Bank Leumi (UK) plc

Your Specialist Bank

ANNUAL REPORT 2018

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Bank Leumi (UK) plc

Bank Leumi (UK) plc Board of Directors

As at 31 December 2018

Yoel Mintz [4 & 5]
Chairman

Shmulik Arbel [5]

Michael J. Green [3* & 4* & 5]

Anthony Landes [1 & 3]

Robert M. Levy [2 & 4]

William M. Lindsay [2 & 4]

Sasson Mordechay [2]

Jean M. Stevenson [1* & 2 & 3 & 5*]

Adrian J. Stirrup [1 & 2* & 3 & 5]

Nicholas J. Treble [3 & 4]

1 Member of the Audit and Remuneration Committee
2 Member of the Business, Infrastructure and Operations Oversight Committee (formerly Strategy Committee)
3 Member of the Risk Committee
4 Member of the Credit Committee
5 Member of the Special Regulatory Projects Committee

** Committee Chairman*

Bank Leumi (UK) plc and subsidiaries

Executive Management

Gil Karni
Chief Executive Officer

Dhavarajh Frank
Chief Operating Officer

Dennis J. Hegarty
Chief Risk Officer

Andy Mallin
Chief Business Officer

Senior Management

Robert T.S. England
Head of Legal and Company Secretary

Daniel J. Gabb
Head of Treasury and Global Markets

Nicholas P. Headley
Head of Credit Risk Management

Paul Hird
Chief Executive Leumi ABL Limited

Paul J. Minkoff
Financial Controller

Youval Dichovski
Head of Internal Audit

Lin K. Walling
Head of Human Resources

www.bankleumi.com

Auditor: KPMG LLP,
15 Canada Square, London E14 5GL

Authorised by the Prudential Regulation Authority and Regulated by the Financial Conduct Authority and the Prudential Regulation Authority

Bank Leumi (UK) plc registered in England. Registration No.640370.
Registered Office: 20 Stratford Place London W1C 1BG
Telephone 020 3772 1500
Facsimile 020 3772 1501

Chairman's Statement

I am pleased to present the Annual Report for 2018 of the Bank Leumi (UK) Group.

The Bank's various business desks recorded positive results and returns during 2018, and I am pleased to report a consolidated net profit for the year of £10.9 million. This compares with a net profit of £12.1 million in 2017. This year the Bank has seen a higher level of net interest income following good growth in lending. Once again we have seen a relatively low level of new credit related provisions and a small write back to profit related to impaired debts.

The credit quality of the loan book remains sound, with the level of debts on the Bank's 'watch list' still considered to be low. While this number has increased slightly during 2018, it is nonetheless considered to be representative of the Bank's ongoing solid and effective credit risk management policies and procedures.

The loan book increased £95 million or 9% during 2018. Most business sectors reported growth, with Property Finance and asset based lending in our subsidiary Leumi ABL Limited contributing well to the overall performance. Customer deposits decreased £120 million or 12%, due to our strategic drive to exit customers who fell outside of our risk appetite. Growth of customer deposits remains a key focus for the Bank as we regularly review our target markets, product offering and deposit rates.

Total operating income before loan impairment charges for continuing operations increased £1.5 million or 3% to £54.1 million. This was driven by strong growth in net interest income of £2.5 million, offset by decreases in fees and commission income of £0.5 million and foreign exchange income of £0.3 million. The reduction in fees and commissions was mostly due to the exit from investment management in 2017 and also due to lower invoice discounting fees, whilst partly mitigated by higher levels of lending fees. Administrative expenses grew marginally by £0.2 million or 1% due to higher staff and IT related costs which were mostly offset by reductions in legal and consultancy costs, including one-off settlement costs in 2017. Depreciation costs increased £0.5 million or 21% due to continued investment in technology to increase control and efficiency within the Bank. This year the Bank has recognised a provision of £2.0 million in relation to regulatory matters, as detailed in Note 25.

Leumi ABL Limited continued to grow, with client commitments up by £30.3 million or 12%. Net profit of £3.5 million compared with £2.0 million in 2017 although excluding one-off settlement costs in 2017, profits were in line with prior year. Higher income and lower impairment allowances were mostly offset by higher expenses, although the latter was due to the impact of deferred costs which are matched to the term of financing agreements, with underlying expenses showing a reduction year-on-year.

The Bank's capital and liquidity ratios remained above regulatory limits throughout the year.

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 Strategic Report.

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. We continue to promote the building of strong internal controls and training programmes to ensure employees understand their responsibilities. We have recently completed a programme (as part of the Enterprise-wide Risk Framework exercise) which reviewed the Bank's corporate culture to ensure that it continues to meet regulatory standards from a conduct risk point of view, and also established behaviours designed to ensure staff motivation and alignment with the Bank's strategic objectives.

Highlights of the Year Include:

- **Net profit of £10.9 million, compared with £12.1 million in 2017.**
- **Tier 1 capital ratio of 15.5%, compared with 15.4% in 2017.**
- **Write back to profit of £0.7 million in respect of impairment allowances, compared with a write back of £0.2 million in 2017.**
- **Operating income before provisions for continuing operations of £54.1 million, compared with £52.6 million in 2017.**
- **Administrative expenses for continuing operations of £36.7 million, similar to 2017 of £36.5 million.**
- **Efficiency ratio for continuing operations of 73% compared with 74% in 2017.**
- **Customer lending of £1,207 million, compared with £1,113 million in 2017, an increase of £95 million or 9%, with strong growth in Property Finance and Leumi ABL Limited.**
- **Customer deposits of £923 million, compared with £1,043 million in 2017, a decrease of £120 million or 12%, following a strategic initiative to exit customers who did not align with the Bank's business strategy and risk appetite.**

Directors, Management and Staff

I would like to thank my fellow Directors for their contribution over the past year. My special thanks are extended to Gil Karni our CEO for his leadership and enterprise, as well as to all the management and staff for their efforts and achievements despite the continuing challenging business environment which prevailed during 2018.

Yoel Mintz

Chairman of the Board of Directors

26 February 2019

Strategic Report

Activities

The Leumi Group has been active in the UK since 1902. Bank Leumi (UK) plc is one of the largest subsidiaries of the group.

Founded in 1959 and headquartered in London, Bank Leumi (UK) plc and its subsidiaries provide lending and related banking services to a wide range of commercial, corporate and private clients.

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

Strategy statement
We are a specialist bank with a UK focus benefitting from close ties to Europe and Israel. We are well positioned to provide corporate banking services across a range of sectors including property, commercial, hotels, commodities and hi-tech. We truly value our client relationships, providing added value in the form of expertise and tailored solutions.

Our service commitment
Our priority is to provide a first class service supported by speedy decision making and excellent execution capabilities. We focus on understanding our customers' needs, building lasting relationships and taking a proactive approach as their requirements change. We offer a wide range of facilities and financial services to UK and international corporate and private clients.

Brexit

The Bank has a strategy of 'follow your customer' whereby we may finance the activity of existing corporate and commercial customers of the wider Leumi Group as they enter into new jurisdictions acceptable to the Bank. This has led to the financing of property, hotel and media assets in EU member states. The Bank also accepts deposits from customers in EU jurisdictions. Our current activity in the EU is considered modest overall in relation to the Bank's wider business. The Bank is authorised to passport services under the Banking Consolidation Directive into the vast majority of member states, although we currently do not undertake any direct marketing activity with customers located in these states, and the physical presence of our offices and staff remain solely in the UK. Given the small number of accounts involved, the Bank is confident of being able to manage its book appropriately in the event of a 'hard Brexit'. Following Brexit we expect the Bank will continue to service clients in certain European jurisdictions, whilst continuing to liaise with local counsel on legal implications and to consider implementing any additional measures to ensure that we operate in compliance with local regulation. We are also closely monitoring the wider impact of Brexit on general economic conditions, including how they affect the business of our customers.

Review of Business

Commercial Banking

Across all areas of our commercial banking activities we continue to experience increased competition, be it from large high street banks and others building their presence in the market place or new entrants into the arena, including private equity funds, challenger banks and the fin tech sector. Nevertheless, given our strong service commitment we believe that we are well placed not only to deal with such competition, but also benefit from the pricing premium that many of our customers are willing to bear for the continuity and support that comes from a strong, long-standing mutually-beneficial relationship.

Property Finance

The Bank focuses on financing the construction of residential, mixed use and commercial developments, mainly in London and the South East of England as well as projects in other parts of the UK, on a more selective basis.

The Bank also finances the construction of care homes, retirement villages and student accommodation projects in prime locations across the UK.

During 2018 the Bank also continued to increase its lending on investment and income generating property, offering to re-finance development projects it had financed on a longer investment basis, as well as new proposals and this along with the Bank's ability to provide fast and reliable responses to initial enquiries enabled it to maintain its performance in 2018.

The Bank's experienced Property Finance Team will aim to build on this performance in 2019, while monitoring the sectors in which it operates to ensure credit quality is maintained, particularly in respect of the potential impact of Brexit on the real estate market generally.

Hotel Finance

The Bank has been providing hotel finance for over ten years to clients mainly in the UK and Western Europe, focussing on development finance for new build projects, conversions and renovations as well as investment finance for established trading hotels. We work with a growing customer base across the hotel sector, from development companies and investment funds to owner-operators.

Our specialist Hotel Finance Team benefits from extensive knowledge of the sector and stays abreast of market trends, which allows us to provide bespoke funding solutions to meet our clients' requirements.

Commodity Finance

Our Commodity Finance Team specialises mainly in the provision of short-term transactional finance to physical traders of metals, energy and agricultural commodities.

Regulation continues to impact commodity producers, traders and banks, with the increasing costs for doing so yet to feed into commodity prices. Despite this backdrop, we are able to compete with the large commodity finance banks as a result of our relationship management driven approach.

Our policy of building close relationships with premium quality trading companies with strong balance sheets and established operations has allowed us to maintain an acceptable risk profile, despite price volatility and geopolitical events.

International Commercial Finance

We continue to seek new relationships where we can build upon our strong expertise in financing customers engaged in international trade, particularly UK importers and Israeli businesses active in the world economy.

In both our Commercial Finance and Trade Finance businesses, we have seen excellent opportunities to enhance a number of existing financing structures. We achieve this by providing primarily secured trade finance and working capital facilities.

We support these services by offering treasury and other products as part of an overall comprehensive banking package. The maintenance of our demanding lending criteria and the provision of a high quality service gives us a solid platform for development of these businesses going forward.

We have a strong Israeli heritage as a member of the Leumi Group. This, together with our well established UK presence, allows us to offer a range of banking services for customers engaged in business opportunities connected with Israel. Those services include working capital finance, acquisition finance, syndicated facilities, guarantees and deposit taking.

Hi-tech Finance

Working closely with our colleagues in Tel Aviv, particularly Leumi Group's specialist subsidiary, LeumiTech, we continue to build our base of tech clients in the Bank. Our strategy in this space is principally to provide banking facilities and financial assistance to existing customers of the Leumi Group in Israel to establish offshoots of their Israeli centred businesses in the UK and Europe. We would also look to leverage on our expertise in the Israeli market, through LeumiTech, and seek to introduce UK based companies wishing to expand into Israel. We see this sector as a potentially major growth area for the Bank in the medium to long term and will shape our offering and risk appetite accordingly.

Premier Banking

Our experienced team of Premier Banking relationship managers provide our clients with a comprehensive range of banking services and foreign exchange facilities.

Together with our Treasury and Global Markets Department, and with the ongoing benign interest rate environment, we continue to provide competitive rates to both existing and new clients and with a wide range of deposit products.

We are continually reviewing our solutions in light of market conditions and to support our clients' needs.

Asset Based Lending, Factoring and Invoice Discounting

Our Brighton based subsidiary, Leumi ABL Limited, undertakes asset based lending to a wide range of businesses, enabling them to raise working capital against the value of their assets. Leumi ABL provides receivables finance, stock, plant and machinery finance and term loans.

Facilities secured against business assets, combined with the tight monitoring and control offered by Leumi ABL Limited, can offer higher levels of funding than traditional lending, while maintaining an attractive risk profile. Leumi ABL has retained and strengthened its strategy of working closely with the Private Equity and Corporate Finance communities and has completed a record year for new business in 2018; with multiple transactions involving private equity sponsors.

Manchester office

In line with its mission to deliver first class service whilst maintaining robust risk monitoring, Leumi ABL Limited continue to operate its fully operational office in Manchester which is staffed by experienced personnel who affirm our commitment to providing operational capability to serve our customers located in the North of the UK.

UK award wins

Thanks to its high quality sales team and proactive directors, Leumi ABL Limited has once again re-affirmed its now well established reputation as a leading player within the UK asset based finance market. Strong relationships with regional deal-making, professional advisory and private equity communities have resulted in yet another year of UK award wins, including the ACQ Global UK Asset Based Lender of the Year 2018, Finance Monthly Global Awards for UK Asset Based Lending Firm of the Year 2018 and the Finance Monthly Global Magazine – ABL of the Year Award 2018. Regionally Leumi ABL won the Thames Valley Business Magazine's Alternative Finance Provider of the Year 2018.

Overall Leumi ABL Limited, with a strong portfolio of performing clients, continues to grow and expand, providing robust income flows.

Leumi ABL Limited remains a significant and growing proportion of our business.

Treasury, Foreign Exchange and Money Markets

Our Treasury Team provide a range of tailored foreign exchange solutions to assist our customers with international business to manage the potential risks inherent in global markets.

We offer our clients direct access to a personal contact within Treasury who can provide updates on financial market events and price movements.

We have a wide range of deposit products with competitive rates and can customise with flexible solutions providing access to funds if required.

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

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have an 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 Bank's risk appetite and associated detailed policy documentation. Independent Risk Control and Credit Risk Management Departments monitor that risk exposures are maintained within approved parameters and appetites.

Board Committees

The Bank has a Board Risk Committee which is responsible for the risk management structure of the Bank and the risk implications of all significant new activities. It makes recommendations to the Board regarding approval of new activity. It also reviews the processes and outcomes of the Bank's Internal Capital Adequacy Assessment process, Individual Liquidity Adequacy Assessment and Recovery and Resolution Plan, and provides challenge prior to submission of those documents to the Board.

The Credit Committee is responsible for all Credit Risk Matters. Credit risk is managed through a defined credit risk appetite statement and by policies and detailed procedures which call for individual assessment of the credit quality of all counterparties, including the extent to which collateral mitigates exposure. A credit grading system has been implemented and each individual rating is independently assessed before being agreed. Concentration risk is carefully monitored by borrower concentration, industry sector and country. Limits sanctioned by the Board are applied to each of these areas.

The Special Regulatory Projects Committee is responsible for specific matters relating to anti-money laundering and financial crime risk.

Management Committees

The Bank has five Management Committees which report into the Board Committees. They are responsible for formulating the relevant strategies and policies for the risks that emanate from their areas of responsibility.

The Risk Management Committee takes a strategic overview of risk and has prime responsibility for the Bank's risk management structure and strategy. This includes the annual assessment of the Bank's overall risk appetites; the identification, management and apportionment of risk to relevant risk owners; the review and agreement of the operational risk mapping and operational risk survey processes and the review and agreement of the regular group assessments of regulatory compliance, and legal risks. The Risk Management Committee reports into the Board Risk Committee.

The Operational Risk Management Committee reviews Operational Risk exposures which are monitored by way of a loss event reporting process that in turn considers actual and potential losses arising from any operational event. This committee also considers, approves and carefully monitors key operational system developments. The Operational Risk Management Committee reports into the Risk Management Committee, and a quarterly report is submitted to the Board Risk Committee.

The Market Risk Management Committee is responsible for all trading and market related risks including interest rate and liquidity risks of the Bank. Market risk is managed by Treasury & Global Markets and monitored by Finance and Risk Control on a daily basis. The Market Risk Management Committee receives an update on a monthly basis. Policies and detailed procedures are established and agreed by the Board which set out the parameters of the Bank's proprietary limits. Interest rate risk is controlled by way of a set of mismatch limits and loss limits for the impact of interest rate changes. Liquidity is monitored and reported daily using a number of metrics and ratios, each measured against limits set by the Market Risk Management Committee and the Prudential Regulation Authority. Regular stress testing of liquidity using bespoke scenarios is undertaken. Trading Room activity is monitored independently by the Risk Control Department. The Market Risk Management Committee reports into the Risk Management Committee.

The Credit Risk Management Committee is responsible for considering and approving credit risk exposures at a lower level than the Board Credit Committee as well as considering all credit risk exposures that ultimately fall for approval by the Board Credit Committee to whom it reports.

The AML Steering Committee is responsible for evaluating and mitigating risks arising from the Bank's AML risk management framework. The AML Steering Committee reports into the Special Regulatory Projects Committee.

Additional disclosures on credit risk, market risk and operational risk are contained in Note 28.

Risks associated with the Bank's defined benefit pension plan are detailed in Note 12(d).

The level of capital required to be held against these risks is monitored on a regular basis against regulatory and internal limits.

Management information in relation to risk is submitted via the risk management committees with summaries being provided by way of a quarterly Chief Risk Officer's Report to the Board and its specific delegated sub-committee.

Results

The Statement of Financial Position and the Income Statement have been presented in accordance with standards issued by the International Accounting Standards Board, as adopted by the EU.

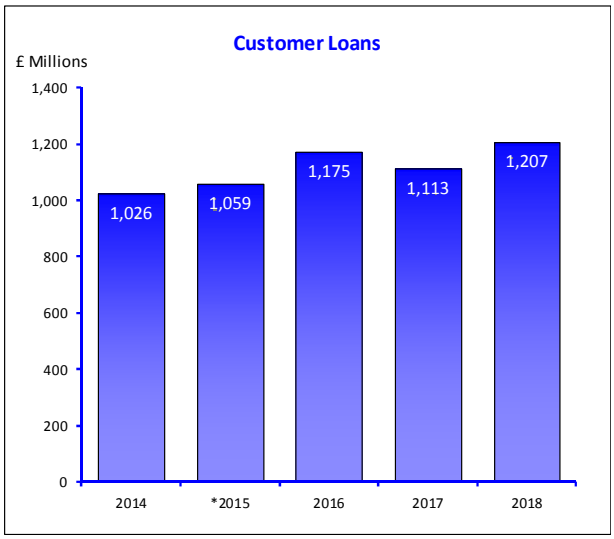
Statement of Financial Position

Total consolidated assets of Bank Leumi (UK) plc amounted to £1,537 million at the end of 2018, compared with £1,559 million at the end of 2017, a 1% decrease.

Statement of Financial Position – customer business

Overall customer lending increased by £95 million or 9% to £1,207 million. Increase was seen mainly in Property Finance and Leumi ABL Limited.

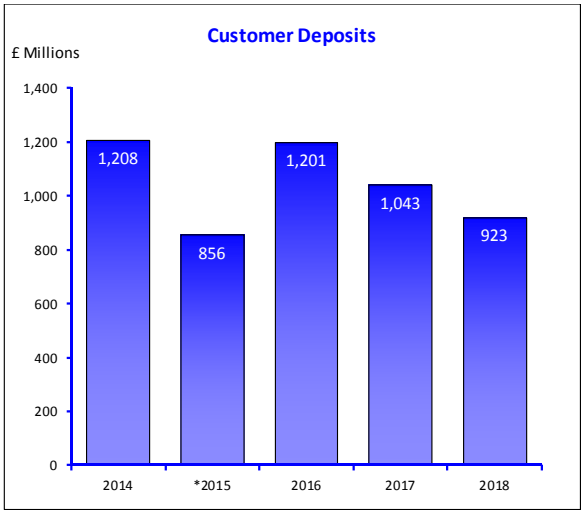
The trend in customer lending over the last five years is reflected in the graph below.



* 2015 excludes £120 million of loans which were classified as 'held for sale'.

Overall customer deposits decreased by £120 million or 12% to £923 million. This decrease was mainly from customers affiliated to our International Commercial and Hi-Tech Finance Business sector and resulted from a concerted drive to exit customers who did not align with the Bank's revised risk appetite.

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



* 2015 excludes £408 million of deposits which were classified as 'held for sale'.

Debt securities

The Bank holds debt securities as part of its liquidity portfolio. The overall portfolio increased by £8 million during 2018 to £32 million due to an increase in our holding of US Treasury bills.

Liquidity

During 2018 the liquidity position of the Bank remained strong. The level of the Bank's liquidity buffer was £273 million, a decrease of £128 million in the year due in part to a lower liquidity requirement following the reduction in customer deposits and in part to a withdrawal of surplus liquidity in the form of cash placements in the Bank of England Reserve Account.

Capital

The Bank continues to monitor its capital adequacy ratios on a regular basis to ensure that capital held is always adequate to support the business transacted. The level of capital held remained well in excess of regulatory limits throughout the year.

As at 31 December 2018 the Bank's consolidated Common Equity Tier 1 Capital and Total Tier 1 Capital ratio was 15.5%.

Income Statement

The group posted a net profit for the 2018 financial year of £10.9 million compared with a profit of £12.1 million in 2017.

Net profit includes £0.6 million (2017: £1.0 million) relating to the Jersey subsidiaries which is classified separately in the Income Statement as discontinuing activities following the decision taken in 2015 to sell Leumi Overseas Trust Corporation Limited (LOTC) and the business of Bank Leumi (Jersey) Limited (BLJ).

Continuing Operations

Net profit on continuing operations of £10.3 million compared to £11.1 million in 2017, a decrease of £0.8 million or 7%.

Overall the Bank saw a net write back to income of £0.7 million relating to impairment allowances on debts, compared to a net write back of £0.2 million in 2017. The write back comprises a net decrease of £1.7 million in allowances for debts which are credit impaired, partly offset by an increase of £1.1 million for non-impaired debts due to higher expected credit losses for debts which have experienced a significant increase in credit risk since origination (classified as Stage 2 under IFRS 9).

Operating income before impairment charges of £54.1 million compares with £52.6 million in 2017, an increase of 3%, and reflects higher net interest income, offset by lower fees and commission income.

Net interest income of £42.5 million compared with £40.0 million in 2017, an increase of 6%, with contributions from both Bank Leumi (UK) plc and Leumi ABL Limited reflecting growth in lending and margins remaining relatively steady.

Fees and commissions income of £9.8 million compared with £10.3 million in 2017, a decrease of 5%. The lower level of income was attributable to securities fees, following the decision last year to exit our investment management business, and invoice discounting fees, partly offset by higher lending fees.

Net Trading Income of £1.9 million compared with £2.2 million in 2017, a decrease of 14%. The vast majority of the Bank's income is derived from foreign exchange transactions undertaken to support our customers' needs and the exit of specific customer led to a reduction in demand.

Administrative expenses of £36.7 million compared with £36.5 million in 2017, an increase of 1%. Increases in staff related costs and software license and development costs were mostly offset by lower legal and consultancy costs, including one-off settlement costs in 2017.

Depreciation of property and equipment of £3.0 million compared with £2.4 million in 2017, an increase of 21%. The increase relates to our strategy to increase investment in IT.

Provision for liabilities and charges comprises £2.0 million in relation to regulatory matters, as detailed in Note 25.

The asset based lending subsidiary, **Leumi ABL Limited**, reported strong growth in funds in use in 2018 with the average for the year up £50.5 million (22%) on 2017. This has driven up net operating income by £0.6 million or 5% and more than offsets a reduction in service fee rates experienced due to market pressures in 2018. A continued focus on effective credit management resulted in a minimal level of impairment charges in the year. Operating expenses increased £0.7 million (10%) due to higher levels of deferred expenses in 2017 which are matched to the term of financing agreements. Underlying expenses reduced £0.2 million with a drop in legal and professional fees. Overall net profits are £3.5 million for 2018, showing a year on year increase of 78%, and with exceptional costs incurred in 2017 excluded, are in line with prior year.

Discontinued Operations

Overall profit of £0.6 million comprises £0.9 million of deferred contingent consideration related to the sales of LOTC and BLJ, less costs associated with a leasehold property and ongoing administrative costs for BLJ.

Return on Capital Employed

A key metric monitored by the Bank is Return on Capital Employed (ROCE). ROCE demonstrates the effectiveness of utilising the capital of the business to deliver profits to provide a return to our shareholder. ROCE is calculated as net profit divided by average capital employed in the business and expressed as a percentage.

The ROCE for the group was 5.1%, compared with 6.3% in 2017.

Efficiency Ratio

Another 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.

For continuing operations, the efficiency ratio was 73%, compared with 74% in 2017.

Looking Ahead

Recent months have been increasingly dominated by Brexit, and the developments will be critical to markets and the strength of UK Plc in the coming years. The Prime Minister faces a tough battle to pass final negotiations through Parliament and the EU. Sterling, equity markets, investor confidence and growth forecasts have all been under pressure given the uncertainty created by this continuing political saga.

Recent UK data has demonstrated that wages grew at their fastest rate in nearly a decade. Unemployment remains relatively flat at 4% in the three months to November 2018 and is expected to remain a little under 4.0% over the next five years. Real GDP growth is expected to be 1.3% for 2018, lower than originally forecast due to a poorer first quarter performance. Future GDP growth expectations are expected to range between 1.4% – 1.6% over the next five years. CPI Inflation had held steady at 2.4% for much of the year, but has ended the year at 2.1%. CPI is expected to hold steady at circa 2% over the next five years.

In Europe, the President of the European Central Bank (ECB) has warned that inflation may rise more slowly than previously expected. The President of the ECB said that the Central Bank could change its plans to start raising interest rates late next year if borrowing costs rise too far or if inflation slows.

The US saw the Democrats take control of the House of Representatives in the mid-term elections which could restrict President Trump's ability to steer his legislative agenda through congress. The Federal Reserve Chairman made some cautious comments around the US economy, commenting that while the US economy is strong, with real GDP growth hitting 3.5% in the third quarter of 2018, the impact of fading fiscal stimulus and slowing demand may impact the American economy moving forward. The Federal Reserve expects real GDP growth to reduce to 2.5% in 2019, and to 2% in 2020. In December 2018 the Federal Reserve raised its target range for federal funds rate to 2.25% – 2.50%, the fourth increase for the year. The Federal Reserve has subsequently signalled a more patient approach to monetary policy tightening given price pressures have remained muted.

Equity markets have lost ground this year as oil prices have fallen and more evidence of a slowing Chinese economy has been reported. Oil has been impacted by rising global supply and evidence of a slowing world economy.

We will continue to build on our strengths as a flexible player in the banking markets in which we operate, promoting the Leumi brand and identifying new areas for development of our various business sectors. We consider that the loan portfolio remains well diversified and our approach to prudent risk management when assessing and taking on new lending opportunities remains an important part of our philosophy. Whilst recognising the significant challenges that lie ahead, namely Brexit and the continuing uncertain economic climate that this process brings, we remain confident that we can continue to satisfy the financing requirements of our existing clients as well as taking advantage of selective new opportunities that are generated by our marketing efforts.

By Order of the Board
Robert England, Company Secretary
20, Stratford Place
London W1C 1BG
26 February 2019

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 2018.

Board of Directors

The Directors as at 31 December 2018 are listed on page 1.

The Directors retiring by rotation in accordance with the Bank's articles of association at the next annual general meeting are Mr M. Green, Mr Y. Mintz, Mr S. Mordechay, Mr R. Levy and Mr G. Karni each of whom being eligible, will offer themselves for re-appointment.

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 Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

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 they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 company'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 the Auditor

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 auditor is 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 auditor is aware of the information.

Share Ownership

As at 31 December 2018, Bank Leumi le-Israel B.M. held, directly or indirectly, 100% of the issued share capital of the Bank.

Employees

The average number of persons employed by the group (including contract staff) in each week during the year was 184 (2017: 194). The equivalent number of persons employed at end of 2018 was 184 (2017: 182). The aggregate remuneration paid to all such persons amounted to £15,631,000 (2017: £17,499,000).

Social Responsibility

Bank Leumi (UK) plc is fully committed to being an active and useful member of all communities it operates in. In this regard, the Bank has always viewed its charitable giving as an aspect of its social responsibility.

We support charities through donations and by organising and hosting fundraising events, thus helping the charities to raise money themselves. We also might sponsor charity events, such as dinners, receptions, concerts and festivals. During 2018 we supported the community with more than £35,000 towards various charities. We also organised a number of charity events, leading to many thousands more being raised.

Auditor

KPMG LLP has 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
Robert England, Company Secretary
20, Stratford Place
London W1C 1BG

26 February 2019

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

1 Our opinion is unmodified

We have audited the financial statements of Bank Leumi (UK) plc ("the Bank" or "Parent company") for the year ended 31 December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement, statement of financial position (Bank only), statement of changes in equity (Bank only), cash flow statement (Bank only) and the related notes, including the accounting policies in notes 2 and 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Bank and its subsidiaries (together, "the Group") and of the Parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors in 2002. The period of total uninterrupted engagement is for the 17 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:		
group financial statements as a whole	£756,000 (2017: £710,000) 5% (2017: 5%) of normalised profit before tax	
Parent company	£538,000 (2017: £590,000) 5% (2017: 5%) of normalised profit before tax	
Coverage	97% (2017: 93.5%) of group profit before tax	
Key audit matters		**vs 2017**
Brexit	The impact of uncertainties due to the UK exiting the European Union on our audit	New
Recurring risks	Loss allowance for expected credit losses on loans and advances to customers	▲
	Appropriateness of provisions, contingent liabilities and associated disclosures	▲
	Valuation of defined benefit pension scheme obligation	◄►

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 3 (strategic report)

Unprecedented levels of uncertainty

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by directors, such as loss allowances for expected credit losses on loans and advances to customers and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainties and outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- **Sensitivity analysis:** When addressing impairment of loans and advances and valuation of the defined benefit pension scheme obligation and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.

- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impairment of loans and advances and valuation of the defined benefit pension scheme obligation we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results

As reported under loss allowance for expected credit losses on loans and advances to customers and the valuation of defined benefit pension scheme obligation, we found the resulting estimates and related disclosures of loss allowances for expected credit losses on loans and advances to customers and the valuation of defined benefit pension scheme obligation and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Loss allowance for expected credit losses on loans and advances to customers

£1,207.3 million (2017: £1,112.6 million) net of impairment allowance of £20.4 million (2017: £23.0 million). *Refer to pages 26 to 28 (accounting policy) and pages 49 to 54 (financial disclosures).*

Subjective estimate

IFRS 9 was implemented by the Group and Parent company on 1 January 2018. This new and complex standard requires the Group and Parent to recognise expected credit losses ("ECL") on financial instruments which involves significant judgement and estimates. During the year credit loss provisions reduced from £23.0 million as at 31 December 2017 to £20.4 million as at 31 December 2018. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group and Parent's implementation of IFRS 9 are:

- Economic scenarios – IFRS 9 requires the Group and Parent to measure ECLs on a forward- looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them especially for the customer portfolios.

- Significant Increase in Credit Risk ("SICR") – For the customer portfolios the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's and Parent's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded.

- Model estimations – Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD"), and Exposures at Default ("EAD"). The PD models used in the customer portfolios are the key drivers of the Group's and Parent's ECL results and are therefore the most significant judgemental aspect of the Group's and Parent's ECL modelling approach.

- Lifetime expected credit losses on customer exposures in Stage 3 – These are individually determined based on the cash flows using various key inputs including the expected future cash flows, discount rates, the valuation of collateral held and expected cash flows arising from guarantees. The bespoke nature of this calculation means there is an inherent risk of error.

- Disclosure quality – The disclosures regarding the Group's and Parent's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.

- The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our procedures included:

Policies: Evaluated appropriateness of ECL model related policies and accounting policies based on IFRS 9 requirements, our business understanding and industry practice.

Control testing: We tested the design and operating effectiveness of key controls relating to: the approval of loan credit grading assessments; monitoring of watch list borrowers, the identification of impaired and forborne accounts; and the approval of individually assessed Stage 3 lifetime expected credit losses.

Substantive testing:

- Credit grading for collectively assessed twelve month (Stage 1) and lifetime (Stage 2) expected credit loss exposures: We tested a risk based sample of Stage 2 performing loans which management assessed as experiencing a significant increase in credit risk since origination (such as a customer experiencing financial difficulty or in breach of covenant) and also tested a selected sample of Stage 1 performing loans. Based on the individual facts and circumstances, including consideration of disconfirming evidence, for the stage 2 samples we formed our own judgement as to whether a significant increase in credit risk since origination had occurred and for the Stage 1 samples we assessed whether any of these loans had any significant increase in credit risk indicators that management had not identified. In addition for both Stage 1 and Stage 2 samples we also assessed the appropriateness of the assigned credit grade.

- Individually assessed lifetime (Stage 3) ECL exposures: For a selection of Stage 3 exposures, we understood the latest developments with each borrower and the basis for classifying and measuring the Stage 3 ECL and considered whether key judgements were appropriate given the borrower's circumstances, including consideration of disconfirming evidence. We also re-performed management's lifetime expected credit loss calculation, testing key inputs including the expected future cash flows, discount rates, the valuation of collateral held and expected cash flows arising from guarantees. Our testing of collateral specifically considered whether valuations were up to date and were consistent with the strategy being followed in respect of the particular borrower. We also assessed the appropriateness of the assigned credit grade.

- EAD, PD and LGD models: We engaged our own credit specialists to critically assess and challenge the appropriateness of management's key judgements and assumptions relating to: EAD, PD and LGD models and methodologies used, and the independent model validation work performed by the ultimate parent's own group risk function. We also assessed and challenged any manual adjustments by management to address known model limitations.

- Forward looking economic variables: We engaged our own economists to assess and challenge the appropriateness of management's key judgements and assumptions related to forward looking economic variables included in the ECL model.

- Sensitivity analysis: We performed sensitivity analysis on key assumptions to assess impact on the ECL arising from a range of possible outcomes.

- ECL model: With the support of our own modelling specialists, we assessed and challenged the appropriateness of management's ECL model.

- Assessing transparency: We considered the adequacy of the Group's accounting policies and disclosures in respect of loss allowances for expected credit losses of loans and advances to customers.

Our results

We found the loss allowance for expected credit losses of loans and advances to customers and related disclosures to be acceptable.

Provisions, contingent liability and associated disclosures
£2.0 million (2017: £Nil)
Refer to page 30 (accounting policy) and page 43 (financial disclosures)

Subjective estimate
The Group and Parent company operate in a highly regulated environment and have been subjected to a regulatory examination since 2017. The examination relates to the Parent company's controls and systems for the implementation of anti-money laundering regulations and is still ongoing. The existence of the ongoing regulatory examination requires significant judgement by the directors to determine if there is a present obligation under relevant accounting standards. Where the directors determine there is a present obligation, the amounts involved can be potentially significant and the application of accounting standards to estimate the expected outflow, if any, of any liability to be recognised is highly subjective.

Our response

Our procedures included:

- **Enquiry of management and external lawyers:** We inspected board and risk committees meeting minutes and correspondence between the Group and the regulator including relevant reports prepared for the regulator. We undertook corroborative enquiry by meeting with senior management and discussed the status of the regulatory examination with the Group's external counsel and also received a formal confirmation from external counsel. We examined the timing and measurement of the provision recognised and independently assessed using our own regulatory specialists and enquiries of the Group's external lawyers.
- **Inspection of regulatory correspondence and direct enquiries with the regulator:** We inspected correspondence between the Group and their regulator, and directly enquired with the external regulator to identify if there were any additional matters that may impact the provision assessment that we should be aware of.
- **Assessing transparency:** Assessed whether the disclosures, as set out in page 43 appropriately reflect the provision booked and the related uncertainty.

Our results

We found the provision reflected in respect of the regulatory examination and related disclosure to be acceptable.

Valuation of defined benefit pension scheme obligation
£36.2 million (2017: £38.7 million)
Refer to page 29 (accounting policy) and pages 34 to 37 (financial disclosures).

Subjective valuation
The valuation of the Group's and the Parent company's defined benefit pension scheme obligation is calculated with reference to a number of actuarial assumptions and inputs including discount rate, rate of inflation, and life expectancies. Small changes in actuarial assumptions can materially impact the defined benefit pension scheme obligation and related disclosures.

Our response

Our procedures included:

Control testing: We tested both the design and operating effectiveness of key controls over the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used to calculate the valuation of the Group's defined benefit pension scheme obligation.

Substantive testing:

- **Our actuarial expertise:** With the support of our actuarial specialists we determined whether the assumptions used to value the Group's defined benefit pension scheme obligation met the requirements of accounting standards and were in line with market practice, as well as the specific circumstances of the scheme and their participants.
- **Benchmarking assumptions:** We assessed the reasonableness of management's actuarial assumptions including life expectancy, inflation and discount rates by performing a comparison against our own independently obtained external data and our benchmark ranges for similar schemes.
- **Methodology choice:** We considered management's judgements in selecting its assumptions and whether there were any indicators of management bias.
- **Assessing transparency:** We considered the adequacy of the Group's disclosure in respect of the defined benefit obligation and the assumptions used which is set out on pages 34 to 37.

Our results

We found the valuation of the Group's defined benefit pension scheme obligation to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

The Group comprises the Parent company, Bank Leumi (UK) plc, and its subsidiaries Leumi ABL Limited (LABL) and BLJ Limited (BLJ). We subjected the Parent company and LABL to full scope audits for Group purposes. The work on the Parent company was performed by the Group audit team and LABL by a component auditor. The Group audit team visited and held telephone conference meetings with the component auditor to assess their audit approach. At these meetings the Group team reviewed the component files and discussed the audit findings reported to the Group audit team in more detail.

The scope of our work, including the component, accounted for the following: 100% of Group revenue (including £0.9m of revenue attributable to discontinued operations), 97% of Group profit before tax (including £0.6m of profit attributable to discontinued operations), and 98% Group total assets.

Materiality for the Group financial statements as a whole was set at £756,000 (2017: £710,000), determined with reference to a benchmark of Group profit before tax from continuing operations, normalised to exclude the provision in respect of the regulatory examination as disclosed in Note 25 of £2.0 million, of which it represents 5% (2017: 5%). Materiality for the Parent company financial statements as a whole was set at £538,000, (2017: £590,000), determined with reference to a normalised benchmark of profit before tax from continuing operations, normalised to exclude the provision in respect of the regulatory examination as disclosed in Note 25 of £2.0 million, of which it represents 5% (2017: 5%). Materiality, as communicated by the Group audit team, for the full scope audit of LABL was set at £470,000 (2017: £478,000).

We agreed to report to the Audit and Remuneration Committee any corrected or uncorrected identified misstatements exceeding £38,000 (Parent company: £27,000) in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Parent company or the Group or to cease their operations, and as they have concluded that the Parent company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Parent company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Parent company's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and Parent company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

- We have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Parent company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to the component audit team of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct and financial crime recognising the regulated nature of the Parent company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we identified actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. Further detail in respect of the regulatory examination regarding the Parent company's controls and systems for the implementation of anti-money laundering regulations is set out in the key audit matter disclosures in section 2 of this report.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Parent 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 Parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent company and the Parent company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Nicholas Edmonds (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom
28 February 2019

Consolidated Income Statement

for the year ended 31 December 2018

	Notes	2018 £000's	2017 £000's
Continuing operations			
Interest income		58,864	51,307
Interest expense		(16,323)	(11,271)
Net interest income	7	**42,541**	**40,036**
Net fees and commission income	8	9,800	10,335
Net trading income	9	1,918	2,206
Net (loss)/gain from other financial instruments classified at fair value	10	(172)	35
Total operating income before loan impairment charges		**54,087**	**52,612**
Credit impairment allowances	28(A)(g)(iii)	672	195
Net operating income		**54,759**	**52,807**
Admininstrative expenses	12	(36,680)	(36,488)
Depreciation of property and equipment	19	(2,955)	(2,445)
Provision for liabilities and charges	25	(2,000)	-
Profit before tax	6	**13,124**	**13,874**
Tax expense	13	(2,833)	(2,764)
Profit for the year from continuing operations		**10,291**	**11,110**
Profit on discontinued operations (net of tax)	5	**616**	**961**
Profit for the year attributable to the shareholders of the parent company		**10,907**	**12,071**

The notes on pages 22 to 60 form an integral part of the financial statements.

Bank Leumi (UK) plc registered in England. Registration No. 640370

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £000's	2017 £000's
Profit for the year		10,907	12,071
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Fair value through other comprehensive Income reserve			
- Fair value (losses)		(8)	-
- Income taxes	13b	2	-
Available for sale financial investments			
- Fair value (losses)		-	(32)
- Income taxes	13b	-	6
		(6)	(26)
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on the defined benefit plan			
- Before income taxes	12d	(812)	1,966
- Income taxes	13b	98	(374)
		(714)	1,592
Other comprehensive income for the year (net of tax)		(720)	1,566
Total comprehensive income for the year attributable to the shareholders of the parent company		10,187	13,637

The notes on pages 22 to 60 form an integral part of the financial statements.

Consolidated Statement of Financial Position

For the year ended 31 December 2018

	Notes	31 December 2018	31 December 2017
Assets		£000's	£000's
Cash and balances at central banks		240,498	376,321
Loans and advances to banks	15	36,442	26,956
Loans and advances to customers	16	1,207,267	1,112,640
Financial investments	17	-	24,194
Financial assets at fair value through other comprehensive income	17	32,309	-
Property and equipment	19	8,365	7,535
Derivatives	28(C)	3,954	3,679
Other assets	20	4,416	3,749
Prepayments and accrued income		3,332	3,508
Total assets		**1,536,583**	**1,558,582**
Liabilities and equity			
Liabilities			
Deposits by banks	21	323,359	232,225
Customer deposits	22	922,868	1,042,792
Derivatives	28(C)	3,606	9,625
Subordinated liabilities	23	53,533	53,527
Other liabilities	24	4,671	4,891
Provisions	25	4,853	401
Accruals and deferred income		6,313	6,105
Post-employment benefit liabilities	12d	2,771	1,419
Total liabilities		**1,321,974**	**1,350,985**
Equity			
Called up share capital	26	14,324	14,324
Share premium account		63,736	63,736
Fair value through other comprehensive income reserve		(49)	-
Available for sale reserve		-	(43)
Retained earnings		136,598	129,580
Total equity attributable to the shareholders of the parent company		214,609	207,597
Total liabilities and equity		**1,536,583**	**1,558,582**

The notes on pages 22 to 60 form an integral part of the financial statements

The financial statements have been approved, authorised for issue and signed on behalf of the Board by:

Yoel Mintz, Chairman

Jean M. Stevenson, Director and Chairman of the Audit and Remuneration Committee

Gil Karni, Chief Executive Officer

26 February 2019

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £000's	Share premium £000's	Available for sale reserve £000's	Fair value through other comprehensive income reserve £000's	Retained earnings £000's	Total equity £000's
Balance as at 31 December 2017	14,324	63,736	(43)	-	129,580	207,597
- Effects of changes in accounting policies	-	-	43	(43)	(3,919)	(3,919)
- tax impact due to changes in accounting policies					744	744
At 1 January 2018 *restated*	14,324	63,736	-	(43)	126,405	204,422
Profit for the year	-	-	-	-	10,907	10,907
Financial assets at fair value through other comprehensive income	-	-	-	(6)	-	(6)
Actuarial loss on the defined benefit plan	-	-	-		(714)	(714)
Total comprehensive income for the year (net of tax)	-	-	-	(6)	10,193	10,187
Issued share capital and premium	-	-	-	-	-	-
At 31 December 2018	**14,324**	**63,736**	**-**	**(49)**	**136,598**	**214,609**
At 1 January 2017	13,585	54,475	(17)	-	115,917	183,960
Profit for the year	-	-	-	-	12,071	12,071
Available for sale investments	-	-	(26)	-	-	(26)
Actuarial gains on the defined benefit plan	-	-	-	-	1,592	1,592
Total comprehensive income for the year (net of tax)	-	-	(26)	-	13,663	13,637
Issued share capital and premium	739	9,261	-	-	-	10,000
At 31 December 2017	**14,324**	**63,736**	**(43)**	**-**	**129,580**	**207,597**

The notes on pages 22 to 60 form an integral part of the financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Notes	2018 £000's	2017 £000's
Cash flows from operating activities			
Profit before tax on continuing operations		13,124	13,874
Profit before tax on discontinued operations		616	961
Adjustments for:			
- Non cash items included in profit before tax	31	4,585	2,886
- Change in operating assets	31	(82,001)	67,855
- Change in operating liabilities	31	(48,649)	(194,940)
Contributions paid to the defined benefit plan		(166)	(162)
Tax paid		(2,735)	(4,250)
Net cash used in operating activities		(115,226)	(113,776)
Cash flows from investing activities			
Purchase of financial investments		(31,385)	-
Proceeds from the sale and maturity of financial investments		24,218	-
Purchase of property and equipment		(3,785)	(2,045)
Net cash used in investing activities		(10,952)	(2,045)
Cash flows from financing activities			
Issue of ordinary share capital		-	10,000
Subordinated loan capital repaid		-	(10,000)
Net cash from financing activities		-	-
Net decrease in cash and cash equivalents		**(126,178)**	**(115,821)**
Cash and cash equivalents at 1 January		403,230	516,484
Effect of exchange rate changes on cash and cash equivalents		(250)	2,567
Cash and cash equivalents at 31 December	31	**276,802**	**403,230**

The notes on pages 22 to 60 form an integral part of the financial statements.

Statement of Financial Position (Bank only)

for the year ended 31 December 2018

	Notes	31 December 2018 £000's	31 December 2017 £000's
Assets			
Cash and balances at central banks		240,498	376,321
Loans and advances to banks	15	35,614	26,541
Loans and advances to customers	16	1,237,174	1,133,914
Financial investments	17	-	24,194
Financial assets at fair value through other comprehensive income	17	32,309	-
Shares in group undertakings	18	5,397	5,397
Property and equipment	19	8,055	7,134
Derivatives	28(C)	3,954	3,679
Other assets	20	3,488	2,797
Prepayments and accrued income		3,091	3,238
Total assets		**1,569,580**	**1,583,215**
Liabilities and equity			
Liabilities			
Deposits by banks	21	323,359	232,225
Customer deposits	22	965,359	1,071,973
Derivatives	28(C)	3,606	9,625
Subordinated liabilities	23	53,533	53,527
Other liabilities	24	3,714	4,559
Provisions	25	4,356	-
Accruals and deferred income		4,645	5,008
Post-employment benefit liabilities	12d	2,771	1,419
Total liabilities		**1,361,343**	**1,378,336**
Equity			
Called up share capital	26	14,324	14,324
Share premium account		63,736	63,736
Fair value through other comprehensive income reserve		(49)	-
Available for sale reserve		-	(43)
Retained earnings		130,226	126,862
Total equity attributable to the shareholders of the parent company		208,237	204,879
Total liabilities and equity		**1,569,580**	**1,583,215**

The notes on pages 22 to 60 form an integral part of the financial statements

The financial statements have been approved, authorised for issue and signed on behalf of the Board by:

Yoel Mintz, Chairman

Jean M. Stevenson, Director and Chairman of the Audit and Remuneration Committee

Gil Karni, Chief Executive Officer

26 February 2019

Statement of Changes in Equity (Bank only)

for the year ended 31 December 2018

	Share capital £000's	Share premium £000's	Available for sale reserve £000's	Fair value through other comprehensive income reserve £000's	Retained earnings £000's	Total equity £000's
Balance as at 31 December 2017	14,324	63,736	(43)	-	126,862	204,879
- Effects of changes in accounting policies	-	-	43	(43)	(3,494)	(3,494)
- tax impact due to changes in accounting policies	-	-	-	-	664	664
At 1 January 2018 restated	14,324	63,736	-	(43)	124,032	202,049
Profit for the year	-	-	-	-	6,908	6,908
Financial assets at fair value through other comprehensive income	-	-	-	(6)	-	(6)
Actuarial loss on the defined benefit plan	-	-	-	-	(714)	(714)
Total comprehensive income for the year (net of tax)	-	-	-	(6)	6,194	6,188
Issued share capital and premium	-	-	-	-	-	-
At 31 December 2018	**14,324**	**63,736**	**-**	**(49)**	**130,226**	**208,237**
At 1 January 2017	13,585	54,475	(17)	-	109,732	177,775
Profit for the year excluding dividends	-	-	-	-	9,138	9,138
Dividends received					6,400	6,400
Available for sale investments	-	-	(26)	-	-	(26)
Actuarial gains on the defined benefit plan	-	-	-	-	1,592	1,592
Total comprehensive income for the year (net of tax)	-	-	(26)	-	17,130	17,104
Issued share capital and premium	739	9,261	-	-	-	10,000
At 31 December 2017	**14,324**	**63,736**	**(43)**	**-**	**126,862**	**204,879**

The notes on pages 22 to 60 form an integral part of the financial statements.

Cash Flow Statement (Bank only)

for the year ended 31 December 2018

	Notes	2018 £000's	2017 £000's
Cash flows from operating activities			
Profit before tax on continuing operations		8,760	17,801
Profit before tax on discontinued operations		125	
Adjustments for:			
- Non cash items included in profit before tax	31	4,061	2,408
- Change in operating assets	31	(90,386)	46,224
- Change in operating liabilities	31	(36,276)	(189,775)
Dividends received from subsidiaries		-	(6,400)
Contributions paid to the defined benefit plan		(166)	(162)
Tax paid		(2,205)	(3,262)
Net cash used in operating activities		(116,087)	(133,166)
Cash flows from investing activities			
Dividends received from subsidiaries		-	6,400
Purchase of financial investments		(31,385)	-
Capital distribution from subsidiaries		24,218	13,461
Purchase of property and equipment		(3,732)	(1,835)
Net cash (used in)/generated from investing activities		(10,899)	18,026
Cash flows from financing activities			
Issue of ordinary share capital		-	10,000
Subordinated loan capital repaid		-	(10,000)
Net cash from financing activities		-	-
Net decrease in cash and cash equivalents		**(126,986)**	**(115,140)**
Cash and cash equivalents at 1 January		402,815	513,621
Effect of exchange rate changes on cash and cash equivalents		145	4,334
Cash and cash equivalents at 31 December	31	**275,974**	**402,815**

The notes on pages 22 to 60 form an integral part of the financial statements.

Notes to the Financial Statements

1. Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (the 'Standard') as adopted by the EU (IFRSs). IFRSs comprise accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The significant accounting policies are set out in Note 3 and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

(b) Presentation of information

These financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements" (IAS 1).

The Bank has taken advantage of the exemption in s408(3) of the Companies Act 2006 not to present its individual income statement, individual statement of comprehensive income and related notes that form a part of these financial statements.

Capital disclosures under IAS 1 have been included in Note 26.

The functional currency of the Bank is Sterling, which is also the presentation currency of these financial statements. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(c) Consolidation

The consolidated financial statements of the group comprise the financial statements of Bank Leumi (UK) plc and its subsidiaries made up to 31 December.

Subsidiaries are consolidated from the date that the group gains control until the date when control ceases.

The acquisition method of accounting is applied to the acquisition of subsidiaries by the group. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any goodwill that arises is recognised as of the date of acquisition and is tested annually for impairment. Any gain on a bargain purchase is recognised immediately in the income statement.

All intra-group transactions are eliminated on consolidation.

(d) Going concern

The financial statements are prepared on a going concern basis, reflecting capital and liquidity ratios above internal triggers and regulatory requirements. This also reflects the strong capital base of the Bank's parent company, Bank Leumi le-Israel B.M. As a consequence of this and the comprehensive risk management framework that the Bank has in place, the Directors believe that the Bank is well placed to manage its business risks successfully and expect it to continue in operational existence for the foreseeable future.

(e) Future accounting developments

IFRS 16 'Leases' was issued in January 2016. It introduces a single, on balance sheet accounting model for lessees. A lessee recognises a right-of-use asset (ROU) representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments measured as the present value of future lease payments payable. There are optional exemptions for short-term leases and leases of low value items. Conversely, lessor accounting remains similar to the current standard. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The Group had assessed the potential impact of IFRS 16 on its financial statements. The most significant impact identified is that the Group will recognise new assets and liabilities for its leased premises. The value of these assets and liabilities is expected to be approximately £8 million although the precise amount will depend on the terms of new leases to be entered into during 2019. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The impact of this change to the income statement is not expected to be material.

As a lessee the Group can either apply the standard using a retrospective approach to each prior reporting period, or a modified retrospective approach with the cumulative effect applied at the date of initial application. The Group will elect to apply the latter to all leases including the election of optional exemptions particularly with respect to low value and short-term leases, where applicable.

2. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements and the Bank's individual financial statements.

(a) IFRS 9 financial instruments

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and measurement' and is effective for annual reporting periods beginning on or after 1 January 2018. The Bank adopted IFRS 9 on 1 January 2018, the date of initial application. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Bank's accounting policies resulting from the initial application of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measurement at i) amortised cost, ii) fair value through other comprehensive income (FVOCI) and iii) fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and the nature of its contractual cash flows. The standard eliminates the IAS 39 categories of loans and receivables (LAR), available-for-sale (AFS), held-for-trading (HFT) and held-to-maturity (HTM). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. Conversely, the bifurcation of embedded derivatives within financial liabilities remains permissible.

IFRS 9 largely retains the requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes of liabilities are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is recognised in other comprehensive income (OCI), and
- The remaining amount of the change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 for loans and receivables, with an 'Expected Credit Loss' (ECL) model applied to financial assets measured at amortised cost and debt instruments measured at FVOCI. This new impairment model also applies to certain loan commitments and financial guarantee contracts. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Initial application

Changes in accounting policy resulting from the initial application of IFRS 9 have been applied retrospectively as required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', with the exception of restating the prior period, which is an exemption permissible by IFRS 9. Instead, differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognised in the opening retained earnings as at 1 January 2018 (see Note 27 'Expected credit losses on the date of initial application of IFRS 9'). Accordingly, information presented for the prior period (reflecting IAS 39) will not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for the current reporting period.

The Standard requires the following assessments to be made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model objective within which a financial asset is held.
- Identification within the contractual terms of the financial asset features and rights other than the Bank's entitlement to collect cash flows that are solely payment of principal and interest (SPPI).
- Classification of financial assets and liabilities.
- Gathering of forward looking macro-economic data at the date of initial application.
- Determining whether there has been a significant increase in credit risk since initial recognition of i) financial assets classified under amortised cost and debt instruments-FVOCI, and of ii) off balance sheet commitments such as financial guarantees and undrawn loan commitments.

(b) IFRS 15 Revenue from contracts with customers

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014. The Standard establishes a principles-based approach for revenue recognition introducing the concept of recognising revenue for performance obligations as they are satisfied. It has replaced existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 became effective for annual periods beginning on or after 1 January 2018.

The Group generates fee and commission income (other than fees included in the calculation of the effective interest rate (EIR) and within the scope of IFRS 9) on the provision of corporate banking and asset based lending services. On the basis that fees and commission income are recognised as services are provided (or when performance obligations are satisfied) there have been no changes to the timing of recognition as a result of the requirements under IFRS 15. Furthermore, none of the other requirements under IFRS 15 is applicable to the Bank and our assessment indicated no impact to the financial statements on initial application. The Group implemented IFRS 15 using the cumulative effect method with no restatement of comparative period amounts.

3. Summary of significant accounting policies

(a) Measurement basis

The financial statements are prepared on an historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or through other comprehensive income and the net defined retirement benefit assets and liabilities.

(b) Foreign currency

Transactions in foreign currencies are translated using the rate of exchange ruling at the date of the transaction. Trading profits from dealings in foreign currency securities are translated using the rate of exchange ruling at the end of the month in which they arise. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the reporting date. Any resulting exchange differences are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange ruling at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange ruling at the date the fair value was determined. Any resulting exchange differences are generally recognised in the income statement. However, exchange differences arising from the translation of available for sale financial investments are recognised in other comprehensive income.

(c) Interest income and expense

Interest on financial assets and financial liabilities measured at amortised cost and interest on financial instruments measured at fair value through other comprehensive income is recognised in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Non-interest income

(1) Fee income

Fee income is accounted for as follows:

i. Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (Note 3(c)). However, when the financial instrument is measured at fair value with the change in fair value recognised in the income statement, the fees are recognised as revenue when the instrument is initially recognised.

ii. Fees earned from the provision of services are recognised as revenue as the services are provided.

iii. Fees earned on the execution of a performance obligation are recognised as revenue when the performance obligation has been met, satisfied and discharged.

(2) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(3) Dividend income

Dividends, relating to investment in subsidiaries, are recognised in the income statement when the right to receive payment is established.

(e) Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group and the Bank becomes a party to the contractual provisions of the instrument.

(1) Recognition and initial measurement

The Bank recognises loans and advances, deposits and subordinated liabilities on the date on which they are originated or cash disbursement date. All other financial instruments (such as debt securities, derivatives and sale of financial assets) are recognised on the date at which the Bank becomes a party to the contractual provisions of the instrument.

(2) Classification

On initial recognition, a financial asset is classified as measured at i) amortised cost, ii) fair value through profit and loss (FVTPL) or iii) fair value through other comprehensive income (FVOCI).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Conversely, a financial asset is measured at FVOCI only if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

There are two sub-classifications for FVOCI assets, i) debt Instruments-FVOCI and ii) equity Instruments-FVOCI. Both require measurement of the exposure at fair value. However, IFRS 9 requires the measurement of ECL for the former but not the latter. The Bank holds a portfolio of marketable debt instruments, which are included in the liquidity buffer. The issuers of such instruments are G10 Sovereign issuers or their Central Banks, or debt instruments from commercial banks or building societies. The Bank does not hold equity instruments which meet the above criteria for FVOCI.

All other financial assets are classified as measured at FVTPL. There are two measurement categories of FVTPL, mandatory-FVTPL and designated-FVTPL. The Bank considers the exercise of a Fair Value Option (where permissible) as the definition for classification under designated-FVTPL. The option to designate an instrument at fair value is used to eliminate or reduce accounting mismatches and is applied in hedge accounting. This is currently not applicable as the Bank does not apply hedge accounting. Where the Bank has not explicitly designated a financial instrument as FVTPL and it neither meets the definition for classification under amortised cost nor FVOCI, the instrument is automatically classified as mandatorily-FVTPL.
The Bank originates loans which do not contain any contractual features that are considered to be inconsistent with a basic lending arrangement. As such, all loans and advances to banks and customers, and all financial investments held as part of the Bank's liquidity buffer meet the SPPI test and are classified as amortised cost and debt Instruments-FVOCI respectively. Trading assets and derivative assets held for risk management will continue to be measured at FVTPL.

Loans and advances

Loans and advances are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. The Bank's lending portfolio meet the business model objective of advancing loans and holding such loans to collect SPPI cash flows. Loans and advances are initially recognised at fair value (plus any directly attributable transaction costs) and subsequently measured at amortised cost using the effective interest rate method, less expected credit loss allowances. This is considered to be a reasonable approximation of fair value.

Financial investments

Financial investments are recognised on a trade date when the Bank enters into contractual arrangements with counterparties to purchase securities and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

The Bank's liquidity buffer of marketable debt securities are classified as debt Instruments-FVOCI (formerly classified as available for sale under IAS 39 prior to 1 January 2018). Debt instrument-FVOCI financial assets are initially measured at fair value plus direct and incremental transaction costs. At subsequent reporting dates they are measured at fair value by reference to published price quotations sourced from an active market via a market data provider (Level 1 inputs under IFRS 13). Gains and losses arising from changes in fair value are recognised in other comprehensive income (less changes in expected credit losses which are recognised in the income statement) until the financial assets are either sold or are determined to be impaired. When debt instrument-FVOCI financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the income statement.

Interest income is recognised on debt instrument-FVOCI financial assets in the income statement using the effective interest method, calculated over the asset's expected life. Premiums and discounts arising on the purchase of debt instruments are included in the calculation of their effective interest rates.

Derivative financial instruments

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Bank uses foreign exchange forward contracts and interest rate swap contracts to hedge some of 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 classified as FVTPL as they do not meet the business model objective to collect contractual cash flows that are SPPI. They are initially recognised at fair value and are re-measured to fair value at subsequent reporting dates by reference to the latest market prices (Level 1 and Level 2 inputs under IFRS 13). Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

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.

(3) De-recognition of financial assets and financial liabilities

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and either:

- Substantially all the risks and rewards of ownership have been transferred; or
- The Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

Financial liabilities are de-recognised when they are extinguished, that is when the obligation is discharged, cancelled or expired.

Modifications of financial assets and financial liabilities

If the terms of an amortised cost financial asset or financial liability are renegotiated or modified (either under the normal course of business or under forbearance), the Bank evaluates whether the cash flows of the modified asset or liability are substantially different. If the cash flows are substantially different (deemed when the present value of the renegotiated cash flows is more than 10% of the original agreement when discounted under the original EIR excluding impact from credit risk) then the contractual rights or obligations to cash flows from the original financial asset or liability respectively are deemed to have expired. In this case, the original financial asset or liability is derecognised and a new financial asset or liability is recognised at fair value.

If the cash flows of the modified financial asset or financial liability at amortised cost are not substantially different, then the modification does not result in derecognition. In this case, the Bank recalculates the gross carrying amount of the financial asset or financial liability and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the income statement. If such a modification is carried out because of credit related factors, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income or interest expense for modified financial assets and financial liabilities respectively.

(4) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

(5) Impairment

As from 1 January 2018 the Bank evaluates expected credit loss (ECL) allowances for all financial assets that are classified as amortised cost, off balance sheet loan commitments and financial guarantees (which were previously provided for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets') and debt instruments fair valued through other comprehensive income (FVOCI).

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- Financial assets measured at amortised cost: As a deduction from the gross carrying amount of the assets;
- Off balance sheet Loan commitments and financial guarantee contracts: As a provision;
- Financial assets which are debt instruments measured at FVOCI: No loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, if there is a loss allowance this shall be recognised in the income statement; changes in fair value not attributable to expected credit loss allowances shall be recognised in other comprehensive income.

ECL allowances represent credit losses that reflect an unbiased, point in time and probability weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment.

The IFRS 9 impairment model uses a three-stage approach based on the extent of credit deterioration since origination or initial recognition:

Stage 1: The 12-month ECL is a portion of the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The 12-month ECL applies to all financial assets that have not experienced a SICR since origination and are not credit impaired. The ECL is computed using a 12-month probability of default (PD) that represents the probability of default occurring over the next 12 months after reporting date.

Stage 2: When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2; and its classification will move from Stage 1 to Stage 2. This requires the computation of lifetime ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to 12-month ECL (Stage 1) if the increase in credit risk since initial recognition has reduced and is no longer deemed to be significant.

Stage 3: Financial assets that have objective evidence of credit impairment are included in this stage. Similar to Stage 2, the expected credit loss is estimated by considering the lifetime horizon of the financial asset.

Measurement of ECL

The measurement of ECL is the product of the financial asset's PD, loss given default (LGD) and exposure at default (EAD), discounted to the reporting date using an effective interest rate determined at initial recognition if a fixed rate instrument or discounted using the current effective interest rate if the instrument has a variable interest rate. The main difference between Stage 1 and Stage 2 ECL is the respective PD horizon, with Stage 1 estimates based on a 12-month PD whilst Stage 2 estimates use a lifetime PD. Stage 3 estimates leverage established existing processes for estimating losses on impaired loans, through the application of discounted cash flows to determine present value of estimated future recoveries.

The component parts of ECL, including the assessment of SICR, must consider information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. PD and LGD inputs are modelled based on the macroeconomic variables that are most closely correlated to the Bank's lending portfolio. Five year forecasts for these macroeconomic variables are used to produce at least four economic scenarios which are then probability weighted. The estimation and application of this forward looking information requires significant judgement. More information about how the Bank incorporates forward looking information and the measurement of ECL can be found in Note 28(A) Credit risk.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Bank's previous experience and expert credit assessment and including forward looking information.

The Bank allocates each exposure to an internal credit grade (CG) based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. CG's are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated a CG at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different CG.

The assessment of a significant increase in credit risk (SICR) is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination requires a comparison of the risk of default occurring at the reporting date to the corresponding risk of default at origination. For this assessment, the risk of default will be based on a number of factors including but not limited to the following:

- Downgrade to the Bank's internal CG since initial recognition;
- Movement to Sensitive List or Watch List;
- Classification as Forbearance; and
- Payments past due in excess of 30 days.

Sensitive List: An obligor is classified on the Sensitive List if it is deemed to be showing signs of credit deterioration but where the emergence of a specific problem is not yet apparent.

Watch List: An obligor is classified on Watch List if there is a serious cause for concern and therefore requires further assistance from the Bank through periods of financial difficulty.

Forbearance: Forbearance is considered to occur when (for reasons pertaining to actual, imminent or perceived financial distress of a customer) the Bank agrees to restructure lending facilities on terms that are outside of its lending appetite when considered against the credit risk of the customer.

Credit impaired financial assets

The Bank assesses whether there is any objective evidence that a financial asset carried at amortised cost or a debt instrument-FVOCI is credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred and such assets are categorised as Stage 3.

Objective evidence that financial assets are credit impaired can include:

- Significant financial difficulty of the debtor,
- Default,
- Adverse changes in the payment status of debtors, or
- Economic conditions that correlate with defaults of the debtor

It is possible for financial assets to move from Stage 1 or Stage 2 directly into Stage 3 if there is objective evidence of impairment. Loss allowances for credit impaired assets are measured as the difference between the financial assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The Bank's definition of default and credit impairment is very similar. More often than not, a customer in default will also be credit impaired (hence Stage 3) with the following exception: the Bank may respond to default by agreeing to forbear, in which case the Bank will be unlikely to credit impair the financial asset, choosing instead to i) classify the instrument into Stage 2 (SICR since origination), ii) evaluate an ECL allowance and iii) evaluate the applicability of continuing recognition as an existing asset, which might result in a modification gain or loss to the gross value of the Loan.

Default

The Bank considers a financial asset to be in default when an obligor is unlikely to pay its obligation or the obligor is past due more than 90 days on any material credit obligation. A material credit obligation is considered to be either an authorised lending limit, a scheduled capital repayment, or payment of interest.

Write-off

Credit impaired financial assets are normally written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off. Where the assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedure for recovery of amounts due.

In circumstances where the Bank becomes successful with respect to gaining title to specified collateral as a consequence of its recovery procedures, the Bank recognises such collateral on its Statement of Financial Position at its fair value.

Modified financial assets

When the terms of a financial asset are modified and the modification does not result in derecognition (see Note 3(e)(3), a determination is made of whether the asset's credit risk has increased significantly.

Loans that are subject to forbearance arrangements are included in the Bank's watch list and are subject to increased credit risk monitoring. Forbearance is indicative of a significant increase in credit risk and such financial assets can be classified as either Stage 2 or Stage 3 if credit impaired. The agreement to forbear does not necessarily result in a credit impairment of the facility (see 'Credit impaired financial assets' above).

Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt, or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms may include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee regularly reviews reports on forbearance activities.

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time (usually two years) and the risk of default is considered to have decreased before the exposure is no longer considered to be forborne such that the loss allowance reverts to being measured at an amount equal to 12-month ECL (Stage 1).

Policy applicable before 1 January 2018

The Bank assessed whether there was any objective evidence that a financial asset or group of financial assets measured at amortised cost was impaired. Impairment losses were calculated at both a specific and collective level and were measured as the difference between the financial assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses were recorded as charges to the income statement.

A financial asset was impaired when objective evidence demonstrated that a loss event had occurred after initial recognition of the asset and that the loss event had an impact on the future cash flows of the asset that could be estimated reliably. Losses expected as a result of future events, no matter how likely, were not recognised.

Objective evidence that financial assets were impaired included significant financial difficulty of the debtor or other observable data such as adverse changes in the payment status of debtors, or economic conditions that correlated with defaults of the debtor.

All financial assets found not to require a specific provision were collectively assessed for impairment. In assessing collective impairment the Bank used historical trends of the losses incurred, adjusted for management's judgement as to whether current economic and credit conditions were such that the actual losses were likely to be greater or less than suggested by historical modelling.

If the amount of an impairment loss decreased in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss would be reversed either directly or by adjusting the impairment allowance account. The reversal would be recognised in the income statement.

(f) Investment in subsidiary undertakings

The Bank's investments in its subsidiary undertakings are stated at cost less any impairment losses (carrying value). Where a decision has been taken to sell a subsidiary undertaking, it is stated at the lower of carrying value, and fair value less costs related to the sale.

(g) Property and equipment

Property, plant and equipment are stated at their initial purchase price plus directly attributable costs incurred to bring them into operational use, less any impairment losses and depreciation. Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

Short leasehold buildings	unexpired period
Computer and other equipment	3 to 10 years
Fixtures, fittings and furnishings	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Items of property, plant and equipment are subject to an annual impairment review to identify circumstances or events which may indicate that the carrying amount may not be recoverable.

(h) Operating leases

Rentals payable and receivable under operating leases are recognised in the income statement on a straight-lines basis over the periods of the leases.

(i) Post-employment benefits

The Bank has 2 sections to its pension provision for employees; (1) a defined benefit plan, which was closed to new entrants from 1 June 2000, and (2) a Self-Invested Personal Pension (SIPP), which was launched during 2014 to replace the defined contribution plan.

The SIPP is available to employees of Bank Leumi (UK) plc and Leumi ABL Limited. The assets of the plan are held separately from the Bank in an independently administered fund.

Defined benefit plan

The assets of the defined benefit plan are held separately from the Bank in an independently administered fund. The Bank's net obligation is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the plan's actuaries using the Projected Unit Credit Method.

The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability. Net interest is calculated by applying the AA corporate bond yield discount rate to the net asset or liability. Past service costs relate to the change in the present value of the defined benefit obligation for service in prior periods, resulting from a plan amendment or curtailment and are charged immediately to the income statement.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

Defined benefit liabilities recognised in the statement of financial position represent the present value of defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of the plan assets.

Self-invested pension plan

Payments to the SIPP are charged to the income statement as the related service is provided. Any differences between contributions payable in the period and contributions actually paid are disclosed in the Statement of Financial Position as "other liabilities" or "other assets".

(j) Income tax

Income tax comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, amended for permanent differences between the treatment of certain items for tax and accounting purposes and any adjustment in respect of previous years. It is calculated using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. It is calculated using the tax rates and laws expected to apply in the periods in which the assets will be realised or the liabilities settled based on tax rates enacted, or substantively enacted, by the reporting date.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred tax relating to debt instruments where their fair value re-measurements are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

(k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid financial assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in their fair value. Such financial assets are normally those with less than three months' maturity from the date of acquisition, and include cash and balances at central banks, loans and advances to banks and financial assets at fair value through other comprehensive income.

(l) Discontinued operations and classification as 'held for sale'

A non-current asset is classified as held for sale if the Bank expects to recover its carrying amount principally through a sale transaction rather than through continuing use. A non-current asset classified as 'held for sale' is measured at the lower of its carrying amount and fair value less costs to sell. Assets and liabilities classified as 'held for sale' are shown separately on the face of the Statement of Financial Position.

The results of discontinued operations, comprising the post-tax profit or loss of discontinued operations, are shown as a single amount on the face of the Income Statement with a more detailed analysis presented in the notes to the accounts.

(m) Provisions

A provision is recognised if, as result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Under IFRS 9, the Group and the Bank will recognise expected credit loss allowances arising from off balance sheet commitments and financial guarantees into the Statement of Financial Position within Provisions.

4. Use of assumptions, estimates and judgement

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent. The accounting policies used in the preparation of these financial statements are described in detail in Note 3.

The accounting policies that are deemed significant to the Bank's results and financial position, in terms of the materiality of the items to which the policy is applied, or which involve a high degree of judgement including the use of assumptions and estimates, are disclosed below:

(a) Impairment of loans and advances

The Bank's accounting policy for recognising impairment arising from customer loans and advances is described in Note 3(e)(5). Under IFRS 9, applicable from 1 January 2018, the number of variables and inputs required to estimate expected credit losses weighs higher than measuring loan impairment under IAS 39. The methods involve the use of historical information coupled with forward looking information to create probability weighted scenarios, supplemented with management judgement to determine expected credit losses. Each of these variables or inputs requires management to exercise judgement in making assumptions and estimations.

(b) Defined benefit plan

The Company's defined benefit plan is measured on an actuarial basis with the key assumptions used, and the sensitivity to changes in these assumptions, disclosed in Note 12(d).

The most significant judgments in measuring the present value of defined benefit obligations relate to the determination of actuarial and financial assumptions. These assumptions include the nominal discount rate, rate of inflation over the period of projected cash flows and member longevity.

Mortality assumptions are based upon the relevant standard industry and national mortality tables. Discount rates are based on specific corporate bond indices which reflect the underlying yield curve of the plan.

5. Discontinued operations

Discontinued operations relate to BLJ Limited (formerly Bank Leumi (Jersey) Limited) (BLJ) and Leumi Overseas Trust Corporation Limited (LOTC). This follows the sale of LOTC on 8 April 2016 and the sale of the banking and investment business of BLJ on 3 October 2016, as part of a wider Leumi group policy to cease international private banking activities in all subsidiaries except those situated in Israel, the USA and the United Kingdom.

Profit and loss related to these Jersey entities is classified as discontinuing operations in the Consolidated Income Statement, and is summarised in the following table:

	2018 £000's	2017 £000's
Other income	948	1,317
Total operating income	**948**	1,317
Administrative expenses	(332)	(356)
Net profit for the year on discontinued operations	**616**	961

Other income comprises solely of deferred contingent consideration earned for the period to 31 December in respect of the sales of LOTC and the business of BLJ. Administrative expenses relate to BLJ and comprise mainly of ongoing administration costs and a provision for future rentals on the former premises until the lease can be re-assigned.

The consolidated financial statements include a provision of £497,000 (2017: £401,000) relating to residual cessation costs that will be incurred following the sale of the businesses of BLJ, and comprising mainly:

- Estimated costs for the provision of future electronic storage and archiving requirements based on amounts contracted for.
- Onerous lease provisions for the remainder of each lease which, in the case of the premises, expires in 2023 with the residual costs being offset by sub-letting the premises to a tenant who is expected to be in situ by latest 31 December 2020.

	2018 £000's	2017 £000's
Cash flows from discontinued operations		
Net cash generated from/(used in) operating activities	788	420
Net cash used in financing activities	-	(14,661)
Net decrease in cash and cash equivalents in the year	788	(14,241)

6. Profit before tax

	2018 £000's	2017 £000's
Profit before tax is stated after charging:		
Rentals paid on premises under operating leases net of rental income received of £157,000 (2017: £166,000)	1,337	1,322
Hire of computers and equipment	63	58
Auditor's remuneration:		
Audit of these financial statements	260	262
Fees payable to the Bank's auditor and its associates for other services:		
Audit related assurance services	71	59
Tax compliance	38	7
Audit fees in respect of retirement benefit plans	-	3
Fees payable to un-associated auditors:		
Audit of the financial statements of the Bank's subsidiaries, pursuant to legislation	40	44
Other services	59	47

7. Net interest income

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Interest receivable:				
Loans and advances to banks	1,668	1,228	1,668	1,228
Loans and advances to customers	51,132	45,109	44,428	39,395
Financial investments	-	168	-	168
Financial assets at fair value through other comprehensive income	425	-	425	-
Other interest earning financial assets	5,639	4,802	5,639	4,802
Total interest income	58,864	51,307	52,160	45,593
Interest expense:				
Deposits by banks	2,612	1,481	2,612	1,481
Customer deposits	11,425	7,631	11,689	7,790
Subordinated liabilities	784	1,061	784	1,061
Other interest bearing financial liabilities	1,502	1,098	1,502	1,098
Total interest expense	16,323	11,271	16,587	11,430
Net interest income	42,541	40,036	35,573	34,163

All interest income and interest expense are derived from financial assets and financial liabilities measured at amortised cost with the exception of interest income from debt instruments measured at fair value through other comprehensive income (FVOCI) and interest rate derivatives measured at fair value through profit and loss (FVTPL), both of which are derived from financial instruments measured at fair value. Interest income and interest expense are recognised in the income statement using the effective interest method. The Bank considers loan extension fees and loan renewal fees as an integral component of the effective interest rate of its loan book. These items of income are deferred on the Statement of Financial Position and amortised into interest income in the Income Statement over the term of the loan. All other fee income earned on the provision of services is recognised in net fees and commission income (see Note 8).

8. Net fees and commission income

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Fees and commission income:				
Banking fees	10,140	10,279	4,491	4,045
Fund management fees	(36)	433	(36)	433
Total fees and commission income	10,104	10,712	4,455	4,478
Fees and commission expense:				
Introduction fees	(304)	(377)	(11)	(9)
Total fees and commission expense	(304)	(377)	(11)	(9)
Net fees and commission income	9,800	10,335	4,444	4,469

9. Net trading income

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Foreign exchange	1,918	2,206	1,918	2,206
Total net trading income	1,918	2,206	1,918	2,206

Net trading income is derived from financial assets and liabilities mandatorily measured at fair value through profit and loss (FVTPL). These comprise foreign exchange spot and forward contracts entered for currency risk management purposes and also trading. The Bank has not designated any financial asset or liability at FVTPL.

10. Net gain/(loss) from other financial instruments carried at fair value

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Derivatives held for risk management purposes:				
Interest rate	(172)	35	(172)	35
Net gain/(loss)	(172)	35	(172)	35

Net trading income from other financial instruments carried at fair value is derived from financial assets and liabilities mandatorily measured at fair value through profit and loss (FVTPL). These comprise interest rate swap contracts entered for interest rate risk management purposes. The Bank has not designated any financial asset or liability at FVTPL.

11. Other revenue

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Dividend income	-	-	-	6,400
Total other revenue	-	-	-	6,400

12. Administration expenses

		Group		Bank	
		2018 £000's	2017 £000's	2018 £000's	2017 £000's
Wages and salaries		16,993	15,619	12,113	11,966
Restructuring costs		41	318	41	318
Compulsory social security contributions		2,005	1,719	1,454	1,189
Contributions to SIPP and other defined contribution plans*		718	706	498	504
Expenses related to post employment defined benefit plans	12d	668	522	668	522
Total personnel expenses		20,426	18,884	14,773	14,499
Other administrative expenses		16,254	17,604	14,047	13,201
		36,680	36,488	28,820	27,700

** There were no prepaid contributions as at 31 December 2018 (2017: £Nil).*

(a) Employees

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

	Group		Bank	
	2018	2017	2018	2017
Manager grade	66	61	58	53
Other staff	118	133	81	95
	184	194	139	148

(b) Directors' emoluments

	2018 £	2017 £
Aggregate emoluments of the Directors of the Bank	1,299,984	1,079,652
Of which:		
Compensation for loss of office	348,373	31,213
Salary and benefits paid to the highest paid Director	500,375	554,466

The highest paid Director received the above sum in salary and benefits. The Bank paid pension contributions of £15,862 in respect of the highest paid Director (2017: £nil).

(c) Transactions, arrangements and agreements involving directors and others

There were no transactions between the Bank and the Bank's key management personnel and their connected persons.

(d) Post-employment defined benefit plan

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

With effect from 1 June 2000 the defined benefit plan was closed to new entrants and a defined contribution section of the plan was established for all new employees. The defined contribution plan was replaced with a Self-Invested Pension Plan (SIPP) during 2014, available to staff of Bank Leumi (UK) plc from 1 June 2014 and to staff of Leumi ABL Limited from 1 January 2015.

In accordance with new legislation regarding employee auto-enrolment, all employees of Bank Leumi (UK) plc not in the SIPP at 1 July 2014 were automatically enrolled. All employees who joined the Bank after 1 July 2014 are auto-enrolled within four months of their start date.

The defined benefit plan is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the plan is carried out by a professionally qualified actuary independent of the Bank at least once every three years to determine whether the Statutory Funding Objective is met. The last valuation was carried out as at 1 January 2017. As part of the process the Company must agree with the Trustees of the plan the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the plan in these accounts.

The plan is managed by a board of Trustees appointed in part by the Company and part from elections by members of the plan. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the plan's assets. The Trustees delegate some of these functions to their professional advisors where appropriate.

The plan exposes the Company to a number of risks:

- Investment risk: The plan holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term the short-term volatility can cause additional funding to be required if deficit emerges.
- Interest rate risk: The plan's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the plan holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk: A significant proportion of the benefits under the plan are linked to inflation. Although the plan's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk: In the event that members live longer than assumed a deficit will emerge in the plan.
- Member options and early retirements: certain benefit options may be exercised by members without requiring the consent of the Trustees or the Employer, for example exchanging pension for cash at retirement. In the example, if fewer members than expected exchange pension for cash at retirement then a funding strain will emerge.

Effect of the plan on the Company's future cash flows

The Company is required to agree a Schedule of Contributions with the Trustees of the plan following a valuation which must be carried out every three years. The next valuation of the plan is due as at 1 January 2020. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced.

The Company expects to pay contributions of £166,000 in the year to 31 December 2019.

The weighted average duration of the defined benefit obligation is approximately 18 years.

Amounts recognised in the statement of financial position

	2018 £000's	2017 £000's
Plan assets:		
Equities*	15,494	17,133
Bonds*	351	362
Index-linked gilts*	985	979
Diversified growth funds*	11,644	14,384
Leveraged liability-driven investments	1,988	2,490
Property	2,932	1,930
Other (cash)	(2)	(3)
Total market value of plan assets	33,392	37,275
Present value of plan liabilities	(36,163)	(38,694)
Deficit in the plan	(2,771)	(1,419)

* Assets held are predominantly quoted.
The pension scheme does not invest in any of the Bank's own financial instruments.

Reconciliation of defined benefit (liability)/asset

	2018 £000's	2017 £000's
Net defined benefit liability at beginning of period	(1,419)	(2,941)
Current service cost	(272)	(298)
Past service cost	(179)	-
Net interest expense	(38)	(84)
Remeasurements	(812)	1,966
Administration costs	(217)	(224)
Employer contributions	166	162
Net defined benefit liability at end of period	(2,771)	(1,419)

Movement in the fair value of the plan's assets

	2018 £000's	2017 £000's
Plan assets:		
At 1 January	37,275	35,768
Interest on the plan assets	940	978
Employer contributions	166	162
Member contributions	-	48
Benefits paid by the plan	(2,186)	(1,646)
Expenses paid by the plan	(217)	(224)
Return on plan assets less interest	(2,586)	2,189
At 31 December	33,392	37,275

Movement in the fair value of the plan's liabilities

	2018 £000's	2017 £000's
Plan liabilities:		
At 1 January	38,694	38,709
Current service cost	272	298
Past service cost	179	-
Member contributions	-	48
Interest costs	978	1,062
Benefits paid by the plan	(2,186)	(1,646)
Changes to financial assumptions	(1,556)	992
Changes to demographic assumptions	(218)	(810)
Experience gain on defined benefit obligation	-	41
At 31 December	36,163	38,694

Amounts recognised in the profit and loss account over the year

	2018 £000's	2017 £000's
Current service cost	272	298
Past service cost	179	-
Administration costs	217	224
Interest on liabilities	978	1,062
Interest on assets	(940)	(978)
Total	706	606

Past service costs include a charge for £144,500 in respect of an estimation of the impact of equalising pension benefits for the effects of unequal Guaranteed Minimum Pensions (GMPs) between males and females. The court judgement on 26 October 2018 on the Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC provided clarity that GMPs accrued after 17 May 1990 need to be equalised and the estimated cost has been determined using a model based on the plan's benefit design and membership characteristics.

Re-measurements over the year

	2018 £000's	2017 £000's
(Losses)/Gains on plan assets in excess of interest	(2,586)	2,189
Experience (losses) on liabilities	-	(41)
Gains from changes to demographic assumptions	218	810
Gains/(Losses) from changes to financial assumptions	1,556	(992)
Total (Loss)/Gain from re-measurements	(812)	1,966

Gains on demographic assumptions are due to lower life expectancies, following a regular review of the assumptions. Gains on financial assumptions are due to a higher discount rate, partially offset by higher inflation expectations.

Actuarial assumptions

The value of the plan's liabilities has been determined by a qualified actuary based on the results of an actuarial valuation as at the reporting date, using the following assumptions:

	2018 %	2017 %
Discount rate	2.90%	2.60%
Inflation (RPI)	3.40%	3.30%
Inflation (CPI)	2.40%	2.30%
Rate of increase in salaries	2.50%	2.50%
Rate of revaluation of pensions in deferment	2.40%	2.30%
Increases on retirement benefits in payment in respect of service:		
Before April 1997	n/a	n/a
From April 1997 – June 2005	3.25%	3.15%
From July 2005	2.30%	2.25%

	2018 years	2017 years
Assumed life expectancy on retirement age 65:		
Retiring today		
Males	22.3	22.4
Females	24.9	25.0
Retiring in 20 years		
Males	23.8	23.9
Females	26.5	26.5

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the plan liabilities are set out below:

- Increasing the discount rate by 1% decreases the plan liabilities by £5.6 million.
- Decreasing the discount rate by 1% increases the plan liabilities by £7.1 million.
- Increasing the inflation rate by 1% increases the plan liabilities by £3.0 million.
- Decreasing the inflation rate by 1% decreases the plan liabilities by £3.1 million.
- Decreasing the salary increase rate by 1% (increases are capped at the current assumption of 2.5%) decreases the plan liabilities by £0.8 million.
- Increasing life expectancy by 1 year increases the plan liabilities by £1.4 million.
- Decreasing life expectancy by 1 year decreases the plan liabilities by £1.3 million

The sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the plan liabilities, by considering the change in the plan liabilities for a given change in assumption. There has been no change in the calculation methodology since the prior period.

13. Taxation

(a) Income tax recognised in the income statement

Current tax expense:	2018 £000's	2017 £000's
UK corporation tax on profits of the year	2,957	2,813
Adjustment for prior year	-	122
Total current tax expense	2,957	2,935
Deferred tax:		
Origination and reversal of temporary differences	(21)	(86)
Related to pension deficit	(103)	(85)
Total deferred tax	(124)	(171)
Total income tax expense	2,833	2,764

(b) Income tax recognised in other comprehensive income

Current tax:	2018 £000's	2017 £000's
Change in fair value of assets classified through other comprehensive Income	(2)	-
Change in fair value of assets classified as available for sale	-	(6)
Deferred tax:		
Remeasurement of defined benefit liability	(98)	374
Total income tax (credit)/expense	(100)	368

(c) Reconciliation of effective tax rate

The tax assessed for the period is lower (2017: higher) than the UK corporation tax for the year of 19% (2017: average rate of 19.25%). The differences are explained below:

	2018 £000's	2017 £000's
Profit before tax:		
Net Profit for the year	10,907	12,071
Total tax expense	2,833	2,764
Total profit before tax	13,740	14,835
Tax using the UK corporation tax rate of 19% (2017: average rate of 19.25%)	2,610	2,856
Effects of current tax:		
Effect of tax rates in foreign jurisdictions	(93)	(185)
Non-deductible items	407	47
Tax exempt revenues	(23)	-
Effects of deferred tax:		
Depreciation in excess of capital allowances	128	95
Under/(over) provided in prior years	-	122
Relief for implementation of IFRS 9	(72)	-
Total current tax expense	2,957	2,935

Factors that may affect future tax charges

The reduction in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) was substantially enacted on 18 November 2015 and a further reduction to 17% (effective 1 April 2020) was also substantially enacted on 18 November 2015. This will reduce the group's future current tax charge accordingly. The deferred tax asset and liability at 31 December 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

(d) Movement in deferred tax balances

Group 2018	Net asset/ (liability) at 1 January £000's	Credit/(charge) recognised in income statement (Note 13a) £000's	Credit/(charge) recognised in other comprehensive income (Note 13b) £000's	Net asset/ (liability) at 31 December £000's	Of which deferred tax assets £000's	Of which deferred tax liabilities £000's
Capital allowances	120	95	-	215	215	-
Debt instruments fair valued through other comprehensive income	9	-	2	11	11	-
Pension deficit	270	103	98	471	471	-
IFRS 9 initial application	744	(74)	-	670	670	
Total deferred tax assets/(liabilities)	1,143	124	100	1,367	1,367	-

Bank 2018	Net asset/ (liability) at 1 January £000's	Credit/(charge) recognised in income statement (Note 13a) £000's	Credit/(charge) recognised in other comprehensive income (Note 13b) £000's	Net asset/ (liability) at 31 December £000's	Of which deferred tax assets £000's	Of which deferred tax liabilities £000's
Capital allowances	102	88	-	190	190	-
Debt instruments fair valued through other comprehensive income	9	-	2	11	11	-
Pension deficit	270	103	98	471	471	-
IFRS 9 initial application	664	(66)	-	598	598	
Total deferred tax assets/(liabilities)	1,045	125	100	1,270	1,270	-

Group 2017	Net asset/ (liability) at 1 January £000's	(Charge)/credit recognised in income statement (Note 13a) £000's	(Charge)/credit recognised in other comprehensive income (Note 13b) £000's	Net asset/ (liability) at 31 December £000's	Of which deferred tax assets £000's	Of which deferred tax liabilities £000's
Capital allowances	34	86	-	120	120	-
Available for sale investments	3	-	6	9	9	-
Pension deficit	559	85	(374)	270	270	-
Total deferred tax assets/(liabilities)	596	171	(368)	399	399	-

Bank 2017	Net asset/ (liability) at 1 January £000's	(Charge)/credit recognised in income statement £000's	(Charge)/credit recognised in other comprehensive income £000's	Net asset/ (liability) at 31 December £000's	Of which deferred tax assets £000's	Of which deferred tax liabilities £000's
Capital allowances	20	82	-	102	102	-
Available for sale investments	3	-	6	9	9	-
Pension deficit	559	85	(374)	270	270	-
Total deferred tax assets/(liabilities)	582	167	(368)	381	381	-

14. Segmental analysis

In the opinion of the Directors there is only one class of business and this is conducted entirely from the United Kingdom. In accordance with Country-by-Country Reporting requirements under CRD IV, the Bank has included additional disclosure on its website at: https://www.bankleumi.co.uk/static-files/10/LeumiUK/CRD%20IV%20disclosures%20Dec-17.pdf

15. Loans and advances to banks

	Group		Bank	
Analysed by remaining maturity:	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Repayable on demand	19,846	26,475	19,018	26,060
3 months or less excluding repayable on demand	16,542	434	16,542	434
1 year or less but over 3 months	55	47	55	47
Total loans and advances to banks	36,442	26,956	35,614	26,541

16. Loans and advances to customers

	Group		Bank	
Analysed by remaining maturity:	2018 £000's	2017 £000's	2018 £000's	2017 £000's
(gross carrying amounts)				
Repayable on demand	483,682	380,398	221,022	176,078
3 months or less excluding repayable on demand	216,784	432,365	520,569	677,542
1 year or less but over 3 months	71,146	56,802	71,146	56,802
5 years or less but over 1 year	456,097	264,414	443,120	243,445
Over 5 years	-	1,641	-	1,641
Less impairment allowance (Note 28(A)(g)(iii))	(20,442)	(22,980)	(18,683)	(21,594)
Total loans and advances to customers	1,207,267	1,112,640	1,237,174	1,133,914

	Group		Bank	
Analysed by industry sector	2018 £000's	2017 £000's	2018 £000's	2017 £000's
(net of specific impairment)				
Property	379,621	299,033	379,319	298,722
Commerce	313,955	282,720	265,026	248,821
Industrial	118,229	138,992	23,888	58,804
Other services	237,847	242,105	411,326	377,777
Hotels	151,322	149,341	151,322	149,341
Individuals	6,292	5,997	6,292	5,997
	1,207,267	1,118,188	1,237,174	1,139,462
Less collective impairment (Note 28(A)(g)(iii))	-	(5,548)	-	(5,548)
Total loans and advances to customers	1,207,267	1,112,640	1,237,174	1,133,914

17. Financial assets at fair value through other comprehensive income

This category was formerly referred to as 'Financial Investments' with fair value movements recognised in the 'available for sale reserve' as per IAS 39. However, upon transition to IFRS 9, the accumulated fair value movements have been recognised in the 'fair value through other comprehensive income reserve'. Given the population of such financial assets are debt instruments, the release of reserves under the occurrence of specific events (such as a disposal), will cycle through the income statement.

Financial assets at fair value through other comprehensive income are not subject to re-pledge or resale by counterparties.

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Debt securities				
Issued by:				
Government	23,283	14,748	23,283	14,748
Banks and Building Societies	9,026	9,446	9,026	9,446
Total financial assets at fair value through other comprehensive income	32,309	24,194	32,309	24,194
Analysed by remaining maturity				
Due within one year	15,513	24,194	15,513	24,194
Due one year and over	16,796	-	16,796	-
Total financial assets at fair value through other comprehensive income	32,309	24,194	32,309	24,194

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

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Aaa to Aa3	32,309	24,194	32,309	24,194
Total financial assets at fair value through other comprehensive income	32,309	24,194	32,309	24,194

18. Shares in group undertakings

Name	Activity		Principal Place of Business	Interest in Equity Capital %
AIB Nominees Limited	Nominee		England	100%
AIB Trustees Limited	Trustee for the Retirement Benefit Plan		England	100%
Leumi ABL Limited	Factoring and Invoice Discounting	+	England	100%
BLJ Limited	Administrative Company	++	Jersey	100%

\+ *The book value of the investment in Leumi ABL Limited is £2,763,519.*

++ *The book value of the investment in BLJ Limited is £2,633,122.*

The group undertakings in the table above all make their financial statements up to 31 December.

In respect of the above group undertakings, the Bank does not have significant restrictions on its ability to access or use their assets and settle their liabilities other than those resulting from the supervisory frameworks within which the banking undertakings operate. The supervisory frameworks require the banking undertakings to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the group and comply with other ratios.

19. Property and equipment

Group:	Leases of less than 50 years unexpired £000's	Computer and other equipment £000's	Total £000's
Cost			
At 1 January 2018	4,492	24,822	29,314
Additions	-	3,785	3,785
At 31 December 2018	4,492	28,607	33,099
Accumulated depreciation			
At 1 January 2018	3,693	18,086	21,779
Charge for the year	348	2,607	2,955
At 31 December 2018	4,041	20,693	24,734
Net carrying amount at 31 December 2018	**451**	**7,914**	**8,365**
Net carrying amount at 31 December 2017	799	6,736	7,535

The above leasehold properties are occupied by Bank Leumi (UK) plc and its subsidiary undertakings for their operations.
The group had no capitalised borrowing costs related to the acquisition of computer and other equipment during the year (2017: £Nil).

Bank:	Leases of less than 50 years unexpired £000's	Computer and other equipment £000's	Total £000's
Cost			
At 1 January 2018	4,360	24,216	28,576
Additions	-	3,732	3,732
At 31 December 2018	4,360	27,948	32,308
Accumulated depreciation			
At 1 January 2018	3,645	17,797	21,442
Charge for the year	334	2,477	2,811
At 31 December 2018	3,979	20,274	24,253
Net book value at 31 December 2018	**381**	**7,674**	**8,055**
Net book value at 31 December 2017	715	6,419	7,134

20. Other assets

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Assets awaiting settlement	1,780	1,873	949	939
Acceptances and endorsements	1,269	1,477	1,269	1,477
Deferred taxation (Note 13d)	1,367	399	1,270	381
Total other assets	4,416	3,749	3,488	2,797

21. Deposits by banks

	Group		Bank	
Analysed by remaining maturity	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Repayable on demand	10,476	17,611	10,476	17,611
3 months or less excluding repayable on demand	2,112	-	2,112	-
1 year or less but over 3 months	280,359	200,856	280,359	200,856
5 years or less but over 1 year	30,413	13,758	30,413	13,758
Total deposits by banks	323,359	232,225	323,359	232,225

22. Customer deposits

	Group		Bank	
Analysed by remaining maturity	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Repayable on demand	385,502	423,988	427,993	453,169
3 months or less excluding repayable on demand	205,997	359,676	205,997	359,676
1 year or less but over 3 months	314,275	244,922	314,275	244,922
5 years or less but over 1 year	17,093	14,206	17,093	14,206
Total customer deposits	922,868	1,042,792	965,359	1,071,973

23. Subordinated liabilities

Group and Bank	Interest Fixing	2018 £000's	Rate of Interest	2017 £000's	Rate of Interest
LOAN NOTE 1 Notice	3 monthly	3,581	1.656%	3,580	1.263%
LOAN NOTE 2 Notice	3 monthly	1,250	1.531%	1,249	1.138%
LOAN NOTE 3 Notice	3 monthly	30,657	1.406%	30,651	1.013%
LOAN NOTE 4 Notice	3 monthly	7,515	1.346%	7,512	1.027%
LOAN NOTE 5 Notice	3 monthly	2,509	3.803%	2,517	3.384%
LOAN NOTE 6 Perpetual	3 monthly	3,007	4.901%	3,007	4.518%
LOAN NOTE 7 Perpetual	3 monthly	5,014	1.739%	5,011	1.427%
		53,533		53,527	

The Notice subordinated Loan Notes are callable with a notice period of five years and one day given by either the Bank or the parent company, Bank Leumi le-Israel B.M. 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 Loan Notes 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 Prudential Regulation Authority before commencing repayments.

All subordinated loan notes are issued to the parent company, Bank Leumi le-Israel B.M. The rights of the subordinated loan holders are subordinated to the claims of all other creditors of the Bank.

The group has not had any defaults of principal, interest or other breaches with respect to its subordinated Loan Notes during the years ended 31 December 2018 and 2017.

24. Other liabilities

	Group		Bank	
	2018	2017	2018	2017
	£000's	£000's	£000's	£000's
Taxation	1,295	1,042	1,014	1,116
Social security payments	-	395	-	395
Liabilities awaiting settlement	2,107	1,977	1,431	1,571
Acceptances and endorsements	1,269	1,477	1,269	1,477
Total other liabilities	4,671	4,891	3,714	4,559

25. Provisions

Group	Off balance sheet commitments and financial guarantees (Note 28(A)(g)(iii)) £000's	Regulatory provisions £000's	Discontinued operations (Note 5) £000's	Total £000's
At 1 January 2018	2,522	-	401	2,923
(Credit)/Charge against profits	(166)	2,000	96	1,930
At 31 December 2018	2,356	2,000	497	4,853

Bank	Off balance sheet commitments and financial guarantees (Note 28(A)(g)(iii)) £000's	Regulatory provisions £000's	Discontinued operations (Note 5) £000's	Total £000's
At 1 January 2018	2,522	-	-	2,522
(Credit)/Charge against profits	(166)	2,000	-	1,834
At 31 December 2018	2,356	2,000	-	4,356

During the year the Bank made a provision of £2,000,000 relating to an ongoing examination by the Financial Conduct Authority ("FCA") of historic issues relating to the Bank's anti-money laundering systems and controls. The outcome of the examination remains uncertain and the provision is therefore a best estimate of the future outflow of resources based on information available to the Bank at the current time. As such the actual outflow may be different from the provision.

26. Called up share capital

	Group		Bank	
	2018	2017	2018	2017
	£000's	£000's	£000's	£000's
Equity share capital				
Authorised share capital: Ord. shares £1 fully paid	20,000	20,000	20,000	20,000
Issued share capital: Ord. shares £1 fully paid	14,324	14,324	14,324	14,324

All ordinary shares confer identical rights in respect of capital, dividends, voting and otherwise to the shareholders. The Directors may, if they think fit, from time to time pay to the shareholder such interim dividends as appear to the Directors to be justified by the profits of the Bank.

Capital management

The Bank calculates its capital and risk weighted assets (RWA's) in accordance with CRD IV which gives effect to the Basel lll framework in the European Union. The Bank has continued with the standardised approach for credit and market risk, and the basic indicator approach for operational risk. Rules prescribed in the Capital Requirements Regulation determine the RWA's attributable to the Bank's exposures, and these are multiplied by 8% to determine the Pillar 1 minimum capital requirements.

Pillar 2 assesses those risks which are either not adequately covered or not covered at all under Pillar 1 (Pillar 2A), as well as seeking to ensure that firms can continue to meet their minimum capital requirements throughout a stress (Pillar 2B). The PRA requires firms to meet Pillar 2A with at least 56% Common Equity Tier 1 Capital (CET1) and at most 25% in Tier 2 capital. CRD IV introduced new combined capital buffers which all firms are expected to meet as part of Pillar 2B. These buffers must be met with CET1 capital and for Bank Leumi (UK) plc, include the capital conservation buffer and the countercyclical buffer. In addition the PRA sets an additional 'PRA buffer' where the CRD IV buffers are deemed inadequate for a particular firm, and they also set out transitional arrangements for holding this buffer as CET1 which became fully effective on 1 January 2019.

Currently under Pillar 2, the Bank is subject to an overall regulatory capital requirement based on individual capital guidance (ICG) received from the PRA, which incorporate the results of the Bank's latest Internal Capital Adequacy Assessment Process and the new buffers referred to above. Using the ICG, the Finance Department calculates on a monthly basis the Bank's capital requirement and compares this against its capital resources. An internal limit is also incorporated, designed to ensure that a comfortable margin is maintained at all times to meet growth and sudden variations. The Bank must on an ongoing basis monitor compliance with the relevant regulatory capital requirement and has not reported any breaches during the year.

The PRA has issued guidelines on transition requirements for the implementation of IFRS 9. The guidelines allow a choice of two approaches to the recognition of the impact of adoption of the impairment requirements of the Standard on regulatory capital:

- phasing in the full impact over a five year period by applying prescribed scaling factors, or
- recognising the full impact on the day of initial application

The Bank has decided to adopt the first approach.

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

	Group		Solo Level	
Statement of financial position	2018	2017	2018	2017
	£000's	£000's	£000's	£000's
Balance sheet:				
Share capital	14,324	14,324	14,324	14,324
Share premium	63,736	63,736	63,736	63,736
Profit and loss reserve	136,598	129,580	136,453	129,926
Regulatory adustments:				
Deductions from Tier 1 capital	(88)	(80)	(288)	(280)
Add back under IFRS 9 transitional arrangments	3,016	-	3,016	-
Common Equity Tier 1 capital	217,586	207,560	217,241	207,706
Collective provision	-	5,548	-	5,548
Undated subordinated debt	8,000	8,000	8,000	8,000
Dated subordinated debt	45,466	45,466	45,466	45,466
Total Tier 2 capital	53,466	59,014	53,466	59,014
Total regulatory capital	271,052	266,574	270,707	266,720

27. Financial assets and financial liabilities

Classification of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies in Note 3(e) describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the financial assets and liabilities in the Statement of Financial Position by category of financial instrument to which they are assigned, and by the measurement basis under IFRS 9 for the period ending 31 December 2018 and IAS 39 for the prior period. All fair value through P&L (FVTPL) financial assets and financial liabilities of the Group and the Bank are 'mandatorily FVTPL' as there have been no financial instruments 'designated at FVTPL' – please see Note 3(e)(2).

Group **31 December 2018**	Mandatorily fair value through P&L £000's	Fair value through other comprehensive income £000's	Amortised cost £000's	Total £000's
Assets				
Cash and balances at central banks	-	-	240,498	240,498
Derivatives	3,954	-	-	3,954
Loans and advances to banks	-	-	36,442	36,442
Loans and advances to customers	-	-	1,207,267	1,207,267
Financial assets at fair value through other comprehensive income	-	32,309	-	32,309
Acceptances	-	-	1,269	1,269
Total financial assets	3,954	32,309	1,485,476	**1,521,739**
Total non-financial assets				14,844
Total assets				**1,536,583**
Liabilities				
Deposit by banks	-	-	323,359	323,359
Customer deposits	-	-	922,868	922,868
Derivatives	3,606	-		3,606
Subordinated liabilities	-	-	53,533	53,533
Acceptances	-	-	1,269	1,269
Total financial liabilties	3,606	-	1,301,029	**1,304,635**
Total non-financial liabilities				17,339
Total liabilities				**1,321,974**
Equity shareholders' funds				214,609
Total Liabiltiies and equity				**1,536,583**

Group **31 December 2017**	Fair valued through P&L £000's	Loans and receivables £000's	Available for sale £000's	Financial liabilities at amortised cost £000's	Total £000's
Assets					
Cash and balances at central banks	-	376,321	-	-	376,321
Derivatives	3,679	-	-	-	3,679
Loans and advances to banks	-	26,956	-	-	26,956
Loans and advances to customers	-	1,112,640	-	-	1,112,640
Financial investments	-	-	24,194	-	24,194
Acceptances	-	1,477	-	-	1,477
Total financial assets	3,679	1,517,394	24,194		**1,545,267**
Total non-financial assets					13,315
Total assets					**1,558,582**
Liabilities					
Deposit by banks	-	-	-	232,225	232,225
Customer deposits	-	-	-	1,042,792	1,042,792
Derivatives	9,625	-	-	-	9,625
Subordinated liabilities	-	-	-	53,527	53,527
Acceptances	-	1,477	-	-	1,477
Total financial liabilties	9,625	1,477	-	1,328,544	**1,339,646**
Total non-financial liabilities					11,339
Total liabilities					**1,350,985**
Equity shareholders' funds					207,597
Total Liabiltiies and equity					**1,558,582**

Bank 31 December 2018	Mandatorily fair value through P&L £000's	Fair value through other comprehensive income £000's	Amortised cost £000's	Total £000's
Assets				
Cash and balances at central banks	-	-	240,498	240,498
Derivatives	3,954	-	-	3,954
Loans and advances to banks	-	-	35,614	35,614
Loans and advances to customers	-	-	1,237,174	1,237,174
Financial assets at fair value through other comprehensive income	-	32,309	-	32,309
Acceptances	-	-	1,269	1,269
Total financial assets	3,954	32,309	1,514,555	**1,550,818**
Shares in group undertakings				5,397
Total non-financial assets				13,365
Total assets				**1,569,580**
Liabilities				
Deposit by banks	-	-	323,359	323,359
Customer deposits	-	-	965,359	965,359
Derivatives	3,606	-	-	3,606
Subordinated liabilities	-	-	53,533	53,533
Acceptances	-	-	1,269	1,269
Total financial liabilties	3,606	-	1,343,520	1,347,126
Total non-financial liabilities				14,217
Total liabilities				**1,361,343**
Equity shareholders' funds				208,237
Total Liabiltiies and equity				**1,569,580**

Bank 31 December 2017	Fair valued through P&L £000's	Loans and receivables £000's	Available for sale £000's	Financial liabilities at amortised cost £000's	Total £000's
Assets					
Cash and balances at central banks	-	376,321	-	-	376,321
Derivatives	3,679	-	-	-	3,679
Loans and advances to banks	-	26,541	-	-	26,541
Loans and advances to customers	-	1,133,914	-	-	1,133,914
Financial investments	-	-	24,194	-	24,194
Acceptances	-	1,477	-	-	1,477
Total financial assets	3,679	1,538,253	24,194		**1,566,126**
Shares in group undertakings					5,397
Total non-financial assets					11,692
Total assets					**1,583,215**
Liabilities					
Deposit by banks	-	-	-	232,225	232,225
Customer deposits	-	-	-	1,071,973	1,071,973
Derivatives	9,625	-	-	-	9,625
Subordinated liabilities	-	-	-	53,527	53,527
Acceptances	-	1,477	-	-	1,477
Total financial liabilties	9,625	1,477	-	1,357,725	**1,368,827**
Total non-financial liabilities					9,509
Total liabilities					**1,378,336**
Equity shareholders' funds					204,879
Total Liabiltiies and equity					**1,583,215**

The business model of the Bank is to make available funds for customer borrowing. The Bank intends to hold such exposure until contractual maturity collecting cash flows that are solely payment of principal and interest (SPPI) in nature. Financial assets recognised under the following headings fall under this classification for amortised cost accounting.

- Cash and balances at central banks
- Loans and advances to banks
- Loans and advances to customers
- Acceptances

With respect to financial liabilities, the Bank has not elected to designate any financial liability at fair value through the profit or loss. Consequently, the financial liabilities are recognised at amortised cost.

The Bank has evaluated expected credit losses (ECL) for all relevant financial assets. However, the expected credited loss under categories other than Loans and advances to customers has been determined to be insignificant:

i) **Cash and balances at central banks:**
The Bank has overnight funds placed on deposit with the Bank of England. The Bank has evaluated the expected credit loss of its deposit to be insignificant.

ii) **Loans and advances to banks:**
These comprise both overnight deposits and short-term money market deposits. The former are deposits with two Systemically Important Banks (SIBs) subjected to additional capital requirements and supervision to strengthen liquidity and loss absorbing capacity to better withstand against future financial crises. Similarly, the Bank's term deposits are held with internally approved financial institutions, some of which are also SIBs. The Bank has carefully evaluated the expected credit loss of its exposures against these counterparties and has determined it to be insignificant.

iii) **Financial assets at fair value through other comprehensive income:**
These are high quality marketable debt securities to enhance the Bank's liquidity position and included in the Bank's liquid asset buffer of high quality debt issued by central banks and financial institution counterparties to meet liquidity risk management requirements set by the Prudential Regulatory Authority. The business objective of this mechanism meets the classification requirements of debt instruments fair valued through other comprehensive income (debt instruments-FVOCI). The Bank has carefully evaluated these issuing counterparties and their capacity to repay, and has determined the expected credit loss from these exposures to be insignificant.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

Expected credit losses arising from off balance sheet commitments and guarantees are recognised in Provisions, whereas credit losses from on-balance sheet financial assets are recognised directly against their gross carrying amounts. The table below shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group and the Bank's financial assets and financial liabilities as at 1 January 2018.

The movement of amounts from original carrying value under IAS 39 to new carrying value under IFRS 9 is attributable to the re-measurement of credit losses arising from on balance sheet Loans and advances to customers recognised at amortised cost.

The Bank did not elect to reclassify financial assets during the year. Loans and advances to banks and customers do not contain contractual features that are inconsistent with a basic lending arrangement (see Note 3(e)(2)) and therefore continue to be classified at amortised cost.

Group **1 January 2018**	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re-measurement of credit loss	New carrying amount under IFRS 9
			£000's	£000's	£000's
Cash and balances at central banks	Loans and receivables	Amortised cost	376,321	-	376,321
Derivatives	FVTPL	FVTPL - mandatory	3,679	-	3,679
Loans and advances to banks	Loans and receivables	Amortised cost	26,956	-	26,956
Loans and advances to customers	Loans and receivables	Amortised cost	1,112,640	(1,397)	1,111,243
Financial assets at fair value through other comprehensive income	Available for sale	FVOCI	24,194	-	24,194
Acceptances	Loans and receivables	Amortised cost	1,477	-	1,477
Total financial assets			1,545,267	(1,397)	1,543,870
Deposit by banks	Amortised cost	Amortised cost	232,225	-	232,225
Customer deposits	Amortised cost	Amortised cost	1,042,792	-	1,042,792
Derivatives	FVTPL	FVTPL - mandatory	9,625	-	9,625
Subordinated liabilities	Amortised cost	Amortised cost	53,527	-	53,527
Acceptances	Loans and receivables	Amortised cost	1,477	-	1,477
Total financial liabilties			1,339,646	-	1,339,646

Bank **1 January 2018**	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re-measurement of credit loss	New carrying amount under IFRS 9
			£000's	£000's	£000's
Cash and balances at central banks	Loans and receivables	Amortised cost	376,321	-	376,321
Derivatives	FVTPL	FVTPL - mandatory	3,679	-	3,679
Loans and advances to banks	Loans and receivables	Amortised cost	26,541	-	26,541
Loans and advances to customers	Loans and receivables	Amortised cost	1,133,914	(972)	1,132,942
Financial assets at fair value through other comprehensive income	Available for sale	FVOCI	24,194	-	24,194
Acceptances	Loans and receivables	Amortised cost	1,477	-	1,477
Total financial assets			1,566,126	(972)	1,565,154
Deposit by banks	Amortised cost	Amortised cost	232,225	-	232,225
Customer deposits	Amortised cost	Amortised cost	1,071,973	-	1,071,973
Derivatives	FVTPL	FVTPL - mandatory	9,625	-	9,625
Subordinated liabilities	Amortised cost	Amortised cost	53,527	-	53,527
Acceptances	Loans and receivables	Amortised cost	1,477	-	1,477
Total financial liabilties			1,368,827	-	1,368,827

Expected credit losses on the date of initial application of IFRS 9

The following tables reconcile the i) credit impairment allowance recognised for financial assets in accordance with IAS 39 as at 31 December 2017 to ii) the opening expected credit loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

Group **1 January 2018**	31 December 2017 Impairment allowance under IAS 39 £000's	Additional IFRS 9 impairment allowance £000's	1 January 2018 Loss allowance under IFRS 9 £000's
Assets			
Loans and advances to customers	22,980	1,397	24,377
Liabilities			
Provision for off balance sheet commitments and financial guarantees	-	2,522	2,522
Total loss allowance	22,980	3,919	26,899

Bank **1 January 2018**	31 December 2017 Impairment allowance under IAS 39 £000's	Additional IFRS 9 impairment allowance £000's	1 January 2018 Loss allowance under IFRS 9 £000's
Assets			
Loans and advances to customers	21,594	972	22,566
Liabilities			
Provision for off balance sheet commitments and financial guarantees	-	2,522	2,522
Total loss allowance	21,594	3,494	25,088

The Group and the Bank have elected to implement the transition to IFRS 9 by restating opening retained earnings as at 1 January 2018. As per the above table, an additional impairment allowance of £3,919,000 (Group) and £3,494,000 (Bank) has been determined on initial implementation of IFRS 9. These have been recognised in opening retained earnings for the current reporting period.

28. Risk management

Primary activities

Banking	Lending, deposit taking, 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 Asset Buffer of high quality liquid assets held to meet liquidity risk management requirements set by the Prudential Regulation Authority. In addition, debt securities are held as collateral against lending.

Risk management structure

The Bank has an integrated risk management structure with risk independently monitored by the 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.

Through this Risk Management structure, compliance with regulatory rules and requirements and ensuring that we treat our customers fairly, the Bank seeks to minimise its reputational risk.

(A) Credit risk

This is one of the primary risks inherent in bank lending and 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 determined from an expected credit loss measurement approach incorporating forward looking information.

Significant changes in the economy or economic forecasts, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in changes to expected credit losses provided for at the reporting date. The Bank therefore carefully manages its exposure to credit risk through an independent Credit Risk Management Department.

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 is responsible for credit risk. The responsibility for the day to day management of credit risk lies with the management and relationship managers.

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.

The maximum exposure to credit risk on the financial assets at the reporting date was £1,867 million (2017: £1,978 million). This amount excludes any collateral which the Bank holds to mitigate its exposure.

(a) Credit quality analysis

The following table sets out information about the credit quality of the financial assets measured at amortised cost subject to expected credit losses (ECL). This has been presented under four credit grading bands with band 1 'Normal grade' being low credit risk, through to band 4 'Credit impaired' being the highest credit risk and credit impaired (see Note 3(e)(5)).

The amounts in the table for loans and advances to customers show the gross carrying amounts less ECL to arrive at net carrying value. For off balance sheet commitments and financial guarantee contracts, the amounts in the table show the notional value of undrawn amounts and guarantees. The ECL allowance attributable to these commitments is recognised within Provisions.

Group 31 December 2018	12-month ECL (Stage 1) £000's	Lifetime ECL individually assessed (Stage 2) £000's	Credit impaired financial assets - lifetime ECL (Stage 3) £000's	Total £000's
Loans and advances to customers at amortised cost				
Gross carrying amount:				
1. Normal grade	1,039,013	36,760	-	1,075,773
2. Sensitive	8,434	57,722	-	66,156
3. Watch list	-	55,442	-	55,442
4. Credit impaired	-	-	30,338	30,338
Less loss allowance	(3,315)	(4,942)	(12,185)	(20,442)
Net Carrying amount	**1,044,132**	**144,982**	**18,153**	**1,207,267**
Off balance sheet comittments and financial guarantee contracts				
Undrawn commitment:				
1. Normal grade	279,979	11,194	-	291,173
2. Sensitive	4,415	34,886	-	39,301
3. Watch list	-	4,430	-	4,430
4. Credit impaired	-	-	10,298	10,298
Loss allowance recognised in Provisions	**575**	**1,781**	-	**2,356**

Bank 31 December 2018	12-month ECL (Stage 1) £000's	Lifetime ECL individually assessed (Stage 2) £000's	Credit impaired financial assets - lifetime ECL (Stage 3) £000's	Total £000's
Loans and advances to customers at amortised cost				
Gross carrying amount:				
1. Normal grade	1,121,624	12,356	-	1,133,980
2. Sensitive	8,434	57,722	-	66,156
3. Watch list	-	28,103	-	28,103
4. Credit impaired	-	-	27,618	27,618
Less loss allowance	(3,175)	(4,867)	(10,641)	(18,683)
Net Carrying amount	**1,126,883**	**93,314**	**16,977**	**1,237,174**
Off balance sheet comittments and financial guarantee contracts				
Undrawn commitment:				
1. Normal grade	294,170	11,194	-	305,364
2. Sensitive	4,415	34,886	-	39,301
3. Watch list	-	4,430	-	4,430
4. Credit impaired	-	-	10,298	10,298
Loss allowance recognised in Provisions	**575**	**1,781**	-	**2,356**

As at 31 December 2017, the value of loans and advances to customers which were credit impaired was £21,845,000 for the Group and £19,782,000 for the Bank, representing 1.96% and 1.74% respectively of total loans and advances to customers. Specific provisions against the gross value of these credit impaired loans were 44.38% for the Group and 44.79% for the Bank.

(b) Modified financial assets

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially; otherwise referred to as forbearance. Such loans are not derecognised (if the changes are not substantial, see Note 3(e)(3)) and continue to be presented as part of loans and advances with renegotiated terms until maturity, early repayment or write-off.

The following table provides information of financial assets modified during the year ending 31 December 2018:

	Group £000's	**Bank** £000's
Financial assets modified during the year ending 31 December 2018:		
Amortised cost before modification	4,913	4,913

There was no modification gain/loss recognised for modified financial assets whose loss allowance was measured using lifetime ECL.

The value of loans subject to forbearance, including associated specific and collective provisions, is as follows:

	Group and Bank	
	2018	2017
	£000's	£000's
Gross value of forborne loans	10,760	26,160
of which are credit impaired	7,992	16,939
Specific provision	(7,224)	(12,535)
Net value of forborne loans	3,536	13,625

(c) Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requires collateral from borrowers. Collateral may take the form of i) cash, ii) debt and equity securities, iii) first charge over real estate or land, iv) floating charges over specifically identified plant and machinery or v) floating charges over trade receivables.

A full review of collateral occurs when a loan is placed on watch list and is subsequently monitored more closely. For credit impaired loans, the Bank seeks third-party appraisals, where applicable, as inputs into the Credit Risk Management Committee for determining credit risk actions.

At 31 December 2018, the Group and the Bank have £1,411,000 of loans and advances to customers and £12,364,000 off balance sheet commitments and financial guarantees for which 'no loss allowance' was recognised because of associated collateral.

During the period, there was no change in the Bank's collateral policies.

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

	Group	
	2018	2017
	£000's	£000's
Cash	5,134	7,638
Bank guarantees	300	392
Total value of eligible collateral held	5,434	8,030

Further details of the Bank's risk exposures are available in the Pillar 3 Disclosures which are available from the following website:
https://www.bankleumi.co.uk/Lobby/CRD_IV_DISCLOSURE/39851/

(d) Written-off financial assets subject to enforcement activity

There are no financial assets that were written-off during the period that are still subject to enforcement activity.

(e) Derivatives

The Bank maintains strict 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.

(f) 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. See Note 28(A)(a) for information on impairment allowances recognised under Provisions pertaining to outstanding credit commitments.

(g) Expected credit losses

(i) Inputs, assumptions and techniques for estimating impairment

The Bank incorporates forward looking information including expectations of future macro-economic variables such as GDP growth and changes in rates of unemployment, and specific indicators which might be expected to have a material impact on a particular sector. These factors are incorporated into the Bank's measurement of ECL, for instance via its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition, and its estimates of absolute probability of default. Macro-economic variables have been weighted to reflect the Bank's underlying country risk exposure arising from the portfolio of financial assets. The Bank sources relevant external information, including economic data and forecasts from governmental bodies and monetary authorities in countries where the Bank operates, supranational organisations such as the OECD, International Monetary Fund (IMF), the World Bank and selected private sector and academic forecasters.

The Bank formulates a 'base case' view of the future direction of these economic variables 5 years ahead, as well as three other possible forecast scenario – a) an upside case, b) a downside case and c) a severe downside case. The outcomes derived from the range of scenarios are probability weighted with the 'base case' representing the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting.

(ii) Measurement of ECL

The measurement of ECL is based on the product of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD), discounted to the reporting date. These parameters are derived from internally developed statistical models and other historic data, benchmarked against externally sourced data where appropriate. They are adjusted to reflect forward looking information as described above. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

PD estimates are linked to the Bank's credit grades and reflect, at the relevant point-in-time, the likelihood that a financial asset will become classified as in default over the relevant time horizon. The Bank's credit grades are calculated using internal models, utilising data comprising both quantitative and qualitative factors. These internal grading models take into account relationships between an obligor and current and expected future economic conditions. PD estimates also take into account current and expected future economic conditions, and as described above may be adjusted based upon a variety of external actual and forecast information, from which the bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. Grading and PD models have been developed and calibrated internally utilising a range of internal information, including performance and default data for its credit risk exposures analysed by geography, region, type of product and borrower. Where appropriate information has been purchased from recognised external sources to help benchmark, refine and calibrate the models.

The Bank uses LGD models to estimate the likely loss if there is a default. These models consider, amongst other things, the obligor industry sector, collateral and other credit enhancements, and likely costs of recovery. LGD models have been developed and calibrated utilising historic internal recovery data for defaulted financial assets, along with reference to recognised external recovery data and modelling approaches. As with PD estimates, LGD estimates may be periodically adjusted, based upon external current and forecast economic information.

EAD represents the expected exposure in the event of a default. The Bank derives EAD from current exposure to the obligor and the potential changes to the current amount allowed under the contract including amortisation. For lending commitments and financial guarantees, the EAD includes the drawn amount as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward looking forecasts.

The Bank has elected to apply its ECL measurement methods at the level of each individual financial asset, not collectively.

(iii) Summary of loss allowance

The below table is a summary, for 2018, of the aggregate expected credit loss attributable to loans and advances to customers and off balance sheet commitments and guarantee contracts, according to IFRS 9. The analysis for 2017 retains the previous classification according to IAS 39.

	2018			2017		
	Loss allowance: Loans and Advances to Customers £000's	Provision charges: off balance sheet commitments and financial guarantees £000's	Total £000's	Individual £000's	Collective £000's	Total £000's
Group						
At 1 January	24,377	2,522	26,899	25,320	6,150	31,470
(Credit)/Charge against profits	(506)	(166)	(672)	407	(602)	(195)
Recoveries	87	-	87	30	-	30
Amount written off	(3,543)	-	(3,543)	(8,196)	-	(8,196)
Foreign exchange and other movements	27	-	27	(129)	-	(129)
At 31 December	20,442	2,356	22,798	17,432	5,548	22,980

	2018			2017		
	Loss allowance: Loans and Advances to Customers £000's	Provision charges: off balance sheet commitments and financial guarantees £000's	Total £000's	Individual £000's	Collective £000's	Total £000's
Bank						
At 1 January	22,566	2,522	25,088	23,243	6,150	29,393
(Credit)/Charge against profits	(462)	(166)	(628)	65	(602)	(537)
Recoveries	87	-	87	30	-	30
Amount written off	(3,535)	-	(3,535)	(7,126)	-	(7,126)
Foreign exchange and other movements	27	-	27	(166)	-	(166)
At 31 December	18,683	2,356	21,039	16,046	5,548	21,594

(iv) Changes in loss allowance

The following tables show reconciliations from the opening to the closing balance of loss allowance and gross carrying amount of loans and advances to customers by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit impaired are included in Note 3(e)(5).

The Bank has evaluated ECL for all financial assets (those classified at amortised cost and debt instruments-FVOCI). However, the reported ECL under categories other than Loans and advances to customers is considered insignificant (see Note 27).

Loans and Advances to Customers

Group	12-month ECL (Stage 1) £000's	Lifetime ECL individually assessed (Stage 2) £000's	Credit impaired financial assets - lifetime ECL (Stage 3) £000's	Total £000's
Loss allowance as at 1 January 2018	3,313	3,632	17,432	24,377
Changes due to Loans and Advances recognised as at 1 January:				
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(223)	223	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	-	(381)	381	-
- Transfer to 12-month expected credit losses (to Stage 1)	504	(504)	-	-
- Financial assets that have been derecognised during the year	(424)	(1,144)	(1,511)	(3,079)
New Loans and Advances originated or purchased	552	154	-	706
Write-offs	-	-	(3,543)	(3,543)
Net remeasurement of loss allowances	(407)	2,962	(574)	1,981
Loss allowance as at 31 December 2018	3,315	4,942	12,185	20,442

Bank	12-month ECL (Stage 1) £000's	Lifetime ECL individually assessed (Stage 2) £000's	Credit impaired financial assets - lifetime ECL (Stage 3) £000's	Total £000's
Loss allowance as at 1 January 2018	2,905	3,615	16,046	22,566
Changes due to Loans and Advances recognised as at 1 January:				
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(156)	156	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	-	(381)	381	-
- Transfer to 12-month expected credit losses (to Stage 1)	503	(503)	-	-
- Financial assets that have been derecognised during the year	(332)	(1,129)	(1,502)	(2,963)
New Loans and Advances originated or purchased	500	143	-	643
Write-offs	-	-	(3,535)	(3,535)
Net remeasurement of loss allowances	(245)	2,966	(749)	1,972
Loss allowance as at 31 December 2018	3,175	4,867	10,641	18,683

Provisions for off balance sheet commitments

Group and Bank	12-month ECL (Stage 1) £000's	Lifetime ECL individually assessed (Stage 2) £000's	Credit impaired financial assets - lifetime ECL (Stage 3) £000's	Total £000's
Loss allowance as at 1 January 2018	935	1,587	-	2,522
Changes due to Loans and Advances recognised as at 1 January:				
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(275)	275	-	-
- Financial assets that have been derecognised during the year	(55)	(14)	-	(69)
New Loans and Advances originated or purchased	206	-	-	206
Net remeasurement of loss allowances	(237)	(66)	-	(303)
Loss allowance as at 31 December 2018	574	1,782	-	2,356

(v) Changes in gross carrying amounts of loans and advances to customers

Group	12-month ECL (Stage 1) £000's	Lifetime ECL individually assessed (Stage 2) £000's	Credit impaired financial assets - lifetime ECL (Stage 3) £000's	Total £000's
Gross carrying amount as at 1 January 2018	972,025	124,303	39,292	1,135,620
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(64,964)	64,964	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	(11)	(6,234)	6,245	-
- Transfer to 12-month expected credit losses (to Stage 1)	17,330	(17,330)	-	-
New Loans and Advances originated or purchased	218,265	13,301	-	231,566
Write-offs	-	-	(3,543)	(3,543)
Financial assets that have been derecognised	(149,175)	(42,812)	(3,547)	(195,534)
Foreign exchange and other movements	16,445	1,527	87	18,059
Other changes	37,532	12,204	(8,195)	41,541
Gross carrying amount as at 31 December 2018	1,047,447	149,923	30,339	1,227,709

Bank	12-month ECL (Stage 1) £000's	Lifetime ECL individually assessed (Stage 2) £000's	Credit impaired financial assets - lifetime ECL (Stage 3) £000's	Total £000's
Gross carrying amount as at 1 January 2018	998,307	121,373	35,828	1,155,508
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(24,290)	24,290	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	-	(6,234)	6,234	-
- Transfer to 12-month expected credit losses (to Stage 1)	16,329	(16,329)	-	-
New Loans and Advances originated or purchased	142,907	6,142	-	149,049
Write-offs	-	-	(3,535)	(3,535)
Financial assets that have been derecognised	(88,372)	(41,125)	(3,547)	(133,044)
Foreign exchange and other movements	16,445	1,527	87	18,059
Other changes	68,732	8,537	(7,449)	69,820
Gross carrying amount as at 31 December 2018	1,130,058	98,181	27,618	1,255,857

(B) 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.

The Risk Control Department and the 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. Such events are reported to the ORMC and a summary given to the Risk Committee of the Board.

(C) Market risk

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 Head of Treasury and Global Markets is responsible for the day-to-day management of market risk which includes liquidity risk, interest rate risk and foreign exchange rate risk.

Liquidity risk

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

The Bank's general policies related to liquidity risk are to hold sufficient cash and marketable assets to match future cash flows from maturing assets and to have a diversified deposit base in terms of maturities and counterparties. The Bank maintains a liquid asset buffer comprising high quality government securities and reserves in the form of sight deposits with a central bank.

The European Commission's Delegated Act with regard to the Liquidity Coverage Ratio (LCR) for credit institutions became effective on a transitional basis on 1 October 2015 and became fully effective on 1 January 2018 with a minimum ratio of 100%. At the same time the PRA advised the Bank of its revised Individual Liquidity Guidance which is expressed as an amount of liquidity the Bank needs to hold above the minimum LCR requirement (referred to as Pillar2).

As at 31 December 2018 the Bank's Liquid Asset Buffer exceeded the Bank's LCR requirement (including the Pillar 2 add-on). The level of Liquid Asset Buffer required is also verified with reference to the results of the Bank's liquidity stress testing. Stress testing is performed weekly using a model which estimates the effect of different types of stresses on the Bank's cash inflows and outflows. This model is used to inform management of the impact of stresses in the market as well as stresses specific to the Bank. The model is regularly updated and is documented as part of the Bank's Individual Liquidity Adequacy Assessment.

The Bank also focuses on several internal metrics where targets and limits are set by the MRMC in order to ensure that the Treasury Department manage the Bank's liquidity in an effective way. These metrics include the ratio of short-term cash resources to total deposits and the proportion of funding from within the Bank Leumi Group. The Bank also monitors the Net Stable Funding Ratio, a liquidity metric not yet currently binding, introduced as part of the Basel III post-2008 reforms.

The Bank maintains sufficient liquidity capacity by maintaining an adequately diversified deposit base in terms of maturity, range of counterparties and concentration. The sources of funding available to the Bank comprise customer deposits and money market placements from our parent company, Bank Leumi le-Israel B.M. We manage the customer deposit base by categorising the type of customers from whom we take deposits by nature of their profile and perceived behaviour in stressed circumstances. Longer term placements are encouraged through pricing mechanisms. The Bank also ensures an appropriately matched future profile of cash flows from maturing assets.

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.

The 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 position in money market placements, loans and deposits, foreign exchange positions and securities, and after off-setting the impact of interest rate swaps which hedge against specific positions. The net exposures are compared to limits imposed by MRMC. These limits are reviewed periodically by MRMC and, in conjunction with the Treasury and Global Markets Department, revised limits may be adopted which are more representative of the current interest rate risk strategy in the current economic environment.

The Finance Department use the present value of the above assets and liabilities to calculate the possible loss of the Bank's economic value in the event of a 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 2018 the possible loss was £0.9 million (2017: £0.6 million) compared with a limit of £3.1 million (2017: £2.8 million).

In addition, the Finance Department calculate the impact on the group's earnings, including its subsidiaries, in the event of a 1% movement in interest rates, and this is compared with an internal limit of 3.5% of the group's capital. As at 31 December 2018 the impact on earnings was 1.54% of the group's capital (2017: 1.38%).

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 reporting 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 2018	Demand £000's	Up to 3 months £000's	3-12 months £000's	1-5years £000's	Over 5 years £000's	Total £000's
Liabilities						
Deposits by banks	10,476	2,112	280,359	30,413	-	323,359
Customer deposits	385,502	205,997	314,275	17,093	-	922,868
Derivatives	201	2,349	1,041	15	-	3,606
Subordinated liabilities	-	-	-	-	53,533	53,533
Acceptances	-	1,269	-	-	-	1,269
Total financial liabilities	396,178	211,727	595,675	47,522	53,533	1,304,635

At 31 December 2017	Demand £000's	Up to 3 months £000's	3-12 months £000's	1-5years £000's	Over 5 years £000's	Total £000's
Liabilities						
Deposits by banks	17,611	-	200,856	13,758	-	232,225
Customer deposits	423,988	359,676	244,922	14,206	-	1,042,792
Derivatives	222	8,262	924	217	-	9,625
Subordinated liabilities	-	-	-	-	53,527	53,527
Acceptances	-	1,477	-	-	-	1,477
Total financial liabilities	441,821	369,415	446,702	28,181	53,527	1,339,646

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 (2017: £6 million). Overall responsibility to manage foreign exchange risk lies with the Head of Treasury and Global Markets. The Risk Control Department monitors foreign exchange positions on a daily basis and the end of day positions are reported by the Finance Department to the Executive Management of the Bank.

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

	2018 £000's	2017 £000's
Total open positions:		
- long	427	410
- short	(297)	(491)
Net long/(short) open position	130	(81)

Valuation of financial assets and financial liabilities

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

The table below analyses financial assets and financial liabilities 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:

There are no financial assets and financial liabilities measured according to Level 3 (2017: nil).

	2018			2017		
	Level 1 £000's	Level 2 £000's	Total £000's	Level 1 £000's	Level 2 £000's	Total £000's
Assets						
Financial investments	32,309	-	32,309	24,194	-	24,194
Derivatives	-	3,954	3,954	-	3,679	3,679
	32,309	3,954	36,263	24,194	3,679	27,873
Liabilities						
Derivatives	-	3,606	3,606	-	9,625	9,625
	-	3,606	3,606	-	9,625	9,625

Derivatives

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

Foreign currency forwards represent commitments to buy or sell foreign and domestic currency at agreed rates of exchange on a specified future date.

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

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

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

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

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

	2018			2017		
Group	Notional principal £000's	Year end positive fair values £000's	Year end negative fair values £000's	Notional principal £000's	Year end positive fair values £000's	Year end negative fair values £000's
Foreign exchange	579,852	3,954	3,424	687,983	3,679	9,625
Interest rate	26,600	-	182	-	-	-
Total derivative contracts	606,452	3,954	3,606	687,983	3,679	9,625

	2018			2017		
Bank	Notional principal £000's	Year end positive fair values £000's	Year end negative fair values £000's	Notional principal £000's	Year end positive fair values £000's	Year end negative fair values £000's
Foreign exchange	579,852	3,954	3,424	687,983	3,679	9,625
Interest rate	26,600	-	182	-	-	-
Total derivative contracts	606,452	3,954	3,606	687,983	3,679	9,625

29. Contingent and Other commitments

Capital expenditure

	2018 £000's	2017 £000's
Capital expenditure contracted for:		
By the group and Bank	260	320

Lease commitments

At the reporting date, total commitments under non-cancellable operating leases were:

	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Operating leases which expire				
- under 1 year	1,161	-	1,161	-
- 1 to 5 years	505	2,564	-	2,525
- over 5 years	1,071	1,551	-	-
	2,737	4,114	1,161	2,525

Notional principal amounts of commitments and contingent liabilities

	Group		Bank	
Group	2018	2017	2018	2017
	£000's	£000's	£000's	£000's
Contingent liabilities				
Credit guarantees	10,900	26,175	10,900	26,175
Other guarantees	20,513	19,652	20,513	19,652
Documentary credits and short term trade related transactions	27,053	16,205	27,053	16,205
	58,466	62,032	58,466	62,032
Commitments				
Credit lines and other commitments to lend	286,736	370,912	300,927	351,651

30. Related party transactions

The Bank is 100% owned directly and indirectly by the parent company, Bank Leumi le-Israel B.M., which is listed on the Israeli stock exchange and whose consolidated financial statements are therefore publicly available (Note 32).

Transactions between the Bank and the Bank's Key Management Personnel and their connected persons are disclosed in Note 12(c).

The related party transactions for the Group and the Bank arose from the ordinary course of business and on substantially the same terms and conditions as for comparable transactions with third party counterparties.

The disclosures in the tables below of the income and expense recognised in the year and the balances at the year-end are considered to be the most meaningful way to represent transactions during the year.

Transactions of the Group with Bank Leumi le-Israel B.M. and fellow subsidiaries of Bank Leumi le-Israel B.M. are detailed below:

Group	2018 £000's	2017 £000's
Income statement		
Interest income	85	-
Interest expense	3,960	2,905
Fee and commission income	130	147
Assets		
Loans and advances to banks	23,077	1,943
Derivatives	13	724
Other assets	241	50
Liabilities		
Deposits by banks	318,888	225,944
Deposits by customers	21,197	22,546
Derivatives	195	1,918
Subordinated liabilities	53,533	53,527
Accruals and deferred income	66	101
Contingent liabilities		
Credit guarantees	-	7,450
Other guarantees	594	565
Documentary credits and short term related transactions	1,864	1,433

Transactions of the Bank with its subsidiaries, with Bank Leumi le-Israel B.M. and with fellow subsidiaries of Bank Leumi le-Israel B.M. are detailed below:

Bank	2018 £000's	2017 £000's
Income statement		
Interest income	4,092	2,303
Interest expense	4,224	3,060
Fee and commission income	130	147
Administrative expenses	(144)	(138)
Assets		
Loans and advances to banks	23,077	1,943
Loans and Advances to Customers	303,785	265,231
Derivatives	13	724
Other assets	922	731
Liabilities		
Deposits by banks	318,888	225,944
Deposits by customers	63,688	51,727
Derivatives	195	1,918
Subordinated liabilities	53,533	53,527
Other liabilities	66	101
Contingent liabilities		
Credit guarantees	-	7,450
Other guarantees	594	565
Documentary credits and short term related transactions	1,864	1,433

31. Cash and cash equivalents

	Group		Bank	
Non cash items included in profit before tax	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Depreciation and amortisation	2,955	2,445	2,811	2,309
Provisions for loan impairment losses	924	(165)	544	(507)
Charge for defined benefit plan	706	606	706	606
	4,585	2,886	4,061	2,408

	Group		Bank	
Change in operating assets	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Change in prepayments and accrued income	176	(995)	147	(938)
Change in financial derivatives	(275)	4,426	(275)	4,426
Change in loans and advances to banks	(91)	(47)	(91)	(47)
Change in loans and advances to customers	(82,112)	63,697	(90,365)	41,699
Change in other assets	301	774	198	1,084
	(82,001)	67,855	(90,386)	46,224

	Group		Bank	
Change in operating liabilities	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Change in accruals and deferred income	208	(1,347)	(363)	40
Change in financial derivatives	7,579	(34,928)	7,579	(34,548)
Change in deposits by banks	90,839	(33,343)	90,839	(33,343)
Change in customer accounts	(151,254)	(123,523)	(137,944)	(121,189)
Change in other liabilities	3,979	(1,799)	3,613	(735)
	(48,649)	(194,940)	(36,276)	(189,775)

Cash and cash equivalents comprise:	Group		Bank	
	2018 £000's	2017 £000's	2018 £000's	2017 £000's
Cash and balances at central banks	240,498	376,321	240,498	376,321
Loans and advances to banks of 3 months or less	36,304	26,909	35,476	26,494
	276,802	403,230	275,974	402,815

Total interest paid by the group during the year was £14,401,000 (2017: £12,197,000). Total interest received by the group during the year was £57,726,000 (2017: £51,189,000).

32. Ultimate parent company

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

The largest and smallest group in which the Bank is consolidated is that headed by Bank Leumi le-Israel B.M. The consolidated financial statements 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 or from the group web site: www.bankleumi.com

33. Post balance sheet events

There have been no material post-balance sheet events which would require adjustment to the 31 December 2018 financial statements.

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