leumi UK

FULL YEAR RESULTS 2019

Bank Leumi (UK) plc Board of Directors

As at 31 December 2019

Yoel Mintz [4 & 5]
Chairman

Shmulik Arbel [5]

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

Gil Karni [4]

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

Dennis J. Hegarty
Chief Risk Officer

Andy Mallin
Chief Business Officer

Senior Management

Youval Dichovski
Head of Internal Audit

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

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 2019 of the Bank Leumi (UK) Group.

The Bank's various business desks recorded positive results during 2019, and I am pleased to report a consolidated net profit for the year of £10.0 million. This compares with a net profit of £10.9 million in 2018. The Bank has once again seen a relatively low level of new credit related provisions, which has contributed to an overall net reduction in credit impairment allowances of £2.0 million. In addition, the Bank benefitted from the full release of a £2.0 million provision made in 2018 relating to regulatory matters.

2019 was a year of change both in Leumi UK and the wider UK economy. Political uncertainty caused by several delays on Brexit, culminating in elections in December, had a negative impact on the economy, reducing general demand in the commercial loan market. During the year the regulatory environment also presented particular challenges for Leumi UK, although I am happy to report that these were successfully overcome. There was also increased focus on implementing certain strategic changes, including the wind-down of our Media Finance and Executive Mortgage loan sectors, and the exit of customers who do not align with the Bank's criteria for risk appetite and balance size. For these reasons, Customer loans decreased £70 million or 6% during 2019, whilst Customer deposits decreased £201 million or 22%.

The credit quality of the loan book remains sound, with a low number of credit-related defaults in the period and a low level of debts on the Bank's "Watch List" and Recoveries portfolios. There remains a continued focus on risk management by both the First and Second Lines of Defence and this has led to an improvement in the identification of early warning signs, leading to a better understanding of the issues facing certain customers.

Our focus during 2019 was to continue to invest in IT to increase control and efficiency, and to review the Bank's end-to-end operating model to increase efficiency whilst ensuring a customer centric approach

Total operating income before loan impairment charges for continuing operations decreased £6.0 million or 11% to £48.0 million. Net interest income was £4.3 million lower due to an increase in the Bank's cost of funds and a lower contribution from lending fees which are treated as part of the Effective Interest Rate where these "EIR" fees are being spread over a longer term to match the expiry of related loan facilities. Fees and commission income reduced, by £1.4 million, due to lower levels of lending fees, with invoice discounting fees remaining relatively flat. Lower customer demand led to a £0.2 million reduction in Foreign exchange income. Administrative expenses decreased by £0.8 million or 2% due to lower staff costs, with higher IT related costs mostly offset by reductions in legal costs. Depreciation and amortisation costs increased £1.3 million or 45% due to continued investment in IT within the Bank.

Leumi ABL Limited saw a reduction of £8 million in funds in use in 2019, ending the year at £265 million. Net profit of £3.2 million compares with £3.5 million in 2018, with a small reduction in operating income offset by lower expenses. Impairment charges were kept to a minimal level reflecting a continued focus on effective credit management.

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 undertook an independent board effectiveness review in 2019 that benchmarked the effectiveness of the Board with broadly held views and publications on what constitutes an effectively operating Board of Directors. The overall conclusion of the external review was that the bank has a strong Board and has effective Committees, although it did identify certain improvement opportunities which the bank will now take forward to further strengthen the operation of the Board.

Highlights of the Year Include:

- **Net profit of £10.0 million, compared with £10.9 million in 2018.**
- **Tier 1 capital ratio of 16.7%, compared with 15.5% in 2018.**
- **Reduction of £2.0 million in respect of credit impairment allowances, compared with a reduction of £0.7 million in 2018.**
- **Operating income before provisions for continuing operations of £48.0 million, compared with £54.1 million in 2018.**
- **Administrative expenses for continuing operations of £35.8 million, compared with £36.7 million in 2018.**
- **Customer lending of £1,137 million, compared with £1,207 million in 2018, a decrease of £70 million or 6%, following continued wind-down of Media Finance and Executive Mortgages.**
- **Customer deposits of £722 million, compared with £923 million in 2018, a decrease of £201 million or 22%, due to a reduction in current account balances and a continued drive to exit customers who do 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 2019.

Yoel Mintz

Chairman of the Board of Directors

26 February 2020

Strategic Report

Activities

The Leumi Group has been active in the UK since 1902. Bank Leumi (UK) plc ('Leumi UK' / 'the Bank') is one of two overseas subsidiaries of the Leumi Group.

Founded in 1959 and headquartered in London, Leumi UK provides lending and related banking services to a wide range of commercial and corporate clients. Leumi ABL Limited , a subsidiary of Leumi UK, provides asset based finance and is based in Brighton.

Strategy statement
We are a specialist bank with a UK focus and we also benefit 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 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 and hotel 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 and will continue to service clients in certain European jurisdictions, whilst continuing to liaise with local counsel on any 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 as this process works its way through the transition period from 31st January through to December 2020 and how this is going to affect the business of our customers.

Replacement of IBOR

The London Inter Bank Offered Rate - commonly known as LIBOR - is the current benchmark for trillions of dollars of financial products worldwide. Inter Bank Offered Rates (IBORs) represent an average estimate of the interest rates, quoted in various tenors and currencies, at which banks will lend unsecured funds to one another in the interbank market. LIBOR is the dominant benchmark determined daily in London. There are a number of other IBOR benchmarks determined in other financial centres such as the European EURIBOR, Indian MIBOR, Singaporean SIBOR, and Tokyo TIBOR just to name a few.

In recent years, the number of interbank borrowing transactions has been steadily decreasing. This has led to concerns that IBORs are no longer a representative or a reliable benchmark reference rate. Global financial markets are now set to move away from using IBORs between now and 2021.

Financial regulators are promoting the development and adoption of "Risk-Free Rates" (RFRs) which are currently proposed to be overnight and term free. Working groups have been established across all major currencies to designate alternative overnight rates.

The Sterling Overnight Index Average (SONIA) and Secured Overnight Financing Rate (SOFR) are potential alternative RFR benchmark rates for GBP and USD financial instruments respectively.

Alternative RFRs to replace IBORs are still very much developing. In the meantime, the IBORs continue to be a widely accepted benchmark in corporate and commercial loans and other financial products.

The global financial markets are currently working together to agree on the best way to shift to alternative RFRs by the end of 2021 (or earlier) for new and existing financial products that may be affected.

Leumi UK will continue to update our customers as these plans develop and the situation is clearer.

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 fintech 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 2019 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 2019.

The Bank's experienced Property Finance Team will aim to build on this performance in 2020, while monitoring the sectors in which it operates to ensure credit quality is maintained.

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 with 2019 once again seeing 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 maintain its presence in Manchester with an office 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 Leumi ABL once again winning a number of industry awards in 2019 for 'Asset Backed Lender of the Year, UK' demonstrating the ongoing support of the market across the UK:

- ACQ Global Awards
- M&A Today Global Awards
- Dealmakers Monthly Country Awards

Despite the ongoing political and economic uncertainty, Leumi ABL has maintained a strong reputation as a mid-market asset backed lender with a strong portfolio of performing clients, which 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 personal service to keep our customers informed of market developments and offer a range of tailored foreign exchange solutions to assist in managing potential risks to international business inherent in global markets.

We have a wide range of competitive deposit products and have responded to client requests over the past year in offering shorter-term notice deposit accounts to provide flexibility during the current market volatility. This in conjunction with our longer term deposits ensure our clients can make surplus funds work as effectively as possible.

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

Risk Management

Introduction

The activities of the Bank entail risk taking throughout its business. This section provides a summary of these risks, and outlines the processes for identifying and managing them. The Bank's approach to nurturing a proactive risk aware culture is also described.

Enterprise Risk Management Framework (ERMF)

The ERMF sets out the strategy and process for the management of enterprise-wide risk management within a defined framework that supports senior management in its implementation and maintenance.
The ERMF sets out:

- Risk Governance
- Risk Culture
- Risk Management Cycle
- Risk Appetite

Risk Governance

The Board of Directors and senior management have established an organisational culture that supports robust risk management practices and sets appropriate standards and incentives for accountable and professional behaviour.

The Board of Directors bear the ultimate responsibility for the Bank's risk management.
It will:

- Through its sub-committees promote a risk aware culture and support processes to enable a broad understanding of the nature and extent of risk.
- Be responsible for the establishment of sub-committees where relevant, particularly a Risk Committee.
- Be aware of the major aspects of risk and the management thereof.

Three Lines of Defence

All managers are responsible for risk within their area of responsibility and must have the necessary insight into and knowledge of their respective operating units. The Bank follows a '3 lines of defence' model when considering risk:

- First Line encompasses all business, control and support units. Business Heads are responsible for managing the risks inherent in the products, activities, processes and systems within their sphere of responsibility. The First Line is responsible to proactively identify, report and mitigate risks that they become aware of within their area of responsibility and within their key processes and activities. Managers must be aware at all times of the actual risk level and the measures that can be implemented to mitigate or control risks.
- Second Line encompasses Risk Control, Credit Risk Management Department, Anti Money Laundering team and Compliance. The second line of defence encompasses the risk management functions, which are independent of the businesses and central functions. The second line supports a structured approach to risk management by maintaining and implementing the risk management framework, supplemental frameworks and Group-wide risk policies. The second line monitors the execution and ongoing self-assurance testing by the first line of defence. It also provides independent oversight and guidance on risks relevant to our strategy and activities, maintains an aggregate view of risk, and monitors performance in relation to our risk appetite.
- Third Line is formed by Internal Audit. Internal Audit provides independent assurance to the Board that the first and second lines of defence are both effective in discharging their respective responsibilities.

The second and third lines of defence must remain independent of the day to day business processes, and monitor the control environment effectively providing assurance to senior management that controls are operating as expected and are sufficient to keep residual risk within appetite.

Risk Committees

There are four Board-level forums which oversee the application of the ERMF and review and monitor risks across the Bank. These are: The Risk Committee of the Board, the Audit and Remuneration Committee of the Board, the Credit Committee of the Board and the Business Infrastructure and Operations Oversight Committee.

Risk Committee of the Board (RCOB)

The Risk Committee, under authority delegated by the Board, is responsible for ensuring that the Bank has robust risk management systems and controls and for monitoring the Bank's current and future exposure to risks. This will include examining areas of management responsibility, reporting and accountability.

The Risk Committee shall, on an annual basis, make recommendations to and advise the Board on the Bank's risk exposure policy, risk appetite, risk governance framework and capital adequacy requirements. The term risk appetite includes the categories and amount of risk that the Board regards as acceptable for the Bank to bear. The term risk governance framework includes policies, methodologies, systems, processes, procedures and people.

The Risk Committee further advises the Board on the Bank's risk management obligations imposed by the PRA, the FCA and any other relevant regulatory authority and advises, oversees and challenges as necessary in order to embed and maintain a supportive risk culture throughout the Bank. Each quarter, the Risk Committee receives the Bank's Conduct Risk Dashboard as well progress updates against the Conduct and Culture Framework objectives.

Audit and Remuneration Committee (A&RC)

The Audit and Remuneration Committee, under authority delegated by the Board, is responsible for reviewing the appropriateness and effectiveness of the Bank's systems and controls, including but not limited to the review of accounting principles and practices, and compliance with relevant regulatory requirements. The A&RC effects this partially through overseeing the activities of Internal Audit and through its engagement with its external auditor. The A&RC responsibility extends to periodic review and approval of the Bank's Remuneration Policy and ensuring compliance with the Remuneration Code.

Board Credit Committee (BCC)

The Credit Committee, under authority delegated by the Board, is responsible for considering and ratifying credit arrangements with customers in amounts greater than those limits extended to the Bank's Credit Risk Management Committee (CRMC) and the Credit Committee of Leumi ABL Limited. The BCC oversees the work and activities of these two credit committees.

Business Infrastructure and Operations Oversight Committee (BIOOC)

The BIOOC, under authority delegated by the Board, is responsible for assisting the Board regarding its high-level strategic, operational, and performance goals by overseeing and undertaking detailed scrutiny of matters within its scope, and providing targeted advice, reports, and recommendations to the Board in relation to the Bank and its subsidiaries. The BIOOC also oversees performance of the Bank in achieving its goals.

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.

Risk Management Committee (RMC)

The RMC has prime responsibility for the Bank's risk management structure and strategy. This includes the annual assessment of the Bank's risk appetite; the identification, management and apportionment of risk to relevant risk owners; the review and agreement of regular Group assessments of compliance, fraud and embezzlement, legal, operational, and financial risks, and approval of the resulting documentation prior to submission to the RCOB for approval. It will consider significant risk issues as escalated by the Chief Risk Officer.

Operational Risk Management Committee (ORMC)

The primary responsibility of the ORMC is to provide independent reporting of Operational Risk to Senior Management. As such, the main purpose of the Committee is to review all 'actual' Operational Risk Events (where an issue has crystallised and there is a financial or non-financial impact). Event details, root-cause, control failures and actions agreed will be discussed to allow ORMC members to raise any concerns which need to be addressed. Near-miss events will be reviewed at the ORMC if the Chairman deems relevant due to materiality of the near-miss event or upon request by any member of the ORMC.

Market Risk Management Committee (MRMC)

The MRMC has prime responsibility for Balance Sheet Asset and Liability management, together with the management and monitoring of market risk arising in all areas of the Bank.

Credit Risk Management Committee (CRMC)

The CRMC 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.

Financial Crime Risk Management Committee (FCRMC)

The FCRMC has responsibility for managing the Bank's Anti Money Laundering and Counter Terrorist Financing framework.

Risk Culture

The Bank defines its target Risk Management Culture as:

"Every employee understands the importance of risk management and is aware of the risks they face in the execution of their tasks and activities. Every employee has responsibility for reporting and escalating breaches identified and taking appropriate and relevant actions to anticipate, prevent and/or mitigate risks. The Bank has established a 'no blame' risk culture; one which encourages staff to report risk issues in an open and honest manner."

The Culture and Conduct component of the ERMF helps to align the Bank's risk management systems with its target organisational behaviour and values for risk management.

The continuous development and review of desired Culture and Conduct priorities for the Bank are made in conjunction with the strategic planning cycle and the risk strategy. The CEO of the Bank outlines the priorities in Culture and Conduct based on the medium and long-term business and risk strategies.

The Culture and Conduct Framework sets out the way in which conduct and culture manifests itself at the Bank as well as the values and behaviours expected from all staff. Those behaviours are observed through Conduct Metrics which are reported to Risk Management Committee (RMC) and Risk Committee of the Board (RCOB). In addition, audit findings will be reported as part of a dedicated audit report for this area, and will be submitted to the Audit and Remuneration Committee (A&RC). An overall assessment of the Bank's Conduct and Culture will be part of the Internal Audit annual summary report to the A&RC, which is based on the different audit tasks which were conducted during the year.
Conduct is assessed against standards in line with the risk appetite of the Bank; action must be taken if any team or individual falls below required standards.

The Bank's Values
The Enterprise-wide Culture, Values and organisational Behaviour promoted at the Bank support its risk management framework. It ensures that everyone's understanding of the Bank's approach to risk management is aligned to the overall strategic objective: "Our continued client-centric priority to provide a first class service supported by speedy decision making and excellent execution capabilities." Proper conduct and risk awareness must underline everything we do in support of our overarching corporate objectives and corporate responsibilities.
The Bank's values are:

- **Anticipation**: we are aware of the consequences of our actions; we plan ahead and act proactively to adapt to changes, grasp opportunities, or address issues.
- **Transparency**: we are open and honest in our communications to internal and external stakeholders to be worthy of their trust.
- **Empowerment**: we trust our people to deliver the best they can, giving them freedom to deploy their initiatives and ideas. We support and develop our colleagues.

Risk Management Cycle
Risk Identification
Risk identification is a key element in an effective risk management framework. Risk identification considers internal factors (i.e. organisational structure, nature of the Bank's activities and organisational changes) and external factors (e.g. technological developments).
Risk identification is the responsibility of the business and support function heads. The framework used for risk identification includes all risk categories at an enterprise-wide level. Risks are identified following a top-down approach which may include scenarios workshops, horizon screening/scanning and strategic reflection at Board and Senior Management level. Risk identification is part of the business and strategic planning at the Bank.
Top-down risk identification is supported by bottom-up risk identification (i.e. financial and non-financial risks at process levels are identified and assessed by the business lines with the support of the risk function, using different methods depending on the risk type considered). Specific risk policies and procedures present those methods and their application.

As a result of risk identification, enterprise-wide risk taxonomy is developed in order to assist with consistent reporting to Senior Management and the Board. The Bank has defined the following material risk categories at enterprise level: Credit, Capital, Liquidity, Operational, Financial Crime, Legal, Compliance and Market.

Risk Assessment
Financial risks such as Credit, Market and Liquidity risk are assessed using data-based approaches, while non-financial risk assessment includes expert opinions from risk owners and specialists, informed by past incidents at the Bank, peer firms or emerging risks in the financial services industry (e.g. Cyber threats) and is undertaken in accordance with the Bank's risk-rating methodology. Details of risk assessment methods and processes are described in the specific risk policies.

A risk assessment must be undertaken for:

- New process and activities;
- Changes to processes and activities;
- Risks following an operational risk event taking place, or
- When there is a change in the risk profile due a change in:
  - Business or operational processes;
  - Implementation of new controls;
  - Operational systems;
  - Bank Operational Risk Policy
  - Activity volume;
  - Organisational structure;
  - Distribution channels; or
  - Products.

Significant findings in Audit Reports should be taken into consideration as well.

Risk Mitigation
Risk responses commonly include acceptance (without further action), transfer (through insurance or third parties), mitigation (risk reduction typically through controls) and termination (avoidance of exposure).

When the residual risk assessed exceeds risk appetite levels, action plans must be undertaken in order to reduce the risk exposure of the Bank to within the limits of risk appetite.

Risk mitigation steps considered here encompass all risk reduction measures so typically the reinforcement of internal controls but also exposure reduction through process redesign, external insurance or transfer to more secure providers. Corrective controls such as contingency planning are also a part of the available risk mitigating actions.

Risk-mitigating measures are regularly evaluated as to whether they have the intended effect (i.e. mitigated effectively the risk) and to ensure that probability of undesirable events occurring is efficiently reduced (i.e. prevent future occurrence).

Risk Monitoring
The Bank's management reviews its key indicators to monitor its level of risk taking to be able to deploy risk mitigation action before the occurrence of any significant incident. Indicators relate to all risk categories.

At process and department levels, risk owners may define leading key risk indicator (KRI) metrics around the main drivers of risks, in order to monitor and prevent incidents as much as possible.

The Risk Management Committee receives regular reporting of significant loss events, KRIs, risk profiles, impacts and other relevant exposures.

Enterprise Risk Management (ERM) is a continuous process where at least once a year the Bank is subject to a review and assessment of enterprise-wide risk exposures. The outputs of the assessment are reported to the Risk Management Committee and the Risk Committee of the Board.

Risk Appetite
Risk Appetite is the amount of risk the Bank is ready to take or to tolerate in the pursuit of its strategic and business objectives. For banks, financials risks such as credit, market and liquidity risks are generally chosen and willingly taken (to a degree) as they constitute the core of the business revenues. Contrastingly, non-financial risks, such as operational risk or compliance risk are tolerated, within risk appetite parameters, as an inevitable exposure when doing business and need to be controlled effectively.
Risk appetite definitions relate, on one hand, to the range of damage that the Bank is prepared to incur in the event a risk materialises, and on the other hand, represent the framework in which risk is managed and controlled.

Capital Risk
The Bank defines capital as that part of the liability side of its balance sheet that has the capacity to absorb losses. Capital Risk is the risk that the Bank's capital value may lose its value below the Bank's risk appetite and minimum regulatory requirements.

Credit Risk
Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Liquidity Risk
The Bank defines Liquidity risk as;
- The lack or absence of adequate liquidity which ultimately prevents the Bank from meeting its financial obligations as they fall due;
- The Bank's funding costs increasing disproportionately and/or;
- The lack of funding which prevents the Bank from establishing new business or continuing existing relationships.

Operational Risk
Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. The root causes of operational risk arise from the potential of key system failures, deficiencies of the internal control environment or from external events, which could result in adverse financial and/or non-financial impact. Risks from cyber threats fall under this category.

Financial Crime
Any kind of criminal conduct relating to money or to financial services or markets, including any offence involving:
- fraud or dishonesty;
- misconduct in, or misuse of information relating to, a financial market;
- handling the proceeds of crime; or
- the financing of terrorism.

Anti-Bribery and Corruption
The Bank has a zero tolerance policy towards any actions or activities that breach any bribery and corruption law and regulation.
The Bank will not tolerate:
- The offering, giving or acceptance of a bribe for any purpose, either directly or via a third party.
- Any other inappropriate practice which might reasonably be perceived to influence inappropriately a person's conduct in their professional or public duty.

Legal Risk
Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to our business, its relationships, processes, products and services.

Compliance Risk
Compliance risk is exposure to legal penalties, financial forfeiture and material loss an organisation faces when it fails to act in accordance with industry laws and regulations, internal policies and procedures or prescribed best practices.

Market Risk
Market risk can be defined as the risk of loss in on- and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all the positions included in the Banks' trading book as well as from foreign exchange risk positions on the entire balance sheet. The prices of such positions are influenced by market variables such as interest rates and exchange rates.

Model Risk
Model Risk is the potential loss the Bank may incur, as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models (CRD IV, Article 3.1.11).

Additional disclosures on credit risk, market risk and operational risk are contained in Note 30.

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

Climate Change
The Bank is aware of the potential impact of climate change to its customers and its lending portfolio. While the Bank has yet to determine how such risk is to be managed, there are a number of climate change related risks which the Bank considers to be outside of its risk appetite.
- Direct lending to entities involved in the production of energy from fossil fuels.
- Project finance facilities to the oil industry.

Duty to promote the success of the Bank for the benefit of its members as a whole

This section of the Strategic Report serves as the Section 172(1) statement describing how the directors have had regard to the matters set out in Section 172(1)(a)-(f) of the Companies Act 2006.

When taking decisions, the Board balances the impact of those decisions on the Bank's various stakeholders whilst acting in a way that the Board considers will ensure the Bank maintains a reputation for high standards of business conduct and promote the long-term success of the Bank.

The Bank has various important stakeholders, in particular: its customers, its people, its shareholder, its suppliers, its regulators, and its wider community. The Bank recognises that the long-term success of the business depends upon its engagement with each of these stakeholders and the actions taken as a consequence.

In 2019 the Bank sought the views of over 120 of its customers using a targeted survey, with a view to better understand how it can improve its service offering. The Bank also listened closely to the views of both its staff and its shareholder, with input provided by both stakeholders on an-ongoing basis.

The Bank also reset its organisational values following engagement with its staff (see earlier section *The Bank's Values* within this Strategic Report). Furthermore, this engagement also led to an enhanced staff wellbeing programme being created and rolled out.

The Bank acknowledges the importance of a clear and open dialogue with its regulators, and over the past year took steps to update them in a proactive manner and to respond to feedback when provided.

The decisions taken by the Board in 2019 to focus on implementing certain strategic changes, to invest in IT and to review the Bank's end-to-end operating model, as summarised in the Chairman's Statement, give examples of the Board making decisions for the long-term success of the Bank whilst considering input provided by stakeholders when doing so.

Taken together, the decisions of the Board are designed to deliver upon the overall strategic objective set out earlier in the Strategic Report and to promote the success of the Bank.

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.

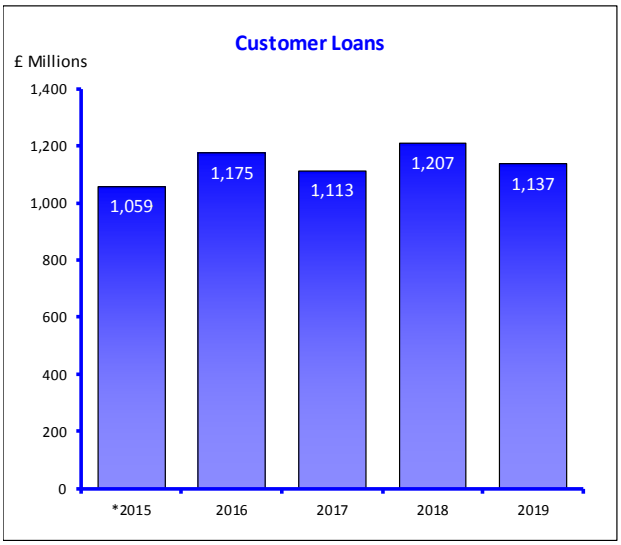
Statement of Financial Position

Total consolidated assets of Bank Leumi (UK) plc amounted to £1,334 million at the end of 2019, compared with £1,537 million at the end of 2018, a 13% decrease.

Statement of Financial Position – customer business

Overall customer lending decreased by £70 million or 6% to £1,137 million. The decrease was seen mainly in Media Finance which the Bank took the strategic decision in 2018 to exit.

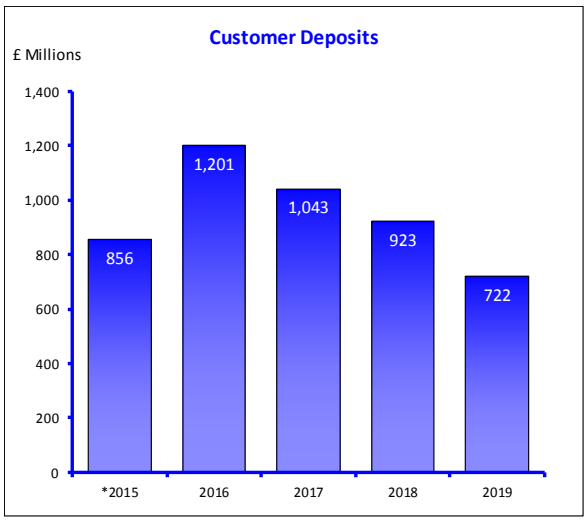
The trend in customer lending over the last five years is reflected in the graph below.



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

Overall customer deposits decreased by £201 million or 22% to £722 million. This decrease was mainly from customers affiliated to our International Commercial and Hi-Tech Finance Business sector and also due to a decision not to renew our fiduciary deposits to 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 decreased by £7 million during 2019 to £25 million, with funds reinvested in our Bank of England Reserve Account to maintain liquidity levels.

Funding from Bank Leumi le-Israel B.M.

Funding from our parent company amounted to £302 million at the end of 2019, compared with £313 million at the end of 2018, a decrease of £11 million or 4%.

Liquidity

During 2019 the liquidity position of the Bank remained strong. The level of the Bank's liquidity buffer was £153 million, a decrease of £120 million in the year due to a lower liquidity requirement following the reduction in customer deposits.

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 2019 the Bank's consolidated Common Equity Tier 1 Capital and Total Tier 1 Capital ratio was 16.7%.

Income Statement

The group posted a net profit for the 2019 financial year of £10.0 million compared with a profit of £10.9 million in 2018.

Net profit includes £0.3 million (2018: £0.6 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 £9.7 million, compared to £10.3 million in 2018.

Overall the Bank saw a net write back to income of £2.0 million relating to impairment allowances on debts, compared to a net write back of £0.7 million in 2018. The write back comprises a decrease of £2.6 million for non-impaired debts due mainly to lower expected credit losses for debts which have experienced a significant increase in credit risk since origination (classified as Stage 2 under IFRS 9), partly offset by a net increase of £0.6 million in allowances for debts which are credit impaired.

Operating income before impairment charges of £48.0 million compares with £54.1 million in 2018, a decrease of 11%, and reflects lower net interest income and fees and commission income.

Net interest income of £38.2 million compared with £42.5 million in 2018, a decrease of 10%, reflecting an increase in cost of funds and lower average lending balances, as well as a lower level of lending fees which are treated as part of the effective interest rate and spread over the period to maturity of related loans.

Fees and commissions income of £8.4 million compared with £9.8 million in 2018, a decrease of 14%, due to a reduction in lending fees reflecting lower levels of lending.

Net Trading Income of £1.7 million compared with £1.9 million in 2018, a decrease of 11%, due to lower levels of foreign exchange transactions undertaken to support our customers' needs.

Administrative expenses of £35.8 million compared with £36.7 million in 2018, a decrease of 2%. The decrease is due to lower staff related costs, with higher software license and development costs mostly offset by lower legal costs.

Depreciation and amortisation of property, equipment and intangibles of £4.3 million compared with £3.0 million in 2018, an increase of 43%. The increase relates to our strategy to increase investment in IT.

Provision for liabilities and charges comprises the full release of the £2.0 million provision made in 2018 in relation to regulatory matters.

The asset based lending subsidiary, **Leumi ABL Limited**, focused on strong credit management during 2019 to improve the quality of the loan book. This successfully resulted in a minimal level of impairment charges for the year and the funds in use closed 3% lower than 2018 at £268m. Net operating income fell by £0.3m or 3% as a result, but this was offset with operating expenses decreasing by £0.4m (4%). Overall net profits are down £0.3m at £3.5m for 2019.

Discontinued Operations

Overall profit of £0.3 million comprises £0.5 million of deferred contingent consideration related to the sales of LOTC and BLJ, less £0.2 million costs, mostly associated with the surrender of the leasehold for the premises formerly used by the Jersey companies.

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 4.5%, compared with 5.1% in 2018.

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 84%, compared with 73% in 2018.

Looking Ahead

The UK General Election saw an overwhelming victory for Boris Johnson and the Conservative Party and increased prospects of political stability with promises of cash injections into UK vital services. The UK formally left the EU on 31 January 2020 and has entered a transitional period set to end on 31 December 2020, during which the UK and EU will negotiate their future relationship. With Brexit uncertainty deferred the Bank of England can now consider and apply monetary policy dependant on economic conditions with markets looking for lower interest rates in-line with other major economies.

The EU should also benefit from greater clarity in a post-Brexit world, however their economies are still battling with a range of debilitating economic conditions and, despite successive bouts of monetary stimulus by the European Central Bank, inflation remains stubbornly below target. The new ECB Governor, will need to provide stimulus to the economy and may have to rely more on fiscal policy as negative interest rates have had little success and further easing could expose the financial system to stability risks and recession. Issues could be seen in the political arena as the larger member countries are set against financing fiscal expansion in order to provide stimulus for countries such as Italy and Greece.

The past year has seen geopolitical tensions having an impact on the US Dollar and global stock markets. The US President has been in the headlines with his threats to impose trade tariffs on a variety of economic blocs, with the major dispute with China having a detrimental effect on the Chinese economy. These manoeuvres have resulted in China and the US signing phase one of a preliminary bilateral trade agreement early this year. Compared to other major economies the US is showing positive signs of growth but interest rates are set to remain at current low levels over the next year which should encourage borrowing to invest in US manufacturing and infrastructure. The path for further economic progress is looking strong but it remains to be seen how the impending US elections this year will impact sentiment.

With continuing economic and political uncertainty impacting market risk we will continue to support our Clients with their requirements, offering a friendly and professional service, helping to build on our strengths as a flexible player in our field and always promoting the Leumi brand.

By Order of the Board
Robert England, Company Secretary
20, Stratford Place
London W1C 1BG
26 February 2020

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 2019.

Board of Directors

The Directors as at 31 December 2019 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 Mrs J.Stevenson, Mr W.Lindsay, Mr A.Stirrup and Mr N.Treble 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 2019, 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 185 (2018: 184). The equivalent number of persons employed at end of 2019 was 180 (2018: 184). The aggregate remuneration paid to all such persons amounted to £16,097,000 (2018: £15,631,000).

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 2019 we supported the community with more than £25,000 towards various charities. We also organised a number of charity events, leading to more funds 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 2020

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") and its subsidiaries (together "the Group") for the year ended 31 December 2019 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 note 2 and 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2019 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 Bank 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 18 financial years ended 31 December 2019. 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	£490,000 (2018: £756,000) 5% (2018: 5%) of normalised profit before tax from continuing operations
Bank	£400,000 (2018: £538,000) 5% (2018: 5%) of normalised profit before tax from continuing operations
Coverage	100% (2018: 97%) of group profit before tax from continuing operations

Materiality for the Group and Bank has been normalised to exclude the reversal of regulatory provisions set out in Note 27.

Key audit matters		vs 2018
Brexit	The impact of uncertainties due to the UK exiting the European Union on our audit	◄►
Recurring risks	Loss allowance for expected credit losses on loans and advances to customers	◄►
	Valuation of defined benefit pension scheme obligation	◄►
	NEW: The impact of IT access controls and change management on the effectiveness of the control environment	▲
	Removed: Appropriateness of provisions, contingent liabilities and associated disclosures	Removed for 2019

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.

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

Refer to page 3 of the strategic report

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in; loss allowance for expected credit losses on loans and advances to customers; valuation of the defined benefit pension scheme obligation, 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 its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.

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 the loss allowance for expected credit losses on loans and advances to customers, the 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 the impairment of loans and advances and the 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 the relevant key audit matters below, we found the resulting estimates and related disclosures of the loss allowance for expected credit losses on loans and advances to customers, valuation of the 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.

2.2 Loss allowance for expected credit losses on loans and advances to customers
£14.3 million (2018: £20.4 million)

Refer to page 28 (accounting policy) and page 53-61 (financial disclosures).

Subjective estimate

IFRS 9 is a complex standard that requires the Group and the Bank to recognise expected credit losses ("ECL") on financial instruments which involves significant judgement and estimates. During the year credit loss provisions decreased from £20.4 million as at 31 December 2018 to £14.3 million as at 31 December 2019.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group and Bank's application of IFRS 9 are:

- Economic scenarios – IFRS 9 requires the Group and Bank 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 and Bank's ECL calculation as these are driven mainly by the judgemental application of credit grades and whether a loan has been classified as either Watch List or Sensitive List to determine whether a 12 month or lifetime ECL 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 and LGD models used in the customer portfolios are the key drivers of the Group and Bank's ECL results and are therefore the most significant judgemental aspects of the Group and Bank's ECL modelling approach.
- Lifetime expected credit losses on customer exposures in Stage 3 – Inherently judgemental assumptions where there is a risk of fraud due to the ability of management to introduce inappropriate bias, are used to estimate the expected future cash flows, discount rates, the valuation of collateral held and expected cash flows arising from guarantees. The bespoke manual nature of this calculation for each individual customer also means there is an inherent risk of error.
- Disclosure quality - The disclosures regarding the Group's and the Bank's application of IFRS 9 are key to explaining the 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, and possibly many times that amount. The financial statements (Note 30(A)(g)(vi)) disclose the sensitivity estimated by the Group.

Our response

Our procedures included:

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

Control operation: 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.

- **Test of details:**
  - Credit grading for collectively assessed twelve month (Stage 1) and lifetime (Stage 2) expected credit loss ("ECL") 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 being 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 all Stage 3 exposures, we understood the latest developments with each borrower and the basis for classifying loans as having objective evidence of impairment. We considered whether key judgements were appropriate given the borrower's circumstances, including consideration of disconfirming evidence such as refinancing offers from third parties, collateral valuation and third party purchase offers. We also re-performed management's discounted cash flow calculations, 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.
  - Sensitivity analysis: We performed sensitivity analysis on key assumptions to assess the impact on the ECL arising from a range of possible outcomes.
  - ECL model: With the support of our own modelling specialises, we assessed and challenged the mathematical accuracy of management's ECL model. We also performed test of details by agreeing a sample of inputs recorded in the ECL model including: relevant data elements of loan data; PDs; LGDs; and manual adjustments to source systems and records.
- Methodology implementation: We engaged our own credit specialists to critically assess and challenge the appropriateness of management's key judgements and assumptions relating to: the EAD, PD and LGD models and methodologies used, and the independent model validation work performed by the ultimate Bank's own Group risk function. We also assessed and challenged any manual adjustments by management to address known model limitations.
- Benchmark assumptions: We engaged our own economic specialists to assess and challenge the appropriateness of management's key judgements and assumptions related to forward looking economic variables included in the 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 set out in Note 3(e)(5) and Note 30(A)(g). As part of this we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear.

Our results

We found the loss allowance for expected credit losses of loans and advances to customers and related disclosures to be acceptable (2018 result: acceptable).

2.3 Valuation of the defined benefit pension scheme obligation
£40.7million (2018: £36.2 million)

Refer to page 31 (accounting policy) and pages 36 (financial disclosures).

Subjective valuation
The valuation of the Group's and the Bank'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.

The effect of these matters is that, as part of our risk assessment, we determined that the value of the defined benefit pension scheme obligation 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, and possibly many times that amount. The financial statements (Note 12(d)) disclose the sensitivity estimated by the Group.

Our response

Our procedures included:

Control operation: We tested 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.

Test of details:

- Benchmarking assumptions: Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.
- Assessing transparency: We considered the adequacy of the Group's disclosure in respect of the defined benefit obligation and the assumptions used, in particular the sensitivity of the deficit to these assumptions, which is set out on pages 36 to 39.

Our results

We found the valuation and disclosure of the Group's defined benefit pension scheme obligation to be acceptable (2018 result: acceptable)

2.4 The impact of IT access controls and change management on the effectiveness of the control environment

Data capture
As with many banks, the Bank is highly dependent on IT systems for the processing and recording of significant volumes of transactions. Our audit approach relies extensively on automated controls and therefore on the effectiveness of controls over IT systems. In line with many UK Banks, the Bank has been improving its IT user access controls in recent years. The Bank has an ongoing risk management programme in place to identify risks including user access controls and IT change management.

We regard this area as a key audit matter owing to the high level of IT dependency within the Bank as well as the associated complexity and the risk that automated controls are not designed and operating effectively. In particular we consider IT user access and change management controls to be critical in ensuring that only approved changes to applications and underlying data are authorised and made appropriately. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications and data. The Bank operates a number of applications, many of which are legacy systems.

Our procedures included:

Controls operation:

- With the assistance of our IT specialists, we evaluated the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting including general IT controls over user access (including controls over privileged access) and change management (including program development and change); and
- We tested the design, implementation and operating effectiveness of key IT application controls, including the configuration, security and accuracy of end user computing controls.

Test of detail: For certain IT systems where general IT controls could not be relied upon we performed additional tests of detail. This work included manually re-performing certain system generated reconciliations, additional testing of system records to underlying source documentation and manually comparing certain system generated reports to confirm correct data transfer.

Our results

Our testing identified weaknesses in the design and operation of user access and change management controls. As a result we expanded the extent of our detailed testing, as set out above, over and above that originally planned. (2018: No weaknesses identified).

2.5 Appropriateness of provisions, contingent liabilities and associated disclosures
We continue to perform procedures over the appropriateness of provisions, contingent liabilities and associated disclosures. However, following the completion of the regulatory examination of the Bank's controls and systems for the implementation of anti-money laundering regulations, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

The Group comprises the Bank, Bank Leumi (UK) plc, and its subsidiaries Leumi ABL Limited (LABL) and BLJ Limited (BLJ).

Materiality for the Group financial statements as a whole was set at £490,000 (2018: £756,000), determined with reference to a benchmark of normalised Group profit before tax from continuing operations, of which it represents 5% (2018: 5%).

Materiality for the Bank financial statements as a whole was set at £400,000 (2018: £538,000), determined with reference to a benchmark of normalised profit before tax, of which it represents 5% (2018: 5%). Materiality, as communicated by the Group audit team, for the full scope audit of LABL was set at £300,000 (2018: £470,000).

We agreed to report to the Audit and Remuneration Committee any corrected or uncorrected identified misstatements exceeding £24,500 (Bank: £20,000) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's three reporting components, we subjected two, the Bank and LABL (2018: two) to full scope audits for Group purposes. The work on the Bank was performed by the Group audit team and LABL by a component auditor. For the remaining one component (2018: one) the Group audit team performed an audit of significant account balances for Group purposes.

The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality of £300,000 having regard to the mix of size and risk profile of the Group across the components.

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 audit 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, 100% of Group profit before tax (including a profit of £285,000 attributable to discontinued operations), and 100% Group total assets.

The Group team performed procedures on the items excluded from normalised profit before tax of both the Group and the Bank.

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 Bank or the Group or to cease their operations, and as they have concluded that the Bank'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 Bank will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Bank's business model, including the impact of Brexit, and analysed how those risks might affect the Bank'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 Bank'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 Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank 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 10, 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 Bank'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 Bank 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 and 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 component audit teams 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 license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity; conduct; certain aspects of company legislation; and financial crime recognising the regulated nature of the Group'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.

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 Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 Company and the 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
02 March 2020

Consolidated Income Statement

for the year ended 31 December 2019

	Notes	2019 £000's	2018 £000's
Continuing operations			
Interest income		*56,364*	58,864
Interest expense		(18,118)	(16,323)
Net interest income	7	**38,246**	**42,541**
Net fees and commission income	8	8,387	9,800
Net trading income	9	1,737	1,918
Net (loss)/gain from other financial instruments classified at fair value	10	(349)	(172)
Total operating income before loan impairment charges		**48,021**	**54,087**
Credit impairment allowances	30(A)(g)(iii)	1,959	672
Net operating income		**49,980**	**54,759**
Administrative expenses	12	(35,831)	(36,680)
Depreciation and amortisation of property, equipment and intangibles	19, 20	(4,273)	(2,955)
Provision for liabilities and charges	27	2,000	(2,000)
Profit before tax	6	**11,876**	**13,124**
Tax expense	13	(2,200)	(2,833)
Profit for the year from continuing operations		**9,676**	**10,291**
Profit on discontinued operations (net of tax)	5	**285**	**616**
Profit for the year attributable to the shareholders of the parent company		**9,961**	**10,907**

The notes on pages 24 to 63 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 2019

	Notes	2019 £000's	2018 £000's
Profit for the year		9,961	10,907
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 gains/(losses)		55	(8)
- Income taxes	13b	(10)	2
		45	(6)
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses) on the defined benefit plan			
- Before income taxes	12d	(1,115)	(812)
- Income taxes	13b	181	98
		(934)	(714)
Other comprehensive income for the year (net of tax)		(889)	(720)
Total comprehensive income for the year attributable to the shareholders of the parent company		9,072	10,187

The notes on pages 24 to 63 form an integral part of the financial statements.

Consolidated Statement of Financial Position

For the year ended 31 December 2019

	Notes	31 December 2019 £000's	31 December 2018 £000's
Assets			
Cash and balances at central banks		128,577	240,498
Loans and advances to banks	15	22,563	36,442
Loans and advances to customers	16	1,137,231	1,207,267
Financial assets at fair value through other comprehensive income	17	24,314	32,309
Property and equipment	19	3,616	2,714
Intangible assets	20	4,824	5,651
Derivatives	29	5,894	3,954
Other assets	21	3,707	4,416
Prepayments and accrued income		3,467	3,332
Total assets		**1,334,193**	**1,536,583**
Liabilities and equity			
Liabilities			
Deposits by banks	22	308,348	323,359
Customer deposits	23	721,660	922,868
Derivatives	29	10,424	3,606
Subordinated liabilities	24	53,541	53,533
Other liabilities	25	4,959	4,671
Provisions	27	1,545	4,853
Accruals and deferred income		5,684	6,313
Post-employment benefit liabilities	12d	4,351	2,771
Total liabilities		**1,110,512**	**1,321,974**
Equity			
Called up share capital	28	14,324	14,324
Share premium account		63,736	63,736
Fair value through other comprehensive income reserve		(4)	(49)
Retained earnings		145,625	136,598
Total equity attributable to the shareholders of the parent company		223,681	214,609
Total liabilities and equity		**1,334,193**	**1,536,583**

The notes on pages 24 to 63 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 2020

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £000's	Share premium £000's	Fair value through other comprehensive income reserve £000's	Retained earnings £000's	Total equity £000's
At 1 January 2019	14,324	63,736	(49)	136,598	214,609
Profit for the year	-	-	-	9,961	9,961
Actuarial loss on the defined benefit plan	-	-	-	(934)	(934)
Financial assets at fair value through other comprehensive income	-	-	45	-	45
Total comprehensive income for the year (net of tax)	-	-	45	9,027	9,072
Issued share capital and premium	-	-	-	-	-
At 31 December 2019	**14,324**	**63,736**	**(4)**	**145,625**	**223,681**
At 1 January 2018	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**

The notes on pages 24 to 63 form an integral part of the financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Notes	2019 £000's	2018 £000's
Cash flows from operating activities			
Profit before tax on continuing operations		11,876	13,124
Profit before tax on discontinued operations		285	616
Adjustments for:			
- Non cash items included in profit before tax	33	4,575	4,585
- Change in operating assets	33	82,276	(82,001)
- Change in operating liabilities	33	(224,547)	(48,649)
Contributions paid to the defined benefit plan		(149)	(166)
Tax paid		(2,742)	(2,735)
Net cash used in operating activities		(128,426)	(115,226)
Cash flows from investing activities			
Purchase of financial investments		(7,700)	(31,385)
Proceeds from the sale and maturity of financial investments		15,533	24,218
Purchase of property and equipment and intangibles		(4,348)	(3,785)
Net cash used in investing activities		3,485	(10,952)
Cash flows from financing activities			
Issue of ordinary share capital		-	-
Subordinated loan capital repaid		-	-
Payment of lease liabilities		(502)	-
Net cash from financing activities		(502)	-
Net decrease in cash and cash equivalents		**(125,443)**	**(126,178)**
Cash and cash equivalents at 1 January		276,802	403,230
Effect of exchange rate changes on cash and cash equivalents		(219)	(250)
Cash and cash equivalents at 31 December	33	**151,140**	**276,802**

The notes on pages 24 to 63 form an integral part of the financial statements.

Statement of Financial Position (Bank only)

for the year ended 31 December 2019

	Notes	31 December 2019	31 December 2018
Assets		£000's	£000's
Cash and balances at central banks		128,577	240,498
Loans and advances to banks	15	22,454	35,614
Loans and advances to customers	16	1,170,988	1,237,174
Financial assets at fair value through other comprehensive income	17	24,314	32,309
Shares in group undertakings	18	3,397	5,397
Property and equipment	19	2,496	2,435
Intangible assets	20	4,710	5,620
Derivatives	29	5,894	3,954
Other assets	21	3,124	3,488
Prepayments and accrued income		3,123	3,091
Total assets		**1,369,077**	**1,569,580**
Liabilities and equity			
Liabilities			
Deposits by banks	22	308,348	323,359
Customer deposits	23	767,582	965,359
Derivatives	29	10,424	3,606
Subordinated liabilities	24	53,541	53,533
Other liabilities	25	2,773	3,714
Provisions	27	1,315	4,356
Accruals and deferred income		4,279	4,645
Post-employment benefit liabilities	12d	4,351	2,771
Total liabilities		**1,152,613**	**1,361,343**
Equity			
Called up share capital	28	14,324	14,324
Share premium account		63,736	63,736
Fair value through other comprehensive income reserve		(4)	(49)
Retained earnings		138,408	130,226
Total equity attributable to the shareholders of the parent company		216,464	208,237
Total liabilities and equity		**1,369,077**	**1,569,580**

The notes on pages 24 to 63 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 2020

Statement of Changes in Equity (Bank only)

for the year ended 31 December 2019

	Share capital £000's	Share premium £000's	Fair value through other comprehensive income reserve £000's	Retained earnings £000's	Total equity £000's
At 1 January 2019	14,324	63,736	(49)	130,226	208,237
Profit for the year	-	-	-	6,822	6,822
Actuarial loss on the defined benefit plan	-	-	-	(934)	(934)
Dividends received	-	-	-	2,294	2,294
Financial assets at fair value through other comprehensive income	-	-	45	-	45
Total comprehensive income for the year (net of tax)	-	-	45	8,182	8,227
Issued share capital and premium	-	-	-	-	-
At 31 December 2019	**14,324**	**63,736**	**(4)**	**138,408**	**216,464**
At 1 January 2018	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**

The notes on pages 24 to 63 form an integral part of the financial statements.

Cash Flow Statement (Bank only)

for the year ended 31 December 2019

	Notes	2019 £000's	2018 £000's
Cash flows from operating activities			
Profit before tax on continuing operations		9,820	8,760
Profit before tax on discontinued operations		368	125
Adjustments for:			
- Non cash items included in profit before tax	33	4,214	4,061
- Change in operating assets	33	78,291	(90,386)
- Change in operating liabilities	33	(221,683)	(36,276)
Dividends received from subsidiaries		(2,294)	-
Contributions paid to the defined benefit plan		(149)	(166)
Tax paid		(1,917)	(2,205)
Net cash used in operating activities		(133,350)	(116,087)
Cash flows from investing activities			
Dividends received from subsidiaries		2,294	-
Purchase of financial investments		(7,700)	(31,385)
Sale of financial investments		15,533	24,218
Capital distribution from subsidiary		2,000	-
Purchase of property and equipment and intangibles		(3,141)	(3,732)
Net cash (used in)/generated from investing activities		8,986	(10,899)
Cash flows from financing activities			
Issue of ordinary share capital		-	-
Subordinated loan capital repaid		-	-
Payment of lease liabilities		(363)	-
Net cash from financing activities		(363)	-
Net decrease in cash and cash equivalents		**(124,727)**	**(126,986)**
Cash and cash equivalents at 1 January		275,974	402,815
Effect of exchange rate changes on cash and cash equivalents		(216)	145
Cash and cash equivalents at 31 December	33	**151,031**	**275,974**

The notes on pages 24 to 63 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 28.

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. The period of assessment that the Directors have considered in evaluating the appropriateness of the going concern basis is a period of twelve months from the date of approval of these financial statements. In making this assessment the Directors considered the Bank's future business plans, including requirements for liquidity, funding and capital under both base and plausible stress scenarios, as well as the strong capital base of the Bank's parent company, Bank Leumi le-Israel B.M. As a consequence of this and the 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 that it is appropriate to prepare the financial statements on a going concern basis.

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 16 leases

IFRS 16 'Leases' introduces an on balance sheet accounting model for leases and replaces the following standards: IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – incentives and SIC-27 Evaluating the Substance of a Transaction involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

A lease is defined as a contract that conveys to the lessee the right to use a separately identifiable asset for a period of time in exchange for consideration. Under this new Standard, a lessee recognises a lease liability and a right-of-use asset (RoU asset) on its statement of financial position. The former is initially determined by the net present value of expected future lease payments discounted at a rate linked to the incremental borrowing rate of the Group. The expected future lease payments reflect the payment obligations taking into account the intention of management with respect to the exercise of termination and extension options, if any. Interest expense is accrued on the outstanding lease liability and recognised into the income statement. Conversely, the RoU asset is initially calculated as the initial amount of lease liability, plus any lease payments made to the lessor before the lease commencement date, less any lease incentives received. Depreciation is recognised against the RoU asset and released into the income statement over the expected term of the lease taking into consideration management's intention with respect to the exercise of termination or extension options, where applicable.

The Standard permit optional exemptions from recognising lease liabilities and RoU assets for short-term leases and leases of low-value items.

Initial application

The Group had elected to apply IFRS 16 'Leases' on 1 January 2019 using the modified retrospective approach and therefore comparative information has not been restated. Furthermore, the Group had elected to apply exemptions from initially recognising lease liabilities and RoU assets for:

i) Short-term leases
Leases with a residual term of 12-months or less when measured from the initial application date or lease commencement date and without the option to purchase the underlying asset, and

ii) Low-value assets
Leases where the underlying value of the asset, when new, is less than £5,000 per item. The Group deemed a £5,000 threshold as appropriate for this measure.

The Group took advantage of a practical expedient permitted by the Standard whereby it is not required to reassess whether a contract is, or contains, a lease as at the date of initial application. Instead, the Group has only recognised lease liabilities and right-of-use assets on the initial application date for active contracts that were neither low-value nor expected to renew or terminate before the reporting date. Whereas, lease contracts that were active at the initial application date but due for renewal prior to the reporting date were assessed under the new Standard (hence treated as a new lease) on the new commencement date.

On transition to IFRS 16, the Group recognised £2,163,000 right-of-use assets and £2,163,000 lease liabilities, the Bank recognised £1,075,000 right-of - use assets and £1,075,000 lease liabilities (see Note 26). The Group discounted lease payments using its incremental borrowing rate of 2.0%.

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 debt securities fair value valued through other comprehensive income 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. 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 can be 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. 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 from selling 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

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 that are in scope of IFRS 9 and not measured at FVTPL (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 (iii) 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 30(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 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).

(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, if purchased outright, are stated at their initial purchase price plus directly attributable costs incurred to bring them into operational use, less any impairment losses and depreciation. Property, plant and equipment that have been leased are recognised as a Right-of-Use (RoU) asset less any impairment and depreciation, see below for Note 3(i) Leases.
Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

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.

(h) Intangible assets

Intangible assets are initially recognised when they become separately identifiable often through contractual or other legal rights, their cost can be measured reliably, and where it is probable that future economic benefits attributable to the asset will flow from their use. The Bank is not an acquisitive company and has neither acquired intangible assets nor recognised goodwill through business combinations.
Expenditure attributable to the development of intangible assets is recognised at cost less accumulated impairment and amortisation. Amortisation is calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

Software	1 to 10 years

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred, such as the postponement or delay to bringing the asset into operation as originally intended.

(i) Leases

As a lessee

The Bank recognises a Right-of-Use (RoU) asset and lease liability at the lease commencement date. The RoU asset is initially measured at cost, which comprises the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date less any lease incentives received. The RoU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term.

The lease liability is initially measured at the net present value of the future lease payments discounted using the Bank's incremental borrowing rate. The lease payments identified in relevant contracts relate to lease components only. Fees pertaining to services embedded within the same contract are excluded. Lease payments include i) fixed payments, ii) variable payments linked to an index or rate, iii) amounts expected to be payable under a residual value guarantee, and iv) payments arising from the exercise of optional features where the intention to exercise, by management, is reasonably certain, including for example, amounts payable under a purchase option, additional lease payments under an extension option, or penalties stipulated under an early termination option. The lease liability is re-measured should these factors change and the lease liability adjusted (with a corresponding adjustment to the carrying value of RoU assets) should a re-measurement result in a deviation greater than 10% from the original terms or assumptions.

The Bank had elected not to recognise RoU assets and lease liabilities for i) short-term leases that have a lease term of 12-months or less and ii) leases of low-value assets, which the Bank deems at £5,000 per item when new. Lease payments associated with such leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

As a lessor

The Bank is a lessor of a separate and isolated office premise via a sub-lease agreement and deems this to be an operating lease as this arrangement does not substantially transfer all the risk and rewards incidental to owning the property. The Bank recognises lease payments received under this sub-lease on a straight-line basis over the lease term into the income statement under 'depreciation of property and equipment' to offset against charges arising from the corresponding head-lease.

Policy applicable before 1 January 2019
Operating leases: Rentals payable and receivable under operating leases are recognised in the income statement on a straight-line basis over the periods of the leases.

(j) 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".

(k) 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.

(l) 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.

(m) 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.

(n) 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). 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:

	2019 £000's	2018 £000's
Other income	458	948
Total operating income	**458**	948
Administrative expenses	(173)	(332)
Net profit for the year on discontinued operations	**285**	616

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 the cost of relinquishing the lease on BLJ's former premises.

The consolidated financial statements include a provision of £230,000 (2018: £497,000) 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.

	2019 £000's	2018 £000's
Cash flows from discontinued operations		
Net cash generated (used in)/generated from operating activities	(20)	788
Net cash used in financing activities	(2,000)	-
Net decrease in cash and cash equivalents in the year	(2,020)	788

6. Profit before tax

	2019 £000's	2018 £000's
Auditor's remuneration:		
Audit of these financial statements	374	260
Fees payable to the Bank's auditor and its associates for other services:		
Audit related assurance services	63	71
Tax compliance	-	38
Fees payable to un-associated auditor:		
Audit of the financial statements of the Bank's subsidiaries, pursuant to legislation	43	40
Other services	25	59

7. Net interest income

	Group		Bank	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Interest receivable:				
Loans and advances to banks	1,451	1,668	1,451	1,668
Loans and advances to customers	49,937	51,132	43,898	44,428
Financial assets at fair value through other comprehensive income	588	425	588	425
Other interest earning financial assets	4,388	5,639	4,388	5,639
Total interest income	56,364	58,864	50,325	52,160
Interest expense:				
Deposits by banks	2,909	2,612	2,909	2,612
Customer deposits	12,661	11,425	13,196	11,689
Subordinated liabilities	942	784	942	784
Other interest bearing financial liabilities	1,606	1,502	1,606	1,502
Total interest expense	18,118	16,323	18,653	16,587
Net interest income	38,246	42,541	31,672	35,573

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	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Fees and commission income:				
Banking fees	8,637	10,140	2,954	4,491
Fund management fees	21	(36)	21	(36)
Total fees and commission income	8,658	10,104	2,975	4,455
Fees and commission expense:				
Introduction fees	(271)	(304)	(13)	(11)
Total fees and commission expense	(271)	(304)	(13)	(11)
Net fees and commission income	8,387	9,800	2,962	4,444

9. Net trading income

	Group		Bank	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Foreign exchange	1,737	1,918	1,737	1,918
Total net trading income	1,737	1,918	1,737	1,918

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 (loss) from other financial instruments carried at fair value

	Group		Bank	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Derivatives held for risk management purposes:				
Interest rate	(349)	(172)	(349)	(172)
Net loss	(349)	(172)	(349)	(172)

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	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Dividend income	-	-	2,294	-
Total other revenue	-	-	2,294	-

12. Administration expenses

		Group		Bank	
		2019	2018	2019	2018
		£000's	£000's	£000's	£000's
Wages and salaries		17,149	17,035	12,503	12,153
Compulsory social security contributions		2,027	2,005	1,461	1,454
Contributions to SIPP and other defined contribution plans*		754	718	511	498
Expenses related to post employment defined benefit plans	12d	531	668	531	668
Total personnel expenses		20,461	20,426	15,006	14,773
Other administrative expenses		15,370	16,254	13,537	14,047
		35,831	36,680	28,543	28,820

** There were no prepaid contributions as at 31 December 2019 (2018: £Nil).*

(a) Employees

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

	Group		Bank	
	2019	2018	2019	2018
Manager grade	65	66	57	58
Other staff	120	118	83	81
	185	184	140	139

(b) Directors' emoluments

	2019 £	2018 £
Aggregate emoluments of the Directors of the Bank	1,203,263	1,299,984
Of which:		
Compensation for loss of office	-	348,373
Salary and benefits paid to the highest paid Director	742,309	500,375

The highest paid Director received the above sum in salary and benefits. The Bank paid pension contributions of £17,920 in respect of the highest paid Director (2018: £15,862).

(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 £153,000 in the year to 31 December 2020.

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

Amounts recognised in the statement of financial position

	2019 £000's	2018 £000's
Plan assets:		
Equities*	17,966	15,494
Bonds*	1,166	351
Index-linked gilts*	1,479	985
Diversified growth funds*	9,716	11,644
Leveraged liability-driven investments	1,837	1,988
Property	4,159	2,932
Other (cash)	14	(2)
Total market value of plan assets	36,337	33,392
Present value of plan liabilities	(40,688)	(36,163)
Deficit in the plan	(4,351)	(2,771)

* 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

	2019 £000's	2018 £000's
Net defined benefit liability at beginning of period	(2,771)	(1,419)
Current service cost	(221)	(272)
Past service cost	-	(179)
Net interest expense	(83)	(38)
Remeasurements	(1,115)	(812)
Administration costs	(310)	(217)
Employer contributions	149	166
Net defined benefit liability at end of period	(4,351)	(2,771)

Movement in the fair value of the plan's assets

	2019 £000's	2018 £000's
Plan assets:		
At 1 January	33,392	37,275
Interest on the plan assets	937	940
Employer contributions	149	166
Benefits paid by the plan	(2,016)	(2,186)
Expenses paid by the plan	(310)	(217)
Return on plan assets less interest	4,185	(2,586)
At 31 December	36,337	33,392

Movement in the fair value of the plan's liabilities

	2019 £000's	2018 £000's
Plan liabilities:		
At 1 January	36,163	38,694
Current service cost	221	272
Past service cost	-	179
Interest costs	1,020	978
Benefits paid by the plan	(2,016)	(2,186)
Changes to financial assumptions	4,589	(1,556)
Changes to demographic assumptions	711	(218)
At 31 December	40,688	36,163

Amounts recognised in the profit and loss account over the year

	2019 £000's	2018 £000's
Current service cost	221	272
Past service cost	-	179
Administration costs	310	217
Interest on liabilities	1,020	978
Interest on assets	(937)	(940)
Total	614	706

Re-measurements over the year

	2019 £000's	2018 £000's
Gains/(Losses) on plan assets in excess of interest	4,185	(2,586)
(Losses)/Gains from changes to demographic assumptions	(711)	218
(Losses)/Gains from changes to financial assumptions	(4,589)	1,556
Total Losses from re-measurements	(1,115)	(812)

Losses on demographic assumptions are due to higher life expectancies. Over the year, the Scheme undertook a mortality investigation ahead of the triennial actuarial valuation and updated the base table used for the Scheme, as well as updating the allowance for future improvements in mortality by using the latest version of the CMI model. The losses on financial assumptions are due to significantly lower discount rates, which were partly offset by lower inflation assumptions

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:

	2019 %	2018 %
Discount rate	2.10%	2.90%
Inflation (RPI)	3.20%	3.40%
Inflation (CPI)	2.20%	2.40%
Rate of increase in salaries	2.50%	2.50%
Rate of revaluation of pensions in deferment	2.20%	2.40%
Increases on retirement benefits in payment in respect of service:		
Before April 1997	n/a	n/a
From April 1997 – June 2005	3.10%	3.25%
From July 2005	2.20%	2.30%

	2019 years	2018 years
Assumed life expectancy on retirement age 65:		
Retiring today		
Males	23.4	22.3
Females	25.1	24.9
Retiring in 20 years		
Males	24.7	23.8
Females	26.6	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 £6.6 million.
- Decreasing the discount rate by 1% increases the plan liabilities by £8.4 million.
- Increasing the inflation rate by 1% increases the plan liabilities by £3.9 million.
- Decreasing the inflation rate by 1% decreases the plan liabilities by £3.9 million.
- Decreasing the salary increase rate by 1% (increases are capped at the current assumption of 2.5%) decreases the plan liabilities by £1.0 million.
- Increasing life expectancy by 1 year increases the plan liabilities by £1.6 million.
- Decreasing life expectancy by 1 year decreases the plan liabilities by £1.6 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

	2019 £000's	2018 £000's
Current tax expense:		
UK corporation tax on profits of the year	2,035	2,957
Adjustment for prior year	268	-
Total current tax expense	2,303	2,957
Deferred tax:		
Origination and reversal of temporary differences	(15)	(21)
Related to pension deficit	(88)	(103)
Total deferred tax	(103)	(124)
Total income tax expense	2,200	2,833

(b) Income tax recognised in other comprehensive income

	2019 £000's	2018 £000's
Current tax:		
Change in fair value of assets classified through other comprehensive Income	10	(2)
Deferred tax:		
Remeasurement of defined benefit liability	(181)	(98)
Total income tax (credit)	(171)	(100)

(c) Reconciliation of effective tax rate

The tax assessed for the period is lower (2018: higher) than the UK corporation tax for the year of 19% (2018: average rate of 19%). The differences are explained below:

	2019 £000's	2018 £000's
Profit for the year	9,961	10,907
Total tax expense (including tax on discontinued operations)	2,200	2,833
Profit excluding taxation	12,161	13,740
Tax using the UK corporation tax rate of 19% (2018: 19%)	2,310	2,610
Effect of tax rates in foreign jurisdictions	16	(93)
Reduction in tax rate on deferred tax balances	65	35
Non-deductible items	(388)	304
Tax exempt revenues	(71)	(23)
Adjustment for prior years	268	-
Total tax expense (including tax on discontinued operations)	2,200	2,833

Factors that may affect future tax charges

The planned reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was 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 2019 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

(d) Movement in deferred tax balances

Group **2019**	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	215	144	-	359	359	-
Debt instruments fair valued through other comprehensive income	11	-	(10)	1	1	-
Pension deficit	471	88	181	740	740	-
IFRS 9 initial application	670	(129)	-	541	541	-
Total deferred tax assets/(liabilities)	1,367	103	171	1,641	1,641	-

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 2019	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	190	165	-	355	355	-
Debt instruments fair valued through other comprehensive income	11	-	(10)	1	1	-
Pension deficit	471	88	181	740	740	-
IFRS 9 initial application	598	(121)	-	477	477	-
Total deferred tax assets/(liabilities)	1,270	132	171	1,573	1,573	-

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	-

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 unaudited disclosure on its website at: https://www.bankleumi.co.uk/static-files/10/LeumiUK/CRD_IV_disclosures_Dec-18_FINAL.pdf

15. Loans and advances to banks

	Group		Bank	
Analysed by remaining maturity:	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Repayable on demand	22,266	19,845	22,157	19,017
3 months or less excluding repayable on demand	297	16,542	297	16,542
1 year or less but over 3 months	-	55	-	55
Total loans and advances to banks	22,563	36,442	22,454	35,614

16. Loans and advances to customers

	Group		Bank	
Analysed by remaining maturity:	2019 £000's	2018 £000's	2019 £000's	2018 £000's
(gross carrying amounts)				
Repayable on demand	648,762	684,233	381,582	421,574
3 months or less excluding repayable on demand	6,961	16,420	306,114	320,205
1 year or less but over 3 months	184,796	70,959	184,796	70,959
5 years or less but over 1 year	311,040	456,097	311,040	443,120
Over 5 years	-	-	-	-
Less credit impairment allowance (Note 30(A)(g)(iii))	(14,328)	(20,442)	(12,543)	(18,684)
Total loans and advances to customers	1,137,231	1,207,267	1,170,988	1,237,174

Analysed by industry sector	Group 2019 £000's	Group 2018 £000's	Bank 2019 £000's	Bank 2018 £000's
(net of specific impairment)				
Property	374,819	379,622	374,368	379,320
Commerce	271,331	313,955	239,473	265,026
Industrial	100,857	118,229	22,104	23,888
Other services	218,414	237,847	363,233	411,326
Hotels	165,660	151,322	165,660	151,322
Individuals	6,150	6,292	6,150	6,292
Total loans and advances to customers	1,137,231	1,207,267	1,170,988	1,237,174

17. Financial assets at fair value through other comprehensive income

The fair value movements for debt securities fair valued through other comprehensive income are accumulated and recognised in reserves within other comprehensive income. These reserves will cycle through the income statement under the occurrence of specific events such as disposals.

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

	Group 2019 £000's	Group 2018 £000's	Bank 2019 £000's	Bank 2018 £000's
Debt securities				
Issued by:				
Government	15,304	23,283	15,304	23,283
Banks and Building Societies	9,010	9,026	9,010	9,026
Total financial assets at fair value through other comprehensive income	24,314	32,309	24,314	32,309
Analysed by remaining maturity				
Due within one year	24,314	15,513	24,314	15,513
Due one year and over	-	16,796	-	16,796
Total financial assets at fair value through other comprehensive income	24,314	32,309	24,314	32,309

The following table presents an analysis by rating agency designation of debt securities based on Standard & Poor (S&P) ratings or their equivalent.

	Group 2019 £000's	Group 2018 £000's	Bank 2019 £000's	Bank 2018 £000's
AAA to AA-	24,314	32,309	24,314	32,309
Total financial assets at fair value through other comprehensive income	24,314	32,309	24,314	32,309

18. Shares in group undertakings

Name	Activity	Principal Place of Business	Interest in Equity Capital %	Book value of investment: Opening balance 1 January 2019 £000's	Change for the year £000's	Closing balance 31 December 2019 £000's
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%	2,764	-	2,764
BLJ Limited	Administrative Company	Jersey	100%	2,633	(2,000)	633
				5,397	(2,000)	3,397

During 2019 the Bank received a dividend of £2 million from BLJ Limited, which the Bank treated as a capital reduction.

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

Intangible assets, previously recognised within 'Computer and other equipment', have been separately disclosed, see Note 20 Intangible assets. The below disclosure reflects the reclassification of intangible assets out from Property and equipment since the prior period.

Group	Leasehold improvements	Computer and other equipment	Right of use assets (Note 26)		Total
			Property	Other	
	£000's	£000's	£000's	£000's	£000's
Cost					
At 1 January 2019	4,492	8,146	1,738	425	14,801
Additions	-	274	178	36	488
At 31 December 2019	4,492	8,420	1,916	461	15,289
Accumulated depreciation					
At 1 January 2019	4,041	5,883	-	-	9,924
Charge for the year	349	921	397	82	1,749
At 31 December 2019	4,390	6,804	397	82	11,673
Net carrying amount at 31 December 2019	**102**	**1,616**	**1,519**	**379**	**3,616**
Net carrying amount at 31 December 2018	451	2,263	-	-	2,714

The group leases buildings, server cabinets and office machinery. The right-of-use carrying amounts of leased assets have been presented in the statement of financial position under 'Property and equipment' alongside assets that have been purchased outright. Further disclosure pertaining to leases can be found in Note 25 and 26. The group had no capitalised borrowing costs related to the acquisition of computer and other equipment during the year (2018: £Nil).

Bank	Leasehold improvements	Computer and other equipment	Right of use assets (Note 26)		Total
			Property	Other	
	£000's	£000's	£000's	£000's	£000's
Cost					
At 1 January 2019	4,360	7,531	650	425	12,966
Additions	-	256	178	36	470
At 31 December 2019	4,360	7,787	828	461	13,436
Accumulated depreciation					
At 1 January 2019	3,979	5,477	-	-	9,456
Charge for the year	335	808	259	82	1,484
At 31 December 2019	4,314	6,285	259	82	10,940
Net book value at 31 December 2019	**46**	**1,502**	**569**	**379**	**2,496**
Net book value at 31 December 2018	381	2,054	-	-	2,435

20. Intangible assets

The group invests heavily on the development of its Banking infrastructure and software capabilities to ensure the security of its data, customer's data, risk management capabilities, regulatory and legal requirements and service to customers.

	Group	Bank
	2019	2019
	£000's	£000's
Cost		
At 1 January 2019	20,461	20,417
Additions	1,696	1,596
Disposals	(532)	(532)
At 31 December 2019	21,625	21,481
Accumulated amortisation		
At 1 January 2019	14,810	14,797
Charge for the year	2,524	2,506
Disposals	(533)	(532)
At 31 December 2019	16,801	16,771
Net carrying amount at 31 December 2019	**4,824**	**4,710**
Net carrying amount at 31 December 2018	5,651	5,620

The charge for the year, applicable to the group and the bank, is inclusive of a £504,000 impairment charge pertaining to software development expenditure.

21. Other assets

	Group		Bank	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Assets awaiting settlement	1,471	1,780	956	949
Acceptances and endorsements	595	1,269	595	1,269
Deferred taxation (Note 13d)	1,641	1,367	1,573	1,270
Total other assets	3,707	4,416	3,124	3,488

22. Deposits by banks

	Group		Bank	
Analysed by remaining maturity	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Repayable on demand	5,677	10,475	5,677	10,475
3 months or less excluding repayable on demand	1,516	2,112	1,516	2,112
1 year or less but over 3 months	282,411	280,359	282,411	280,359
5 years or less but over 1 year	18,744	30,413	18,744	30,413
Total deposits by banks	308,348	323,359	308,348	323,359

23. Customer deposits

	Group		Bank	
Analysed by remaining maturity	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Repayable on demand	263,354	385,503	309,276	427,994
3 months or less excluding repayable on demand	172,052	205,997	172,052	205,997
1 year or less but over 3 months	262,150	314,275	262,150	314,275
5 years or less but over 1 year	24,104	17,093	24,104	17,093
Total customer deposits	721,660	922,868	767,582	965,359

24. Subordinated liabilities

Group and Bank	Interest Fixing	2019 £000's	Rate of Interest	2018 £000's	Rate of Interest
LOAN NOTE 1 Notice	3 monthly	3,581	1.548%	3,581	1.656%
LOAN NOTE 2 Notice	3 monthly	1,250	1.423%	1,250	1.531%
LOAN NOTE 3 Notice	3 monthly	30,656	1.298%	30,657	1.406%
LOAN NOTE 4 Notice	3 monthly	7,515	1.299%	7,515	1.346%
LOAN NOTE 5 Notice	3 monthly	2,520	3.793%	2,509	3.803%
LOAN NOTE 6 Perpetual	3 monthly	3,006	4.798%	3,007	4.901%
LOAN NOTE 7 Perpetual	3 monthly	5,013	1.705%	5,014	1.739%
		53,541		53,533	

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 2019 and 2018.

25. Other liabilities

	Group		Bank	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Lease Liabilities (Note 26)	1,892	-	938	-
Taxation	852	1,295	300	1,014
Liabilities awaiting settlement	1,620	2,107	940	1,431
Acceptances and endorsements	595	1,269	595	1,269
Total other liabilities	4,959	4,671	2,773	3,714

26. Leases

(a) As a lessee

The group leases buildings, server cabinets and office machinery. The most significant leases are leases pertaining to the right-to-use premises. The following is a reconciliation of total operating lease commitments at 31 December 2018 to the initial lease liabilities as per IFRS 16.

	Group	Bank
	£000's	£000's
Total operating lease commitments disclosed at 31 December 2018	2,737	1,161
Recognition exemption for leases with less than 12 months of lease term at transition	(1,172)	(1,161)
Recognition exemption for leases of low value assets	(9)	-
Exclude service fees previously included into lease commitments	(447)	-
Additional Lease commitments greater than 12 months and not low value on 1st January 2019	1,120	1,120
Discounted using incremental borrowing rate at date assessed under IFRS 16	(67)	(46)
Initial lease liabilities recognised under IFRS 16 on 1st January 2019	2,163	1,075

	Group	Bank
	2019	2019
Maturity analysis - contractual undiscounted cash flow obligations	£000's	£000's
- under 1 year	537	398
- 1 to 5 years	1,207	577
- over 5 years	189	-
Total undiscounted lease liabilities as at 31 December	1,933	975
Lease liabilities included in statement of financial position at 31 December (Note 25)	1,892	938

	Group	Bank
	2019	2019
Amounts recognised in profit or loss	£000's	£000's
Interest expense on lease liabilities	24	11
Expenses relating to short-term leases	1,639	1,639
Expenses relating to leases of low-value assets (excluding short-term leases of low-value assets)	66	3

	Group	Bank
	2019	2019
Amounts recognised in the statement of cash flows	£000's	£000's
Total cash outflow for leases	2,606	2,397

As at the reporting date, the group had an outstanding commitment of £70,326 payable in January 2020 pertaining to a short-term 1-year lease ending October 2020. Furthermore, there are no leases to which the group has contractually committed and not yet benefiting from its right-to-use.

(b) As a lessor

The group sub-leases a portion of its London premises to a third party. This has been classified as an operating lease because they do not transfer substantially all of the risk and rewards incidental to ownership of the property. The following table sets out a maturity analysis of lease payments illustrating the undiscounted lease payments expected to be received after the reporting date.

	Group	Bank
	2019	2019
Maturity analysis - contractual lease payments receivable	£000's	£000's
- under 1 year	95	95
- 1 to 5 years	-	-
- over 5 years	-	-
Total undiscounted lease payments receivable as at 31 December	95	95

	Group	Bank
	2019	2019
Amounts recognised in profit or loss	£000's	£000's
Operating lease income recognised in the income statement	159	159

27. Provisions

Group	Off balance sheet commitments and financial guarantees (Note 30(A)(g)(iii)) £000's	Regulatory provisions £000's	Discontinued operations (Note 5) £000's	Total £000's
At 1 January 2019	2,356	2,000	497	4,853
(Credit)/Charge against profits	(1,041)	(2,000)	(267)	(3,308)
At 31 December 2019	1,315	-	230	1,545

Bank	Off balance sheet commitments and financial guarantees (Note 30(A)(g)(iii)) £000's	Regulatory provisions £000's	Discontinued operations (Note 5) £000's	Total £000's
At 1 January 2019	2,356	2,000	-	4,356
(Credit)/Charge against profits	(1,041)	(2,000)	-	(3,041)
At 31 December 2019	1,315	-	-	1,315

During the year the Bank released a provision of £2,000,000 relating to an examination by the Financial Conduct Authority ("FCA") of historic issues relating to the Bank's anti-money laundering systems and controls.

28. Called up share capital

	Group		Bank	
	2019	2018	2019	2018
	£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). Pillar 2A is expressed as a percentage of RWA's and is referred to as the 'Individual Capital Requirement' (ICR). 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' to be included in Pillar 2B 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.

Pillar 2A and the PRA buffer are set by the PRA following a review and assessment of the Bank's Internal Capital Adequacy Assessment Process (ICAAP). The Bank regularly monitors its capital requirements under Pillar 1, Pillar 2A (combined, these are referred to as its 'Total Capital Requirement' or 'TCR') and Pillar 2B against its capital resources to ensure that the level and quality of its capital remains sufficient at all times. 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 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	2019	2018	2019	2018
	£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	142,450	136,598	142,388	136,453
Regulatory adjustments:				
Deductions from Tier 1 capital	(45)	(88)	(245)	(288)
Add back under IFRS 9 transitional arrangements	1,708	3,016	1,708	3,016
Common Equity Tier 1 capital	222,173	217,586	221,911	217,241
Collective provision	-	-	-	-
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	53,466	53,466	53,466
Total regulatory capital	275,639	271,052	275,377	270,707

29. 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. 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 2019**	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	-	-	128,577	128,577
Derivatives	5,894	-	-	5,894
Loans and advances to banks	-	-	22,563	22,563
Loans and advances to customers	-	-	1,137,231	1,137,231
Financial assets at fair value through other comprehensive income	-	24,314	-	24,314
Acceptances	-	-	595	595
Total financial assets	5,894	24,314	1,288,966	**1,319,174**
Total non-financial assets				15,019
Total assets				**1,334,193**
Liabilities				
Deposit by banks	-	-	308,348	308,348
Customer deposits	-	-	721,660	721,660
Derivatives	10,424	-		10,424
Subordinated liabilities	-	-	53,541	53,541
Acceptances	-	-	595	595
Total financial liabilities	10,424	-	1,084,144	**1,094,568**
Total non-financial liabilities				15,944
Total liabilities				**1,110,512**
Equity shareholders' funds				223,681
Total Liabilities and equity				**1,334,193**

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 liabilities	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 Liabilities and equity				**1,536,583**

Bank 31 December 2019	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	-	-	128,577	128,577
Derivatives	5,894	-	-	5,894
Loans and advances to banks	-	-	22,454	22,454
Loans and advances to customers	-	-	1,170,988	1,170,988
Financial assets at fair value through other comprehensive income	-	24,314	-	24,314
Acceptances	-	-	595	595
Total financial assets	5,894	24,314	1,322,614	**1,352,822**
Shares in group undertakings				3,397
Total non-financial assets				12,858
Total assets				**1,369,077**
Liabilities				
Deposit by banks	-	-	308,348	308,348
Customer deposits	-	-	767,582	767,582
Derivatives	10,424	-	-	10,424
Subordinated liabilities	-	-	53,541	53,541
Acceptances	-	-	595	595
Total financial liabilities	10,424	-	1,130,066	1,140,490
Total non-financial liabilities				12,123
Total liabilities				**1,152,613**
Equity shareholders' funds				216,464
Total Liabilities and equity				**1,369,077**

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 liabilities	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 Liabilities and equity				**1,569,580**

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.

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 2019	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	5,677	1,516	282,411	18,744	-	308,348
Customer deposits	263,354	172,052	262,150	24,104	-	721,660
Derivatives	5,540	2,865	2,018	1	-	10,424
Subordinated liabilities	-	-	-	-	53,541	53,541
Acceptances	-	595	-	-	-	595
Total financial liabilities	274,571	177,028	546,579	42,849	53,541	1,094,568

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	-	323,360
Customer deposits	385,502	205,997	314,275	17,093	-	922,867
Derivatives	201	2,349	1,041	15	-	3,606
Subordinated liabilities	-	-	-	-	53,533	53,533
Acceptances	-	1,269	-	-	-	1,269
Total financial liabilities	396,179	211,727	595,675	47,521	53,533	1,304,635

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 (2018: nil).

	2019			2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Assets						
Financial investments	24,314	-	24,314	32,309	-	32,309
Derivatives	-	5,894	5,894	-	3,954	3,954
	24,314	5,894	30,208	32,309	3,954	36,263
Liabilities						
Derivatives	-	10,424	10,424	-	3,606	3,606
	-	10,424	10,424	-	3,606	3,606

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:

	2019			2018		
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	569,818	5,894	9,889	579,852	3,954	3,424
Interest rate	26,600	-	535	26,600	-	182
Total derivative contracts	596,418	5,894	10,424	606,452	3,954	3,606

	2019			2018		
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	569,818	5,894	9,889	579,852	3,954	3,424
Interest rate	26,600	-	535	26,600	-	182
Total derivative contracts	596,418	5,894	10,424	606,452	3,954	3,606

30. 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 £1,565 million (2018: £1,867 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 2019	12-month ECL (Stage 1)	Lifetime ECL individually assessed (Stage 2)	Credit impaired financial assets - lifetime ECL (Stage 3)	Total
Loans and advances to customers at amortised cost	£000's	£000's	£000's	£000's
Gross carrying amount:				
1. Normal grade	863,987	121,354	-	985,341
2. Sensitive	9,608	110,731	-	120,339
3. Watch list	-	14,859	-	14,859
4. Credit impaired	-	-	31,020	31,020
Less loss allowance	(2,810)	(3,903)	(7,615)	(14,328)
Net Carrying amount	**870,785**	**243,041**	**23,405**	**1,137,231**
Off balance sheet commitments and financial guarantee contracts				
Undrawn commitment:				
1. Normal grade	211,781	25,255	-	237,036
2. Sensitive	-	8,344	-	8,344
3. Watch list	-	159	-	159
4. Credit impaired	-	-	1,082	1,082
Loss allowance recognised in Provisions	**702**	**613**	-	**1,315**

31 December 2018	12-month ECL (Stage 1)	Lifetime ECL individually assessed (Stage 2)	Credit impaired financial assets - lifetime ECL (Stage 3)	Total
Loans and advances to customers at amortised cost	£000's	£000's	£000's	£000's
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 commitments 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 2019	12-month ECL (Stage 1)	Lifetime ECL individually assessed (Stage 2)	Credit impaired financial assets - lifetime ECL (Stage 3)	Total
Loans and advances to customers at amortised cost	£000's	£000's	£000's	£000's
Gross carrying amount:				
1. Normal grade	919,235	111,371		1,030,606
2. Sensitive	9,608	110,731		120,339
3. Watch list	-	3,822		3,822
4. Credit impaired	-	-	28,764	28,764
Less loss allowance	(2,689)	(3,810)	(6,045)	(12,544)
Net Carrying amount	**926,154**	**222,114**	**22,719**	**1,170,987**
Off balance sheet commitments and financial guarantee contracts				
Undrawn commitment:				
1. Normal grade	242,358	25,255	-	267,613
2. Sensitive	-	8,344	-	8,344
3. Watch list	-	159	-	159
4. Credit impaired	-	-	1,082	1,082
Loss allowance recognised in Provisions	**702**	**613**	-	**1,315**

31 December 2018	12-month ECL (Stage 1)	Lifetime ECL individually assessed (Stage 2)	Credit impaired financial assets - lifetime ECL (Stage 3)	Total
Loans and advances to customers at amortised cost	£000's	£000's	£000's	£000's
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 commitments 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**

(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:

	Group		Bank	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Amortised cost value of financial assets before modification	49,180	4,913	49,180	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	
	2019	2018
	£000's	£000's
Gross value of forborne loans	63,221	10,760
of which are credit impaired	-	7,992
Loss allowance	(877)	(7,224)
Net value of forborne loans	62,344	3,536

(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 2019, the Group and the Bank have £19,000 of loans and advances to customers (2018: £1,411,000) and £18,158,000 off balance sheet commitments and financial guarantees (2018: £12,364,000) 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	
	2019	2018
	£000's	£000's
Cash	9,517	5,134
Bank guarantees	1,600	300
Total value of eligible collateral held	11,117	5,434

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/static-files/10/LeumiUK/Pillar_3_Regulatory_Disclosures_FINAL.pdf

(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 30(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 scenarios; 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 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.

	2019			2018		
	Loss allowance: Loans and Advances to Customers £000's	Provision charges: off balance sheet commitments and financial guarantees £000's	Total £000's	Loss allowance: Loans and Advances to Customers £000's	Provision charges: off balance sheet commitments and financial guarantees £000's	Total £000's
Group						
At 1 January	20,442	2,356	22,798	24,377	2,522	26,899
(Credit)/Charge against profits	(918)	(1,041)	(1,959)	(506)	(166)	(672)
Recoveries net of operational losses	(74)	-	(74)	87	-	87
Amount written off	(4,938)	-	(4,938)	(3,543)	-	(3,543)
Foreign exchange and other movements	(184)	-	(184)	27	-	27
At 31 December	14,328	1,315	15,643	20,442	2,356	22,798

	2019			2018		
	Loss allowance: Loans and Advances to Customers £000's	Provision charges: off balance sheet commitments and financial guarantees £000's	Total £000's	Loss allowance: Loans and Advances to Customers £000's	Provision charges: off balance sheet commitments and financial guarantees £000's	Total £000's
Bank						
At 1 January	18,683	2,356	21,039	22,566	2,522	25,088
(Credit)/Charge against profits	(997)	(1,041)	(2,038)	(462)	(166)	(628)
Recoveries net of operational losses	(74)	-	(74)	87	-	87
Amount written off	(4,886)	-	(4,886)	(3,535)	-	(3,535)
Foreign exchange and other movements	(182)	-	(182)	27	-	27
At 31 December	12,544	1,315	13,859	18,683	2,356	21,039

(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 29).

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 2019	3,315	4,942	12,185	20,442
Changes due to Loans and Advances recognised as at 1 January:	-	-	-	-
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(599)	599	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	-	(1,498)	1,498	-
- Transfer to 12-month expected credit losses (to Stage 1)	7	(7)	-	-
- Financial assets that have been derecognised during the year	(447)	(555)	(610)	(1,612)
New Loans and Advances originated or purchased	200	84	-	284
Write-offs	-	-	(4,938)	(4,938)
Net remeasurement of loss allowances	334	338	(520)	152
Loss allowance as at 31 December 2019	2,810	3,903	7,615	14,328

	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 2019	3,175	4,867	10,641	18,683
Changes due to Loans and Advances recognised as at 1 January:				-
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(579)	579	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	-	(1,498)	1,498	-
- Transfer to 12-month expected credit losses (to Stage 1)	-	-	-	-
- Financial assets that have been derecognised during the year	(390)	(490)	(592)	(1,472)
New Loans and Advances originated or purchased	152	68	-	220
Write-offs		-	(4,886)	(4,886)
Net remeasurement of loss allowances	331	284	(616)	(1)
Loss allowance as at 31 December 2019	2,689	3,810	6,045	12,544

	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 2019	574	1,782	-	2,356
Changes due to Loans and Advances recognised as at 1 January:				
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(35)	35		-
- Transfer to credit-impaired financial assets (to Stage 3)	-	(80)	80	-
- Transfer to 12-month expected credit losses (to Stage 1)	-	-	-	-
- Financial assets that have been derecognised during the year	(160)	(492)	-	(652)
New Loans and Advances originated or purchased	289	-	-	289
Net remeasurement of loss allowances	34	(632)	(80)	(678)
Loss allowance as at 31 December 2019	702	613	0	1,315

	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 2019	1,047,447	149,924	30,339	1,227,710
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(149,573)	149,573	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	(212)	(11,285)	11,497	-
- Transfer to 12-month expected credit losses (to Stage 1)	10,136	(10,136)	-	-
New Loans and Advances originated or purchased	139,938	7,158	-	147,096
Write-offs	-	-	(4,894)	(4,894)
Financial assets that have been derecognised	(141,412)	(53,874)	(2,686)	(197,972)
Foreign exchange and other movements	(7,765)	(671)	(219)	(8,655)
Other changes	(24,964)	16,255	(3,017)	(11,726)
Gross carrying amount as at 31 December 2019	873,595	246,944	31,020	1,151,559

	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 2019	1,130,060	98,181	27,618	1,255,859
- Transfer to lifetime expected credit losses (Stage 1 to Stage 2)	(129,827)	129,827	-	-
- Transfer to credit-impaired financial assets (to Stage 3)	(212)	(11,285)	11,497	-
- Transfer to 12-month expected credit losses (to Stage 1)	-	-	-	-
New Loans and Advances originated or purchased	43,132	5,109	-	48,241
Write-offs	-	-	(4,886)	(4,886)
Financial assets that have been derecognised	(85,760)	(15,464)	(2,685)	(103,909)
Foreign exchange and other movements	(7,765)	(671)	(219)	(8,655)
Other changes	(20,785)	20,227	(2,561)	(3,119)
Gross carrying amount as at 31 December 2019	928,843	225,924	28,764	1,183,531

	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

(vi) Uncertainty and Sensitivity analysis

The loss allowance is sensitive to possible forecast scenarios specified in Note 30(A)(g)(i). A 10% increase in the weighting of the downside scenario coupled with a corresponding 10% decrease in the weighting of the base case scenario is expected to increase loss allowances by £72,000. Similarly, applying a full 100% weighting to the downside scenario only is expected to increase loss allowances by £625,000.

(B) Operational risk

The Board of Directors seeks to reduce operational risk to the minimum commensurate with the strategic objectives of the Bank. The Board recognises that inherent operational risks cannot be completely mitigated and expect these risks to be managed appropriately and proportionately by the Bank's management.

The Bank has defined operational risk appetite in terms of qualitative and quantitative statements to manage such risks and understand the exposure the Bank is willing to accept. The statements enable adequate corporate governance by the Board of Directors and Senior Management, which are taken into account as part of the Bank's activity and business behaviour.

(C) Market risk

The Bank seeks to engage in activities with only limited market risk exposure.

The Bank will only engage in transactions and instruments which would have a limited detrimental effect on the profit and loss of the Bank's treasury department. The Bank will not enter into new products or markets without fully considering the market risks. The types of derivatives in which the Bank will trade are limited to FX forwards and FX forward options.

Interest rate risk and FX risk are forms of market risks.

(a) Interest Rate Risk in the Banking Book

Interest rate risk in the banking book ('IRRBB') can be defined as the risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. When interest rates change, the present value and timing of future cash flows change.

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 Bank 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, if any. The net exposures are compared to limits imposed by the Market Risk Management Committee (MRMC). These limits are reviewed periodically by MRMC and, in conjunction with the Treasury 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 2% movement in interest rates. The possible loss is monitored compared to a limit of 1.5% of the Bank's capital. At 31 December 2019 the possible loss was £2.1 million (2018: £0.9 million) compared with a limit of £3.1 million (2018: £3.1 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 2019 the impact on earnings was 2.2% of the group's capital (2018: 1.54%).

(b) Foreign exchange risk

Foreign exchange risk can be defined as the risk affecting open currency positions by fluctuations in exchange rates. The Bank's general policy in relation to foreign exchange risk is to match all positions and limit the total net overnight open position to £6 million (2018: £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.

	2019 £000's	2018 £000's
Total open positions:		
- long	260	427
- short	(135)	(297)
Net long/(short) open position	125	130

(D) Liquidity risk

The Bank's Internal Liquidity Adequacy Assessment Process (ILAAP) establishes an appropriate liquidity risk appetite. Its aim is to maintain adequate liquidity resources in terms of amount and quality such that it can meet its obligations as they fall due in an unstressed situation, whilst considering all relevant liquidity risk drivers, and concurrently keeping within its regulatory liquidity limits, as well as its own internal liquidity assessment.

The Bank's appetite is defined as the minimum amount of liquid assets that is required in order to survive the most severe but plausible liquidity stress scenario for a defined risk appetite horizon.

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 2019 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 daily 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 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.

31. Contingent and Other commitments

Refer to Note 26 for Lease commitments .

Capital expenditure

	2019 £000's	2018 £000's
Capital expenditure contracted for:		
By the group and Bank	124	260

Notional principal amounts of commitments and contingent liabilities

	Group		Bank	
Group	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Contingent liabilities				
Credit guarantees	8,093	10,900	8,093	10,900
Other guarantees	6,538	20,513	6,538	20,513
Documentary credits and short term trade related transactions	9,484	27,053	9,484	27,053
	24,115	58,466	24,115	58,466
Commitments				
Credit lines and other commitments to lend	222,505	286,736	253,082	300,927

32. 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 34).

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	2019 £000's	2018 £000's
Income statement		
Interest income	111	85
Interest expense	4,444	3,960
Fee and commission income	97	130
Assets		
Loans and advances to banks	5,962	23,077
Derivatives	484	13
Other assets	249	241
Liabilities		
Deposits by banks	307,475	318,888
Deposits by customers	13,727	21,197
Derivatives	2,533	195
Subordinated liabilities	53,541	53,533
Accruals and deferred income	77	66
Contingent liabilities		
Other guarantees	81	594
Documentary credits and short term related transactions	1,273	1,864

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	2019 £000's	2018 £000's
Income statement		
Interest income	4,467	4,092
Interest expense	4,979	4,224
Fee and commission income	97	130
Administrative expenses	(138)	(144)
Assets		
Loans and advances to banks	5,962	23,077
Loans and Advances to Customers	299,153	303,785
Derivatives	484	13
Other assets	930	922
Liabilities		
Deposits by banks	307,475	318,888
Deposits by customers	59,650	63,688
Derivatives	2,533	195
Subordinated liabilities	53,541	53,533
Other liabilities	77	66
Contingent liabilities		
Other guarantees	351	594
Documentary credits and short term related transactions	1,273	1,864

33. Cash and cash equivalents

Non cash items included in profit before tax	Group 2019 £000's	Group 2018 £000's	Bank 2019 £000's	Bank 2018 £000's
Depreciation and amortisation of property, equipment and intangibles	4,273	2,955	3,990	2,811
Amortisation of premiums over purchased financial instruments	682	-	682	-
Provisions for loan impairment losses	(994)	924	(1,072)	544
Charge for defined benefit plan	614	706	614	706
	4,575	4,585	4,214	4,061

Change in operating assets	Group 2019 £000's	Group 2018 £000's	Bank 2019 £000's	Bank 2018 £000's
Change in prepayments and accrued income	(135)	176	(32)	147
Change in financial derivatives	(1,940)	(275)	(1,940)	(275)
Change in loans and advances to banks	138	(91)	138	(91)
Change in loans and advances to customers	83,230	(82,112)	79,458	(90,365)
Change in other assets	983	301	667	198
	82,276	(82,001)	78,291	(90,386)

Change in operating liabilities	Group 2019 £000's	Group 2018 £000's	Bank 2019 £000's	Bank 2018 £000's
Change in accruals and deferred income	(629)	208	(366)	(363)
Change in financial derivatives	8,970	7,579	8,970	7,579
Change in deposits by banks	(15,429)	90,839	(15,429)	90,839
Change in customer accounts	(215,384)	(151,254)	(211,953)	(137,944)
Change in other liabilities	(2,075)	3,979	(2,905)	3,613
	(224,547)	(48,649)	(221,683)	(36,276)

Cash and cash equivalents comprise:	Group 2019 £000's	Group 2018 £000's	Bank 2019 £000's	Bank 2018 £000's
Cash and balances at central banks	128,577	240,498	128,577	240,498
Loans and advances to banks of 3 months or less	22,563	36,304	22,454	35,476
	151,140	276,802	151,031	275,974

Total interest paid by the group during the year was £18,281,000 (2018: £14,401,000). Total interest received by the group during the year was £57,379,000 (2018: £57,726,000).

34. 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

35. Post balance sheet events

There have been no material post-balance sheet events which would require adjustment to the 31 December 2019 financial statements.

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

Please contact:

Corporate Finance

Chief Business Officer
Andy Mallin
020 3772 1818

Property Finance
Alasdair Houghton
020 3772 1740

Hotel Finance
Louise Gillon
020 3772 1751

International Commercial & HiTech Finance
Shalhevet Mandler
020 3772 1794

Commodity Finance
Graham Habben
020 3772 1681

Leumi ABL Limited

Chief Executive
Paul Hird
01273 716201

Managing Director
Phil Woodward
01273 716202

Operations Director
Alan Couzins
01273 716203

Premier Banking

Head of Premier Banking & Liabilities
Sarah Ryman
020 3772 1624

The Bank Leumi le-Israel Group International Addresses

ISRAEL

Bank Leumi le-Israel B.M.
24-32 Yehuda Halevi Street, Tel Aviv 65546
Telephone 972 76 885 8111
Facsimile 972 76 885 8656

Bank Leumi has over 200 branches in Israel

Leumi Private Banking Division
35 Yehuda Halevi Street
Tel Aviv 65546
Telephone 972 76 885 7717
email: private@bll.co.il

Subsidiary Banking companies

Leumi Partners Limited
5 Azrieli Centre (Square Tower) 36th floor,
132 Menachem Begin Road
Tel Aviv 67025
Telephone 972 3 514 1212
Facsimile 972 3 514 1275
www.leumipartners.com

LeumiTech
34 Yehuda Halevi St.
Tel Aviv 61000
+972-76-8856297
www.leumitech.com

EUROPE

UNITED KINGDOM

Bank Leumi (UK) plc
20 Stratford Place, London W1C 1BG
Telephone 44 (0) 20 3772 1500
Facsimile 44 (0) 20 3772 1501
www.bankleumi.co.uk

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

USA

Bank Leumi USA
579 Fifth Avenue, New York, NY 10017
Telephone 1 917 542 2343
www.leumiusa.com

California
Los Angeles
555 W.Fifth Street
Los Angeles, CA 90013
Telephone 1 213 452 8600

Palo Alto
2000 University Avenue
Palo Alto, CA 94303
Telephone 1 650 289 2400

Illinois
Chicago
1 North LaSalle Street
Chicago, IL 60602
Telephone 1 312 419 4040

Florida
Aventura
One Turnberry Place
19495 Biscayne Boulevard
Aventura FL 33180
Telephone 1 305 918 6960

CHINA

Shanghai Representative Office
Room 28-033, 28th floor
Hang Seng Bank Tower
1000 Lujiazui Ring Rd,
Shanghai 200120
Telephone : 86 21 6100 3090

www.bankleumi.com