Bank Leumi (UK) plc
Annual Report
2010

Bank Leumi (UK) plc

Board of Directors

as at 31 December 2010

Eitan Raff ^
Chairman

Sir Bernard Schreier **#~
Deputy Chairman

Lawrence M. Weiss **~
Chief Executive Officer

Collin E. Cumberland**~

John Daly **~#

Robert Glatter *~

Walter K. Goldsmith *#***

Colin I. Lehmann **~***#

Yoel Minz ~

Siegfried R. Ramseyer *~**

Lesley J. Secretan**

Eric H. Senat ***

Gidon S. Suesskind

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

Bank Leumi (UK) plc

Executive Management

Lawrence M. Weiss
Chief Executive Officer

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

Lesley J. Secretan
Chief Operating Officer

Internal Audit, Compliance and Risk Management

Gordon Cripps
Head of Internal Audit

Simon Rothberg
Head of Risk Control and Compliance

Robert Sherr
Head of Credit Risk Management

David Magee
Money Laundering Reporting Officer

Naomi Hillel
Company Secretary

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

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

Relationship Banking 'Together we go further'

At Bank Leumi our customers come first – always.
We work to establish a genuine partnership based on mutual trust and cooperation.

One of the largest subsidiaries of the Bank Leumi Group, Bank Leumi (UK) provides a wide range of financial services to UK and International clients. Founded over 100 years ago in London, Bank Leumi (UK) continues its focus on the highest standards of customer service and has an established reputation as a true relationship bank, offering a range of banking facilities to both commercial customers and private clients.

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

At a time of much turbulence across the banking landscape, Bank Leumi (UK) continues to provide consistency and stability – valuable differentiators as customers seek to establish and build a real relationship with a bank that lives up to its promise. We enjoy a high reputation in the marketplace for our expertise in the following products and services:

1. Corporate and Commercial Banking Services

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

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

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

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

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

Media Finance – Using our specialist industry knowledge, Bank Leumi (UK) has successfully re-launched a Media Finance offering to support the growing and varied needs of the entertainment industry. Our Media Finance team is highly experienced in providing short to medium term financing for entities active in film, television production and distribution and music publishing.

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

Clients in this sector can benefit from Bank Leumi (UK)'s wider service offering including foreign exchange, collection accounts and specialised global treasury management.

2. Asset Based Lending, Factoring and Invoice Discounting

Established in 2006, Brighton based **Leumi ABL Limited** is the specialist asset based lending subsidiary of Bank Leumi (UK), offering a full range of tailored asset based lending products to growing businesses to improve their working capital. By combining Leumi ABL's invoice finance, stock finance and plant and machinery facilities with the tailored solutions from Bank Leumi (UK), clients can very often benefit from higher levels of funding than could be obtained elsewhere. Sales ledger management and bad debt protection are also available.

The combination of Leumi ABL's personal and pragmatic approach, continued focus on excellent client service and the ability to react speedily resulted in them receiving four awards including "Alternative Finance Provider of the Year" in the prestigious 2010 M&A Awards.

3. Private Banking and Wealth Management

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

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

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

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

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

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

4. 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.

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

5. Executive Mortgages

Our innovative Executive Mortgage product is designed to meet the specific needs of high-earning expatriate individuals seeking to buy a home in the UK. Mortgages are interest only, typically for a 5 year term. The mortgage may be domiciled in Jersey 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 and Money Markets

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

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

7. Social Responsibility

Bank Leumi (UK), like its parent company in Israel, believes that an organisation has a moral and social responsibility to contribute to the society and community in which it operates.

It is for this reason that the Bank supports the work of a large number of charities promoting essential issues such as health, social welfare, education and culture and arts.

In addition to maintaining a high level of involvement in a variety of charitable activities, in 2010 the Bank decided to introduce a brand new initiative and created its own corporate charitable challenge.

Following the success of the 2009 charity bike ride in aid of Shaare Zedek UK, a 3 day bike ride from London to Brussels took place at the beginning of October 2010.

With over 20 members of staff taking part, each raising funds for a charity of their choice, an enthusiastic Team Leumi was once again led by Chief Executive Officer, Larry Weiss.

Overcoming adverse weather conditions and unexpected changes to the route (including an additional 45km), all members of Team Leumi completed the challenge, raising over £33,000.

Commenting on the achievement, Chief Executive Officer, Larry Weiss said: "I was proud to see so many colleagues taking on this challenge in aid of charity. Team Leumi overcame adversity and arduous physical challenges to complete the London to Brussels course. I would also like to take this opportunity to thank our corporate sponsors, the LNT Group, and their CEO, Lawrence Tomlinson, for their generous support and encouragement".

Amongst the 22 charities that benefited from the challenge were The Royal Marsden Cancer Campaign, British Heart Foundation, The Starlight Foundation, Alzheimer's Society, Great Ormond Street Hospital, Marie Curie, NSPCC and Shelter Box.

Additional examples of the Bank's support have included the grant of sponsorships, participation in charitable fundraising events and making significant charitable donations to a variety of worthy causes. The Bank's chosen charity of the year, as voted by staff, was 'Help for Heroes' which we were delighted to support.

Chairman's Statement

I am pleased to present the Annual Report for 2010 of the Bank Leumi (UK) Group.

The economic environment remained fragile in 2010 with growth in UK GDP in the second and third quarters followed by a small contraction in the fourth quarter. High inflation and unemployment remain key economic challenges and, after two years of record low interest rates in the UK, the market now expects decisions for rate increases in the coming months.

Against this background of continuing economic uncertainty, the Bank has delivered a strong result, with profitability significantly higher than last year and with customer lending and deposits growing in excess of 10% during 2010. Capital and liquidity ratios remain strong with sufficient headroom to enable continued growth. Increased lending has been achieved through expansion in our niche areas, including Commodities Financing and the re-launch of our Media Finance offering, whilst maintaining our high standards of credit risk management.

The Bank continues to play to its strength of providing true relationship banking, supporting its customers through difficult times and providing tailored solutions to meet their needs.

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

Corporate Governance

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

Highlights of the Year Include:

- **Net profit of £6.4 million, compared with £2.2 million in 2009. Impairment losses contained at £4.2 million, significantly lower than in the previous two years.**

- **Maintaining strong capital and liquidity positions, with ratios well in excess of regulatory limits.**

- **Successful re-launch of our Media Finance offering, with strong contribution to lending growth and operating income.**

- **Leumi ABL Limited, our asset-based lending subsidiary, receiving four awards including "Alternative Finance Provider of the Year" in the prestigious 2010 M&A Awards.**

Results Highlights

Profit and Loss Account

The Group reported a net profit of £6.4 million for the 2010 financial year compared with £2.2 million in 2009.

The improvement on 2009 largely reflects a significant reduction in the provision for impairment losses which fell to £4.2 million from £17.7 million in 2009. The lower impairment losses were partially offset by a provision of £4.9 million for contingent liabilities.

The Group reported a pre tax profit of £8.6 million for the 2010 financial year compared with £3.2 million in 2009.

Operating income amounted to £43.7 million compared to £46.4 million in 2009.

Interest income remained fairly steady, which considering the increase in income deferred to future years (to match the longer average term of facilities) and the higher rates paid to attract long term deposits, is a resilient performance. The level of fee income reduced in 2010 due to the impact of a large one off fee received in 2009 from one customer.

Administrative expenses of £24.6 million increased by only 1% from £24.3 million in 2009.

This reflects a one-off curtailment gain of £2.6 million in connection with a change of terms to the Bank's defined benefit pension scheme which reduced the Bank's liability under the scheme.

Balance Sheet

The balance sheet grew by £181 million to £1,504 million, an increase of 14%.

Customer lending grew by £139 million to £1,254 million, an increase of 12%. The main contributors to this growth were in the areas of Commodities Finance, Executive Mortgages and Media Finance.

Customer deposits grew by £105 million to £1,043 million, an increase of 11%. This increase reflects the success of the initiative to attract longer term deposits to the Bank.

Directors, Management and Staff

Firstly I would like to welcome Mr Zvi Itskovitch who the Board appointed on 1 March as a Director and Chairman of the Board. Mr Itskovitch is Head of the International and Private Banking Division in Leumi Israel and I am sure that his leadership and experience will be invaluable for Bank Leumi (UK) plc.

Mr Eitan Raff, who has served as Chairman of Bank Leumi (UK) plc for fifteen years, retired from his position on 31 December 2010 to pursue his career outside the Leumi Group. The Bank has seen substantial growth during Mr Raff's chairmanship and under his leadership the Bank has engaged in new initiatives including Invoice Discounting, Commodity Finance and Media Finance in recent years. I would like to thank Mr Raff for his invaluable contribution over the years and for providing help and experience in the activities of the Bank.

I would also like to thank my fellow Directors for their contribution over the past year. My special thanks are extended to our CEO Mr Larry Weiss for his leadership and enterprise in 2010, as well as to all the management and staff for their efforts and achievements despite the continuing challenging business environment which prevailed during 2010.

Sir Bernard Schreier
Deputy 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 2010.

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.

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

A further subsidiary, Leumi ABL Limited, is based in Brighton, and provides asset based finance – 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 finance and related services to commercial customers engaged in international trade; financing media film, television and music production and providing asset based finance.

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

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

During 2010 we recruited a specialist **media finance** team which allows us to provide short and medium term finance in the fields of television and film production, and music publishing.

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

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

Private Banking and Wealth Management

During 2010, we continued to look at ways to upgrade our services to clients. We are committed to introducing new products in 2011, for example a Leumi debit card is expected to be launched within the first half of the year. In addition we have undertaken a strategic review of the Private Banking business aimed at evaluating the scope of our Private Banking offering to ensure that it is focused on providing the best possible service for our clients.

Our investment approach has the client at the core and we endeavour to offer our clients tailor-made investment solutions which take in their specific needs and appetite for risk. Our experienced team of investment managers are able to provide the full range of advisory and execution only services, demanded by high net worth clients, either onshore or offshore via our Bank and trust company based in Jersey.

Given the continued low interest rate environment, we continue to review and extend our choice of money market facilities and, in the last quarter of 2010, we launched a range of attractively priced and innovative deposits. These deposits are proving successful in attracting new funds and clients to the Bank, both in Private Banking and in other areas of the Bank. We offer investment accounts, foreign exchange and securities trading facilities and derivative instruments for hedging purposes. Our investment managers work closely with our Treasury Department to construct one-off deposit solutions for our clients; these deposits can be capital guaranteed or capital at risk, floored floating rate deposits, 'step-up' deposits or deposits which are linked to indices and currencies.

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

General Economic Environment

2010 has been significant in a number of respects with the UK recovering from the effects of the recession, the formation of a new coalition government, central banks trying to stimulate their economies through quantitative easing and the highest ever gold price.

It has not been an easy economic year for the UK but there was a strong rate of growth of 1.2% in the second quarter of 2010 and 0.8% in the third quarter, although figures released show a small contraction in the fourth quarter. Nonetheless, the level of Gross Domestic Product (GDP) in the third quarter of 2010 was still 3.9% lower than its pre-recession peak in real terms and the recovery remains fragile. Most recent business surveys point to some moderation in the rate of growth of both manufacturing and services in the last few months. UK industrial growth hit its highest level since 1994 which is a positive sign that factories will continue to drive the economy. Unemployment remains a large concern for a number of the major economies with headline figures in the UK peaking once again at 7.9% in the 4th quarter of 2010.

Interest Rates and Inflation

The Bank of England kept the base rate at the all time low rate of 0.5% throughout 2010, with the December 2010 decision marking the 21st consecutive month of no change. There was no increase in the Quantitative Easing program and the Bank of England announced an end to its asset purchasing program in February 2010. Interest rates in the UK will be closely watched in 2011, with market experts expecting more Quantitative Easing (possibly another £50 billion) and a possible rate increase in the first half of 2011 as the Bank tries to manage upward inflationary pressure.

As for inflation in 2010, the annual Consumer Price Index (CPI) remained above the 3% target set by the Bank of England throughout the year, peaking in April and December at 3.7%. Even the increase in the VAT rate from 15% to 17.5% in January 2010 did little to stem the rise in prices with the main driver of this upward pressure being the rise in agricultural prices. VAT rose again in January 2011 from 17.5% to 20%, and whilst the market now expects this to have some effect on inflation, it is thought that inflation will remain above its target range at least until the end of 2011. Some temporary factors such as services inflation and Sterling weakness that drove inflation up in 2010 do seem to be easing off slightly in 2011.

The US Federal Reserve maintained the Fed Funds rate within the range 0-0.25% throughout 2010. Whilst this remained unchanged they did resume their Quantitative Easing program in August 2010, buying about $30 billion Treasury notes a month. This was increased further by $600 billion in November.

The European Central Bank base rate remained at 1.00% in 2010.

Currencies

The safe haven of the US Dollar along with some other currencies has been a recurring theme in 2010 given the political uncertainty in the UK early in the year and ongoing issues in the Eurozone. The strongest performing currencies in 2010 have been Japanese Yen, Australian Dollar and Swiss Franc which may not be a surprise given that the Yen and Swiss Franc are often used as safe haven currencies in a risk-averse environment. Australia continued to avoid recession and has been boldly raising interest rates unlike most major economies, making the Australian Dollar a currency of choice. In addition to this the Australian Dollar, as a commodity currency, has been boosted significantly by gold all time highs.

The US Dollar versus the Pound Sterling opened the year at 1.60 and, despite an early push higher, steadily drifted lower to around 1.43 in May. Once the market had clarity on the UK government elections Sterling increased back up to 1.59 and the currency pair has since remained fairly range bound between 1.53 and 1.61.

Due to a mixture of Eurozone debt concerns Euro/Sterling has been a useful tool in order to trade risk sentiment. In a broad Euro/Sterling 0.80-0.90 range there have been mixed trends with the early part of the year reflecting positive Sterling sentiment against an uncertain Euro backdrop. In the second half of the year with very mixed economic data out of the UK and increased concern over the split in the Eurozone we have experienced volatile small trends. Portugal, Italy, Ireland, Greece and Spain have continued to concern markets with both Ireland and Greece needing support from their neighbours within the Eurozone; this is likely to be an ongoing theme in 2011.

Gold has continued to be in focus through 2010 hitting an all time high of US$1,431 on 7 December. Oil on the other hand has taken more of a back seat having remained fairly range bound and below the all important US$100 level. The increase in VAT in January 2011 however has impacted the cost of petrol at the pumps.

Capital Markets

Whilst Central Bank rates remained unchanged, lowering inflation expectations pushed down yields. During 2010, the 5 year UK Gilt Benchmark fell to 1.5% and the US equivalent almost touched a low of 1% in October. In Europe, however, concerns developed early in 2010 about the accuracy of Greece's reported financial statistics and led Standard & Poor's to downgrade the sovereign to junk status. Following this, the yield on Greek sovereign 5 year debt reached 14%. Unable to refinance the debt in the bond market, the International Monetary Fund & European Union stepped in to provide a bailout to Greece, which in total stands in excess of €100 billion. This collapse in confidence spread, affecting equity markets and sovereign debt yields across Europe, with the focus on Spain, Portugal, Ireland and Italy. Higher yielding Emerging Market corporate and sovereign debt weathered this and 2010 saw a record issuance in excess of $250 billion.

Capital and Liquidity

The failure of Lehman Brothers two years ago tipped the financial system toward meltdown. To arrest this decline, Governments rescued major financial institutions and injected massive amounts of monetary and fiscal policy stimulus. Together these measures averted catastrophe. Instead of the Great Depression, the world experienced the Great Recession. During 2010 the crisis has receded. Although there is concern that the recovery may stall, temporarily reverse direction or even double dip, policymakers are increasingly focused on developing and implementing a strategy that will reduce, if not eliminate, the possibility of future difficulties. The crisis plainly exposed that some banks had too little capital to absorb the losses that resulted from the risks that they took during the boom and revealed that some had insufficient liquidity. To fix these problems the authorities have improved capital regulation and instituted additional liquidity regulation.

With respect to capital reform, the Basel Committee has taken measures representing a very significant strengthening of the capital regime. The quality of capital will improve and so will the quantity. But this will occur in a measured way. Practically all major banks already meet the standards that will come into force in 2013.

With respect to liquidity, the Basel Committee has broken new ground. It has introduced for the first time a global standard for liquidity regulation. This closes a very significant gap in regulation and strengthens the resiliency of banks and the banking system.

The new liquidity regulation will force the banks to do three things:

Firstly, to measure the amount of liquidity risk that they are taking. The regulation forces banks to review the maturity of their assets and liabilities, to make assessments about the likelihood that deposits will roll over, that commitments will be drawn and that loans will be repaid. Together these provide an estimate of the liquidity shortfall that a bank might experience.

Secondly, to hold a buffer of highest quality liquid assets against any potential liquidity shortfall which would arise if a stress scenario does materialise. To this end the Basel Committee imposed a liquidity coverage ratio on banks that will force banks to hold a buffer of liquid assets equal to 100% of the projected liquidity shortfall that would result if a bank were to come under stress.

Thirdly, banks should maintain a net stable funding ratio. This would assure that banks do not become overly reliant on volatile, short-term funding.

The Financial Services Authority (FSA), in regulating UK banks has pre-empted reform measures and domestic rules already reflect – or exceed – international and European requirements.

Bank Leumi (UK) is well placed to comply with the FSA's new liquidity requirements, having introduced a new liquidity reporting system in October 2010 and established a plan to build up its liquid assets buffer. The Bank also continues to develop its approach to stress testing, pricing and contingency funding planning.

UK Property Market

2010 was another good year for our property loan portfolio which has continued to perform well and shown strong profitability. Last year we forecast that 2010 would not see the level of recovery experienced in the second half of 2009 and that there was more pain to come before sustained recovery could take effect. For better or worse that was how the year progressed, with the second half, in particular, showing a degree of stagnation. The good news is that, with this phase drawing to a close, we believe that by mid 2011 we will see the beginnings of a period of sustained medium term recovery which will accelerate in 2012. The main restraining factor continues to be the low level of bank lending which should provide the liquidity of the market. The lack of available residential mortgage finance, in particular, continues to be a particular problem. However, we believe that, as the year progresses, this, too, will begin to pick up.

Our strategy of supporting our clients over the past few years has strengthened our relationships and resulted in the resolution of a number of potential problems within our loan book. Overall improvement in the market will hasten this process of recovery.

We begin 2011 with considerable optimism, having come through the recession relatively unscathed, largely because we concentrated our analysis on the fundamentals of each deal. We believe that there will be many more opportunities for our clients in the coming year, which we look forward to supporting.

International Trade

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

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

The sharp rise in commodity prices across the board in 2010 resulting from a combination of increased demand and production shortages has been a challenge for our commodity trading customers. Our policy of dealing with only the top trading companies with strong balance sheets and diverse trading operations has meant that we have been able to provide support where required whilst still maintaining an acceptable risk profile.

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

Asset Based Lending

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

In a relatively short period of time Leumi ABL Limited has established an enviable presence within the UK asset based finance market and is now attracting good business within its target middle market niche. As an indication of how far the company has progressed since formation it has won 4 national industry awards in the past 12 months. The formation of a new division – Leumi Invoice Finance – aimed at smaller clients has broadened the scope of the company's offering.

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

Results

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

Profit and Loss Account

Net profit amounted to £6.4 million compared to £2.2 million in 2009, largely driven by a significant reduction in the provision for impairment losses which fell to £4.2 million from £17.7 million in 2009. The profit is after including a provision for contingent liabilities of £4.9 million. The result reflects a solid performance under tough economic conditions including continuing record low interest rates in the UK.

Total Operating income amounted to £43.7 million compared to £46.4 million in 2009. Net interest income reduced by £0.4 million to £28.1 million, due largely to a £1.1 million increase in the amount of income which has been deferred to future years to match terms of associated facilities. Net interest income also includes the impact of higher rates paid to attract longer term deposits, a key initiative in 2010 which has been very successful in raising deposit levels and overall liquidity. Fees and commissions reduced by £1.9 million to £12.2 million, due to the impact of a large fee of £1.8 million received in 2009 from one customer.

Dealing profits increased £0.2 million to £3.3 million due to realised gains in the Bank's liquidity portfolio, partially offset by reduced levels of derivatives income.

Administrative expenses were contained at £24.6 million from £24.3 million in 2009, an increase of only 1%. This reflects a one-off curtailment gain of £2.6 million in connection with a change of terms to the Bank's defined benefit pension scheme which will result in reduced pension liabilities in the future.

The asset-based lending subsidiary, Leumi ABL Limited, continued to build on the strong base that it has developed and has returned excellent results in spite of the economic downturn. Fee and discount income both increased in 2010 following strong growth in the value of debts purchased. At the same time the cost base has been well managed and strong portfolio management has led to a reduction in impairment losses.

The Bank's subsidiary Bank Leumi (Jersey) Limited had an encouraging performance despite difficult market conditions. Both interest margins and fee income increased, the latter due in part to higher trust income from its subsidiary Leumi Overseas Trust Corporation Limited.

Efficiency Ratio

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

The Group's efficiency ratio for 2010 was 59%, compared with 55% in 2009. For the Bank only, the 2010 ratio was 56%, compared with 52% in 2009.

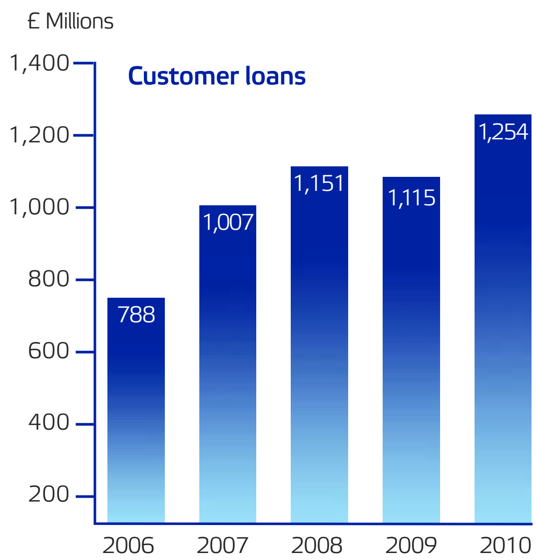
Balance Sheet

Total consolidated assets of Bank Leumi (UK) plc amounted to £1,504 million at the end of 2010 compared to £1,323 million at the end of 2009, a 14% increase. When taking account of the movement in foreign exchange rates the increase in real terms is £162 million or 12%.

Balance sheet – Customer Business

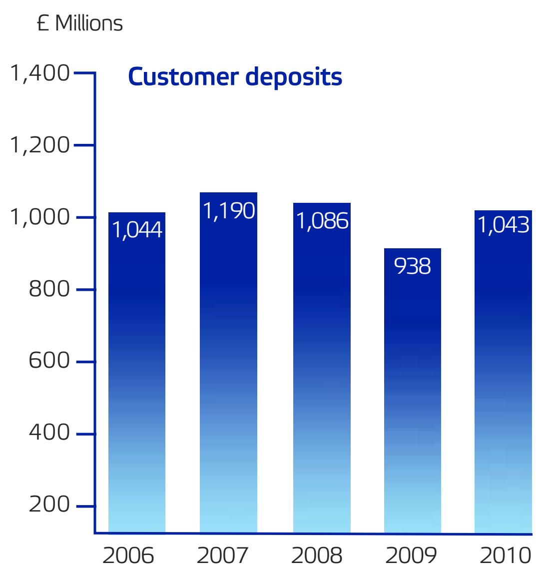
Customer lending increased to £1,254 million compared with £1,115 million the previous year, an increase of £139 million or 12%.

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



Customer deposits increased to £1,043 million compared with £938 million the previous year, an increase of £105 million or 11%.

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



Debt Securities

The Bank holds debt securities as part of its liquidity portfolio and also to generate increased interest margins on its excess deposits. During 2010 the Bank increased its holding of securities eligible for inclusion in the liquid assets buffer of high quality government debt as set out in the FSA's new liquidity framework.

Capital

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

Future Prospects

Each year, Bank Leumi (UK) prepares a three year plan in consultation with its parent company and this is approved by the Board of Directors. The plan for 2011 - 2013 was prepared in late 2010.

Against a background of the continuing uncertainty in world economies, and the slow emergence from recession of the UK economy in particular, a conservative approach has been taken when assessing future prospects. It is therefore projected that income from continuing operations will rise only modestly in 2011, although contribution from new areas of business such as media finance will result in good year-on-year income growth. Further positive growth is projected in 2011 and 2012 as conditions in UK and world economies gradually improve. In order to further diversify our income stream, it is also part of our strategic plan to develop sources of non-lending related income, such as by significantly expanding our Private Banking and Wealth Management offering, in order to lessen our reliance on interest income.

Income is expected to show solid growth in 2011, benefitting particularly from contributions from the recently re-launched Media lending unit and also growth in Leumi ABL Limited. Combined with careful management of costs we expect good growth in profitability and return on capital in 2011.

On the lending front, we believe that improving conditions over the 3 year period will present good lending opportunities, although we will continue to exercise the highest levels of prudent risk management when assessing new lending proposals and when managing potentially problematic situations within our existing book.

Overall, 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

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

Bank Leumi (UK) is conscious of regulatory developments and has clear procedures to keep it abreast of changes to the rules under which it must operate. During the course of 2010 we have continued to develop our systems and controls to comply with the FSA's strengthening of liquidity risk management requirements and the preparation of our individual liquidity adequacy assessment. We continue to monitor developments relating to the Retail Distribution Review and the Mortgage Market Review.

Preparations to comply with FSA requirements for a "Single Customer View" for the purposes of the Financial Services Compensation Scheme have been completed.

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

Risks and Uncertainties

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

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

An "Executive Risk Committee" takes a strategic overview of risk and the risk management process, and formulates and agrees the processes for the control of risk. It also takes responsibility for regulatory risk issues. The Bank has three management 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.

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

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

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

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

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

Note 31 to the Annual Report provides further detail on the specifics of each of these risks faced by the Bank, and the approach it adopts to monitor and manage these risks.

Board of Directors

The Directors as at 31 December 2010 are listed on page 1. Mr E Raff retired from the Board as of 1 January 2011.

The Directors retiring in rotation in accordance with the Company's Articles are Mr C Cumberland, Mr C Lehmann, Mrs L Secretan and Mr E Senat.

Mr C Cumberland, Mr C Lehmann, Mrs L Secretan and Mr E Senat, all of whom are eligible, offer themselves for re-appointment.

On 1 March 2011, the Board appointed Mr Z Itskovitch as a Director and the Chairman of the Board. Mr Itskovitch will retire in accordance with the Company's Articles of Association at the next annual general meeting and being eligible will offer himself for re-appointment.

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

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

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

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

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

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

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

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

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

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

Disclosure of Information to Auditors

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

Creditor Payment Policy

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

At 31 December 2010 the amount owed to trade creditors as a proportion of the amount invoiced by suppliers during the year was 16 days (2009: 11).

Share Ownership

As at 31 December 2010 Bank Leumi le-Israel B.M. Group held 99.80% of the issued share capital.

Employees

The average number of persons employed by the Group (including contract staff) in each week during the year was 196 (2009: 190) and the aggregate remuneration paid to all such persons amounted to £12,882,000 (2009: £10,217,000).

Charitable and Political Donations

Charitable donations during the year amounted to £29,272 (2009: £24,615). 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
1 March 2011
20, Stratford Place,
London W1C 1BG

Consolidated Profit and Loss Account

for the year ended 31 December 2010

	Notes	2010 £000's	2009 £000's
Interest receivable		39,048	43,567
Less: interest payable		(10,958)	(15,102)
Net interest income	3	28,090	28,465
Fees and commission receivable	4	12,210	14,130
Dealing profits		3,338	3,185
Net profit from other financial instruments carried at fair value	5	20	669
Operating income		43,658	46,449
Administrative expenses	6	(24,621)	(24,342)
Depreciation of fixed assets	19	(1,255)	(1,117)
Amortisation of goodwill	11	(77)	(77)
Operating profit before provisions		17,705	20,913
Net impairment losses	16	(4,194)	(17,673)
Provision for contingent liabilities and commitments	23	(4,891)	-
Profit on ordinary activities before Taxation	2	8,620	3,240
Taxation on ordinary activities	9	(2,244)	(1,040)
Profit for the financial year	10	6,376	2,200

All items dealt with in arriving at operating profit for 2010 and 2009 relate to continuing operations.
The notes on pages 14 to 38 form an integral part of the accounts.

Balance Sheet

for the year ended 31 December 2010

		Group		Bank	
Assets	Notes	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Cash and balances at central banks		2	2	2	2
Loans and advances to banks	14	145,511	108,456	144,390	107,797
Loans and advances to customers	15	1,253,979	1,114,901	1,104,475	971,756
Debt securities	17	86,808	85,562	77,501	74,093
Shares in group undertakings	18	-	-	18,973	17,199
Intangible fixed assets	11	306	383	-	-
Tangible fixed assets	19	5,975	4,119	5,621	3,717
Financial derivatives	31	4,538	6,549	4,887	7,388
Other assets	20	1,463	1,256	899	1,179
Prepayments and accrued income		3,046	2,172	1,538	1,843
Pension asset – net of deferred tax	30	2,345	-	2,345	-
Total assets	13	1,503,973	1,323,400	1,360,631	1,184,974
Liabilities					
Deposits by banks	21	261,503	195,552	261,503	195,552
Customer deposits	22	1,042,945	937,721	909,852	806,792
Financial derivatives	31	4,844	7,472	4,903	7,936
Other liabilities	23	2,784	2,628	1,643	1,981
Accruals and deferred income		5,591	4,834	5,119	4,094
Provision for liabilities and charges	23	4,891	13	4,891	13
Pension liability – net of deferred tax	30	-	1,538	-	1,538
Subordinated liabilities:					
Undated loan capital	24	72,619	72,611	72,619	72,611
Called up share capital	25	10,960	10,960	10,960	10,960
Share premium account	26	27,100	27,100	27,100	27,100
Available for sale reserve	26	(212)	92	(160)	135
Profit and loss account	26	70,948	62,879	62,201	56,262
Equity shareholders' funds	26	108,796	101,031	100,101	94,457
Total liabilities and shareholders' funds	13	1,503,973	1,323,400	1,360,631	1,184,974

The accounts have been approved and signed on behalf of the Board by:
Sir Bernard Schreier, Deputy Chairman.
Walter K.Goldsmith, Director and Chairman of the Audit & Remuneration Committee.
Lawrence M.Weiss, Chief Executive Officer.
1 March 2011

Memorandum Items

	Notes	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Contingent liabilities					
Acceptances and endorsements		1,945	1,630	1,945	1,630
Guarantees		110,165	134,638	107,778	132,297
Other contingent liabilities		19,068	26,480	19,068	26,480
	27	131,178	162,748	128,791	160,407
Commitments					
Lending commitments	27	306,417	286,888	303,526	260,560

Statement of Total Recognised Gains and Losses

	Notes	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Profit for the financial year		6,376	2,200	4,246	775
Actuarial profit/(loss) recognised in the Pension scheme		2,351	(2,794)	2,351	(2,794)
Deferred tax arising on losses in the Pension scheme	20	(658)	736	(658)	736
Available for sale investments					
-Valuation (losses)/gains taken to equity		(420)	6,279	(410)	5,375
-Tax on items taken directly to equity		116	(1,595)	115	(1,505)
Other adjustments		-	(274)	-	-
Total recognised gains Recognised since 31 December 2009		7,765	4,552	5,644	2,587

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

Notes to the Accounts

1. Accounting Policies

a. Basis of Accounting

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

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

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

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

b. Basis of Consolidation

The consolidated accounts include the accounts of the Bank and its subsidiary undertakings made up to 31 December 2010. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

c. Foreign Currency Translation

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

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

d. Financial Instruments

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

Loans and advances

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

Impairment allowances

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

Financial Liabilities and Equity

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

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

Investments

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

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

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

Derivative Financial Instruments

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

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

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

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

e. Fixed Assets

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

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

f. Investment in Subsidiary Undertakings

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

g. Operating Leases

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

h. Pensions

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

The Invoice Discounting subsidiary, Leumi ABL Limited, 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.

(1) Defined Benefit Scheme

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

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

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

(2) 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

(1) Interest income

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

(2) Rendering of services and commissions

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

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

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

(3) Dividend Income

Dividend income from investments is recognised when the 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. Goodwill is reviewed for impairment when there are indications that the carrying value may not be recoverable.

l. Cash flow

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

2. Profit on Ordinary Activities before Taxation

	Group	
	2010 £000's	2009 £000's
Profit on ordinary activities before tax is stated after		
(i) Crediting:		
Income from listed investments	1,131	1,595
Profits less losses on disposal of investment securities	714	254
(ii) Charging :		
Interest incurred with respect to subordinated liabilities	1,720	2,559
Hire of computers and equipment	28	32
Depreciation	1,256	1,117
Rentals paid on premises under operating leases, net of rental income of £117,000 (2009: £214,000)	691	655
Amortisation of goodwill	77	77

	Group	
Auditors' remuneration:	2010 £000's	2009 £000's
Audit of these accounts	214	206
Amounts receivable by auditors and their associates in respect of:		
Audit of accounts of subsidiaries pursuant to legislation	48	57
Other services	59	42
Amounts receivable by un-associated auditors in respect of:		
Audit of accounts of subsidiaries pursuant to legislation	31	35
Other services	80	7

3. Net Interest Income

	Group		Bank	
Interest Receivable:	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Loans and Advances to Banks	708	912	708	912
Loans and Advances to Customers	36,734	39,184	32,132	34,136
Debt Securities	1,131	1,595	1,003	1,448
Other Interest Earning Financial Assets	475	1,876	475	1,876
Total Interest Receivable	39,048	43,567	34,318	38,372
Interest Payable:				
Deposits by Banks	2,066	1,501	2,096	1,526
Customer Deposits	6,607	8,819	5,363	7,208
Subordinated Liabilities	1,720	2,559	1,720	2,559
Other Interest Bearing Financial Liabilities	565	2,223	565	2,223
Total Interest Payable	10,958	15,102	9,744	13,516
Net Interest Income	28,090	28,465	24,574	24,856

4. Net Fees And Commission Income

	Group		Bank	
Fees and Commissions:	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Banking Fees	10,010	11,880	4,843	7,006
Fund Management Fees	1,181	1,325	1,046	1,129
Trust Income	1,019	925	-	-
Total Fees and Commissions	12,210	14,130	5,889	8,135

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

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Loans and Receivables	-	138	-	138
Derivatives	20	531	(35)	579
Net profit/(loss)	20	669	(35)	717

6. Administrative Expenses

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Wages and salaries	12,842	10,872	9,087	7,752
Restructuring costs	117	364	117	364
Social security costs	1,133	1,034	1,004	898
Pension costs	(1,618)	861	(1,755)	733
Other administrative expenses	12,147	11,211	9,243	8,323
	24,621	24,342	17,696	18,070

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

Included in wages and salaries for the Group is £646,000 (2009: nil) arising from equity settled share-based payments. All of the payment relates to the subsidiary Leumi ABL Limited, whereby Bank Leumi (UK) plc entered into and executed an agreement with the directors of Leumi ABL Limited to acquire their remaining B and C class share holdings for a consideration of £1,723,907. The consideration was based upon the market value of the shares as determined by an independent valuer. The key inputs into the valuation model were an estimation of the underlying maintainable earnings of Leumi ABL Limited, multiplied by an estimated price/earnings multiple derived from relevant market data, together with a discount for the various rights and restrictions attached to the shares.

The purchase of shares by Bank Leumi (UK) plc meets the definition of a cash settled share based payment transaction and is shown as an addition to the Bank's cost of investment. As the related services were provided to Leumi ABL Limited, the transaction falls to be accounted within the scope of FRS 20 Share-based payment transactions and is included within administrative expenses for the Group.

Within the agreement to purchase the shares a provision exists for Bank Leumi (UK) plc to recover a proportion of the total consideration paid to the directors if they leave the employment of the company before the payment has vested, as determined by the company's future financial performance. The deferred share based payment charge is recognised on a straight line basis over the estimated vesting period.

Pension costs in 2010 are net of a curtailment gain of £2,619,000 in connection with an amendment to the terms of the pension scheme introduced during the year (see Note 30).

Notes to the Accounts *continued*

7. Directors' Emoluments and Loans

	2010 £	2009 £
The aggregate emoluments of the Directors of the Bank were:	1,089,820	959,105
Of which:		
Sums paid to Bank Leumi le-Israel B.M. in respect of Directors' fees	45,570	43,305
The highest paid Director	351,863	263,853

The highest paid Director received the above sum in salary and benefits. The Bank paid pension contributions of £Nil in respect of the highest paid Director (2009: £Nil). Pension contributions of £19,697 were paid by the Bank in respect of other Directors (2009: £19,185). The aggregate amount of loans to Directors outstanding as at 31 December 2010 amounted to £Nil (2009: £Nil).

8. Employees

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

	Group		Bank	
	2010	2009	2010	2009
Managers	61	59	45	44
Clerical Staff	133	129	99	100
Others	2	2	2	2
	196	190	146	146

9. Taxation

(a) Analysis of charge in year

	2010 £000's	2009 £000's
UK Corporation Tax on profits of the year	1,189	789
Foreign Tax	115	58
Adjustment in respect of prior years	(106)	133
Total current tax	1,198	980
Deferred Tax (note 20)		
Timing differences	194	60
Related to Pension surplus	852	-
Tax on profit on ordinary activities	2,244	1,040

(b) Factors affecting tax charge for the period

The tax assessed for the period is lower (2009: higher) than the average rate of Corporation Tax for the year of 28% (2009: 28%).

	2010 £000's	2009 £000's
The differences are explained below;		
Profit on ordinary activities before tax	8,620	3,240
Corporation Tax in the UK at average rate of 28% (2009: 28%)	2,414	906
Effects of:		
Foreign Tax	(195)	(117)
Capital allowances in excess of depreciation	(7)	46
Expenses not deductible for tax	(793)	127
Adjustment for Prior Year Tax	(106)	133
Relief for Implementation of FRS 26	(115)	(115)
Current Tax charge for period	1,198	980

(c) Factors that may affect future tax charges

The Group expects to claim Capital Allowances higher than the depreciation charge, which will reduce the tax charge.

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

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

As permitted by Part 15 Chapter 4 408 (3) of the Companies Act 2006 the profit and loss account for Bank Leumi (UK) plc has not been presented separately and the profit after tax dealt with in the accounts is £4,246,000 compared to £775,000 in 2009.

11. Intangible Fixed Assets

Goodwill	Acquisition of Subsidiary £000's
Cost at 1 January 2010	768
Cost at 31 December 2010	768
Amortisation at 1 January 2010	(385)
Amortisation charged in period	(77)
Amortisation at 31 December 2010	(462)
Net Book Value at 31 December 2010	306
Net Book Value at 31 December 2009	383

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 99.80% owned by the parent company, Bank Leumi Le-Israel B.M. which is listed on the Israeli stock exchange and whose consolidated accounts are therefore publicly available. Balances with other entities of the Group are shown within the respective notes in the accounts. Profit and loss derived from other entities of the Group comprise interest expense of £3,784,000 (2009: £4,005,000) and dealing profits of £76,000 (2009: £119,000).

13. Currency Analysis of Assets and Liabilities

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Assets				
Denominated in sterling	803,591	720,213	703,436	631,205
Denominated in currencies other than sterling	700,382	603,187	657,195	553,769
Total Assets	1,503,973	1,323,400	1,360,631	1,184,974
Liabilities				
Denominated in sterling	740,715	571,632	647,972	478,458
Denominated in currencies other than sterling	763,258	751,768	712,659	706,516
Total Liabilities	1,503,973	1,323,400	1,360,631	1,184,974

14. Loans and Advances to Banks

	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Repayable on demand	19,689	12,281	18,568	11,622
Remaining maturity of other loans and advances				
• 3 months or less	125,822	96,175	125,822	96,175
	145,511	108,456	144,390	107,797

Includes intra-group loans and advances of £10,485,000 (2009:£1,386,000).

15. Loans and Advances to Customers

Analysed by remaining maturity:	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
• Over 5 years	16,218	12,731	16,218	13,117
• 5 years or less but over 1 year	324,762	331,568	214,429	208,761
• 1 year or less but over 3 months	329,389	244,089	299,751	236,601
• 3 months or less excluding repayable on demand	280,431	220,133	346,843	280,532
• Repayable on demand	344,010	349,741	265,348	271,724
• Impairment allowances (note 16)	(40,831)	(43,361)	(38,114)	(38,979)
	1,253,979	1,114,901	1,104,475	971,756
Amounts include:				
Due from subsidiary undertakings			91,773	95,564

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

Analysed by industrial sector	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
(net of specific impairment)				
Property	444,431	413,945	312,523	284,956
Commerce	332,185	303,371	310,354	276,146
Industry	142,978	80,077	80,136	53,700
Other services	134,512	160,640	215,691	212,901
Hotels	93,796	78,064	93,797	78,064
Other	108,535	81,306	94,432	68,491
	1,256,437	1,117,403	1,106,933	974,258
Less collective impairment (note 16)	(2,458)	(2,502)	(2,458)	(2,502)
	1,253,979	1,114,901	1,104,475	971,756

Of the total amount outstanding to the largest industrial sector, property, £23.6 million (2009: £26.8 million) was covered by cash or bank guarantees.

16. Net impairment losses

	2010 Individual £000's	2010 Collective £000's	2010 Total £000's	2009 Individual £000's	2009 Collective £000's	2009 Total £000's
Group						
At 1 January	40,859	2,502	43,361	25,637	5,520	31,157
Charge against profits (net of recoveries)	4,238	(44)	4,194	20,691	(3,018)	17,673
Recoveries	21	-	21	8	-	8
Amount written off	(5,866)	-	(5,866)	(12,097)	-	(12,097)
FX Difference	(386)	-	(386)	(832)	-	(832)
Other Transfers	(493)	-	(493)	7,452	-	7,452
At 31 December	38,373	2,458	40,831	40,859	2,502	43,361

	2010 Individual £000's	2010 Collective £000's	2010 Total £000's	2009 Individual £000's	2009 Collective £000's	2009 Total £000's
Bank						
At 1 January	36,477	2,502	38,979	22,599	5,520	28,119
Charge against profits (net of recoveries)	3,940	(44)	3,896	19,531	(3,018)	16,513
Recoveries	21	-	21	8	-	8
Amount written off	(4,395)	-	(4,395)	(11,684)	-	(11,684)
FX Difference	(387)	-	(387)	(833)	-	(833)
Other Transfers	-	-	-	6,856	-	6,856
At 31 December	35,656	2,458	38,114	36,477	2,502	38,979

17. Debt Securities

	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Debt securities				
Issued by:				
Government	46,102	3,103	46,102	3,103
Banks & Building Societies	40,706	79,172	31,399	67,703
Other	-	3,287	-	3,287
Total debt securities	86,808	85,562	77,501	74,093
Debt securities				
Due within one year	45,237	55,825	43,311	49,755
Due one year and over	41,571	29,737	34,190	24,338
Total debt securities	86,808	85,562	77,501	74,093

Includes intra-group debt securities for both Bank and Group of £nil (2009: £nil).

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

	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Aaa to Aa3	37,813	48,128	34,009	42,826
A1 to A3	48,995	34,147	43,492	27,980
Baa1 to Baa3	-	3,287	-	3,287
Total	86,808	85,562	77,501	74,093

18. Shares in Group Undertakings

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

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

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

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

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

19. Tangible Fixed Assets

	Leases of less than 50 years unexpired £000's	Computer and other equipment £000's	Total £000's
Group:			
Cost			
At 1 January 2010	2,771	10,263	13,034
Additions	1,473	1,640	3,113
At 31 December 2010	**4,244**	**11,903**	**16,147**
Accumulated depreciation and amortisation			
At 1 January 2010	1,247	7,669	8,916
Charge for year	208	1,048	1,256
At 31 December 2010	**1,455**	**8,717**	**10,172**
Net book value at 31 December 2010	**2,789**	**3,186**	**5,975**
Net book value at 31 December 2009	1,524	2,595	4,119
Bank:			
Cost			
At 1 January 2010	2,604	9,261	11,865
Additions	1,470	1,557	3,027
At 31 December 2010	**4,074**	**10,818**	**14,892**
Accumulated depreciation and amortisation			
At 1 January 2010	1,219	6,929	8,148
Charge for the year	192	931	1,123
At 31 December 2010	**1,411**	**7,860**	**9,271**
Net book value at 31 December 2010	**2,663**	**2,958**	**5,621**
Net book value at 31 December 2009	1,385	2,332	3,717

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

20. Other Assets

	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Assets awaiting settlement	1,215	814	686	777
Deferred taxation*	248	442	213	402
	1,463	1,256	899	1,179

	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
***Deferred Taxation**				
Timing Differences				
At 1 January brought forward				
-Capital Allowances	(289)	(341)	(294)	(343)
-Empty Premises Provision	4	18	4	18
-Leumi ABL & LOTC losses brought forward	-	6	-	-
Collective Provision	504	588	504	588
Effective Interest Rate	209	244	209	244
Available for sale	(11)	(13)	(21)	(24)
Deferred tax arising on consolidation	25	-	-	-
Deferred Tax Asset brought forward	442	502	402	483
Charge to profit (Note 9)	(194)	(60)	(189)	(81)
Deferred Tax Asset carried forward	248	442	213	402

	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Timing Differences				
At 31 December carried forward				
-Capital Allowances	(359)	(289)	(364)	(294)
-Empty Premises Provision	-	4	-	4
-Leumi ABL & LOTC losses carried forward	-	-	-	-
Collective Provision	420	504	420	504
Effective Interest Rate	174	209	174	209
Available for sale	(8)	(11)	(17)	(21)
Deferred tax arising on consolidation	21	25	-	-
Deferred Tax Asset carried forward	248	442	213	402
Deferred Tax (Liability)/Asset on Pension Surplus				
At 1 January brought forward	598	(138)	598	(138)
(Debit)/Credit to Statement of Recognised Gains & Losses	(658)	736	(658)	736
Charge to Profit	(852)	-	(852)	-
At 31 December carried forward (Note 30)	(912)	598	(912)	598

21. Deposits by Banks

	Group 2010 £000's	Group 2009 £000's	Bank 2010 £000's	Bank 2009 £000's
Repayable on demand	6,568	8,636	6,568	8,636
With agreed maturity dates or periods of notice, by remaining maturity:				
· 1 year or less but over 3 months	251,524	108,112	251,524	108,112
· 3 months or less	3,411	78,804	3,411	78,804
	261,503	195,552	261,503	195,552

Includes intra-group deposits for both Bank and Group of £259,547,000 (2009: £192,904,000).

22. Customer Deposits

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Repayable on demand	308,764	326,615	270,916	290,909
With agreed maturity dates or periods of notice, by remaining maturity:				
· 5 years or less but over 1 year	72,028	7,075	72,028	7,075
· 1 year or less but over 3 months	232,060	101,141	217,876	85,484
· 3 months or less	430,093	502,890	349,032	423,324
	1,042,945	937,721	909,852	806,792
Amounts include:				
Due to subsidiary undertakings			91,773	178,595

Includes intra-group customer deposits for the Bank of £13,002,000 and the Group of £21,404,000 (2009: Bank £12,638,000 and Group £21,218,000).

23. Other Liabilities

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Other Liabilities				
Taxation	692	992	97	764
Social Security payments	401	378	298	289
Liabilities awaiting settlement	1,691	1,258	1,248	928
	2,784	2,628	1,643	1,981

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Provision for liabilities and charges				
Empty property provision	-	13	-	13
Provision for contingent liabilities and commitments	4,891	-	4,891	-

In late 2008, after lengthy negotiations, the Bank issued proceedings in the High Court against one of its trading counterparties in an attempt to recover trading losses incurred by the counterparty from various derivatives activity. The counterparty has defended the claim and has since brought a counter-claim against the Bank. The Bank strenuously denies these allegations and the regulatory and damages claims arising from them. The information usually required by FRS 12 is not disclosed because the outcome of litigation is still pending.

24. Subordinated Liabilities – Group and Bank

	Interest Fixing	2010 £000's	Rate of Interest	2009 £000's	Rate of Interest
Loan note 1 Dated	3 monthly	3,581	1.499%	3,581	1.356%
Loan note 2 Dated	3 monthly	1,250	1.374%	1,250	1.231%
Loan note 3 Dated	3 monthly	30,656	1.249%	30,655	1.106%
Loan note 4 Dated	3 monthly	7,514	1.239%	7,513	1.109%
Loan note 5 Dated	3 monthly	2,519	3.739%	2,518	3.577%
Loan note 6 Perpetual	3 monthly	17,037	4.749%	17,036	4.606%
Loan note 7 Perpetual	3 monthly	5,049	4.739%	5,046	4.577%
Loan note 8 Perpetual	3 monthly	5,013	1.639%	5,012	1.503%
		72,619		72,611	

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 on the fifth anniversary of the date of drawdown of the loan. Advance notification of one month is required to be given to the Financial Services Authority before commencing repayments.

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

25. Share Capital

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Equity Share Capital				
Authorised share capital: Ord. shares of £1	20,000	20,000	20,000	20,000
Issued share capital: Ord. shares £1 fully paid	10,960	10,960	10,960	10,960

The Issued share capital of Bank Leumi UK plc as at 31 December 2010 was £10,960 million (2009: £10,960 million). All Ordinary shares confer identical rights in respect of capital, dividends, voting and otherwise to holders.

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

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

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

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

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

25. Share Capital *continued*

	Group 2010 £000's	Group 2009 £000's	Solo Level 2010 £000's	Solo Level 2009 £000's
Balance sheet:				
Share Capital	10,960	10,960	10,960	10,960
Share Premium	27,100	27,100	27,100	27,100
Profit & Loss Reserve	70,948	62,879	62,986	55,910
Minority Interest	-	28	-	28
Less: goodwill recognised	(306)	(383)	-	-
Total Tier 1 Capital	108,702	100,584	101,046	93,998
Collective Provision	2,458	2,502	2,458	2,502
Undated subordinated debt	27,000	27,000	27,000	27,000
Total Upper Tier 2 Capital	29,458	29,502	29,458	29,502
Lower Tier 2 Capital – Dated subordinated debt	45,466	45,466	45,466	45,466
Total Tier 2 Capital	74,924	74,968	74,924	74,968
Less: investment in subsidiaries	-	-	(16,209)	(16,209)
Total regulatory capital	183,626	175,552	159,761	152,757

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 2010

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

Bank 2010

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

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

Group 2009

	Share Capital 2009 £000's	Share Premium Account 2009 £000's	Profit and Loss Account 2009 £000's	Available for Sale Reserve 2009 £000's	Total 2009 £000's
As at 1 January 2009	10,960	27,100	63,504	(5,085)	96,479
Profit for the year	-	-	2,200	-	2,200
Actuarial loss for the year	-	-	(2,794)	-	(2,794)
Deferred tax relating to pension liability	-	-	736	-	736
Fair value adjustment	-	-	-	4,684	4,684
Other adjustments	-	-	(767)	493	(274)
At the end of the year	10,960	27,100	62,879	92	101,031

Bank 2009

	Share Capital 2009 £000's	Share Premium Account 2009 £000's	Profit and Loss Account 2009 £000's	Available for Sale Reserve 2009 £000's	Total 2009 £000's
As at 1 January 2009	10,960	27,100	58,038	(4,228)	91,870
Profit for the year	-	-	775	-	775
Actuarial loss for the year	-	-	(2,794)	-	(2,794)
Deferred tax relating to pension liability	-	-	736	-	736
Fair value adjustment	-	-	-	3,870	3,870
Other adjustments	-	-	(493)	493	-
At the end of the year	10,960	27,100	56,262	135	94,457

27. Memorandum Items

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

Group	**2010**				2009			
	Notional Principal £000's	Credit equivalent amount £000's	Risk weight %	Risk weighted amount £000's	Notional Principal £000's	Credit equivalent amount £000's	Risk Weight %	Risk weighted amount £000's
Contingent Liabilities								
Acceptances	1,945	1,618	100%	1,618	1,630	1,328	100%	1,328
Guarantees	110,165	81,545	100%	81,545	134,638	90,341	100%	90,341
Documentary credits & short term trade related transactions	19,068	17,768	20%	3,554	26,480	25,425	20%	5,085
	131,178	100,931		86,717	162,748	117,094		96,754
Commitments								
Credit Lines and other commitments to lend	306,417	-		-	286,888	-		-

Includes intra-group contingent liabilities of £19,522,000 (2009:£29,719,000).

Notes to the Accounts *continued*

27. Memorandum Items *continued*

Bank

	2010				2009			
	Notional Principal £000's	Credit equivalent amount £000's	Risk weight %	Risk weighted amount £000's	Notional Principal £000's	Credit equivalent amount £000's	Risk Weight %	Risk weighted amount £000's
Contingent Liabilities								
Acceptances	1,945	1,618	100%	1,618	1,630	1,328	100%	1,328
Guarantees	107,778	81,545	100%	81,545	132,297	90,341	100%	90,341
Documentary credits & short term trade related transactions	19,068	17,768	20%	3,554	26,480	25,425	20%	5,085
	128,791	100,931		86,717	160,407	117,094		96,754
Commitments								
Credit Lines and other commitments to lend	303,526	-		-	260,560	-		-

Includes intra-group contingent liabilities of £19,522,000 (2009:£29,719,000).

28. Other Commitments

	2010 £000's	2009 £000's
Capital expenditure contracted for:		
By the Group and Bank	98	1,068

Lease Commitments

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

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Operating leases which expire				
- within 1 year	2	28	-	26
- 1 to 5 years	795	50	745	-
- over 5 years	94	933	-	839
	891	1,011	745	865

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 £246,727 (2009: £222,139) 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%.

For the purposes of FRS17 a qualified independent actuary updated the results of the valuation to 31 December 2010 using the Projected Unit Valuation Method to obtain the figures in this disclosure note.

30. Pension *continued*

The overall return on assets is expected to decrease from an assumption of 7.00% per year to a revised return of 6.39%. This assumption reflects lower growth in equity based on current market positions and long term expected returns, and decreased returns on bonds as yields on corporate bonds have fallen over the year.

	At 31 December 2010 £000's	Expected long term return	At 31 December 2009 £000's	Expected long term return
Equities	14,583	7.25%	12,688	8.00%
Bonds	11,249	5.40%	10,264	5.70%
Other (cash)	528	3.50%	(177)	3.50%
Total market value of assets	26,360		22,775	
Present value of scheme's liabilities	(23,103)		(24,911)	
Surplus/(Deficit) in the scheme	3,257		(2,136)	
Related deferred tax (liability)/asset @ 28% (note 20)	(912)		598	-
Net Pension asset/(liability)	2,345		(1,538)	

	At 31 December 2010 £000's	As at 31 December 2009 £000's	At 31 December 2008 £000's	As at 31 December 2007 £000's
Total market value of assets	26,360	22,775	19,703	24,588
Present value of scheme's liabilities	(23,103)	(24,911)	(19,211)	(22,280)
Surplus/(Deficit) in the scheme	3,257	(2,136)	492	2,308
Actuarial gains/(losses)				
Scheme's assets	1,736	1,898	(6,215)	(916)
Scheme's liabilities	615	(4,692)	4,425	1,083
	2,351	(2,794)	(1,790)	167

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 2010 using the following assumptions:

	At 31 December 2010	At 31 December 2009
Discount rate	5.70%	5.70%
Expected return on scheme assets	6.39%	7.00%
Inflation (RPI)	3.30%	3.40%
Inflation (CPI)	2.60%	n/a
Rate of increase in salaries	2.50%	4.90%
Rate of revaluation of pensions in deferment	2.60%	3.40%
Increases on pensions in payment in respect of service:		
Before April 1997	n/a	n/a
From April 1997 – June 2005	3.30%	3.40%
From July 2005	2.50%	2.50%
Assumed life expectancy on retirement age 65:		
Retiring today		
Males	22.6 years	22.4 years
Females	25.2 years	25.0 years
Retiring in 20 years		
Males	23.9 years	23.8 years
Females	26.2 years	26.2 years

30. Pension *continued*

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:
Increasing/decreasing the discount rate by 0.1% decreases/increases the scheme liabilities by £0.4 million.
Increasing/decreasing the inflation rate and salary increase rate by 0.1%, increases/decreases the scheme liabilities by £0.2 million.
Increasing life expectancy by allowing for a 90% weighting to the base table and a minimum improvement in mortality rates of 0.5% per annum increases the scheme liabilities by £0.6 million.

Movement in the present value of the scheme's liabilities	Year ended 31 December 2010 £000's	Year ended 31 December 2009 £000's
Liability at 1 January	24,911	19,211
Current service cost	588	481
Member contributions	133	145
Interest costs	1,420	1,241
Benefits paid by the plan	(715)	(859)
Change due to settlements or curtailments	(2,619)	-
Actuarial (gains)/losses	(615)	4,692
Liability at 31 December	23,103	24,911
Movement in plan assets		
Fair value of assets at 1 January	22,775	19,703
Expected return on plan assets	1,586	1,529
Employer contributions	845	359
Member contributions	133	145
Benefit paid	(715)	(859)
Actuarial gains/(losses)	1,736	1,898
Fair value of assets at 31 December	26,360	22,775
Amount charged to Operating Profit		
Current Service Cost	588	481
Gains on settlements or curtailments	(2,619)	-
Total Operating (Credit)/Charge to Administrative Expenses	(2,031)	481
Amount charged returned to interest income		
Expected return on assets	1,586	1,529
Interest on scheme liabilities	(1,420)	(1,241)
Net credit to interest income	166	288
Amount recognised in statement of total recognised gains and losses		
Actual less expected return on assets	1,736	1,898
Effect of change in assumptions on liabilities	615	(4,692)
Actuarial Gain/(Loss) recognised in statement of total recognised gains and losses	2,351	(2,794)

During the year, all the active members of the Final Salary section of the pension scheme gave informed consent to the introduction of a 2.5% p.a. cap on the amount of salary increases that would be pensionable under the Final Salary section. This amendment to the terms of the pension scheme has reduced the accrual of defined benefits and so is classified as a curtailment under FRS17. The gain not allowed for in the actuarial assumptions has been measured at the effective date of the change and recognised as a curtailment gain within administrative expenses in the profit and loss account.

31. Financial Instruments

Classes of Financial Instruments

The Bank's main activities are:

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

Investments Purchasing of debt securities.

Trading In derivatives.

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

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

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

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

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

2010

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

31. Financial Instruments *continued*

2009

Assets	Loans & receivables £000's	Available for sale £000's	Financial liabilities at amortised cost £000's	Derivatives £000's	Total £000's
Cash and balances at central banks	2	-	-	-	2
Loans and advances to banks	108,455	-	-	-	108,455
Loans and advances to customers	1,114,901	-	-	-	1,114,901
Debt securities – other	-	85,562	-	-	85,562
Financial derivatives	-	-	-	6,549	6,549
Total financial assets	1,223,358	85,562	-	6,549	1,315,469
Total non-financial assets					7,931
Total assets					1,323,400
Liabilities					
Deposits by banks	-	-	195,552	-	195,552
Customers deposits	-	-	937,721	-	937,721
Financial derivatives	-	-	-	7,472	7,472
Subordinated liabilities	-	-	72,611	-	72,611
Total financial liabilities	-	-	1,205,884	7,472	1,213,356
Total non-financial liabilities					9,013
Total liabilities					1,222,369
Equity shareholders' funds					101,031
Total liabilities and equity					1,323,400

Risk Management

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

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

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

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

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

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

31. Financial Instruments *continued*

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

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

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Neither past due nor impaired	1,198,476	1,050,504	1,052,829	909,951
Past due but not impaired	2,819	22,073	2,819	20,918
Impaired (net of specific provisions)	52,684	42,324	48,827	40,887
Total loans and advances	1,253,979	1,114,901	1,104,475	971,756

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

	Group		Bank	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Satisfactory credit quality	1,034,411	885,985	901,896	764,127
Weak credit quality	107,932	122,629	94,800	107,624
Highly weak credit quality	56,133	41,890	56,133	38,200
Total loans that were neither past due nor impaired	1,198,476	1,050,504	1,052,829	909,951

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	
	2010 £000's	2009 £000's	2010 £000's	2009 £000's
Past due 90-180 days	-	1,155	-	-
Past due over 180 days but less than 1 year	2,819	20,019	2,819	20,019
Past due over 1 year	-	899	-	899
Total loans that were past due but not impaired	2,819	22,073	2,819	20,918

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	
	2010 %	2009 %	2010 %	2009 %
Non performing loans as a percentage of total loans and advances to customers	4.43	5.78	4.68	6.36
Specific provisions as a percentage of total non performing loans and advances to customers	40.88	38.82	40.84	37.11

31. Financial Instruments *continued*

(a) Derivatives

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

(b) Credit-related commitments

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

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

The maximum exposure to credit risk on the financial assets at the balance sheet date was £1,622 million (2009: £1,478 million). This amount excludes any collateral which the Bank holds to mitigate its exposure. Collateral is held in the form of cash, debt and equity securities, security over property and bank guarantees.

Further details of our risk exposures are available in our Pillar 3 Disclosures on our website at:
www.bankleumi.co.uk/FullArticles/Regulatory_Disclosures/6599

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

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

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

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

The Market Risk Management Committee (MRMC) is responsible for market risk. The Senior Treasury Manager is responsible for the day to day management of market risk which includes liquidity risk, interest rate risk and 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 after including behaviour adjustments agreed with the FSA, divided by the total deposits within time bands of 0 to 8 days and 8 days to 1 month. As at 31 December 2010 the ratios for the above bands were +6.89% for 0-8 days (2009: 3%) and +19.93% for 8 days to 1 month (2009: 12%) compared with limits of 0% and -5%. Since 1 October 2010 the Bank also monitors its liquidity position according to contractual cash inflow and outflow information provided weekly to the FSA. From this data a number of statistics are derived including cash mismatches by time band, survival days and structural funding ratios. The Bank is currently developing internal limits for some of these metrics which will be incorporated into the Bank's liquidity policies and procedures.

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

The new FSA liquidity rules require the Bank to build up a Liquid Assets Buffer comprising high quality Government securities. The size of the buffer required is determined by the results of the Bank's liquidity stress testing. Stress testing is performed using a model which estimates the effect of different types of stresses on the Bank's cash inflows and outflows and, as part of the Bank's preparation of its Individual Liquidity Adequacy Assessment (ILAA), this model has been further developed during 2010. The Bank increased its Liquid Assets Buffer by £16 million during 2010, with further increases included in the Bank's three year plan.

The Bank successfully launched a number of new deposit rates during 2010, including for 3 months and 1 year as well as new 35 day notice accounts with 18 month step-up rates. These products increased the Bank's deposit base during 2010 and had a favourable impact on its liquidity position.

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

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

31. Financial Instruments *continued*

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

The table below summarises the analysis as at 31 December 2010, with positive amounts representing a future net liability, and negative amounts representing a future net asset.

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

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

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 31 December 2010 the possible loss, including Alco positions and 35 day notice 'step-up' accounts referred to above, was £1.0 million (2009: £0.1 million) compared with a limit of £2.3 million (2009: £2.4 million).

The 2009 equivalent analysis is shown below:

2009	Money Market Position £m	FX Forwards £m	Securities £m	Less: Alco Position £m	Hedging Derivatives £m	Net Position £m	MRMC Limit £m
GBP							
0-4 months	(165.3)	166.8	(4.0)	-	0.6	(1.9)	30.0
5-7 months	17.1	(3.5)	-	-	-	13.5	20.0
8-13 months	10.7	(11.9)	-	-	-	(1.2)	10.0
Over 13 months	1.0	(0.2)	-	-	(0.6)	0.2	5.0
	(136.5)	151.2	(4.0)	-	-	10.6	65.0
USD							
0-4 months	244.4	(170.7)	(83.5)	45.0	35.0	70.2	50.0
5-7 months	(46.3)	0.1	-	-	(40.0)	(86.2)	30.0
8-13 months	58.8	8.1	(5.0)	(45.0)	-	16.9	20.0
Over 13 months	(5.0)	-	-	-	5.0	-	5.0
	251.9	(162.5)	(88.5)	-	-	0.9	105.0
EUR							
0-4 months	58.4	(64.8)	(13.6)	-	-	(19.9)	35.0
5-7 months	1.6	4.2	-	-	-	5.8	20.0
8-13 months	5.8	7.8	-	-	-	13.7	15.0
Over 13 months	-	0.2	-	-	-	0.2	5.0
	65.8	(52.6)	(13.6)	-	-	(0.2)	75.0

31. Financial Instruments *continued*

Maturities of Financial Liabilities

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

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

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

At 31 December 2009	Demand £000's	Up to 3 months £000's	3-12 months £000's	1-5 years £000's	Over 5 years £000's	Group total £000's
Liabilities						
Deposits by banks	8,636	78,804	108,112	-	-	195,552
Customers deposits	326,615	502,890	101,141	7,075	-	937,721
Financial derivatives	1,896	2,137	1,518	1,733	188	7,472
Subordinated liabilities	-	-	-	-	72,611	72,611
Total financial liabilities	337,147	583,831	210,771	8,808	72,799	1,213,356

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 (2009: £6 million).

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

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

As at 31 December 2010 the total open positions were £0.3 million (2009: £0.8 million) of which £0.2 million (2009: £0.5 million) was a long position and £0.1 million (2009: £0.3 million) was a short position giving a net long open position of £0.1 million (2009: £0.2 million).

Fair Values of Financial Assets and Liabilities

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

Valuation of Financial Instruments

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

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

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

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

31. Financial Instruments *continued*

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

	2010 Level 1	2010 Level 2	2010 Total	2009 Level 1	2009 Level 2	2009 Total
Assets						
Debt securities	86,808	-	86,808	85,562	-	85,562
Financial derivatives	-	4,538	4,538	-	6,549	6,549
	86,808	4,538	91,346	85,562	6,549	92,111
Liabilities						
Financial derivatives	-	4,844	4,844	-	7,472	7,472

Note: There are no financial instruments measured according to Level 3 (2009: nil).

Derivative Financial Instruments and Trading Liabilities

The Bank holds derivatives for both hedging and non-hedging purposes. The derivatives held for hedging purposes are economic hedges which do not meet the requirements for hedge accounting.

Foreign currency forwards represent commitments to purchase or sell 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 obligations. 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.

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

	Notional principal 2010 £000's	**Year end positive fair values 2010 £000's**	**Year end negative fair values 2010 £000's**
Exchange Rate Contracts			
FX options	2,765	2	2
Other OTC options	3,010	122	122
FX forwards	388,047	4,373	4,373
Total Exchange Rate Contracts	**393,822**	**4,497**	**4,497**
Total Interest Rate Contracts	**15,214**	**41**	**347**
Total Derivative Contracts	**409,036**	**4,538**	**4,844**

Includes notional amounts of intra-group derivative instruments for both Bank and Group of £27,241,000 (2009: £22,112,000).

Notes to the Accounts *continued*

31. Financial Instruments *continued*

At 31 December 2009 the notional principal amounts and fair values of derivative instruments entered into with third parties were as follows:

	Notional principal 2009 £000's	Year end positive fair values 2009 £000's	Year end negative fair values 2009 £000's
Exchange Rate Contracts			
FX options	25,713	486	486
Other OTC options	1,629	22	22
FX forwards	490,843	5,013	5,013
Total Exchange Rate Contracts	518,185	5,521	5,521
Interest rate contracts			
Interest rate swaps	102,211	83	1,009
Cross currency interest rate swap	12,611	942	942
Forward rate agreements	24,655	3	-
Total Interest Rate Contracts	139,477	1,028	1,951
Total Derivative Contracts	657,662	6,549	7,472

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 2010 accounts.

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

We have audited the financial statements of Bank Leumi (UK) plc for the year ended 31 December 2010 as set out on pages 11 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 9 to 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

M.Davies (Senior Statutory Auditor)
For and on behalf KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
1 March 2011

Notice to Shareholders of Annual General Meeting

Notice is hereby given that the Fifty First Annual General Meeting of the Company will be held at 20, Stratford Place, London W1C 1BG on Tuesday, 17 May 2011 at 2.00pm, for the purpose of considering and, if thought fit, approving the following Resolutions:

ORDINARY RESOLUTIONS

1. THAT, the Company's accounts for the financial year ended 31 December 2010 together with the Directors' report and the Auditors' report on those accounts, be received, considered and adopted.

2. THAT, Mr C Cumberland, Mr C Lehmann, Mrs L Secretan and Mr E Senat 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 Z Itskovitch appointed as Director by the Board on 1 March 2011 and retiring in accordance with the Articles of Association of the Company, who being eligible and willing to act offers himself for re-election be appointed as Director 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.

By Order of the Board
Naomi Hillel
Company Secretary

1 March 2011

20, Stratford Place
London W1C 1BG

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

The Israeli Economy in 2010

Economic Growth

Israel's Gross Domestic Product (GDP) grew by 4.5% in 2010 in real terms. The expansion of the Israeli economy took place in almost all sectors: exports, private consumption and fixed asset investments such as machinery, equipment and construction – both residential and non residential.

Israel has continued to maintain its strong growth above the average of its peer members of the Organisation for Economic Co-operation and Development (OECD) between 2004 and 2010. Israel's GDP grew by an annual average rate of 4.4% in real terms, whilst the average OECD growth rate during this period was only 1.6%.

Israel's growth advantage over OECD countries became highly noticeable during the 2008-2009 global recession, during which Israel's GDP rose by 5.4% whilst average GDP for OECD members fell by 3.1%. This reflects Israel's strong economic fundamentals compared to other countries.

The Sovereign Credit rating

Following the ongoing improvement in the state of the Israeli economy in previous years, the country's credit rating was increased by the various credit rating agencies in late 2007 and in early 2008. The credit rating for the State of Israel for long term foreign currency was upgraded from A minus to A and to date this remains the country's rating.

Fiscal Policy

In 2009, the deficit in the state budget (excluding net credit granted) was 5.15% of GDP. This compared to a planned budget deficit of 6.0% of GDP. In 2010 the deficit dropped to 3.7% of GDP, compared to a target of 5.5% of GDP. These figures are much better than those reported by most advanced economies. This better than targeted deficit level in recent years is attributed to an early rebound of state tax revenues and tight expenditure control. Israel's fiscal path is subject to an explicit feedback rule with a target of a government debt to GDP ratio of 60% of GDP, according to the Maastricht accord of the European Monetary Union. The deficit target for 2011 has been set by the government at 3% of GDP.

The Exchange Rate, Inflation and Monetary Policy

The exchange rate of the Shekel appreciated during 2010 to NIS 3.55: US$1 from NIS 3.78: US$1 at the end of 2009. The appreciation of the Shekel against the Euro was much more dramatic, increasing to NIS 4.74: EUR1 at the end of 2010 from NIS 5.53: EUR1 at the end of 2009.

The resilience of the Shekel, despite global financial turmoil, seems to be related to the country's strong economic fundamentals including its solid external account position. This includes Israel's balance of payments, which continued to have a large surplus in the current account combined with a good level of foreign currency reserves and no net external debt.

The Consumer Price Index (CPI) rose 2.7% in 2010, which is within the official price stability target of between 1% and 3%. A look at the primary components of the CPI change shows that housing is still a major contributor to inflation along with the fruit and vegetable component. With the exclusion of these two items, the CPI rose by only 1.3% in 2010. Additional contributions to the increase of the CPI in 2010 were communication and transportation which reflect ongoing increases in energy costs.

Performance of Tel-Aviv Stock Exchange Traded Shares

Except for the second quarter of 2010, the leading indices on the stock market in Israel increased. TA-25 rose by 16% in 2010 and the TA-100 indices increased 15%. Second-tier stocks, such as those traded in the TA-75 index, posted gains similar to those of the larger shares.

The sectors that registered lower than average price gains included the industrial and banking sectors. Especially notable gains, of some 49%, were registered in the shares of oil and gas exploration companies. These increases were in line with economic events, namely the discovery of gas reserves by Israeli companies.

In 2010, the Tel-Bond corporate bond indices increased 11%. The Government bond CPI-linked index increased 8%, more than non-CPI linked bonds that rose 5%, which reflects inflation concerns in the market.

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

www.bankleumi.com

together we go further

Bank Leumi (UK) plc