Regulatory Disclosures – Pillar 3

Background

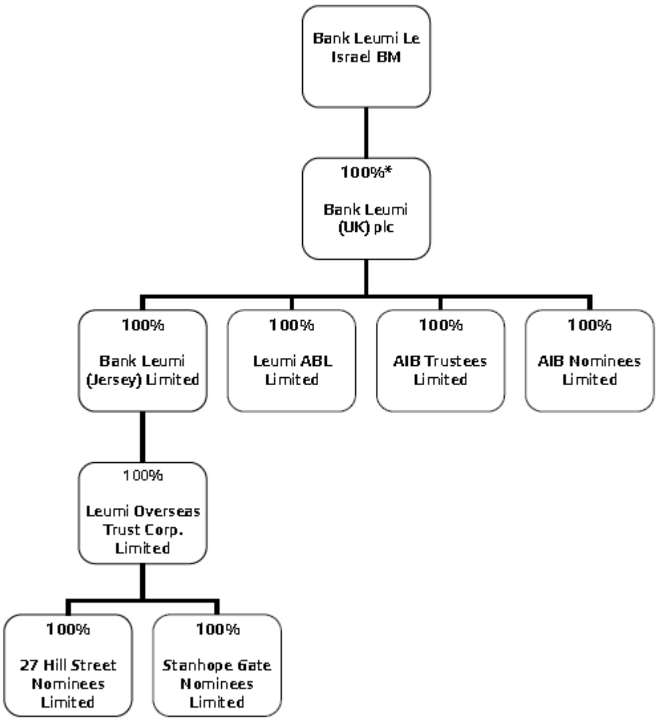
Pillar 3 disclosures are provided to fulfil the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014.

Prior to 2014 the Pillar 3 disclosures were presented in accordance with Chapter 11 of BIPRU (the Prudential Sourcebook for Banks, Building Societies and Investment Firms) as required by the Prudential Regulation Authority (PRA). This UK framework was superseded following the implementation of CRD IV.

Basis and frequency of disclosures

These disclosures are made based on the Banks' financial position, and policies that were in place as at the 31st December 2015. This information will be updated on an annual basis, or where significant changes have been made that would materially affect the detail of this disclosure.

These disclosures are made on a consolidated basis on behalf of Bank Leumi (UK) plc which is a UK incorporated company that is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority. It is a part of the wider Bank Leumi le-Israel group as depicted below:



* 100% of shares held directly or indirectly on behalf of BLITA

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

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

Bank Leumi (Jersey) limited is regulated by the Jersey Financial Services Commission and has separate regulatory capital requirements. Apart from maintaining their regulatory requirements we cannot foresee any material practical or legal impediments to the transfer of capital resources, or the repayment of liabilities within the Bank Leumi (UK) plc Group.

On 28 July 2015, BLUK's Board of Directors made a decision withdraw from all activities in its two Jersey incorporated subsidiaries. This is to be effected by the sale of the entity, Leumi Overseas Trust Corporation Limited and the sale of the business activities of Bank Leumi (Jersey) Limited. The sale of Leumi Overseas Trust Corporation Limited was completed on 8 April 2016, and the sale of the business activities of Bank Leumi (Jersey) Limited was completed on 3 October 2016.

Means of disclosures

These disclosures are published on the corporate website (http://www.bankleumi.co.uk/).

Risk Management Objectives, Management Structure and Key Risks

Risk Management Objectives

Article 435 of CRR requires the disclosure of risk management objectives and policies for each separate category of risk.

BLUK's approach to risk is aimed at ensuring that all significant risks are identified and managed efficiently and appropriately on a timely basis. BLUK's risk management is based on certain principles and objectives:

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

Group Risk Structure

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

To facilitate the risk management process, BLUK has established a risk management committee structure.

Risk Management Committee (RMC)

The RMC has prime responsibility for the Bank Leumi (UK) Group's infrastructure to manage Group wide and specific risks and the development of risk measurement methodologies. This includes the annual assessment of the Bank's overall risk appetite; the identification, management and apportionment of risk to relevant risk owners; The review and agreement of the Operational Risk Mapping and Operational Risk Survey Processes; and the approval of any risk related policy not dealt with by other risk committees.

The committee normally meets monthly to discuss an agenda set by the Chief Risk Officer. This includes a review of Management Information data including a quarterly CRO report setting out changes in the Bank's major risks, regular reports on regulatory issues, risk issues emanating from subsidiary companies, and other risk topics (to include credit, market, legal and operational risks) that require escalation to this 'executive' risk committee.

Credit Risk Management Committee (CRMC)

The CRMC normally meets twice a week for sanctioning specific credit applications, and monthly to discuss wider credit risk issues. The CRMC has prime responsibility for the approval and annual review of all credit risk policies, stress testing, strategies and appetites (including the setting of limits on industry, country, single borrower and other counterparties and concentrations) and the assessment of new products and/or new areas of business connected with credit risk.

The committee recommends the Bank's credit risk strategy, appetite and policies to the Board, and has apportioned ownership of risks to the Heads of the Business areas who are responsible for managing credit risk on a day to day basis. All policies that form a part of our credit risk appetite are reviewed at least annually.

Market Risk Management Committee (MRMC)

MRMC is responsible for all market risks, including interest rate risk and liquidity risk. The committee reviews and recommends the Bank's market risk policies to the Board.

Operational Risk Management Committee (ORMC)

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

There are two main independent risk functions reporting to the Chief Risk Officer which between them provide the second line of defence.

1. *Risk Control Department*

The Risk Control Department forms one of the Bank's two second line defence functions and has five main drivers:

- The Compliance Section (regulatory risk).
- Financial crime prevention (MLRO).
- Dealing Room Middle Office (market Risk).
- Operational Risk management.
- Facilitation of ICAAP/ILAA/RRP processes.

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

BLUK has implemented an operational loss event reporting procedure where all actual and potential operational losses are reported to the Risk Control Department. Where necessary issues are escalated, and reports are regularly submitted to the ORMC, and the Risk Committee of the Board.

Compliance (subsection of the Risk Department)

The Chief Risk Officer has oversight of risk and compliance issues in BLUK and its subsidiaries. The compliance section of the Risk Control Department takes a proactive approach to conduct compliance in an attempt to establish a compliance culture throughout the Bank. This is viewed as vital in relation to the regulatory approach of the FCA and PRA.

There is a detailed monitoring plan that calls for the compliance section to undertake monthly compliance spot checks on a risk based approach. A monthly report of the findings is submitted to the RMC for discussion, and a quarterly report is submitted to the Risk and Audit Committees of the Board.

The compliance section is also responsible for advising management on all changes to regulatory rules, and other legal issues such as data protection. Training sessions are regularly provided by the section on these issues.

Financial Crime (subsection of the Risk Department)

Within the compliance section is a dedicated MLRO who is responsible for the managing the AML policy and procedures of the Bank. In addition to the day to day monitoring undertaken by the various business areas, the MLRO conducts his own independent monitoring on a sample basis. The MLRO provides regular reports to both the RMC, and the Risk and Audit Committees.

2. *Credit Risk Management Department*

CRMD is the second line of defence for credit risk which it independently monitors. The department acts independently of the business areas to ensure that credit risk within the Bank is being appropriately monitored and assessed, and remains within the Bank's risk appetite. It has responsibility to:

- ensure that the business areas properly assess, monitor, control and report all credit risk issues.
- maintain the validity and effectiveness of credit strategy, appetite and policy.
- undertake its own independent assessment of applications for credit and report to the appropriate sanctioning authorities (this includes applications above certain thresholds for BLUK's subsidiaries).
- manage and oversee the Watch List and Sensitive Customer process.
- manage and report on all areas of concentration risk, in particular economic sector risk, country risk and large exposure risk.
- manage the credit grading system including the oversight of the inputting, analysing shifts in credit grade and maintaining the effectiveness and credibility of the system.
- provide the independent review of specific impairments by way of challenging the discounted cash flow assessments, particularly in relation to asset values and timeframes.

CRMD additionally contains the Bank's Intensive Care & Recovery section and the Loan Review function, the latter being an independent, post approval, assessment of emerging credit risks.

Legal Risk

The Bank has established a Legal and Banking Documentation Department which incorporates two functions:

- a legal function comprising in-house legal counsel; and
- a documentation function comprising documentation officers.

The Head of LBD is BLUK's General Counsel and the principal legal risk officer of BLUK (excluding its subsidiaries). He acts on the CEO's authority. He is responsible for ensuring that BLUK complies with all appropriate laws in the conduct of its business.

He reports legal and documentation risk primarily through RMC by way of a formal report to committee and attends BLUK's Risk Committee of the Board, Credit Risk Management Committee and Credit Risk Management Policy Committee.

Credit Risk

Bank Leumi, in recognising the specific business areas that it provides finance to, acknowledges it operates in an inherent high risk environment and accordingly seeks to mitigate credit risk by ensuring that the risk is effectively structured, monitored, managed and controlled, thereby reducing the credit risk to a level of medium to low as defined within this statement.

Credit Risk Appetite

The Bank seeks to manage its credit risk appetite through adherence to both quantitative and qualitative statements made in relation to the credit portfolio as a whole and its key lending sectors. In particular:

- Risk is always commensurate with reward and the Bank will use measures, in particular return on assets, to ensure this is the case in respect of individual credits and portfolios of credit.
- Limits are applied to reflect the Bank's credit appetite for concentration risk.
- Risk tolerances are applied at a total portfolio and sector portfolio level using the Bank's credit grading system and its preparedness to absorb future losses.
- Attention limits/tolerances are established to facilitate early remedial action.
- The Bank identifies and grades both the inherent risk and residual risk in respect of its key lending sectors.
- The Bank establishes and maintains a credit policy to reflect its appetite to credit risk. Furthermore, it establishes and maintains a tolerance for lending that moves outside credit policy.

Credit Policy

The Bank has a detailed Credit Policy which sets out the business areas to which finance may be provided, the type of finance which should be provided and the nature of security that should be held. It also defines a range of acceptable lending parameters which are set to define the Bank's preferred metrics on a sector/product basis.

Credit Grading

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

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

Credit Risk Mitigation

In accordance with the Capital Requirements Directive, Bank Leumi (UK) plc only recognises certain specified types of financial collateral for providing capital relief. This includes: cash held by the Bank; debt securities issued by central governments, central banks, institutions all of which are rated by a recognised external rating agency; equities or convertible bonds that are quoted on a regulated & main exchange; and gold bullion. Bank Leumi (UK) plc utilises the "simple" method for credit risk mitigation purposes.

Large Exposures Policy

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

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

Within the Group, Bank Leumi (Jersey) Limited is additionally subject to the Large Exposure policy of The Jersey Financial Services Commission (JFSC) as set out from time to time.

Exposures to Customers

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

Policy states that exposures will not exceed 15% of Capital Resources in respect of Single Borrowers and 20% of Capital resources in respect of Group Borrowers other than in exceptional circumstances meeting the criteria set out in the policy statement.

The total of all such Large Exposures, net of specifically charged cash collateral or specific provision, must not exceed our internal limit of 250% of the Capital Resources (the clustering ratio).

Exposures to Banks

Bank limits are formally reviewed by the Market Risk Management Committee at least annually in consultation with our Parent Company's (Bank Leumi le-Israel B.M.) International Division and ratified by the Credit Committee. All exposures are under constant monitoring with regular discussions held with our Parent Company.

Monitoring & Review

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

All facilities, whether current or term, are reviewed at least annually and are submitted to the level of authority appropriate for the size of the total obligor. In addition, a separate Loan Review function reviews facilities in line with emerging trends (external or internal) that suggest risk is increasing, they act completely independently from the normal credit approval chain within the Bank. Loan Review reports to the Credit Committee and the CRO. To control exposures on a group basis, procedures are in place requiring CRMD to independently review all exposures to the Bank's subsidiaries above £1m.

Country Exposure Policy

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

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

- Direct lending to customers
- Provision of trade finance facilities

- Lending to, or against the guarantee of, other banks and financial institutions
- Purchase of corporate and sovereign risk for the Bank's own account.

Country Exposure Limits

Country Limits are discussed and agreed by the CRMC and submitted to the Credit Committee of the Board for approval. All limits are reviewed annually and more frequently whenever prudential considerations dictate. All lines are coordinated with BLITA and their approval obtained prior to marking any limit.

Monitoring and Controlling Country Exposure

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

External Credit Assessments

In accordance with CRR Article 444, Bank Leumi (UK) plc makes use of external credit assessments provided by Moody's which is recognised by the regulator as an eligible external credit assessment institution (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

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

- Central Governments and Central Banks
- Multilateral Development Banks
- Institutions
- Corporate

Market Risk

Market Risk Appetite

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

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

The types of derivative in which the Bank will trade are limited to F/X options; interest rate/currency swaps; interest rate caps and/or floors; forward rate agreements; and equity options. The Bank's activity in these types of transactions is very low in volume.

Liquidity Policy

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

The Bank's obligations mainly consist of call deposits, Notice deposits, Term deposits, Current accounts and commitments to lend.

This capacity is maintained in the following ways:

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

Monitoring and Management

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

Finance Department monitors the Liquidity position, and a management report is produced on a daily basis and reported to the Financial Controller, Treasury Department and the Chief Operating Officer. The report is discussed at the Market Risk Management Committee, along with other cash management related information, including some projections of the effects of known movements of funds on liquidity. If there is any large movement which would mean a significant shift in the liquidity position, an MRMC meeting is called.

Interest Rate Risk Policy

The Bank manages interest rate risk in two ways:

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

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

Currency Risk

Currency risk is that arising from fluctuations in exchange rates which may result in losses from business activities or operations in foreign markets or investment in securities issued by overseas entities / denominated in a foreign currency. It also arises from proprietary currency trading positions taken by the Dealers.

Currency exposures are monitored daily by the Head of Treasury and Global Markets, the Chief Operating Officer and the Financial Controller. Exposure limits are set for individual counterparties and within exposure limits set for each currency as well as the overall net open position.

Dealer open position limits are monitored several times daily and on an overnight basis by the Risk Control Department. Any breaches are corrected either the same or following day.

As currencies are matched on a daily basis, the greatest threat would be a sudden and unexpected devaluation in a currency before it could be covered. The Bank has granted an exposure limit of GBP 6m equivalent aggregated across all net currency positions for spot foreign exchange trading in respect of customer trading (where the Dealers are not able to match all trades with the market), and for own account spot FX speculative trading.

All breaches to approved lines are escalated by the Risk Control Department to the necessary sanctioning level. A full explanation for any breach is provided by the Dealing Room. The sanctioning authority either requests that the exposure is immediately reduced to within the approved line, or grants permission for the deal to stay in position until the relevant maturity date.

Any breaches that will result in an exposure exceeding 25% of the Capital Resources are escalated by the Chief Risk Officer to the Board.

Operational Risk

Operational Risk Appetite

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

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

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

Compliance risk appetite

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

- Relations with its regulators are clear, open and honest
- Adherence to all applicable regulations as part of its on-going business activities
- Response to regulatory issues is timely
- Involvement of the Board, Executive and Senior management in compliance matters

The Group does not wish to take regulatory risk. In order to monitor compliance issues the RMC will receive regular reports on issues arising from the compliance monitoring of both the Bank and of its subsidiaries, including a monthly report from the MLROs' of the Bank and of its (Jersey) subsidiaries. Additionally the Chief Risk Officer will provide regular reports to both the Risk Committee and the Audit & Remuneration Committee, and hence to the Board. When necessary, the Chief Risk Officer will escalate regulatory issues direct to the Board itself.

Assessment of Adequacy of Internal Capital

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

To ensure that the Bank continues to maintain sufficient capital, as part of the on-going ICAAP process the Bank's three year plan is modelled to assimilate the capital requirement that would result from the projections within the plan being met. The plan and the resulting capital requirement are then stressed to ascertain the effect of the business plan projections being exceeded.

BLUK uses stress tests to ascertain the effects of adverse business scenarios on capital. There are two separate sets of stress tests:

- a macroeconomic scenario premised on the Bank of England stress testing framework
- the Bank's own stress testing methodology.

Own funds

The table below summarises the composition of regulatory capital as at 31 December 2015. The group complied with the capital requirements that were set out as at the reporting date and throughout the year, including the make of the capital to comply with CRR Article 437.

		BASEL 3 As at 31.12.2015 Group £000's
Core tier 1 Capital		
	Called up ordinary share capital	11,967
	Share Premium account	36,093
	Available for Sale Reserve	-
	Profit & Loss reserve	86,095
	Pension Deficit	-
		134,155
	Deductions from core tier 1 capital	
	Deferred Tax Asset	-
	Defined Benefit Asset	-
	Goodwill on acquisition	-
	Unrealised Gain / (Loss)	(64)
Total Core tier 1 Capital after deductions		134,091
Upper tier 2 Capital		
	Perpetual subordinated debt	27,000
	Collective provision	5,891
		32,891
Lower tier 2 Capital		
	Dated subordinated debt	52,249
Total tier 2 capital		85,140
Total Regulatory Capital		**219,231**

Capital resources – Tier 2

Under Basel II firms were required to include certain unrealised gains as Tier 2 capital, however under CRD IV any unrealised gains are not recognised in capital.

As observed in Note 23 of the 2015 Annual Report, 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. 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 dated subordinated loan is for a seven year fixed period maturing on 02 February 2019 and any repayment of capital, at the option of the Bank, can be made after giving advance notification of one month to the lender and to the Prudential Regulation Authority.

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. 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 2015 and 2014.

				As at 31.12.2015 Group
		Interest Rate	Interest Fixing	£000's
Upper Tier 2 Capital				
	Undated perpetual subordinated debt	4.582%	3 monthly	17,034
	Undated perpetual subordinated debt	4.579%	3 monthly	5,046
	Undated perpetual subordinated debt	1.476%	3 monthly	5,012
				27,092
Lower tier 2 Capital				
	Notice subordinated debt	1.332%	3 monthly	3,580
	Notice subordinated debt	1.207%	3 monthly	1,250
	Notice subordinated debt	1.082%	3 monthly	30,654
	Notice subordinated debt	1.076%	3 monthly	7,512
	Notice subordinated debt	3.579%	3 monthly	2,518
	Dated subordinated debt	4.078%	3 monthly	11,072
				56,586

Capital resources – Tier 3

Tier 3 capital was abolished under CRD IV.

Reconciliation between own funds and audited financial statements

This table shows a reconciliation between regulatory and statutory capital.

	As at 31.12.2015
	£000's
Regulatory Capital as at 31st December 2015	219,231
Add Back:	
Accrued interest on sub debt	212
Amortised portion of sub debt	4,217
Regulatory deductions	64
	223,724
Represented in annual financial statements as:	
Share capital	11,967
Share premium	36,093
P&L reserves	86,095
Subordinated Debt	83,678
Collective provision	5,891
	223,724

Leverage ratio

CRD IV requires firms to calculate a non-risk based Leverage Ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The purpose of monitoring and managing this metric is to enable Regulators to constrain the build-up of excessive leverage.

The Basel Committee has implemented a monitoring period which runs to January 2017, during which time a minimum leverage ratio of 3% should apply. This limit will be reassessed in 2017 before becoming mandatory in 2018.

Currently BLUK reports Leverage through the EBA's COREP reporting.

BLUK's leverage ratio is currently well above the 3% threshold and that position is expected to continue beyond the next calendar year.

	Q4 2014	Q4 2015
Leverage Ratio – fully phased-in	7.99%	7.61%
Leverage Ratio – using Transitional definition	7.98%	7.61%

Capital requirements

Article 438 of CRR requires the disclosure of information regarding the compliance by the institution with capital requirements.

Bank Leumi (UK) plc has adopted the standardised approach for assessing the capital requirement for credit risk (in accordance with Article 112 of the CRR), and the basic indicator approach for operational risk (Article 315 of the CRR).

The Groups Pillar 1 capital requirement based on 8% of its risk-weighted assets is derived from capital held against risks from the following exposure classes.

	As at 31.12.2015 Capital Requirement £000's
Standardised Approach	
Central governments/central banks	-
Regional governments or local authorities	-
Administrative bodies and non-commercial undertakings	-
Multilateral development banks	-
International organisations	-
Institutions	971
Corporates	53,642
Retail	-
Secured by immovable property mortgages	35,853
Exposures in default	1,980
Items with particularly high risk	2,351
Covered bonds	-
Securitisation positions	-
Claims on institutions & corporates with CR assessment	1,221
CIUs	-
Other items	723
	96,741
Operational Risk - Basic indicator approach	**8,127**
Trading book	
Interest rate PRR	-
Equity PRR	-
Option PRR	-
Counterparty risk capital component	**10**
Concentration risk component	-
Commodity PRR	-
Foreign currency PRR	**47**
	57
Total capital requirement	**104,925**

Counterparty credit risk

Article 439 of CRR requires institutions to provide details of their counterparty credit risk. The Bank uses derivative instruments to hedge its exposure to market risk, for example, foreign exchange and interest rate risk. Counterparty credit risk is the risk that one of the counterparties to a derivative instrument that the Bank holds could default. The risk is mitigated by offsetting the amounts due to the same counterparties ('Netting benefits').

Counterparty credit risk for the Bank is minimal representing only 0.01% of the total Pillar 1 capital requirement. Therefore on the grounds of materiality, no further detail will be provided on this risk.

Credit risk: standardised approach

The group calculates credit risk for exposure on its loans and advances under the standardised approach per Title II, Chapter 2, Section 3 of the CRR.

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

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

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

	Exposure as at 31.12.15	Average exposure to 31.12.15
	£000's	£000's
Central governments/central banks	318,186	328,118
Institutions	59,057	52,052
Corporates	706,013	699,236
Secured by immovable property mortgages	538,333	429,441
Exposures in default	18,080	22,023
Claims on institutions & corporates with CR assessment	69,960	66,622
Items with particularly high risk	19,596	34,688
Multilateral development banks	8,707	6,260
Other items	9,039	9,422
Total	**1,746,969**	**1,647,861**

Table 2: Period end Geographic distribution of exposure classes

	UK	Europe	USA	Israel	Rest of World	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Central governments/central banks	287,814	-	30,373		-	318,186
Institutions	41,833	1,072	15,654		498	59,057
Corporates	424,834	97,130	38,443	3,963	141,643	706,013
Secured by immovable property mortgages	313,214	202,099	14,695	2,771	5,553	538,332
Exposures in default	13,549	4,529			1	18,080
Claims on institutions & corporates with CR assessment	47,248	10,641	1,610	7,106	3,355	69,960
Items with particularly high risk	10,492	9,104			-	19,596
Multilateral development banks		8,707			-	8,707
Other items	9,039	-			-	9,039
Total	**1,148,023**	**333,282**	**100,775**	**13,840**	**151,049**	**1,746,969**

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

	Central governments /central banks	Institutions	Corpora-tes	Secured by immovable property mortgages	Exposures in default	Claims on institutions & corpora-tes with CR assess-ment	Items with particu-larly high risk	Multilateral Development banks	Other	Total
	£000's	£000's	£000's	£000's	£000's	£000's			£000's	£000's
Governments/ Central bank	318,186									318,186
Banks & Building Societies		18,141				64,825		8,707		91,674
Financial Services / Institutions		40,914	70,101	8,869	207	4,504				124,595
Property / Real estate			22,019	480,684	14,013		19,596			536,312
Media			58,244							58,244
Retail			98,478		381					98,860
Manufacturing			71,129		100					71,229
Wholesale Distributions			298,007	502						298,508
Individuals			19,079	48,278	3,060	631				71,048
Other			68,957		319				9,039	78,314
Total	**318,186**	**59,056**	**706,013**	**538,333**	**18,080**	**69,960**	**19,596**	**8,707**	**9,039**	**1,746,969**

Table 4: The residual maturity breakdown of all the exposures

	< 1 year	1 - 5 years	> 5 years	Total
	£000's	£000's	£000's	£000's
Central governments/central banks	318,186	-	-	318,186
Institutions	38,186	20,870	-	59,056
Corporates	624,828	67,696	13,490	706,013
Secured by immovable property mortgages	316,440	207,128	14,765	538,333
Exposures in default	18,080	-	-	18,080
Claims on institutions & corporates with CR assessment	68,992	968	-	69,960
Items with particularly high risk	17,450	2,145	-	19,596
Multilateral development banks	-	8,707	-	8,707
Other items	9,039	-	-	9,039
Total	**1,411,201**	**307,514**	**28,254**	**1,746,969**

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

	Impaired Loans	Past Due Loans	Value adjustments and provisions
	£000's	£000's	£000's
Secured on real estate	42,340	2,925	17,734
Corporates	9,937		8,958
Total	**52,277**	**2,925**	**26,692**

** Produced on the same basis as the statutory disclosures in the 2014 Annual Report & Accounts*

Table 6 *: Geographical analysis of impaired exposures and provisions

	UK	Europe	USA	Israel	Rest of World	Rest of the World	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Impaired & Past Due Loans	42,068	13,134					55,202
Value adjustments and provisions	(20,259)	(6,433)					(26,692)
Total	**21,809**	**6,701**					**28,510**

** Produced on the same basis as the statutory disclosures in the 2014 Annual Report & Accounts*

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

	Customers Specific	Customers Collective	Total
	£000's	£000's	£000's
Opening balance as at 1st January 2015	**49,858**	**5,657**	**55,515**
Charge against profits (net of recoveries)	(1,073)	234	(839)
Recoveries	202	-	202
Amount written off	(22,656)	-	(22,656)
FX Difference	361	-	361
As at 31st December 2015	**26,692**	**5,891**	**32,583**

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

	Customers Specific	Customers Collective	Total
	£000's	£000's	£000's
Impairment charge (credit)	(871)	234	(637)
Recoveries	(202)	-	(202)
Total Income statement charge/(credit)	**(1,073)**	**234**	**(839)**

Credit risk mitigation

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

Table 9: Collateral used as part of credit risk mitigation

	Cash Collateral	Securities Collateral	Guarantees	Totals
	£000's	£000's	£000's	£000's
Standardised approach				
Central governments/central banks				
Institutions				
Corporates	22,818		25,473	48,291
Secured by immovable property mortgages				
Exposures in default				
Short term claims on institutions and corporates	837			837
Items with particularly high risk				
Multilateral development banks				
Other items				
Total	**23,655**		**25,473**	**49,128**

Market risk

Market risk is calculated according to Article 445 of the CRR.

The group uses the maturity approach for general market risk. Market risk is mainly due to foreign exchange position risk which arises as a result of movements in relative currencies.

Table 10: Capital requirement of market risk

	Capital Requirement	
	Trading book	All activities
	£000's	£000's
Interest rate risk	-	-
Equity position risk	-	-
Option position risk	-	-
Collective investment position risk	-	-
Counterparty risk capital component position risk	-	-
Concentration risk capital component	-	-
Component position risk	-	-
Foreign currency position risk	47	47
Commodity position risk	-	-
Total	**47**	**47**

Operational risk

Operational risk is defined in regulation (EU) 575/2013 as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk”.

According to Article 446 of the CRR, “institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for”.

BLUK has adopted the standardised approach for calculating the Pillar 1 capital requirements for operational risk. Under the standardised approach institutions divide their activities into certain business lines, each with a relevant beta factor. The average gross revenues, over the past three years, for each business line is then multiplied by the relevant beta factor to give an operational risk capital requirement.

Unencumbered assets

The following disclosure is made pursuant to Article 443 of the CRR. An asset should be treated as encumbered if it has been pledged or is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn. Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered.

EBA Template F 32.01 - Asset encumbrance: Encumbrance overview - Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
Assets of the reporting institution	**010**	3,700,754	-	1,579,861,180	-
Loans on demand	**020**	3,700,754	-	275,069,180	-
Equity instruments	**030**	-	-	-	-
Debt securities	**040**	-	-	100,985,000	87,230,000
Loans and advances other than loans on demand	**100**	-	-	1,063,062,000	-
Other assets	**120**	-	-	140,745,000	-

*EBA Template F 32.02.a - Asset encumbrance: Encumbrance overview - Collateral (a) **

** Non-encumbered nominal of collateral received or own debt securities issued non available for encumbrance*

		070
Collateral received by the reporting institution	**130**	**33,303,000**
of which:		
Loans on demand	**140**	**-**
Equity instruments	**150**	**122,000**
Debt securities	**160**	**292,000**
Loans and advances other than loans on demand	**220**	**32,889,000**

EBA Template F 32.02.b - Asset encumbrance: Encumbrance overview - Collateral (b)

		Fair value of encumbered collateral received or own debt securities issued		
		Total	of which: issued by other entities of the group	of which: central bank's eligible
		10	20	30
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**250**	3,700,754	-	-

*EBA Template F 32.04.a - Asset encumbrance: Sources of encumbrance (a) **

** Matching liabilities, contingent liabilities or securities lent*

		Total	of which: from other entities of the group
		10	**20**
Carrying amount of selected financial liabilities	10	7,046,000	0
Derivatives	20	7,046,000	0
of which: Over-The-Counter	30	7,027,000	0
TOTAL SOURCES OF ENCUMBRANCE	**170**	**7,046,000**	**0**

*EBA F 32.04.b - Asset encumbrance: Sources of encumbrance (b) **

** Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered*

		Total	of which: collateral received re-used	of which: own debt securities encumbered
		30	**40**	**50**
Carrying amount of selected financial liabilities	10	3,700,754	0	0
Derivatives	20	3,700,754	0	0
of which: Over-The-Counter	30	3,700,754	0	0
TOTAL SOURCES OF ENCUMBRANCE	**170**	**3,700,754**	**0**	**0**

Remuneration Disclosures

Background

The following disclosures are required under the (CRR) Part 8 (Article 450).

These disclosures are based on Bank Leumi (UK) plc's financial year end, as at 31 December 2015. This information will be updated on an annual basis, or where significant changes have been made that would materially affect the detail of this disclosure.

Scope of application

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

Based on the Bank's profile, we have defined ourselves as a Proportionality 'Level Three' firm and adopted a proportionate approach to our remuneration policy. We have considered our individual needs on an ongoing basis and where appropriate we did not apply certain disclosure provisions in accordance with the UK regulators and the Committee of European Banking Supervisors (CEBS, now EBA) guidance.

External Consultants

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

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

The Role of the Relevant Stakeholders

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

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

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

Code Staff Criteria

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

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

Design and structure of the remuneration system

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

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

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

Basic Salary

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

Annual Bonus

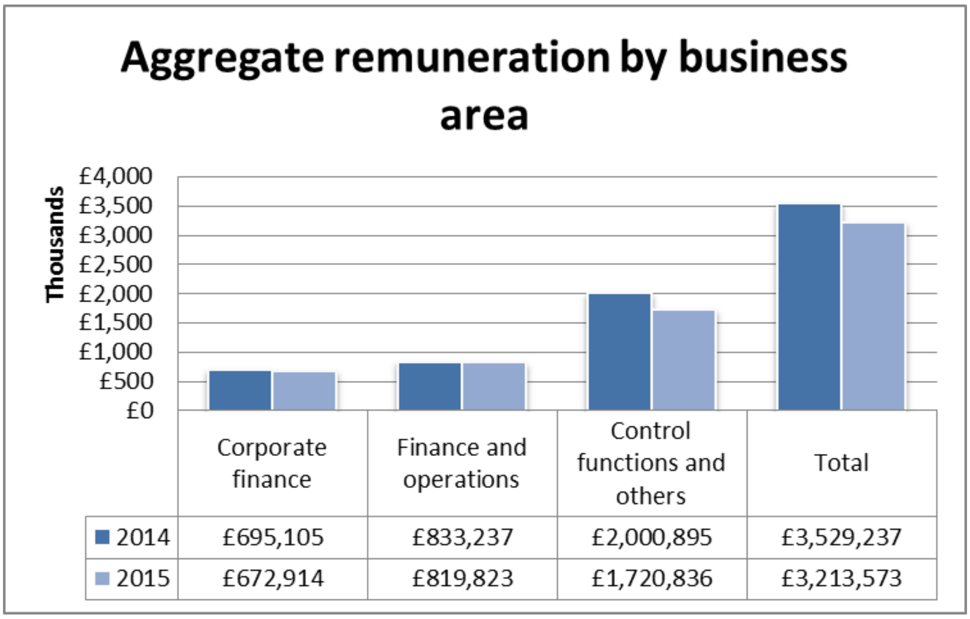
- The Bank has applied the following in relation to annual bonus plan:
- The Annual Bonus Plan is based on financial and non-financial performance;
- If the Bank's performance is below a threshold performance level the bonus will be nil;
- Above a predetermined level, a proportion of the bonus will be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

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

Aggregate Quantitative Remuneration Disclosure – financial year ended 31 December 2015

The Bank is required to disclose aggregate quantitative remuneration information for its Code Staff in the year ending 31 December 2015. As at 31 December 2015, there were 26 Code Staff identified by the Bank.

Aggregate remuneration is made up of total fixed and variable remuneration awarded in respect of the 2015 performance year.



Amounts and form of fixed and variable remuneration

Total fixed remuneration paid in the financial year ended 31 December 2015 includes basic salary and benefits, including employer pension contributions, car allowance and Private Healthcare provision.

The total variable remuneration payable in respect of the financial year ended 31 December 2015 consists of cash bonus payments.

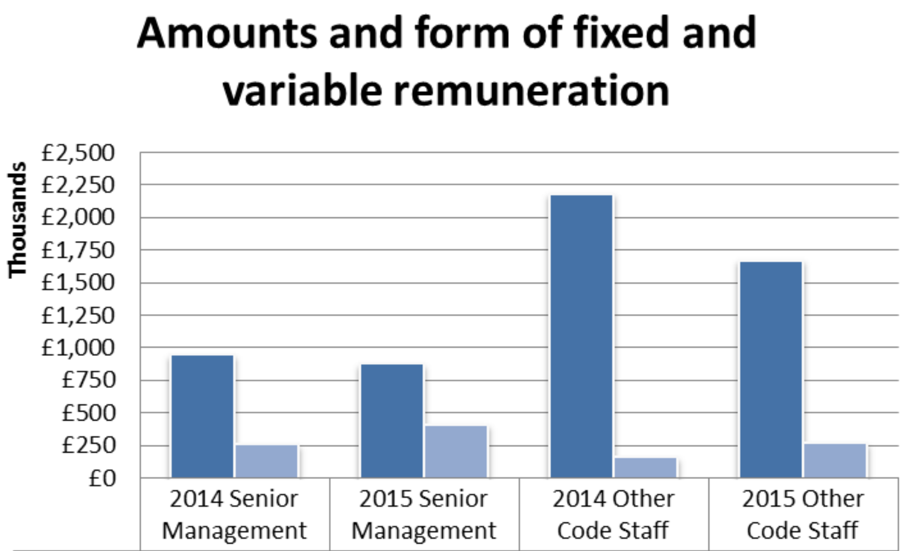
The table below is split into "Senior Management" (employees) and "Other Code Staff" (employees).

"Senior Management" includes:

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

"Other Code Staff" includes:

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



	2014 Senior Management	2015 Senior Management	2014 Other Code Staff	2015 Other Code Staff
Fixed	£941,980	£872,256	£2,175,660	£1,667,431
Variable	£253,597	£408,384	£158,000	£265,500