



Bank Leumi (UK) plc

Regulatory Disclosures – Pillar 3

Background

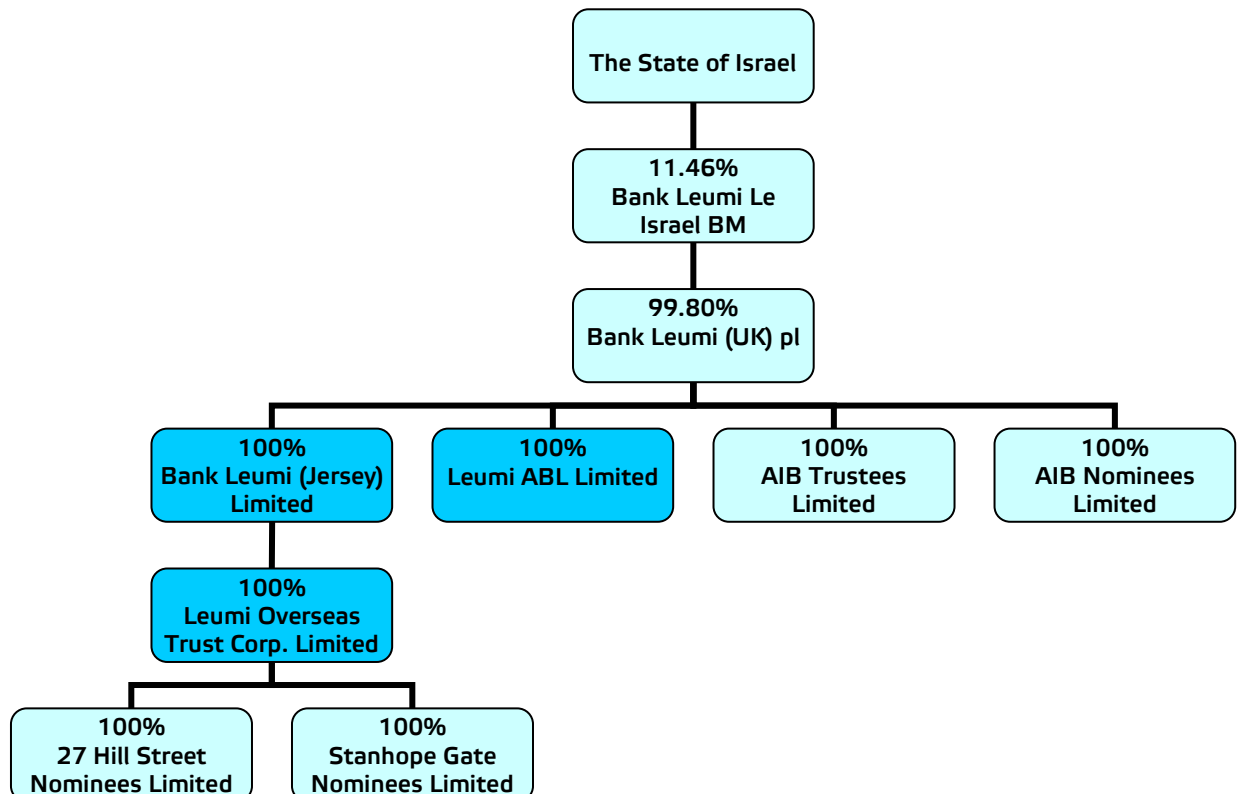
This information has been prepared to satisfy the qualitative disclosure requirements as set out in Chapter 11 of the FSA's Prudential Sourcebook for Bank's (BIPRU). The quantitative disclosure requirements can be found within the later sections of this disclosure as well as the Bank's audited accounts. Copies of these financial reports have been posted on the Bank's website.

Bank Leumi (UK) plc has adopted the standardised approach for assessing the capital requirement for credit risk, and the basic indicator approach for operational risk.

These disclosures are made based on positions, policies and procedures that were in place as at the 31st December 2010. This information will be updated on an annual basis, or where significant changes have been made that would materially effect the detail of this disclosure.

Scope of Application

These disclosures are made on a consolidated basis on behalf of Bank Leumi (UK) plc which is a UK incorporated company that is authorised and regulated by the Financial Services Authority (FSA), it is a part of the wider Bank Leumi le-Israel group:



Those entities highlighted represent the main trading subsidiaries of Bank Leumi (UK) PLC.

For accounting purposes the financial results of Bank Leumi (UK) plc and its subsidiaries are consolidated on a full basis.

From a regulatory prudential perspective Bank Leumi (UK) plc has an approved solo-consolidation waiver granted by the FSA to allow solo-consolidation treatment in respect of itself and its subsidiary Leumi ABL Limited. There is a requirement to calculate and maintain regulatory capital on both a group and solo-consolidated basis.

Bank Leumi (Jersey) limited (together with Leumi Overseas Trust Corporation) is regulated by the Jersey Financial Services Commission and has separate regulatory capital requirements; it is also regulated by the FSA in relation to regulated mortgage activity. Apart from maintaining their regulatory requirements we can not foresee any material practical or legal impediments to the transfer of capital resources, or the repayment of liabilities within the Bank Leumi (UK) plc Group.

Risk Management Objectives,

Bank Leumi (UK) plc's approach to risk is aimed at ensuring that all significant risks are identified and managed efficiently and appropriately on a timely basis. Risk management is based on certain principles and objectives:

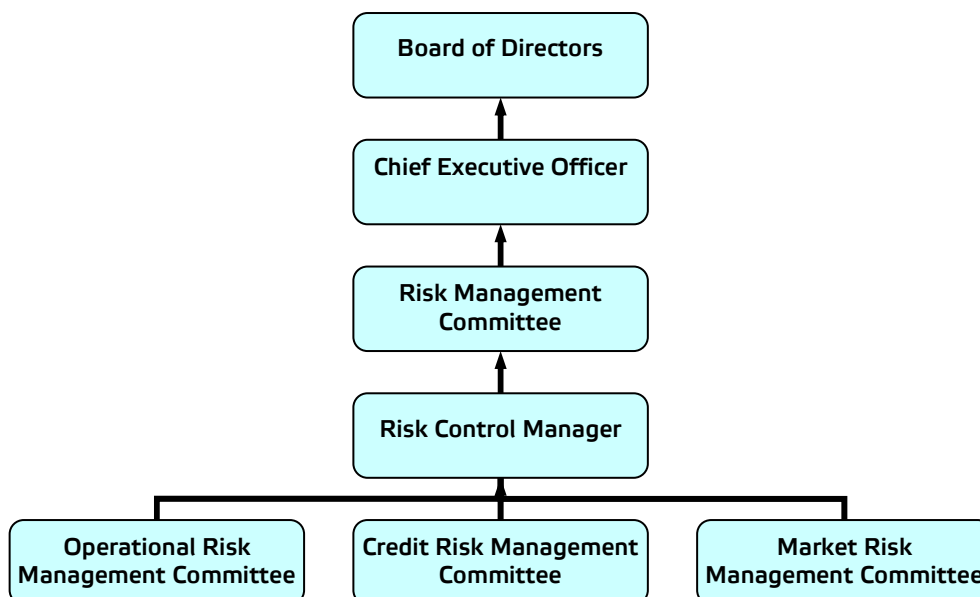
- To clearly apportion management of all risks to risk owners
- To separate risk management functions from risk monitoring functions
- To clearly identify reporting lines
- To align group related functions under the same reporting lines wherever possible to allow for efficiency and the cross-sharing of knowledge.

Risk Management Structure

Group Risk Structure

On a group basis Bank Leumi delegates certain day to day risk management and reporting functions within subsidiary companies to locally based risk committees and/or directly to locally based Board of Directors. Risk issues are where necessary escalated via the Risk Management structure with Bank Leumi (UK) plc.

To facilitate the risk management process, Bank Leumi (UK) plc has established a risk management committee structure.



Risk Management Committee (RMC)

The RMC has prime responsibility for the Bank Leumi (UK) plc Group's risk management structure and strategy. This includes the annual assessment of the Bank's overall risk appetite; the identification, management and apportionment of risk to relevant risk owners; and the review and agreement of the regular Group assessments of compliance, fraud and embezzlement and legal risks, and approval of the resulting documentation prior to submission to the Board for approval. It also considers risks extant in subsidiaries.

Credit Risk Management Committee (CRMC)

The CRMC is responsible for credit risk within the Bank and meets to sanction specific credit applications, and to discuss and monitor wider credit risk issues such as industry sectors, country risk, and other concentrations. It recommends the Bank's credit risk policies to the Board. All policies that form a part of our credit risk appetite are reviewed at least annually.

Market Risk Management Committee (MRMC)

All market risks, including interest rate risk, liquidity risk and basis exposure is the responsibility of the MRMC. The committee reviews and recommends the Bank's market risk policies to the Board. This committee meets weekly.

Due to the limited exposure to market risks, Bank Leumi (UK) plc does not employ sophisticated modelling techniques, however the Risk Control section have extended their independent monitoring of this area especially in relation to derivative transactions.

Operational Risk management Committee (ORMC)

The ORMC is responsible for the Bank's operational risks. The committee recommends the Bank's operational risk policies to the Board for approval. The Director, Chief Operating Officer has been apportioned with the day to day management responsibility of operational risk.

A monthly report is additionally submitted to the Risk Committee of the Board detailing any problem issues.

Risk Control Department

Bank Leumi (UK) plc has created a single independent department to monitor and control risks. The Risk Control Department is divided into four separate sections:

- The Compliance Section (regulatory risk).
- Risk Control (market risk).
- Loan Review (credit risk).
- Intensive Care and Bad Debts (credit risk).

The Risk Control department remains responsible for monitoring that risk is contained within pre-set parameters. It is also responsible for highlighting changes in risk profiles throughout the Bank that may become apparent from their monitoring duties, or from outside/external events that may affect the Bank.

Credit Risk Management Department

This department has a principal responsibility to independently monitor credit risk. Its main responsibilities are to:

- ensure that the business areas properly assess, monitor, control and report all credit risk issues.
- undertake its own independent assessment of applications for credit and report accordingly.
- manage and report on all areas of concentration risk, in particular economic sector risk, country risk and large exposure risk.
- manage the credit grading system including the oversight of the inputting, analysing shifts in credit grade and maintaining the effectiveness and credibility of the system.

The independent credit analysis function ensures that there is independent pre-approval analysis of all credit risks taken.

Credit Risk

Bank Leumi's qualitative Credit Risk Appetite can be summarised as:

- **Knowledge of the customer/counterparty:** New customer business must be properly introduced from a known and trusted source, or there must be some demonstrable reason for a prospective customer approaching the Bank for facilities.
- **Experience of sectors/activities:** Any lending into new areas is agreed only after a full assessment/analysis and after reference to the Credit Committee of the Board.
- **Security:** Lending is generally backed by tangible security, and/or is secured by pledges over a trading customer's debtors and stock, and/or represents transactional finance which allows the Bank to have some control over the title to assets being financed. Unsecured facilities are only made available to customers of the highest standing.
- **Short Term:** The Bank is essentially a short term lender. Facilities are generally repayable on demand and reviewed at least annually. In certain circumstances a commitment to a term facility is given but, other than for Executive Mortgages, this is treated as an exception to policy and contained within a maximum seven year term.

Credit Policy

The Bank has a comprehensive Credit Policy which sets out the business areas to which finance may be provided, the type of finance which should be provided and

the nature of security that should be held. It also defines acceptable loan to value ratios.

Credit Grading

The Bank employs a comprehensive Credit Grading system which allocates Credit Grades to all borrowing customers and is an important component of Credit Policy. Each grade is calculated using a matrix determined by the nature of the customer's activity and is built up using a combination of subjective and objective criteria. Linked to this Grade is a Collateral Co-efficient which represents the extent to which a facility is secured. Full details are contained within the Credit Grading Procedures.

Responsibility for the design, maintenance, validation and interrogation of the Credit Grading system rests with Risk Control Department rather than the Business Lines, thus ensuring that the integrity and independence of the system is maintained.

Credit Risk Mitigation

In accordance with the requirements of the Capital Requirements Directive Bank Leumi (UK) plc only recognises certain specified types of financial collateral for providing capital relief. This includes: cash held by the Bank; debt securities issued by central governments, central banks, and institutions all of which are rated by a recognised external rating agency; equities or convertible bonds that are included in a main index; and gold.

Bank Leumi (UK) plc utilises the simple method for credit risk mitigation purposes.

Large Exposures Policy

The policy applies to exposures to non-bank customers, banks, Bank Leumi le-Israel Group, counterparties connected to the bank, own-account investments, economic sectors and countries.

As the Bank reports to the FSA on both a solo consolidated basis and a consolidated basis, the policy applies to both the Bank and its subsidiary companies; the Capital Resources within the policy statement refers to either the solo consolidated or the consolidated entity, as appropriate.

Exposures to Customers

The Credit Committee must specifically ratify each of the exposures to individual borrowers or groups of related borrowers in excess of 10% of the Capital Resources and report them to the Board.

Policy states that exposures will not exceed 20% of the Capital Resources other than in exceptional circumstances meeting the criteria set out in the policy statement.

The total of all such Large Exposures, net of specifically charged cash collateral or specific provision, must not exceed our internal limit of 450% of the Capital Resources (the clustering ratio).

Exposures to Banks

Bank limits are formally reviewed by the Market Risk Management Committee at least annually in consultation with our parent company's (Bank Leumi le-Israel B.M.) International Division, and ratified by the Credit Committee. However in view of current market conditions all exposures are under constant monitoring with regular discussions held with our Parent Company.

Monitoring & Review

All relevant personnel within the Bank are aware of the importance of monitoring exposures on a daily basis and of the significance of the Large Exposure Policy. These issues are set out clearly within the Bank's Internal Procedures.

All facilities, whether current or term, are reviewed at least annually and are submitted to the level of authority appropriate for the size of the total obligor. In addition, a separate Loan Review function reviews facilities in accordance with a Loan Review Plan agreed by the Credit Committee, completely independent of the normal credit approval chain within the Bank. Loan Review reports directly to the Credit Committee and the CEO.

To control exposures on a group basis, procedures are in place that requires subsidiaries to seek the approval of Bank Leumi (UK) plc to any exposure, or common or connected exposure that is likely to exceed £7m.

Country Exposure Policy

When determining the country to which an exposure is to be allocated, the key criterion will be an assessment of where the ultimate Credit Risk lies, rather than the nationality or domicile of the borrower.

The Bank may incur Country Risk by undertaking the following types of business in all countries for which an appropriate Country Limit is marked:

- Direct lending to commercial and personal customers
- Provision of trade finance facilities
- Lending to other banks and financial institutions
- Purchase of corporate and sovereign risk for the Bank's own account.

Country Exposure Limits

Country Limits are discussed and agreed by the Credit Risk Management Committee and submitted to the Credit Committee of the Board for approval. All limits are reviewed annually and more frequently whenever prudential considerations dictate, and are coordinated with our Parent Company and their approval obtained prior to marking any limit.

Monitoring and Controlling Country Exposure

A report detailing total credit risk analysed by country and by type of risk is produced on a monthly basis and presented to the Credit Risk Management Committee and to the Credit Committee of the Board. Where there are concerns relating to any particular country or region, relevant exposures are monitored more frequently.

External Credit Assessments

Bank Leumi (UK) plc uses external credit assessments provided by Moody's who are recognised by the FSA as an eligible external credit assessment institution (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

External credit assessments are used in relation to the following asset classes:

- Central Governments and Central Banks
- Institutions
- Corporate

Market Risk

Market Risk Appetite

Bank Leumi seeks to engage in activities with only limited market risk exposure. It will only engage in transactions and instruments which would have a limited detrimental effect upon the profit and loss of the Bank's treasury area. The Bank will not enter into new products or markets without fully considering the market risks.

If the Bank engages in derivative transactions for customers the Bank's policy is to close the position in the market thereby eliminating any market risk save for the resulting counterparty exposure. We will only write an option or derivative for the Bank's own account if we hold the underlying product to which the transaction refers, or unless otherwise authorised within the Trading Book Policy.

The types of derivative in which the Bank will trade are limited to F/X options; interest rate/currency swaps; interest rate caps and/or floors; forward rate agreements; and equity options.

Liquidity Policy

The bank must be capable of meeting its obligations or liabilities as they fall due. The bank must provide appropriate liquidity to meet its obligations or liabilities on a usual business day and also at times when markets are stressed or other adverse circumstances could give the bank a greater risk of meeting an unusual level of obligations.

The bank's obligations mainly consist of deposits at sight or short notice term deposits, commitments to lend, etc.

This capacity is provided by:

1. By holding sufficient cash or liquefiable assets subject to the qualification that marketable assets vary in price.
2. By securing an appropriately matching future profile of cash flow from maturing assets, subject to the qualification that there may be shortfalls in practice if borrowers are unable to repay.
3. By maintaining an adequately diversified deposit base in terms of maturities, range of counterparties and concentration.
4. By updating statistical measurements of new business and changes to existing business, including monitoring behavioural changes.
5. By adjusting the price of funds.

Monitoring and Management

The Market Risk Management Committee (MRMC) is responsible for ensuring compliance with the Liquidity Risk Management Policy and for liquidity management generally and in a crisis situation.

The Liquidity position is monitored on a daily basis and is reported to The Market Risk Management Committee on a weekly basis. Projections of the effects of known movements of funds on liquidity are provided. Measurement under regulatory transitional provisions is based on a cash flow approach inserting assets and liabilities into a maturity ladder and calculating the time band mismatch as a percentage of deposit liabilities. Warning and action limits set above regulatory set requirements are used as part of the daily management of liquidity risk. Liquidity is also monitored on a further range of metrics to include the structure of funding and the requirement of Liquidity Assets Buffer.

Interest Rate Risk Policy

The Bank manages interest rate risk in two ways:

1. Limiting an overall loss due to an unexpected pre-set percentile change in the yield curve to an agreed percentage of the Bank's capital base (known as the hard limit).
2. Monitoring and measuring interest rate risk by slotting assets/liabilities into individual time bands and setting limits against those timebands. These limits represent a mismatch of positions which are considered acceptable risk within the total size of the book (known as the soft limits).

Status reports are submitted to the Market Risk Management Committee on a weekly basis for review. In the case of the first "hard" limit, where the limit is broken it is reported to the Board. The second limit for mismatched positions is classified as a "soft" limit where any breaches are dealt with by the MRMC, since individual mismatch position breaches would only give rise to a minimal loss which would fall within the overall maximum loss as defined in 1 above.

Operational Risk

Operational Risk Appetite

Bank Leumi has a low risk appetite for operational risk. The Bank will not enter into new markets, customer types or instruments without fully considering the operational aspects of such. The bank will not enter into structures or transactions, which incur significant operational risks.

The bank makes appropriate investments in technology, capital and staff to ensure that its operational risks are adequately managed.

Operational risk is monitored to continually assess any upward trends of processing errors, late settlements and other events that can result in operational risk, so that they are identified, investigated and rectified. An operational loss event reporting procedure is embedded to ensure operational incidents are tracked and where necessary corrective action taken.

Compliance risk appetite

The Bank Leumi (UK) plc Group has a low compliance risk appetite and seeks to ensure:

- Relations with its regulators are clear, open and honest.
- Response to regulatory issues is timely
- Involvement of the Board, Executive and Senior management in compliance matters

The Group does not wish to take regulatory risk. In order to monitor compliance issues the RMC will receive regular reports on issues arising from the compliance monitoring of both the Bank and of its subsidiaries, including a monthly report from the MLROs' of the Bank and of its (Jersey) subsidiaries.

Additionally the Head of Risk Control & Compliance will provide regular reports to both the Risk Committee and the Audit & Remuneration Committee, and hence to the Board. When necessary, the Head of Risk Control & Compliance will escalate regulatory issues direct to the Board itself.

Assessment of Adequacy of Internal Capital

The Bank's capital adequacy position is measured regularly against the regulatory requirement as set by the FSA as per our Individual capital Guidance (ICG) In addition a capital buffer is maintained to ensure that a comfortable margin is maintained at all times to meet growth and any sudden variations including stressed conditions.

To ensure that the Bank continues to maintain sufficient capital, as part of the ongoing ICAAP process the Bank's three year plan is modelled to assimilate the capital requirement that would result from the projections within the plan being

met. The plan and the resulting capital requirement are then stressed to ascertain the effect of the business plan projections being exceeded.

Additionally certain adverse economic scenarios are considered to measure the effect on capital. Such scenarios include a variety of economic conditions to include a severe 1 in 25 year downturn.

CAPITAL RESOURCE

The table below summarises the composition of regulatory capital as at 31 December 2010. The group complied with the capital requirements that were set out as at the reporting date and throughout the year, including the make of the capital to comply with BIPRU 2.2.46.

	As at 31.12.2010 Group
	£000's
Core tier 1 Capital	
Called up ordinary share capital	10,960
Share Premium account	27,100
Profit & Loss reserve	70,948
Minority Interests	-
	<hr/> 109,008
Deductions from core tier 1 capital	
Goodwill on acquisition	(306)
	<hr/> 108,702
Total Core tier 1 Capital after deductions	
Upper tier 2 Capital	
Perpetual subordinated debt	27,000
Collective provision	2,458
	<hr/> 29,458
Lower tier 2 Capital	
Dated subordinated debt	45,466
	<hr/> 74,924
Total tier 2 capital	
	<hr/> <hr/> 183,626

CAPITAL ADEQUACY

		As at 31.12.2010 Capital Requirement
		€000's
Standardised Approach		
Central government or central banks		428
Regional governments or local authorities		-
Administrative bodies and non-commercial undertakings		-
Multilateral development banks		-
International organisations		-
Institutions		4,275
Corporates		28,045
Retail		-
Mortgages secured on real estate properties		14,491
Past due items		3,759
Items belonging to regulatory high risk categories		-
Covered bonds		-
Securitisation positions		-
Short term claims on institutions or corporates		46,380
CIUs		-
Other items		555
		97,933
Operational Risk - Basic indicator approach		6,458
Trading book		
Interest rate PRR		-
Equity PRR		-
Option PRR		-
Counterparty risk capital component		479
Concentration risk component		-
Commodity PRR		-
Foreign currency PRR		91
		570
Total capital requirement		104,961

COUNTERPARTY CREDIT RISK

The Bank uses derivative instruments to hedge its exposure to market risk, for example, foreign exchange and interest rate risk. Counterparty credit risk is the risk that one of the counterparties to a derivative instrument that the Bank holds could default. The risk is mitigated by offsetting the amounts due to the same counterparties ('Netting benefits').

Counterparty credit risk for the Bank is minimal representing only 0.46% of the total Pillar 1 capital requirement. Therefore on the grounds of materiality, no further detail will be provided on this risk.

CREDIT RISK AND DILUTION RISK

Tables 1 to 4 below are based on regulatory credit risk exposure values.

The exposure definition recommended by the BBA Pillar 3 working party and used below is:

Exposure at Default (EAD) pre Credit Risk Mitigation (CRM), i.e the regulatory exposure value after the application of Credit Conversion Factors (CCFs) but before CRM. This may differ to statutory reported balance sheet carrying values.

Table 1: Total period end and average exposures after individual impairment and prior to credit risk mitigation by exposure class.

	Exposure as at 31.12.10	Average exposure to 31.12.10
	£000's	£000's
Central government or central banks	46,016	24,885
Institutions	113,278	139,680
Corporates	414,136	387,119
Secured on real estate properties	297,401	297,134
Past due items	46,284	46,297
Short term claims on institutions and corporates	694,940	655,430
Collective Investment Undertaking	-	-
Other Items	6,938	5,614
Total	1,618,993	1,556,159

Table 2: Period end Geographic distribution of exposure classes

	UK	EU	USA	Israel	Rest of World	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Central government or central banks	16,067	-	3,220	26,729	-	46,016
Institutions	70,038	3,328	11,109	23,486	5,318	113,279

Corporates	247,655	75,341	43,013	11,484	36,643	414,136
Secured on real estate properties	292,103	1,530	247	100	3,421	297,401
Past due items	42,487	1,492	2,299	-	6	46,284
Short term claims on institutions and corporates	367,903	273,353	15,116	22,589	15,978	694,939
Other	6,938					6,938
Total	1,043,191	355,044	75,004	84,388	61,366	1,618,993

Table 3: Distribution of the exposures by industry or counterparty type

	Central government or central banks	Institutions	Corporates	Secured on real estate	Past due items	Short term claims on institutions and corporates	Total
	€000's	€000's	€000's	€000's	€000's	€000's	€000's
Governments	46,016	-	-	-	-	-	46,016
Banks & Building Societies	-	82,877	-	-	-	123,526	206,403
Financial Services / Institutions	-	27,871	118,081	17,260	7,344	109,549	280,105
Property / Real estate	-	-	74,526	205,881	30,346	198,733	398,676
Retail	-	-	7,772	-	-	18,585	26,357
Manufacturing	-	-	19,971	-	337	64,237	84,546
Wholesale Distributions	-	-	145,232	10,141	4,013	163,773	323,159
Individuals	-	-	48,419	64,119	4,245	16,536	244,128
Other	-	2,530	136	-	-	6,938	9,604
Total	46,016	113,278	414,136	297,401	46,284	701,877	1,618,993

Table 4: The residual maturity breakdown of all the exposures

	< 1 year	1 - 5 years	> 5 years	Total
	£000's	£000's	£000's	£000's
Central government or central banks	40,071	5,945	-	46,016
Institutions	84,949	12,702	15,627	113,279
Corporates	414,136	-	-	414,136
Secured on real estate properties	296,201	1,200	-	297,401
Past due items	46,284	-	-	46,284
Short term claims on institutions and corporates	694,940	-	-	694,939
Other items	6,938	-	-	6,938
Total	1,583,519	19,847	15,627	1,618,993

Tables 5 to 6 are produced on the same basis as the statutory disclosures in the 2010 annual Report & Accounts

Table 5: Impaired and past due exposures; value adjustments & provisions; charges for value adjustments by significant industry or counterparty type

	Impaired Loans	Past Due Loans	Value adjustments and provisions
	£000's	£000's	£000's
Commercial Banking:			
Secured on real estate	1,970	-	-
Corporates	89,128	2,819	38,373
Total	91,098	2,819	38,373

Table 6: Geographical analysis of impaired exposures and provisions

	UK	EU	USA	Israel	Total
	£000's	£000's	£000's	£000's	£000's
Impaired Loans	56,278	17,753	14,169	2,898	91,098
Value adjustments and provisions	(15,176)	(10,760)	(11,870)	(567)	(38,373)
Total	41,102	6,993	2,299	2,331	52,725

Table 7: Allowances and movements for impairment of loans against credit losses

	Customers Specific	Customers Collective	Total
	£000's	£000's	£000's
As at 1st January 2010	40,859	2,502	43,361
Charge against profits (net of recoveries)	4,238	(44)	4,194
Recoveries	21	-	21
Amount written off	(5,866)	-	(5,866)
FX Difference	(386)	-	(386)
All Transfers	(493)	-	(493)
As at 31st December 2010	38,373	2,458	40,831

Table 8: The Income Statement charge/(credit) comprises

	Customers Specific	Customers Collective	Total
	£000's	£000's	£000's
Impairment charge (credit)	4,259	(44)	4,215
Recoveries	(21)	-	(21)
Total Income statement charge/(credit)	4,238	(44)	4,194

CREDIT RISK – STANDARDISED APPROACH

The group calculates credit risk for exposure on its loans and deposits under the standardised approach.

In addition, for the purposes of calculating non-retail credit risk requirements under the standardised approach, the group uses Moodys as its external credit assessment institute (ECAI).

The external rating is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings.

The standardised credit risk exposure classes for which ECAI's are used are:-

- Central Government or Central Banks
- Institutions
- Corporates

Table 9: Central Governments or Central Banks

Credit Quality Step (CQS)	Risk Weight	Exposure	Exposure after Credit Risk Mitigation
		£000's	£000's
1	0%	19,287	19,287
2	20%	26,729	26,729
3	50%	-	-
4	100%	-	-
5	100%	-	-
6	150%	-	-
		46,016	46,016

Table 10: Corporates

Credit Quality Step (CQS)	Risk Weight	Exposure	Exposure after Credit Risk Mitigation
		£000's	£000's
1	20%	-	-
2	50%	-	-
3	100%	-	-
4	100%	-	-
5	150%	-	-
6	150%	-	-
		-	-

Table 11: Institutions original effective maturity of more than 3 months

Credit Quality Step (CQS)	Risk Weight	Exposure	Exposure after Credit Risk Mitigation
		£000's	£000's
1	20%	35,989	35,989
2	50%	42,434	42,434
3	50%	-	-
4	100%	43	43
5	100%	-	-
6	150%	-	-
		78,466	78,466

Table 12: Institutions short term effective maturity of 3 months or less

Credit Quality Step (CQS)	Risk Weight	Exposure	Exposure after Credit Risk Mitigation
		£000's	£000's
1	20%	40,763	40,763
2	20%	47,423	47,423
3	20%	25,867	25,867
4	50%	-	-
5	50%	-	-
6	150%	-	-
		114,053	114,053

MARKET RISK

The group uses the maturity approach for general market risk.

Table 13: Capital requirement of market risk

	Capital Requirement	
	Trading book	All activities
	£000's	£000's
Interest rate risk	-	-
Equity position risk	-	-
Option position risk	-	-
Collective investment position risk	-	-
Counterparty risk capital component position risk	-	-
Concentration risk capital component	-	-
Component position risk	-	-
Foreign currency position risk	91	91
Commodity position risk	-	-
Total	91	91

CREDIT RISK MITIGATION

The following table shows the values of collateral and guarantees used as credit risk mitigation within the Pillar 1 calculations

Table 14: Collateral used as part of credit risk mitigation

	Financial Collateral	Other Eligible Collateral	Guarantees	Totals
	£000's	£000's	£000's	£000's
Standardised approach				
Central government or central banks	-	-	-	-
Institutions	-	-	-	-
Corporates	30,130	31,755	19,418	81,303
Secured on real estate properties	291	-	1,326	1,617
Past due items	1,796	-	-	1,796
Short term claims on institutions and corporates	8,557	344	8,572	17,473
Total	40,774	32,099	29,316	102,189

Pillar 3 Remuneration Disclosures for the financial year ended 31 December 2010

Background

The following remuneration disclosures have been prepared in accordance with the UK Financial Services Authority's ("FSA") Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") section 11.5.18 R.

These disclosures are based on Bank Leumi (UK) plc's financial year end, as at 31 December 2010. This information will be updated on an annual basis, or where significant changes have been made that would materially effect the detail of this disclosure.

Scope of Application

These disclosures are made in respect of Bank Leumi (UK) plc ("the Bank") which is authorised and regulated by the FSA. The Bank is part of the wider Bank Leumi le-Israel group ("BLITA").

Based on the Bank's profile, we have defined ourselves as a Proportionality 'Tier Two' firm and adopted a proportionate approach to our remuneration policy. We have considered our individual needs on an ongoing basis and where appropriate disapplied certain disclosure provisions in accordance with the FSA and the Committee of European Banking Supervisors (CEBS, now EBA) guidance.

Decision-making process for determining remuneration policy

The Bank has an Audit and Remuneration Committee in place which typically meets on a quarterly basis to consider matters relating to remuneration and retirement benefits. Within the authority delegated by the Board of Directors ("the Board"), the Audit and Remuneration Committee is responsible for approving remuneration policy and in doing so takes into account pay and conditions across the Bank.

The Bank ensures that when determining remuneration policies and practices, the Bank's risk appetite is taken into account as well as the capital consumption involved in order to generate profits.

External Consultants

The Bank has sought advice from Deloitte LLP and the Audit and Remuneration Committee is kept fully informed of developments associated with the FSA Remuneration Code.

None of the Bank's employees are permitted to participate in the discussions or decisions of the Audit and Remuneration Committee relating to his or her own remuneration.

The Role of the Relevant Stakeholders

The individual members of the Audit and Remuneration Committee have met regularly with senior management during the year to discuss the Bank's remuneration policy.

Quarterly reports are presented to the Audit and Remuneration Committee on business related compliance and risk issues. These are produced by Risk Control & Compliance, the Money Laundering Reporting Officer (MLRO) and Internal Audit.

The process for determining remuneration involves the Audit and Remuneration Committee, Executive Management, Human Resources, Risk Control & Compliance and the heads of departments.

Code Staff Criteria

The following groups of employees have been identified in meeting the FSA's criteria for Code Staff:

- Members of the Bank's Executive Committees (which includes the Executive Directors);
- Employees performing Significant Influence Functions;
- Senior Managers who are Heads of relevant departments such as Risk & Compliance, Audit, Legal, Credit, Human Resources, Property, Commercial & Commodity Finance, Dealing Room, Private Banking, International Banking Services.
- Non-Executive Directors

Design and structure of the remuneration system

The Bank's remuneration policy is designed to promote and encourage behaviours and performance which successfully align with the Bank's business strategy and success.

The Bank's employees' remuneration package is made up of fixed pay (salary and benefits) and discretionary variable pay (bonus payments).

The main aspects of the remuneration framework is set out below:

1) Basic Salary

Basic salary is influenced by market rates and trends. Salaries are reviewed annually to ensure they remain competitive.

2) Annual Bonus

The Bank has applied the following in relation to annual bonus plan:

- The Annual Bonus Plan is based on financial and non-financial performance;
- If the Bank's performance is below a threshold performance level the bonus will be nil;
- Above a predetermined level, a proportion of the bonus will be deferred;
- Performance Indicators for bonus comprise financial and non-financial measures:
 - Pre tax bonus profit drives the funding of the bonus pool
 - Poorly rated risk management, internal controls, regulatory and procedural compliance and loan reviews can reduce the bonus pool and the value of deferred bonus towards zero
- The Annual Bonus Plan is managed within an independent corporate governance framework – The Audit & Remuneration Committee of the Board is responsible for ultimate oversight.

The Bank does not offer any multi-year guarantees as this is not considered to align with the overall policy of remunerating based on performance.

Deferral and vesting

Where the FSA's de minimis concession is exceeded (in accordance to the Remuneration Code), 40% of the variable remuneration will be deferred over the following three years and subject to malus provision where there is reasonable evidence of misbehaviour or material error; or the Bank or the relevant business unit suffers a material downturn in its financial performance; or the Bank or the relevant business unit suffers a material failure of risk management. This applies to all of the Bank's employees, irrespective of whether the employees are classified as Code Staff or not.

Aggregate Quantitative Remuneration Disclosure – financial year ended 31 December 2010

The Bank is required to disclose aggregate quantitative remuneration information for its Code Staff in the year ending 31 December 2010. As at 31 December 2010, there were 28 Code Staff identified by the Bank.

Aggregate remuneration is made up of total fixed and variable remuneration awarded in respect of the 2010 performance year.

Corporate & Commercial Banking	Finance & Operations	Other & Control Functions	Total
£736,724	£441,849	£2,156,616	£3,335,189

Amounts and form of fixed and variable remuneration

Total fixed remuneration paid in the financial year ended 31 December 2010 includes basic salary and benefits, including employer pension contributions, car allowance and Private Healthcare provision.

The total variable remuneration payable in respect of the financial year ended 31 December 2010 consists of cash bonus payments.

The table below is split into "Senior Management" (11 employees) and "Other Code Staff" (17 employees).

"Senior Management" includes:

- Members of the Bank's Executive Committees (which includes the Executive Directors)
- Non-Executive Directors

"Other Code Staff" includes:

- Employees performing Significant Influence Functions;
- Senior Managers who are Heads of relevant departments such as Risk & Compliance, Audit, Legal, Credit, Human Resources, Property, Commercial & Commodity Finance, Dealing Room, Private Banking, International Banking Services.

Form of remuneration	Senior Management	Other Code Staff	Total
Fixed	£ 760,964	£1,770,575	£2,531,539
Variable	£ 319,900	£ 483,750	£ 803,650
TOTAL	£1,080,864	£2,254,325	£3,335,189