.

Mr. M. Friedman left office and returned to Israel in June 2008.

Mr. M. Bar Haim retired from the Board in February 2008.

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.

To reflect the changes introduced by the Companies Act 2006, the Directors recommend that new Articles of Association of the Company be adopted by way of a Special Resolution with effect from the close of the Annual General Meeting. As certain provisions of the legislation do not come into force until 1 October 2009 (or, if later, the date on which the relevant statutory notice is entered on the register by Companies House), the Directors recommend that Article 1.4 of the new Articles shall have effect from 1 October 2009. The Directors consider that the Special Resolution to be proposed at the Annual General Meeting, as set out in the Notice to Shareholders on page 40, is in the best interests of the Company and is most likely to promote the success of the Company for the benefit of its Shareholders as a whole.

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Accounts 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).

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 accounts 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the accounts comply with the Companies Act 1985. 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.

To comply with the provision of paragraph 12(3) of part VI of schedule 7 to the Companies Act 1985, the figure for trade creditor days as at 31 December 2008 is 22 (2007:14).

## Share Ownership

As at 31 December 2008 Bank Leumi le-Israel B.M. Group held 99.77% 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 184 (2007: 179) and the aggregate remuneration paid to all such persons amounted to £8,939,661 (2007: £9,355,409).

## Charitable and Political Donations

Charitable donations during the year amounted to £15,429 (2007: £13,291). 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  
24 February 2009  
20, Stratford Place, London W1C 1BG

# Consolidated Profit and Loss Account

for the year ended 31 December 2008

	Notes	2008 £000's	2007 £000's
Interest receivable		83,867	92,454
Less: interest payable		(52,341)	(64,100)
<b>Net interest income</b>	3	31,526	28,354
Fees and commission receivable	4	12,138	9,379
Dealing profits		5,304	2,806
Net loss from other financial instruments carried at fair value	5	(9,910)	(634)
<b>Operating income</b>		39,058	39,905
Administrative expenses	6	(20,075)	(19,560)
Depreciation of fixed assets	19	(949)	(888)
Amortisation of goodwill	11	(77)	(77)
<b>Operating profit before provisions</b>		17,957	19,380
<b>Net impairment losses</b>	16	(24,093)	(2,511)
<b>(Loss) / Profit on ordinary activities before taxation</b>	2	(6,136)	16,869
Taxation on ordinary activities	9	2,096	(4,783)
<b>(Loss) / Profit for the financial year</b>	10	(4,040)	12,086

All items dealt with in arriving at operating profit for 2008 and 2007 relate to continuing operations.

A note of historical cost profits and losses has not been provided on the grounds that the Directors do not consider that there is a difference between historical cost profits and those disclosed in the profit and loss account.

The notes on pages 15 to 38 form an integral part of the accounts.

# Balance Sheet

as at 31 December 2008

	Notes	Group		Bank	
		2008 €000's	2007 €000's	2008 €000's	2007 €000's
<b>Assets</b>					
Cash and balances at central banks		2	2	2	2
Loans and advances to banks	14	235,044	275,455	233,445	274,216
Loans and advances to customers	15	1,151,086	1,006,605	1,006,479	892,472
Debt securities	17	102,978	113,839	89,169	103,278
Shares in group undertakings	18	-	-	16,369	11,369
Intangible fixed assets	11	460	537	-	-
Tangible fixed assets	19	4,041	4,037	3,631	3,654
Financial derivatives	31	66,822	12,284	67,842	2,571
Other assets	20	10,425	6,589	6,456	1,507
Prepayments and accrued income		2,243	1,983	2,110	1,876
Pension asset – net of deferred tax	30	354	1,616	354	1,616
<b>Total assets</b>	13	<u>1,573,455</u>	<u>1,422,947</u>	<u>1,425,857</u>	<u>1,302,561</u>
<b>Liabilities</b>					
Deposits by banks	21	230,771	73,421	230,771	73,373
Customer deposits	22	1,085,631	1,190,255	943,233	1,074,114
Financial derivatives	31	77,062	11,497	77,772	11,740
Other liabilities	23	8,161	6,139	7,353	5,724
Accruals and deferred income		2,423	3,030	1,930	2,588
Provision for liabilities and charges	23	63	103	63	103
Subordinated liabilities: Undated loan capital	24	72,865	43,069	72,865	43,069
Called up share capital	25	10,960	9,884	10,960	9,884
Share premium account	26	27,100	18,176	27,100	18,176
Available for sale reserve	26	(5,085)	(1,407)	(4,228)	(1,224)
Profit and loss account	26	63,504	68,780	58,038	65,014
Equity shareholders' funds	26	<u>96,479</u>	<u>95,433</u>	<u>91,870</u>	<u>91,850</u>
<b>Total liabilities and shareholders' funds</b>	13	<u>1,573,455</u>	<u>1,422,947</u>	<u>1,425,857</u>	<u>1,302,561</u>

# Memorandum Items

	Notes	Group		Bank	
		2008 £000's	2007 £000's	2008 £000's	2007 £000's
<b>Contingent liabilities</b>					
Acceptances and endorsements		9,166	11,903	9,166	11,903
Guarantees		177,589	79,825	175,772	78,931
Other contingent liabilities		43,025	43,866	43,025	43,866
	27	<u>229,780</u>	<u>135,594</u>	<u>227,963</u>	<u>134,700</u>
<b>Commitments</b>					
Lending commitments	27	324,007	288,284	332,813	283,247

# Statement of Total Recognised Gains and Losses

	Notes	Group		Bank	
		2008 £000's	2007 £000's	2008 £000's	2007 £000's
(Loss) / Profit for the financial period		(4,040)	12,086	(5,740)	11,976
Actuarial (losses)/gains recognised in the pension scheme		(1,790)	167	(1,790)	167
Deferred tax arising on (losses)/gains in the pension scheme	20	554	(48)	554	(48)
Available for sale investments					
- Valuation losses taken to equity		(4,947)	(1,678)	(4,198)	(1,444)
- Tax on items taken directly to equity		1,269	456	1,194	433
Total recognised gains and losses recognised since 31 December 2007		<u>(8,954)</u>	<u>10,983</u>	<u>(9,980)</u>	<u>11,084</u>

The accounts have been approved and signed on behalf of the Board by:  
 Eitan Raff, Chairman.  
 Walter K. Goldsmith, Director and Chairman of the Audit Committee.  
 Lawrence M. Weiss, Managing Director and Chief Executive Officer.  
 24 February 2009

The notes on pages 15 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 under the historical cost convention, except for available for sale financial assets and derivative financial instruments and in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to banking groups. The accounts have been prepared in accordance with applicable accounting standards of the Accounting Standards Board (ASB), pronouncements of the Urgent Issues Task Force (UITF).

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.

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 2008. 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 or 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 or 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 or, for financial options contracts, using a leading online derivatives pricing model. 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.

## Notes to the Accounts *continued*

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. The empty property provision relates to discounted future costs associated with vacant and sub-let short leasehold properties.

### h. Pensions

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

The Invoice Discounting subsidiary also 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.

#### (a) 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.

A credit representing the expected return on the assets of the retirement benefit pension scheme during the period is included within other 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 administrative expense representing the expected increase in the liabilities of the retirement benefit pension scheme during the period. This arises from the liabilities of the schemes 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.

#### (b) Defined Contribution Schemes

For the defined contribution schemes 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

#### (a) 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.

#### (b) 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.

#### (c) Dividend Income

Dividend income from investments is recognised when the shareholder's 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 of 10 years. 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. (Loss)/Profit on Ordinary Activities before Taxation

	Group	
	2008 £000's	2007 £000's
(Loss) / Profit on ordinary activities before tax is stated after:		
(i) Crediting:		
Income from listed investments	4,627	5,280
Profits less losses on disposal of investment securities	3	4
(ii) Charging :		
Interest incurred with respect to subordinated liabilities	3,621	2,314
Hire of computers and equipment	13	17
Depreciation	949	888
Rentals paid on premises under operating leases, net of rental income of £206,000 (2007: £240,000)	722	684
Amortisation of goodwill	77	77

	Group	
	2008 £000's	2007 £000's
Auditors remuneration:		
Audit of these accounts	187	174
Amounts receivable by auditors and their associates in respect of:		
Other services pursuant to legislation	12	16
Other services	12	20
Amounts receivable by unassociated auditors in respect of:		
Audit of accounts of subsidiaries pursuant to legislation	72	68
Other services	16	8

Amounts paid to the Bank's auditor in respect of services to the Bank, other than the audit of the Bank's accounts, have not been disclosed by category as the information is required instead to be disclosed on a consolidated basis.

## 3. Net Interest Income

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
<b>Interest Receivable:</b>				
Loans and Advances to Banks	5,639	16,335	5,570	16,317
Loans and Advances to Customers	69,176	68,414	60,929	60,688
Debt Securities	4,822	5,846	4,217	5,272
Other Interest Earning Financial Assets	4,230	1,859	4,230	1,859
<b>Total Interest Receivable</b>	<b>83,867</b>	<b>92,454</b>	<b>74,946</b>	<b>84,136</b>
<b>Interest Payable:</b>				
Deposits by Banks	2,220	5,194	2,225	5,181
Customer Deposits	40,703	54,766	35,018	49,613
Subordinated Liabilities	3,621	2,314	3,621	2,314
Other Interest Bearing Financial Liabilities	5,797	1,826	5,797	1,826
<b>Total Interest Payable</b>	<b>52,341</b>	<b>64,100</b>	<b>46,661</b>	<b>58,934</b>
<b>Net Interest Income</b>	<b>31,526</b>	<b>28,354</b>	<b>28,285</b>	<b>25,202</b>

## Notes to the Accounts *continued*

### 4. Net Fees And Commission Income

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
<b>Fees and Commissions:</b>				
Banking Fees	9,735	7,154	6,054	5,003
Fund Management Fees	1,522	1,447	1,331	1,319
Trust Income	881	778	-	-
<b>Total Fees and Commissions</b>	<b>12,138</b>	<b>9,379</b>	<b>7,385</b>	<b>6,322</b>

### 5. Net loss from other financial instruments carried at fair value

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
Loans and Receivables	62	165	62	165
Derivatives	(9,777)	(233)	(9,449)	(255)
Debt Securities designated at fair value	(195)	(566)	(195)	(566)
	<b>(9,910)</b>	<b>(634)</b>	<b>(9,582)</b>	<b>(656)</b>

### 6. Administrative Expenses

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
Wages and salaries	8,939	9,302	6,820	7,479
Social security costs	851	914	753	839
Pension costs	1,001	999	899	929
Other administrative expenses	9,284	8,345	6,698	6,221
	<b>20,075</b>	<b>19,560</b>	<b>15,170</b>	<b>15,468</b>

### 7. Directors' Emoluments and Loans

	2008 £	2007 £
The aggregate emoluments of the Directors of the Bank were:	936,776	1,134,676
Of which:		
Sums paid to Bank Leumi le-Israel B.M. in respect of Directors' fees	28,158	13,966
The highest paid Director	204,971	402,238

The highest paid Director received the above sum in salary and benefits. The Bank paid pension contributions of £20,337 in respect of the highest paid Director (2007: £3,037). Pension contributions of £20,042 were paid by the Bank in respect of other Directors (2007: £37,068).

The aggregate amount of loans to Directors outstanding as at 31 December 2008 amounted to £Nil (2007: £6,698 – 1 director).

## 8. Employees

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

	Group		Bank	
	2008	2007	2008	2007
Managers	56	50	43	37
Clerical Staff	122	122	99	102
Others	6	7	5	7
	<u>184</u>	<u>179</u>	<u>147</u>	<u>146</u>

## 9. Taxation

### (a) Analysis of charge in period

	2008 £000's	2007 £000's
UK Corporation Tax on (losses) / profits of the period	(2,162)	4,447
Foreign Tax	78	152
Adjustment in respect of prior years	(152)	(155)
Total current tax	<u>(2,236)</u>	<u>4,444</u>
Deferred Tax (note 20)		
Timing differences	140	339
Tax on (loss) / profit on ordinary activities	<u>(2,096)</u>	<u>4,783</u>

### (b) Factors affecting tax charge for the period

The tax assessed for the period is lower (2007: lower) than the average rate of Corporation Tax for the year of 28.5% (2007: 30%). The differences are explained below;

	2008 £000's	2007 £000's
Profit on ordinary activities before tax	(6,135)	16,869
Corporation Tax in the UK at average rate of 28.5% (2006: 30%)	(1,749)	5,061
Effects of:		
Foreign Tax	(218)	(349)
Capital allowances in excess of depreciation	38	(13)
Expenses not deductible for tax	86	58
Adjustment for Prior Year Tax	(152)	(190)
Effect of carry back of tax losses	(124)	-
Relief for Implementation of FRS 26	(117)	(123)
Current Tax (credit) / charge for period	<u>(2,236)</u>	<u>4,444</u>

### (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 Loss dealt with in the Accounts of Bank Leumi (UK) plc

As permitted by Section 230 of the Companies Act 1985 the profit and loss account for Bank Leumi (UK) plc has not been presented separately and the loss after tax dealt with in the accounts is £5,740,000 compared to a profit of £11,976,000 in 2007.

## 11. Intangible Fixed Assets

	Acquisition of Subsidiary
	£000's
Cost at 1 January 2008	768
<b>Cost at 31 December 2008</b>	<b>768</b>
Amortisation at 1 January 2008	(231)
Amortisation charged in period	(77)
<b>Amortisation at 31 December 2008</b>	<b>(308)</b>
<b>Net Book Value at 31 December 2008</b>	<b>460</b>
Net Book Value at 31 December 2007	537

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 and is amortised over a period of 10 years.

## 12. Related Party Transactions

The Bank is 99.77% 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. The Bank has therefore taken advantage of the exemptions available in FRS8 not to disclose transactions with entities that are part of the Group.

## 13. Currency Analysis of Assets and Liabilities

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
<b>Assets</b>				
Denominated in sterling	824,037	684,673	738,788	597,605
Denominated in currencies other than sterling	749,418	738,274	687,069	704,956
<b>Total Assets</b>	<b>1,573,455</b>	<b>1,422,947</b>	<b>1,425,857</b>	<b>1,302,561</b>
<b>Liabilities</b>				
Denominated in sterling	704,460	696,805	604,587	608,053
Denominated in currencies other than sterling	868,995	726,142	821,270	694,508
<b>Total Liabilities</b>	<b>1,573,455</b>	<b>1,422,947</b>	<b>1,425,857</b>	<b>1,302,561</b>

## 14. Loans and Advances to Banks

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
Repayable on demand	9,537	6,233	7,938	4,994
Remaining maturity of other loans and advances				
● 3 months or less	225,507	269,222	225,507	269,222
	<u>235,044</u>	<u>275,455</u>	<u>233,445</u>	<u>274,216</u>

Includes intra-group loans and advances of €1,123,000 (2007: €3,627,000).

## 15. Loans and Advances to Customers

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
Analysed by remaining maturity:				
● Over 5 years	6,006	4,178	-	-
● 5 years or less but over 1 year	147,706	129,416	25,480	16,953
● 1 year or less but over 3 months	64,634	93,305	61,525	86,279
● 3 months or less excluding repayable on demand	559,697	424,787	606,662	457,696
● Repayable on demand	400,740	362,000	337,812	336,245
● Impairment allowances (note 16)	(27,697)	(7,081)	(25,000)	(4,701)
	<u>1,151,086</u>	<u>1,006,605</u>	<u>1,006,479</u>	<u>892,472</u>
Amounts include:				
Due to subsidiary undertakings			100,611	57,670

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
<b>Analysed by industrial sector</b> (net of specific impairment)				
Property	412,796	351,683	279,887	228,526
Commerce	258,126	227,517	238,100	227,508
Industry	131,834	86,827	72,012	58,037
Other services	200,472	186,212	286,575	230,624
Hotels	85,051	103,090	85,051	103,090
Other	68,327	53,994	50,374	47,405
	<u>1,156,606</u>	<u>1,009,323</u>	<u>1,011,999</u>	<u>895,190</u>
Less collective impairment (note 16)	(5,520)	(2,718)	(5,520)	(2,718)
	<u>1,151,086</u>	<u>1,006,605</u>	<u>1,006,479</u>	<u>892,472</u>

Of the total amount outstanding to the largest industrial sector, property, €34.5 million (2007: €34.0 million) was covered by cash or bank guarantees.

## 16. Net impairment losses

	2008			2007		
	Individual £000's	Collective £000's	Total £000's	Individual £000's	Collective £000's	Total £000's
<b>Group</b>						
<b>At 1 January</b>	4,363	2,718	7,081	1,809	3,200	5,009
Charge against profits (net of recoveries)	21,291	2,802	24,093	2,993	(482)	2,511
Recoveries	33	-	33	12	-	12
Amount written off	(553)	-	(553)	(395)	-	(395)
FX Difference	503	-	503	(56)	-	(56)
<b>At 31 December</b>	<b>25,637</b>	<b>5,520</b>	<b>31,157</b>	<b>4,363</b>	<b>2,718</b>	<b>7,081</b>
Related Exposures:						
Loans and Advances to Customers	22,177	5,520	27,697	4,363	2,718	7,081
Debt Securities	3,119	-	3,119	-	-	-
Other Assets	341	-	341	-	-	-
	<b>25,637</b>	<b>5,520</b>	<b>31,157</b>	<b>4,363</b>	<b>2,718</b>	<b>7,081</b>
<b>Bank</b>						
<b>At 1 January</b>	1,983	2,718	4,701	1,783	3,200	4,983
Charge against profits (net of recoveries)	20,633	2,802	23,435	639	(482)	157
Recoveries	33	-	33	12	-	12
Amount written off	(553)	-	(553)	(395)	-	(395)
FX Difference	503	-	503	(56)	-	(56)
<b>At 31 December</b>	<b>22,599</b>	<b>5,520</b>	<b>28,119</b>	<b>1,983</b>	<b>2,718</b>	<b>4,701</b>
Related Exposures:						
Loans and Advances to Customers	19,480	5,520	25,000	1,983	2,718	4,701
Debt Securities	3,119	-	3,119	-	-	-
	<b>22,599</b>	<b>5,520</b>	<b>28,119</b>	<b>1,983</b>	<b>2,718</b>	<b>4,701</b>

The impairment of £3,119,000 against Debt Securities represents the write-down in value of the Bank's holding of a USD 5,000,000 Lehman Brothers floating rate note.

## 17. Debt Securities

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
<b>Debt securities</b>				
Issued by:				
Government	10,081	7,798	10,081	7,798
Banks & Building Societies	92,897	98,682	79,088	88,121
Other	-	7,359	-	7,359
<b>Total debt securities</b>	<b>102,978</b>	<b>113,839</b>	<b>89,169</b>	<b>103,278</b>
<b>Debt securities</b>				
Due within one year	26,838	31,264	26,838	31,263
Due one year and over	76,140	82,575	62,331	72,015
<b>Total debt securities</b>	<b>102,978</b>	<b>113,839</b>	<b>89,169</b>	<b>103,278</b>

All debt securities are listed on recognised exchanges.

Includes intra-group debt securities for both Bank and Group of nil (2007:£nil).

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

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
Aaa to Aa3	77,081	68,512	63,272	57,951
A1 to A3	19,700	45,327	19,700	45,327
Baa1 to Baa3	5,885	-	5,885	-
Impaired Debt Securities	312	-	312	-
<b>Total</b>	<b>102,978</b>	<b>113,839</b>	<b>89,169</b>	<b>103,278</b>

## 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 Ltd.	Nominee		100%
AIB Trustees Ltd.	Trustee for the Retirement Benefit Scheme		100%
Leumi ABL Limited	Factoring and Invoice Discounting	++	80%
Bank Leumi (Jersey) Limited (Resident and registered in Jersey)	Banking Services	++	100%
Leumi Overseas Trust Corporation Limited (LOTG) (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 Ltd and Bank Leumi (Jersey) Ltd. are €160,000 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.

APAK Offshore Limited was dissolved on 26 June 2008.

## Notes to the Accounts *continued*

### 19. Tangible Fixed Assets

Group:	Leases of less than 50 years unexpired £000's	Computer and other equipment £000's	Total £000's
Cost			
At 1 January 2008	2,670	8,261	10,931
Additions	127	826	953
Disposals	(38)	(6)	(44)
<b>At 31 December 2008</b>	<b>2,759</b>	<b>9,081</b>	<b>11,840</b>
Accumulated depreciation and amortisation			
At 1 January 2007			
Charge for the year	928	5,966	6,894
Disposals	(39)	(5)	(44)
Charge for year	168	781	949
<b>At 31 December 2008</b>	<b>1,057</b>	<b>6,742</b>	<b>7,799</b>
<b>Net book value at 31 December 2008</b>	<b>1,702</b>	<b>2,339</b>	<b>4,041</b>
Net book value at 31 December 2007	1,742	2,295	4,037
<b>Bank:</b>			
Cost			
At 1 January 2008	2,604	7,527	10,131
Additions		727	727
<b>At 31 December 2008</b>	<b>2,604</b>	<b>8,254</b>	<b>10,858</b>
Accumulated depreciation and amortisation			
At 1 January 2007	899	5,578	6,477
Charge for the year	144	606	750
<b>At 31 December 2008</b>	<b>1,043</b>	<b>6,184</b>	<b>7,227</b>
<b>Net book value at 31 December 2008</b>	<b>1,561</b>	<b>2,070</b>	<b>3,631</b>
Net book value at 31 December 2007	1,705	1,949	3,654

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

### 20. Other Assets

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
Assets awaiting settlement	9,923	5,947	5,973	898
Deferred taxation*	502	642	483	609
	<u>10,425</u>	<u>6,589</u>	<u>6,456</u>	<u>1,507</u>
<b>*Deferred taxation</b>				
<b>Timing Differences</b>				
At 1 January brought forward				
-Capital Allowances	(415)	(378)	(412)	(378)
-Empty Premises	31	45	31	45
Leumi ABL & LOTC losses brought forward	24	188	-	-
Collective Provision	720	810	720	810
Effective Interest Rate	299	336	299	336
Available for sale	(17)	(20)	(29)	(33)
Deferred Tax Asset brought forward	642	981	609	780
Charge to profit (Note 9)	(140)	(339)	(126)	(171)
Deferred Tax Asset carried forward	502	642	483	609

## 20. Other Assets *continued*

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
<b>Timing Differences</b>				
At 31 December carried forward				
-Capital Allowances	(341)	(415)	(343)	(412)
-Empty Premises Provision	18	31	18	31
-Leumi ABL & LOTC losses brought forward	6	24	-	-
Collective Provision	588	720	588	720
Effective Interest Rate	244	299	244	299
Available for sale	(13)	(17)	(24)	(29)
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred Tax Asset carried forward	502	642	483	609
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Deferred Tax Liability on Pension Surplus</b>				
At 1 January brought forward	(692)	(644)	(692)	(644)
Credit / (Charge) to Statement of Recognised Gains & Losses	554	(48)	554	(48)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December carried forward (note 30)	(138)	(692)	(138)	(692)
	<hr/>	<hr/>	<hr/>	<hr/>

## 21. Deposits by Banks

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
Repayable on demand	4,083	3,008	4,083	2,960
With agreed maturity dates or periods of notice, by remaining maturity:				
● 1 year or less but over 3 months	1,026	580	1,026	580
● 3 months or less	225,662	69,833	225,662	69,833
	<hr/>	<hr/>	<hr/>	<hr/>
	230,771	73,421	230,771	73,373
	<hr/>	<hr/>	<hr/>	<hr/>

Includes intra-group deposits for both Bank and Group of £228,101,000 (2007:£66,963,000).

## 22. Customer Deposits

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
Repayable on demand	274,294	402,757	255,010	399,447
With agreed maturity dates or periods of notice, by remaining maturity:				
● 5 years or less but over 1 year	2,024	4,855	2,024	4,855
● 1 year or less but over 3 months	56,572	117,164	51,148	115,463
● 3 months or less	752,741	665,479	635,051	554,349
	<hr/>	<hr/>	<hr/>	<hr/>
	1,085,631	1,190,255	943,233	1,074,114
	<hr/>	<hr/>	<hr/>	<hr/>
Amounts include:				
Due to subsidiary undertakings			220,253	122,548
			<hr/>	<hr/>

Includes intra-group customer deposits for the Bank of £14,011,000 and the Group of £23,502,000 (2007: Bank £10,362,000 and Group £19,591,000).

## 23. Other Liabilities

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
<b>Other liabilities</b>				
Taxation	589	2,740	856	2,324
Social Security payments	348	119	270	89
Liabilities awaiting settlement	7,224	3,280	6,227	3,311
	<u>8,161</u>	<u>6,139</u>	<u>7,353</u>	<u>5,724</u>

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
<b>Provision for liabilities and charges</b>				
Empty property provision	63	103	63	103
	<u>63</u>	<u>103</u>	<u>63</u>	<u>103</u>

## 24. Subordinated Liabilities – Group and Bank

	Interest Fixing	2008 €000's	Rate of Interest	2007 €000's	Rate of Interest
Loan note 1 Dated	6 monthly	3,581	3.797%	3,581	6.701%
Loan note 2 Dated	6 monthly	1,250	3.672%	1,250	6.576%
Loan note 3 Dated	6 monthly	30,663	3.547%	30,660	6.451%
Loan note 4 Dated	6 monthly	7,571	6.179%	7,578	6.749%
Loan note 5 Dated	3 monthly	2,548	9.160%	-	-
Loan note 6 Perpetual	3 monthly	17,006	6.792%	-	-
Loan note 7 Perpetual	3 monthly	5,106	10.160%	-	-
Loan note 8 Perpetual	6 monthly	5,140	6.873%	-	-
		<u>72,865</u>		<u>43,069</u>	

The dated subordinated loan notes, all of which are issued by 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 of 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	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
<b>Equity Share Capital</b>				
Authorised share capital: Ord. shares of €1	20,000	20,000	20,000	20,000
	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Issued share capital: Ord. shares €1 fully paid	10,960	9,884	10,960	9,884
	<u>10,960</u>	<u>9,884</u>	<u>10,960</u>	<u>9,884</u>

## 25. Share Capital *continued*

The Issued share capital of Bank Leumi UK plc as at 31 December 2008 was £10,960 million (2007: £9,884 million). The current year saw an increase in issued shares of 1,076 million at £9.29 each, all taken up by the parent company Bank Leumi le-Israel B.M. Shares were issued to support business expansion and capital requirements.

All Ordinary shares confer identical rights in respect of capital, dividends, voting and otherwise to holders.

### Capital Adequacy

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 revised framework includes a more risk-sensitive methodology for the allocation of regulatory capital for Credit Risk and introduced 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 calculate on a daily basis the Bank's Solvency Ratio and compare against the ICG. A capital buffer 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.

There were further draw-downs of £30 million on subordinated loan facilities during the year with Bank Leumi le-Israel B.M. The draw-downs support an increased capital requirement due to underlying balance growth, appreciation of Sterling value of receivables whose base currencies are US Dollar and Euro, and increased counterparty risk related to derivative positions.

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 Bank and Group, although in practice the Bank reports at the Solo level and Group level to the FSA, where the Solo level is the aggregation of the Bank and its subsidiary Leumi ABL Limited.

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
<b>Balance sheet:</b>				
Share Capital	10,960	9,884	10,960	9,884
Share Premium	27,100	18,176	27,100	18,176
Profit & Loss Reserve	63,504	68,780	58,038	65,014
Accrued Dividends	-	-	-	-
Minority Interest	40	40	-	-
Less: goodwill recognised	(460)	(537)	-	-
<b>Total Tier 1 Capital</b>	<b>101,144</b>	<b>96,343</b>	<b>96,098</b>	<b>93,074</b>
Collective Provision	5,520	2,718	5,520	2,718
Undated subordinated debt	27,000	-	27,000	-
<b>Total Upper Tier 2 Capital</b>	<b>32,520</b>	<b>2,718</b>	<b>32,520</b>	<b>2,718</b>
Lower Tier 2 Capital – Dated subordinated debt	45,466	42,966	45,466	42,966
<b>Total Tier 2 Capital</b>	<b>77,986</b>	<b>45,684</b>	<b>77,986</b>	<b>45,684</b>
<b>Less: investment in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>(16,369)</b>	<b>(11,369)</b>
<b>Total regulatory capital</b>	<b>179,130</b>	<b>142,027</b>	<b>157,715</b>	<b>127,389</b>

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

## 26. Reconciliation of Movements in Shareholders' Funds

### Group 2008

	Share Capital 2008 £000's	Share Premium Account 2008 £000's	Profit and loss Account 2008 £000's	Available for sale Reserve 2008 £000's	Total 2008 £000's
As at 1 January 2008	9,884	18,176	68,780	(1,407)	95,433
Issued Share Capital and Premium	1,076	8,924	-	-	10,000
Loss for the year	-	-	(4,040)	-	(4,040)
Actuarial gain/(loss) for the year	-	-	(1,790)	-	(1,790)
Deferred tax relating to pension asset	-	-	554	-	554
Dividend paid (relating to year 2007)	-	-	-	-	-
Fair value adjustment	-	-	-	(3,678)	(3,678)
At the end of the year	10,960	27,100	63,504	(5,085)	96,479

### Bank 2008

	Share Capital 2008 £000's	Share Premium Account 2008 £000's	Profit and loss Account 2008 £000's	Available for sale Reserve 2008 £000's	Total 2008 £000's
As at 1 January 2008	9,884	18,176	65,014	(1,224)	91,850
Issued Share Capital and Premium	1,076	8,924	-	-	10,000
Loss for the year	-	-	(5,740)	-	(5,740)
Actuarial gain/(loss) for the year	-	-	(1,790)	-	(1,790)
Deferred tax relating to pension asset	-	-	554	-	554
Dividend paid (relating to year 2007)	-	-	-	-	-
Fair value adjustment	-	-	-	(3,004)	(3,004)
At the end of the year	10,960	27,100	58,038	(4,228)	91,870

### Group 2007

	Share Capital 2007 £000's	Share Premium Account 2007 £000's	Profit and loss Account 2007 £000's	Available for sale Reserve 2007 £000's	Total 2007 £000's
As at 1 January 2007	9,884	18,176	62,900	(186)	90,774
Profit for the year	-	-	12,086	-	12,086
Actuarial gain for the year	-	-	167	-	167
Deferred tax relating to pension asset	-	-	(48)	-	(48)
Dividend paid (relating to year 2006)	-	-	(6,325)	-	(6,325)
Fair value adjustment	-	-	-	(1,221)	(1,221)
At the end of the year	9,884	18,176	68,780	(1,407)	95,433

### Bank 2007

	Share Capital 2007 £000's	Share Premium Account 2007 £000's	Profit and loss Account 2007 £000's	Available for sale Reserve 2007 £000's	Total 2007 £000's
As at 1 January 2007	9,884	18,176	59,244	(214)	87,090
Profit for the year	-	-	11,976	-	11,976
Actuarial gain for the year	-	-	167	-	167
Deferred tax relating to pension asset	-	-	(48)	-	(48)
Dividend paid (relating to year 2006)	-	-	(6,325)	-	(6,325)
Fair value adjustment	-	-	-	(1,010)	(1,010)
At the end of the year	9,884	18,176	65,014	(1,224)	91,850

## 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. 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	2008				2007			
	Contract amount €000's	Credit equivalent amount €000's	Risk weight %	Risk weighted amount €000's	Contract amount €000's	Credit equivalent amount €000's	Risk Weight %	Risk weighted amount €000's
<b>Contingent Liabilities</b>								
Acceptances	9,166	9,166	100%	9,166	11,903	11,563	100%	11,563
Guarantees	177,589	93,837	100%	93,837	79,825	48,265	100%	48,265
Documentary credits & short term trade related transactions	43,025	43,025	20%	8,605	43,866	41,753	20%	8,350
	<u>229,780</u>	<u>146,028</u>		<u>111,608</u>	<u>135,594</u>	<u>101,581</u>		<u>68,178</u>
<b>Commitments</b>								
Credit Lines and other commitments to lend								
● less than 1 year	324,007	-		-	288,284	-		-

Includes intra-group contingent liabilities of €30,789,000 (2007: €17,162,000).

Bank	2008				2007			
	Contract amount €000's	Credit equivalent amount €000's	Risk weight %	Risk weighted amount €000's	Contract amount €000's	Credit equivalent amount €000's	Risk Weight %	Risk weighted amount €000's
<b>Contingent Liabilities</b>								
Acceptances	9,166	9,166	100%	9,166	11,903	11,563	100%	11,563
Guarantees	175,772	93,322	100%	93,322	78,931	48,265	100%	48,265
Documentary credits & short term trade related transactions	43,025	43,025	20%	8,605	43,866	41,753	20%	8,350
	<u>227,963</u>	<u>145,513</u>		<u>111,093</u>	<u>134,700</u>	<u>101,581</u>		<u>68,178</u>
<b>Commitments</b>								
Credit Lines and other commitments to lend								
● less than 1 year	332,813	-		-	283,247	-		-

Includes intra-group contingent liabilities of €29,349,000 (2007: €16,537,000).

## Notes to the Accounts *continued*

### 28. Other Commitments

	2008 £000's	2007 £000's
Capital expenditure contracted for: By the Group and Bank	-	35

#### Lease Commitments

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

	Group		Bank	
	2008 £000's	2007 £000's	2008 £000's	2007 £000's
Operating leases which expire				
- within 1 year	2	2	-	-
- 1 to 5 years	975	996	925	925
- over 5 years	94	-	-	-
	<u>1,071</u>	<u>998</u>	<u>925</u>	<u>925</u>

### 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 £213,200 (2007: £181,100) 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 2008. 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 2008 using the Projected Unit Valuation Method to obtain the figures in this disclosure note.

	At 31 December 2008 £000's	Expected long term return	At 31 December 2007 £000's	Expected long term return
Equities	10,436	8.00%	15,011	7.00%
Bonds	9,301	6.50%	9,664	5.80%
Other (cash)	(34)	3.50%	(87)	5.50%
Total market value of assets	<u>19,703</u>		<u>24,588</u>	
Present value of scheme's liabilities	<u>(19,211)</u>		<u>(22,280)</u>	
Surplus in the scheme	492		2,308	
Related deferred tax liability @ 28% (note 20)	(138)		(692)	
Net Pension asset	<u>354</u>		<u>1,616</u>	

### 30. Pension *continued*

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 2008, using the following assumptions:

	At 31 December 2008	At 31 December 2007
Discount rate	6.50%	5.80%
Expected return on scheme assets	7.83%	6.53%
Rate of increase in salaries	4.30%	4.85%
Rate of revaluation of pensions in deferment	2.80%	3.35%
Increases on pensions in payment in respect of service:		
Before April 1997	n/a	n/a
From April 1997 – June 2005	3.00%	3.35%
From July 2005	2.50%	2.50%
Assumed life expectancy on retirement age 65:		
Retiring today		
Males	22.4 years	20.7 years
Females	25.0 years	23.7 years
Retiring in 20 years		
Males	23.8 years	21.6 years
Females	26.2 years	24.6 years

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 £0.3 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 the medium cohort effect increases the scheme liabilities by £0.4 million.

	Year ended 31 December 2008 £000's	Year ended 31 December 2007 £000's
<b>Movement in surplus during the year</b>		
Surplus in scheme at start of year	2,308	2,148
Current service cost	(602)	(537)
Past service cost	(82)	(194)
Cash contribution	356	356
Other finance income	302	368
Actuarial (losses)/gains	(1,790)	167
<b>Surplus in scheme at year end</b>	<b>492</b>	<b>2,308</b>
<b>Amount charged to Operating Profit</b>		
Current Service Cost	602	537
Past Service Cost	82	194
<b>Total Operating Charge to Administrative Expenses</b>	<b>684</b>	<b>731</b>
<b>Amount charged returned to other finance income</b>		
Expected return on assets	1,597	1,522
Interest on scheme liabilities	(1,295)	(1,154)
<b>Net credit to interest income</b>	<b>302</b>	<b>368</b>
<b>Amount recognised in statement of total recognised gains and losses</b>		
Actual less expected return on assets	(6,215)	(916)
Experience gains on liabilities	1,674	(375)
Effect of change in assumptions on liabilities	2,751	1,458
<b>Actuarial (Loss)/Gain recognised in statement of total recognised gains and losses</b>	<b>(1,790)</b>	<b>167</b>
<b>History of experience gains and losses</b>		
Difference between expected and actual returns on scheme assets:		
Amount (£000's)	(6,215)	(916)
Percentage of pension assets at year end	32%	4%
Experience (loss)/gain on scheme liabilities:		
Amount (£000's)	1,674	(375)
Percentage of pension liabilities at year end	8%	2%
Total (loss)/gain recognised in statement of total recognised gains and losses:		
Amount (£000's)	(1,790)	167
Percentage of pension liabilities at year end	9%	1%

## 31. Financial Instruments

### General

The Bank's main activities are:

<b>Banking</b>	Lending, deposit taking and issuing of guarantees to third parties and activities in trade finance.
<b>Investments</b>	Purchasing of debt securities.
<b>Trading</b>	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 writes foreign exchange options covered by future foreign currency income flow.

Debt securities are used to enhance the liquidity positions. 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.

### 2008

	Loans & receivables £000's	Available For for sale £000's	Financial liabilities at amortised cost £000's	Derivatives £000's	Total £000's
<b>Assets</b>					
Cash and balances at central banks	2	-	-	-	2
Loans and advances to banks	235,044	-	-	-	235,044
Loans and advances to customers	1,151,086	-	-	-	1,151,086
Debt securities – other	-	102,978	-	-	102,978
Financial derivatives	-	-	-	66,822	66,822
<b>Total financial assets</b>	<b>1,386,132</b>	<b>102,978</b>	<b>-</b>	<b>66,822</b>	<b>1,555,932</b>
Total non-financial assets					17,523
<b>Total assets</b>					<b>1,573,455</b>
<b>Liabilities</b>					
Deposits by banks	-	-	230,771	-	230,771
Customers deposits	-	-	1,085,631	-	1,085,631
Financial derivatives	-	-	-	77,062	77,062
Subordinated liabilities	-	-	72,865	-	72,865
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>1,389,267</b>	<b>77,062</b>	<b>1,466,329</b>
Total non-financial liabilities					10,647
<b>Total liabilities</b>					<b>96,479</b>
<b>Total liabilities and equity</b>					<b>1,573,455</b>

## 31. Financial Instruments *continued*

2007

<b>Assets</b>	Loans & receivables €000's	Available For 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	275,455	-	-	-	275,455
Loans and advances to customers	1,006,605	-	-	-	1,006,605
Debt securities – designated at fair value	-	7,359	-	-	7,359
Debt securities – other	-	106,480	-	-	106,480
Financial derivatives	-	-	-	12,284	12,284
<b>Total financial assets</b>	<b>1,282,062</b>	<b>113,839</b>	<b>-</b>	<b>12,284</b>	<b>1,408,185</b>
Total non-financial assets					14,762
<b>Total assets</b>					<b>1,422,947</b>
<b>Liabilities</b>					
Deposits by banks	-	-	73,421	-	73,421
Customers deposits	-	-	1,190,255	-	1,190,255
Financial derivatives	-	-	-	11,497	11,497
Subordinated liabilities	-	-	43,069	-	43,069
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>1,306,745</b>	<b>11,497</b>	<b>1,318,242</b>
Total non-financial liabilities					9,272
<b>Total liabilities</b>					<b>1,327,514</b>
Equity shareholders' funds					95,433
<b>Total liabilities and equity</b>					<b>1,422,947</b>

### Risks

The Bank has an integrated risk management structure under the control of a Risk Control Manager, who is responsible for independently monitoring risk exposure. 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.

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 Account Officers within the Private Banking and the Commercial and Corporate Banking business sectors.

## Notes to the Accounts *continued*

### 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	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
Neither past due nor impaired	1,095,166	961,435	955,308	856,077
Past due but not impaired	2,203	35,744	151	29,991
Impaired (net of specific provisions)	53,717	9,426	51,020	6,404
Total loans and advances	<u>1,151,086</u>	<u>1,006,605</u>	<u>1,006,479</u>	<u>892,472</u>

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

	Group		Bank	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
Satisfactory credit quality	969,087	880,128	829,240	776,015
Weak credit quality	62,609	69,157	62,598	67,912
Highly weak credit quality	63,470	12,150	63,470	12,150
Total loans that were neither past due nor impaired	<u>1,095,166</u>	<u>961,435</u>	<u>955,308</u>	<u>856,077</u>

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	
	2008 €000's	2007 €000's	2008 €000's	2007 €000's
Past due 90-180 days	1,934	10,500	-	7,178
Past due over 180 days but less than 1 year	267	25,244	151	22,813
Past due over 1 year	2	-	-	-
Total loans that were past due but not impaired	<u>2,203</u>	<u>35,744</u>	<u>151</u>	<u>29,991</u>

## 31. Financial Instruments *continued*

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	
	2008 %	2007 %	2008 %	2007 %
Non performing loans as a percentage of total loans and advances to customers	4.86	4.49	5.08	4.08
Specific provisions as a percentage of total non performing loans and advances to customers	28.40	8.90	27.57	5.24

### (a) Derivatives

The Bank maintains strict controls limits on net open derivative positions by both amount and term. 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 £1.786 million (2007: £1.544 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.

**(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.

**(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 and Treasury Manager are responsible for the day to day management of market risk which includes liquidity risk, interest rate risk and 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 regularly by Finance Department which uses the ratio of net assets divided by the total deposits within time bands of 0 to 8 days and 8 days to 1 month. As at 31 December 2008 the ratios for the above bands were +18% for 0-8 days (2007: 12%) and +16% for 8 days to 1 month (2007: 6%) compared with limits of 0% and -5%.

**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.

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.

## Notes to the Accounts *continued*

### 31. Financial Instruments *continued*

The table below summarises the analysis as at 31st December 2008, with positive amounts representing a future net liability, and negative amounts representing a future net asset.

2008	Net Money Market Position £m	FX Forwards £m	Securities £m	Net Position £m	Hedging Derivatives £m	Net Position After Hedging £m	MRMC Limit £m
<b>GBP</b>							
0-4 months	(181.2)	162.1	-	(19.1)	-	(19.1)	30.0
5-7 months	54.2	(22.1)	-	32.1	-	32.1	20.0
8-13 months	1.7	(4.4)	-	(2.7)	-	(2.7)	10.0
After 13 months	0.0	(0.8)	-	(0.8)	-	(0.8)	5.0
	(125.3)	134.8	-	9.5	-	9.5	65.0
<b>USD</b>							
0-4 months	385.1	(310.0)	(95.8)	(20.7)	(5.0)	(25.7)	50.0
5-7 months	(3.4)	26.6	-	23.2	-	23.2	30.0
8-13 months	1.1	(0.4)	-	0.7	-	0.7	20.0
After 13 months	(5.0)	(0.1)	-	(5.1)	5.0	(0.1)	5.0
	377.8	(283.9)	(95.8)	(1.9)	-	(1.9)	105.0
<b>EUR</b>							
0-4 months	(50.7)	63.1	(27.6)	(15.2)	-	(15.2)	35.0
5-7 months	0.5	6.2	-	6.7	-	6.7	20.0
8-13 months	1.3	6.3	-	7.6	-	7.6	15.0
After 13 months	0.0	1.0	-	1.0	-	1.0	5.0
	(48.9)	76.6	(27.6)	0.1	-	0.1	75.0

The GBP money market position includes £30 million due in 6 months in respect of a subordinated loan from Bank Leumi Israel B.M. Due to the cost of matching the interest rate risk on this loan, it was approved by MRMC to keep the exposure as due in 6 months, and review the situation again in early 2009. This created a temporary excess over limit in the GBP 5-7 months time band.

In addition Finance Department calculate the possible loss 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 31st December 2008 the possible loss was £0.3 million (2007: £0.3 million) compared with a limit of £2.5 million (2007: £1.8 million).

The 2007 equivalent analysis is shown below:

2007	Net Money Market Position £m	FX Forwards £m	Securities £m	Net Position £m	Hedging Derivatives £m	Net Position After Hedging £m	MRMC Limit £m
<b>GBP</b>							
0-4 months	(37.8)	4.0	-	(33.8)	37.4	3.6	30.0
5-7 months	50.7	(10.3)	-	40.4	(40.0)	0.4	20.0
8-13 months	1.9	(6.1)	-	(4.2)	-	(4.2)	10.0
After 13 months	(1.6)	0.4	-	(1.2)	2.6	1.4	5.0
	13.2	(12.0)	-	1.2	-	1.2	65.0
<b>USD</b>							
0-4 months	150.6	(64.4)	(98.8)	(12.6)	(10.0)	(22.6)	50.0
5-7 months	0.8	15.1	(0.1)	15.8	-	15.8	30.0
8-13 months	0.9	6.6	-	7.5	-	7.5	20.0
After 13 months	0.1	(0.6)	-	(0.5)	-	(0.5)	5.0
	152.4	(43.3)	(98.9)	10.2	(10.0)	0.2	105.0
<b>EUR</b>							
0-4 months	(11.5)	39.1	(17.6)	10.0	(10.0)	-	35.0
5-7 months	0.8	3.6	(5.0)	(0.6)	-	(0.6)	20.0
8-13 months	(3.0)	3.4	-	0.4	-	0.4	15.0
After 13 months	-	(0.2)	(10.0)	(10.2)	10.0	(0.2)	5.0
	(13.7)	45.9	(32.6)	(0.4)	-	(0.4)	75.0

## 31. Financial Instruments *continued*

### Maturities of Financial Liabilities

The table below analyses the financial liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

<b>At 31 December 2008</b>	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
<b>Liabilities</b>						
Deposits by banks	4,083	225,662	1,026	-	-	230,771
Customers deposits	274,294	752,741	56,572	2,024	-	1,085,631
Financial derivatives	-	24,388	50,617	1,827	230	77,062
Subordinated liabilities	-	-	-	-	72,865	72,865
<b>Total financial liabilities</b>	<b>278,377</b>	<b>1,002,791</b>	<b>108,215</b>	<b>3,851</b>	<b>73,095</b>	<b>1,466,329</b>
<b>At 31 December 2007</b>						
<b>Liabilities</b>						
Deposits by banks	3,008	69,833	580	-	-	73,421
Customers deposits	402,757	665,479	117,164	4,855	-	1,190,255
Financial derivatives	-	4,111	4,072	2,270	1,044	11,497
Subordinated liabilities	-	-	-	-	43,069	43,069
<b>Total financial liabilities</b>	<b>405,765</b>	<b>739,423</b>	<b>121,816</b>	<b>7,125</b>	<b>44,113</b>	<b>1,318,242</b>

**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 (2007: £4 million).

Overall responsibility to manage foreign exchange risk lies with the Chief Dealer. Finance Department monitor foreign exchange positions daily and report to Executive Management.

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

As at 31 December 2008 the total open positions were £1.5 million (2007: £0.6 million) of which £1.2 million (2007: £0.4 million) was a long position and £0.3 million (2007: £0.2 million) was a short position giving a net long open position of £0.9 million (2007: £0.1 million).

Out of the total net position, the largest open currency positions in sterling equivalent were £1.1 million for USD positions and £0.1 million for Swiss Franc positions. An adverse 1% movement in the exchange rate for each of these positions would give a loss of £12,000.

### 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.

### 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 which 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 OTC 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.

## 31. Financial Instruments *continued*

At 31 December 2008 the notional principal amounts and fair values of derivative instruments entered into with third parties were as follows:

	Notional principal 2008 €000's	Year end positive fair values 2008 €000's	Year end negative fair values 2008 €000's
<b>Exchange Rate Contracts</b>			
FX options	316,351	38,843	47,275
Other OTC options	29	-	-
FX forwards	782,257	27,402	27,402
<b>Total Exchange Rate Contracts</b>	<b>1,098,637</b>	<b>66,245</b>	<b>74,677</b>
<b>Interest rate contracts</b>			
Interest rate swaps	43,787	2	1,714
Cross currency interest rate swap	13,977	575	575
Forward rate agreements	34,279	-	96
<b>Total Interest Rate Contracts</b>	<b>92,043</b>	<b>577</b>	<b>2,385</b>
<b>Total Derivative Contracts</b>	<b>1,190,680</b>	<b>66,822</b>	<b>77,062</b>

Includes notional amounts of intra-group derivative instruments for both Bank and Group of €40,949,000 (2007: €79,975,000).

At 31 December 2007 the notional principal amounts and fair values of derivative instruments entered into with third parties were as follows:

	Notional principal 2007 €000's	Year end positive fair values 2007 €000's	Year end negative fair values 2007 €000's
<b>Exchange Rate Contracts</b>			
FX options	126,560	4,307	4,307
Other OTC options	610	185	185
FX forwards	381,493	4,790	4,790
<b>Total Exchange Rate Contracts</b>	<b>508,663</b>	<b>9,282</b>	<b>9,282</b>
<b>Interest rate contracts</b>			
Interest rate swaps	57,472	1,229	469
Cross currency interest rate swap	119,786	1,740	1,740
Forward rate agreements	37,392	33	6
<b>Total Interest Rate Contracts</b>	<b>214,650</b>	<b>3,002</b>	<b>2,215</b>
<b>Total Derivative Contracts</b>	<b>723,313</b>	<b>12,284</b>	<b>11,497</b>

## 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 disclosure or adjustment to the 31 December 2008 accounts.

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

We have audited the group and Bank's financial statements (the "financial statements") of Bank Leumi (UK) plc for the year ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's 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 Bank and the Bank'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

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 11.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the Bank's affairs as at 31 December 2008 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
London  
24 February 2009

# Notice to Shareholders of Annual General Meeting

Notice is hereby given that the Forty Ninth Annual General Meeting of the Company will be held at 20, Stratford Place, London W1C 1BG on Wednesday, 22 April 2009 at 2.00pm, for the purpose of considering and, if thought fit, approving the following Resolutions, of which Resolutions 1 to 5 will be proposed as Ordinary Resolutions and Resolution 6 will be proposed as a Special Resolution.

## ORDINARY RESOLUTIONS

1. THAT, the Company's accounts for the financial year ended 31 December 2008 together with the Directors' report and the auditors' report on those accounts, be received, considered and adopted.
2. THAT, Mr. E. Raff and Mr. W.K. Goldsmith, 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, Mr. C.I. Lehmann, Mr. Y. Minz, Mr. G.S. Suesskind and Mr. L.M. Weiss, who were appointed as Directors by the Board during the year and retire 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.
4. THAT, the ordinary remuneration of the Directors be approved.
5. 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.

## SPECIAL RESOLUTION

6. THAT, the Articles of Association produced to the meeting at which this Resolution is proposed and initialed by the Chairman for the purposes of identification (the "New Articles") be approved and adopted, with effect from the conclusion of such meeting, as the new Articles of Association of the Company in substitution for, and to the exclusion of, any other Articles of Association PROVIDED THAT Article 1.4 of such New Articles shall only be adopted and have effect from 1 October 2009 (or, if later, the date on which the relevant notice is entered on the register pursuant to section 31(2) of the Companies Act 2006), and with effect from that date (or later date) paragraphs 1 to 6 (including the footnote to paragraph 6) of the Memorandum of Association of the Company (the "Memorandum") shall be deleted from the Memorandum and those provisions contained in the Memorandum that are to be treated as provisions of the Company's Articles of Association pursuant to section 28 of the Companies Act 2006, when implemented, shall, to the extent they are not reflected in the New Articles (including without limitation Article 1.4), be deleted from and not treated as provisions of such Articles.

**By Order of the Board**  
**Naomi Hillel**  
**Company Secretary**

**24 February 2009**  
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, Proxy department, The Registry, 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 2008

## Economic Growth

The government's official estimate is that Israel's Gross Domestic Product (GDP) grew by 4.1% in 2008. However, according to these estimates GDP growth slowed sharply in the second half of the year. The weakening of the momentum of the economy during the second half of 2008 was clearly seen in other data, such as the composite state-of-the-economy index, which is published by the Bank of Israel. In a longer term view, over the past two decades, Israel has become one of the world's high-tech development leaders. For this reason, the sharp slowdown of the US economy, one of Israel's main trading partners, is expected to continue to affect Israeli GDP growth.

## The Sovereign Credit rating

Following the ongoing improvement in the state of the Israeli economy in previous years, with GDP growing by more than 5% per year from mid-2003 through mid-2008, the country's credit rating was increased by the various credit rating agencies. For example, Standard & Poor's announced at the end of November 2007 an upgrade of the credit rating for the State of Israel for long term foreign currency from A minus to A and to date this remains the country's rating.

## Fiscal Policy

In 2008 the deficit in the state budget (excluding net credit granted) amounted to NIS 15.2bn, representing 2.1% of GDP. This compares to a planned budget deficit of only 1.6% of GDP. This is actually the first upward deviation from the target deficit level after four years in which the actual deficit was below the target. It is important to emphasise that the budgeted expenditure framework was not fully utilised (99% was used). At the same time there was also a significant decline in state tax revenues.

## The Exchange Rate, Inflation and Monetary Policy

The exchange rate of the shekel at the end of 2008 was NIS 3.80: US\$1, almost unchanged from its level at the end of 2007 of NIS 3.85: US\$1. The resilience of the shekel, despite global financial turmoil, seems to be related to the country's strong external account position.

This includes Israel's balance of payments which continues to have a surplus in the current account and an ongoing balance between capital inflows and outflows.

The consumer price index rose 3.8% in 2008, reflecting substantial price increases in two components: housing, which registered an increase of 12.1% and thus contributed 2.5 percentage points to the rise in the overall index; and food, which rose 9.1% and thus contributed 1.3 percentage points to the overall index. The increase in the housing component last year reflected a combination of the surplus demand for housing and the de-linking of housing prices from the US dollar as the practice of denominating housing rental contracts. The price increases registered in the food component were the result of the impact of the substantial rise in raw material prices around the world in the first half of 2008. Since then there have been substantial price declines, but only some of these have been reflected in a decline in the food component.

## Performance of Tel-Aviv Stock Exchange Traded Shares

The downward trend in the Tel-Aviv Stock Exchange (TASE) intensified in the last quarter of 2008, while in the background the sharp fall in stock prices continued around the world. Overall, Israel's General Stock Index fell by 46% in 2008. Above average rates of decline were seen in the shares of the following sectors: holding and investment companies (75%), real estate companies (-69%), insurance companies (-61%) and commercial banks (-55%).

The corporate bond market experienced a sharp price decline that started in September 2008. Overall, in 2008 the corporate bond total return index dropped 17%. The sharp decline of the corporate bond market in 2008 differed substantially from the positive developments registered in Israel's government bond market with its index rising by approximately 10%. The severe developments in the corporate bond market in 2008 were a reaction to the sharp slowdown in global economic activity and uncertainty in the global markets. As a result, investors have become increasingly risk averse over the course of the last year.

# For further information on Bank Leumi (UK) plc Banking and Financial Services

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Commercial &  
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**International Trade Services**  
**John Edwards**  
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Leumi ABL Limited

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**Paul Hird**  
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**Phil Woodward**  
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**Operations Director**  
**Alan Couzins**  
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**UK Desk**  
**Joseph Friedmann**  
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**Credit & Compliance**  
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Bank Leumi (Jersey)  
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**Director Trust Services**  
**John Germain**  
01534 702 530

**Director Trust Services**  
**Christopher Lees**  
01534 702 508

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**Martin Leslie**  
020 7907 8142

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**Barbara Chapman**  
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**Lin Walling**  
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# The Bank Leumi le-Israel Group

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Facsimile 972 3 514 8656

**Bank Leumi le-Israel has 245 branches in Israel**

#### Leumi International & Private Banking Division

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#### Subsidiary banking companies

#### Leumi & Co. Investment House Ltd

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#### Bank Leumi le-Israel Trust Company Ltd.

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Additional branch in Highland Park

#### Florida

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Additional branches in Aventura & Boca Raton

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

[www.bankleumi.com](http://www.bankleumi.com)



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