



Bank Leumi (UK) plc

Pillar 3 Disclosures

As at 31 December 2018

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1. Overview

1.1. Purpose and scope of disclosure requirements

This document sets out the Pillar 3 disclosures on capital and risk management for Bank Leumi (UK) plc (“BLUK” or “the Bank”).

This document fulfils 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. This regulatory framework is supplemented by a number of technical standards issued by the European Banking Authority (EBA) which have been adopted by BLUK where appropriate.

1.2. Basis and frequency of disclosures

These disclosures are made based on the Banks’ financial position, and policies that were in place as at the 31 December 2018.

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 not subject to audit and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements.

1.3. Non-material, proprietary or confidential information

Article 432(3) of the CRR requires an institution to provide (i) a statement of the specific items of information which are not disclosed and (ii) the reasons for non-disclosure.

BLUK’s Pillar 3 disclosures as at 31 December 2018 do not cover:

- Exposure to interest rate risk on positions not included in the trading book (Article 448 of the CRR) – none at the period-end (please refer to Table 4)
- Exposure to securitisation positions (Article 449 of the CRR) – BLUK does not undertake securitisation.

1.4. Means of disclosures

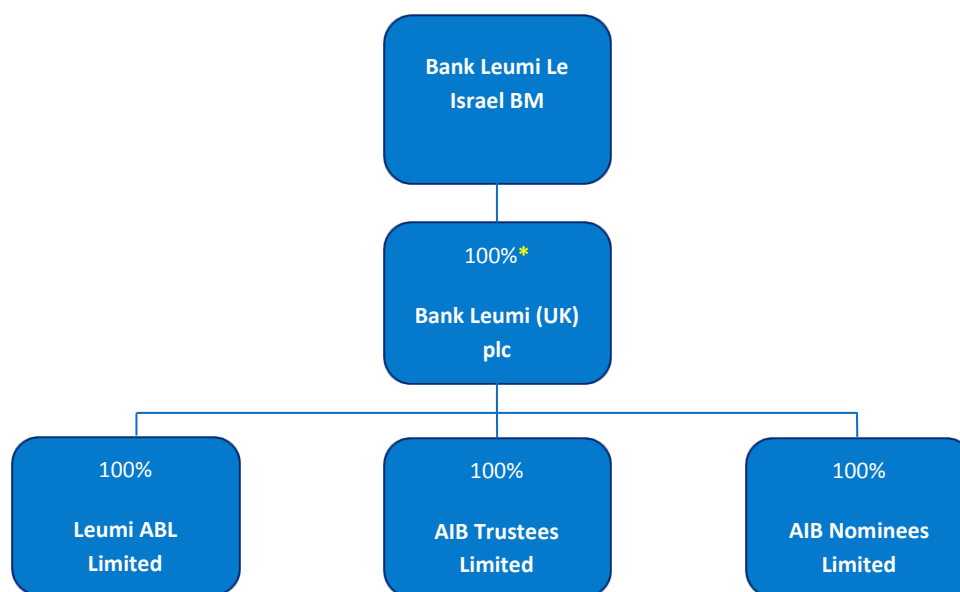
These disclosures are published on the [corporate website](#).

Additional relevant information can be found in the [2018 Annual Report](#).

2. Legal Entity Overview

These disclosures are made on a consolidated basis on behalf of BLUK 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.

BLUK is a subsidiary of Bank Leumi Israel B.M. (BLITA), and is one of the overseas subsidiaries of the Bank Leumi Group. As at 31 December 2018, Bank Leumi Israel held 100% of the issued share capital of BLUK, either directly or indirectly (Figure 1). BLUK has its Head Office in London. The Bank employs 184 staff in the UK, with the majority based in London. BLUK's Board was made up of one Executive Member and ten non-executive members. The UK management team is headed by the CEO.



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

Figure 1 Legal entity overview

At the reporting date, BLUK owned 100% of the share capital of Leumi ABL Ltd, which operates as an invoice discounting and factoring company and is supervised by the FCA.

For accounting purposes the financial results of BLUK and its subsidiaries are consolidated on a full basis.

3. Risk Management Framework

3.1. Risk Management Objectives

BLUK's approach to risk is aimed at ensuring that all significant risks are identified, assessed, mitigated, monitored and measured. 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.

3.2. Risk Structure

To facilitate the risk management process, BLUK has an enterprise risk management framework (ERMF). Governance of the ERMF is supported by BLUK's committees (Figure 2).

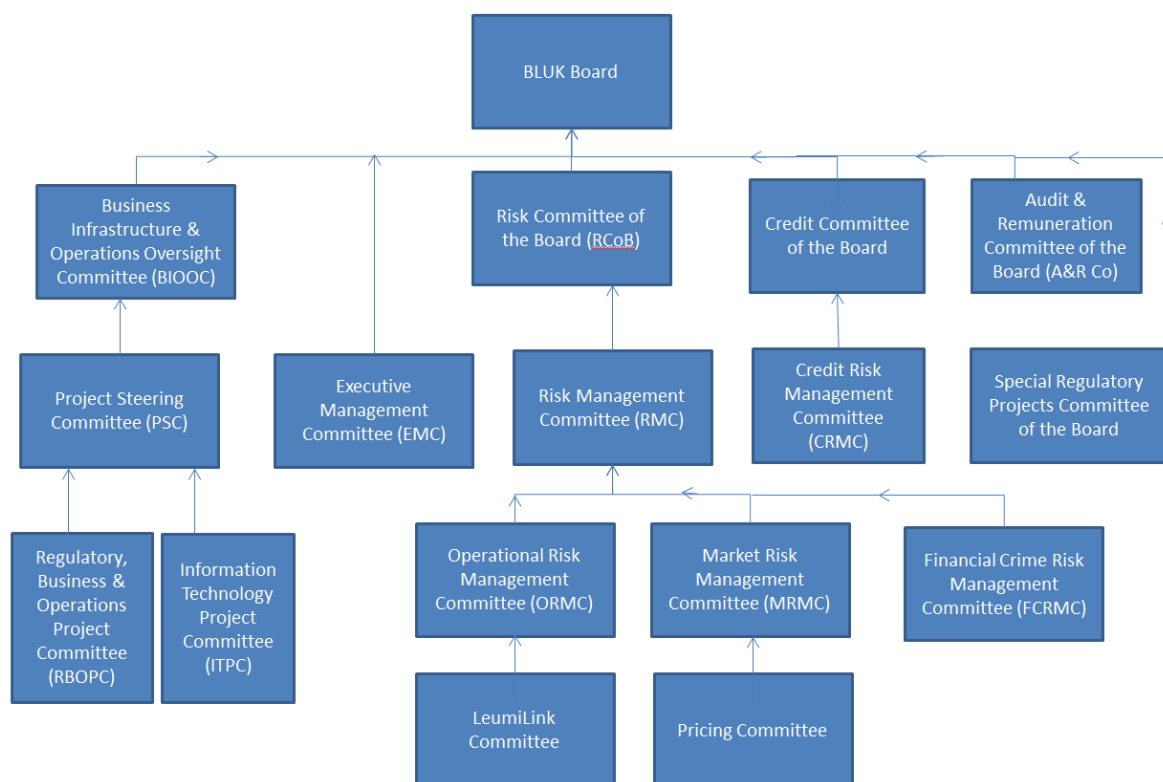


Figure 2 BLUK's committee structure

3.2.1. Risk Committee of the Board (RCoB)

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

3.2.2. Credit Committee

The Credit Committee is responsible for all Credit Risk Matters. Credit risk is managed through the credit risk appetite and by policies and detailed procedures which call for individual assessment of the credit quality of all counterparties, and a separate assessment of the quality of collateral held to mitigate the exposure. A credit grading system has been implemented and each individual rating is independently assessed before being agreed. Concentration risk is monitored by borrower concentration, industry sector and country.

3.2.3. Special Regulatory Projects Committee

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

3.2.4. Risk Management Committee (RMC)

The RMC has prime responsibility for the BLUK group's risk management structure and strategy. This includes the annual assessment of the Bank's risk appetite (including quantitative measures); the identification, management and apportionment of risk to relevant risk owners; and the review and agreement of the regular Group assessments of compliance, fraud and embezzlement, 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. The committee normally meets monthly to discuss an agenda set by the Chief Risk Officer (CRO). 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.

The committee will approve any risk related policy not dealt with by other risk committees.

3.2.5. 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 role of CRMC is to assess, manage and monitor credit risk and credit proposals across the Bank; and at the request of a Member, discuss and review any credit risk issues or problematic accounts affecting the Bank.

3.2.6. Market Risk Management Committee (MRMC)

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

3.2.7. 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/non-financial impact). Event details, root-cause, control failures, 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.

3.2.8. Risk Control Department

The Risk Control Department forms one of the Bank's two second lines of defence functions and has three main areas of responsibility:

- Dealing Room Middle Office (market Risk).
- Operational Risk management.
- Facilitation of ICAAP/ILAAP/RRP processes.

The Risk Control Department remains responsible for monitoring that enterprise-wide risks are within Risk Appetite. 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 external events that may affect or be relevant to the Bank.

3.2.9. Compliance

The Chief Risk Officer has oversight of risk and compliance issues in BLUK and its subsidiaries. Compliance 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.

Compliance undertake monthly monitoring spot checks as part of their risk based approach monitoring plan. A monthly report of the findings is submitted to the RMC for discussion, and a quarterly report is submitted to the Risk Committee of the Board.

Compliance 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 Compliance.

3.2.10. Financial Crime

The Financial Crime Department, headed by the Money Laundering Reporting Officer (MLRO), is responsible for the managing the AML policy and procedures of the Bank. The department conducts independent monitoring & provides regular reports to both the RMC, and the Risk and Audit Committees.

3.2.11. Credit Risk Management Department (CRMD)

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.
- provide independent analysis and challenge of all credit applications.
- maintain the validity and effectiveness of credit risk, 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/Recoveries section and the Loan Review function, the latter being an independent, post approval, assessment of emerging credit risks.

3.3. Risk Domains

3.3.1. Credit Risk

BLUK, in recognising the specific business areas that it provides finance to, acknowledges it operates in an inherently 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.

3.3.1.1. Credit Risk Appetite

BLUK 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 sector knowledge and the Bank's credit grading system.
- 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 monitors a tolerance for lending that moves outside credit policy.

3.3.1.2. Credit Policy

BLUK 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.

3.3.1.3. Credit Grading

BLUK employs a system which allocates Credit Grades to all borrowing customers and is an important component of Credit Policy. The Probability of Default (PD) element of each grade is calculated using a combination of expert judgement and quantitative 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.

3.3.1.4. Credit Risk Mitigation

In accordance with the Capital Requirements Directive, BLUK 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. BLUK utilises the “simple” method for credit risk mitigation purposes.

3.3.1.5. 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.

3.3.1.6. 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.

Policy states that exposures will not exceed internal threshold of 17.5% 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 cumulative 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).

3.3.1.7. Exposures to Banks

Bank limits are formally reviewed by the Credit Risk Management Committee at least annually in consultation with our Parent Company’s International Division and ratified by the Credit Committee. All exposures are under constant monitoring with regular discussions held with our Parent Company.

3.3.1.8. 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 facilities. 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 of the Bank’s subsidiaries above £1m.

3.3.1.9. 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.

3.3.1.10. 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 Bank lines are coordinated with BLITA and their approval obtained prior to marking any limit.

3.3.1.11. 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.

3.3.1.12. External Credit Assessments

In accordance with CRR Article 444, BLUK 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.

3.3.2. Legal Risk

The Bank has established a Legal and Banking Documentation Department (LBD) 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):

- acts on the CEO's authority. He is responsible for ensuring that BLUK complies with all appropriate laws in the conduct of its business and 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 and Credit Risk Management Committee.

3.3.3. Liquidity Risk

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; and
- By adjusting the price of funds.

Monitoring and Management

The 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 MRMC, 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, a MRMC meeting is called.

3.3.4. Market Risk

3.3.4.1. Market Risk Appetite

BLUK 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.

3.3.4.2. 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 MRMC 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.

3.3.4.3. 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 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.

3.3.5. Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational Risk arises from the potential for key system failures, breaches of internal controls or from external events resulting in financial loss or reputational damage.

The group has an operational risk management framework in place that includes a risk appetite and risk measures, which are approved by the Board.

3.3.5.1. 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 including:

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

In addition to stress testing, the Bank performs reverse stress testing and sensitivity tests.

4. Regulatory Own Funds

Regulatory capital is categorised as either Tier 1 or Tier 2 depending on the characteristics of the capital items. Certain capital deductions and regulatory adjustments are made against these capital items reflecting the different regulatory treatment for capital adequacy purposes.

4.1.1. Reconciliation between own funds and audited financial statements

As at 31 December 2018				
Amounts in £000's	Per Financial Statements	Adjustments to Balance Sheet	Notes	Under regulatory scope of consolidation
Tier 1 Capital				
Paid-in share capital	78,060			78,060
Retained earnings brought forward	126,405			126,405
Profit for the year	10,907	(10,907)	1	0
Available for sale reserve	(49)			(49)
Regulatory adjustments	(714)			(714)
Total Tier 1 Capital		2,977		2,977
	214,609	(7,930)	1	206,679
Tier 2 Capital				
Subordinated liabilities	-	-	-	-
Collective provisions for impairment	53,533	(67)	2	53,466
Total Tier 2 Capital	53,533	(67)		53,466
Total shareholder's equity	268,142			260,145
<i>Notes:</i>				
1 Regulatory capital does not include uncertified profit for the year.				
2 Accrued interest excluded from regulatory capital				

Table 1 Statutory to regulatory capital reconciliation – per CRR Article 437

4.1.2. Composition of regulatory capital

The table below summarises the composition of regulatory capital as at 31 December 2018.

As at 31 December 2018	
Amounts in £000's	
Core Tier 1 Capital	
Called up ordinary share capital	14,324
Share Premium account	63,736
Available for Sale Reserve	(48)
Pension Deficit	(714)
Profit & Loss reserve	126,405
Total Core Tier 1 Capital	203,703
Deductions from Core Tier 1 Capital	
Deferred Tax Asset	-
Defined Benefit Asset	-
Goodwill on acquisition	-
Prudential Valuation Adjustment	(40)
IFRS 9 add back	3,016
Total Core Tier 1 Capital after deductions	206,679
Tier 2 Capital	
Perpetual subordinated debt	8,000
Dated subordinated debt	45,466
Collective provision	0
Total Tier 2 Capital	53,466
Total Regulatory Capital	260,145

Table 2 Composition of regulatory capital

The composition of BLUK's regulatory capital is shown in Table 2 and the own funds disclosure template as required in Commission Implementing Regulation (EU) No 1423/2013 is presented in **Appendix I**.

4.1.3. Capital resources – Tier 2

The table below provides a breakdown of the components of Tier 2 Capital as at 31st December 2018.

Tier 2 Capital	Interest Rate	Interest Fixing	£000's
Undated perpetual subordinated debt	4.901%	3 monthly	3,000
Undated perpetual subordinated debt	1.739%	3 monthly	5,000
Notice subordinated debt	1.656%	3 monthly	3,578
Notice subordinated debt	1.531%	3 monthly	1,249
Notice subordinated debt	1.406%	3 monthly	30,639
Notice subordinated debt	1.346%	3 monthly	7,500
Notice subordinated debt	3.803%	3 monthly	2,500
Total Tier 2 Capital			53,466

Table 3 Subordinated liabilities

Additional information on subordinated liabilities is found in Note 23 of the [2018 Annual Report](#).

5. Capital Resources Requirements

BLUK 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 total Pillar 1 capital requirement is calculated as the total of the credit risk, market risk and operational risk requirements as set out in CRD IV. The table below summarises BLUK's Pillar 1 capital resource requirement.

Capital requirement as at 31 December 2018	£000's
Credit Risk - Standardised Approach	
Central governments/central banks	-
Regional governments or local authorities	-
Administrative bodies and non-commercial undertakings	-
Multilateral development banks	-
International organisations	-
Institutions	1,832
Corporates	56,443
Retail	-
Secured by immovable property mortgages	27,730
Exposures in default	919
Items with particularly high risk	15,742
Covered bonds	-
Securitisation positions	-
Claims on institutions & corporate with CR assessment	417
CIUs	-
Other items	983
Total Credit Risk Requirement	104,065
Credit Value Adjustment risk	3
Operational Risk - Basic indicator approach	8,061
Trading book	
Interest rate PRR	-
Equity PRR	-
Option PRR	-
Counterparty risk capital component	0
Concentration risk component	-
Commodity PRR	-
Foreign currency PRR	96
Total Trading Book	96
Total capital requirement	112,226

Table 4 Capital resources requirements

5.1.1. Counterparty credit risk

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.

5.1.2. 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 implemented a monitoring period which ran to January 2018, during which time a minimum leverage ratio of 3% was applied. This limit was reassessed in 2018 before becoming mandatory in 2018.

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

As at 31 December 2018 BLUK's leverage ratio was 12.45%. The leverage disclosure templates required by Commission Implementing Regulation (EU) No 2016/200 are presented in **Appendix II**.

6. Credit Risk

Credit risk is the exposure to loss arising from a counterparty's failure to meet its contractual obligations, either as a result of business failure or intentional withholding of amounts due.

BLUK is exposed to credit risk in relation to its loans and advances to customers, cash held on deposit with banks, cash held on deposit with central banks, investments, trade and other receivables.

BLUK 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.

Credit risk

Details of BLUK's credit risk exposures are provided in **Appendix V**.

Credit risk mitigation

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

All amounts in £000's	Cash collateral	Securities collateral	Guarantees	Total
Central governments/central banks	-	-	-	-
Institutions	-	-	-	-
Corporates	2,186	-	290	2,476
Secured by immovable property mortgages	-	-	-	-
Exposures in default	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-
Items with particularly high risk	-	-	-	-
Multilateral development banks	-	-	-	-
Other items	-	-	-	-
Total Credit Risk Mitigation	2,186	-	290	2,476

Table 5 Credit risk mitigation

7. Market risk

BLUK 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.

Capital Requirement £000's	Trading book	All activities
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	96	96
Commodity position risk	-	-
Total	96	96

Table 6 Market risk requirement

8. Operational risk

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.

The calculation of the operational risk capital requirement is shown in the *Table 7 Operational risk capital requirement*.

All amounts in £000's	2018	2017	2016
Net interest income	42,541	40,036	38,721
Non interest income	11,546	12,576	14,006
Operating income	54,087	52,612	52,727
3-year average	53,142		
Operational risk capital requirement	7,971		

Table 7 Operational risk capital requirement

9. Pension obligation risk

Pension obligation risk is assessed through the use of stress tests which consider the impact of possible alternative assumptions on the valuation of the Scheme liabilities as well as consideration of stresses on asset values. Stress tests are performed in line with the PRA Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital' and reported in the Internal Capital Adequacy Assessment Process (ICAAP). The pension obligation risk capital requirement is an add-on to the BLUK's minimum capital requirement.

10.Liquidity risk

Liquidity risk is the risk that the Bank encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations. BLUK is in compliance with PRA requirements relating to the management of liquidity by way of its Liquidity Risk Management and Liquidity Stress Testing Policies, and the Bank's Contingency Funding Plan.

Quantitative assessments of liquidity resources are undertaken through the Internal Liquidity Adequacy Assessment Process (ILAAP).

10.1.1. Liquidity Coverage Ratio

The following table shows the LCR values calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter.

(£ 000's)		2018			
		Q1	Q2	Q3	Q4
21	Liquidity Buffer	399,033	333,584	237,142	224,111
22	Total Net Cash Outflows	196,534	162,790	105,763	94,297
23	Liquidity Coverage Ratio (%)	215%	217%	233%	247%

Table 8 Quarterly LCR

11.Other risks

11.1.1. Asset encumbrance

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.

Details of BLUK's disclosure on asset encumbrance as at 31 December 2018 are provided in the **Appendix IV**.

12.Remuneration Disclosures

These remuneration disclosures are based on BLUK's financial year end, as at 31 December 2018. 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

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 EBA guidance.

Approach to Remuneration

Audit and Remuneration Committee is kept informed of developments associated with the FCA's and PRA's Remuneration Code.

None of BLUK'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. The Audit and Remuneration Committee met seven times during the 2018 financial year.

Quarterly reports are presented to the Audit and Remuneration Committee on business related compliance and risk issues. These are produced by the Compliance, the 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, Premier Banking & Liabilities, International Banking Services; and
- Non-Executive Directors.

Design and structure of the remuneration system

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

BLUK'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 2018

The Bank is required to disclose aggregate quantitative remuneration information for its Code Staff in the year ending 31 December 2018. As at 31 December 2018, there were 36 Code Staff identified by the Bank.

Aggregate remuneration is made up of total fixed and variable remuneration awarded in respect of the 2018 performance year.

Function	Amount	Number of staff
Corporate Finance	£803,240	7
Finance & Operations	£1,743,777	13
Other & Control Functions	£1,609,235	16
Total	£4,156,252	36

Table 9 Remuneration by Function

Amounts and form of fixed and variable remuneration

Total fixed remuneration paid in the financial year ended 31 December 2018 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 2018 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.

	Fixed	Variable	Total Remuneration	Number of Staff
Senior Management	£1,035,818	£351,680	£1,387,498	15
Other Code Staff	£2,293,453	£475,300	£2,768,753	21
Total	£3,329,271	£826,980	£4,156,251	36

Table 10 Fixed and variable remuneration

12.1.1. Board Directorships

In addition to their roles held within BLUK Group the external directorships held by the Directors who were on the Board as at 31st December 2018 are listed in Table 11.

Name	Directorships*/ Partnerships
Jean Stevenson	1
Michael Green	1
Yoel Mintz	2
William Lindsay	1
Nicholas Treble	3
Adrian Stirrup	-
Shmulik Arbel	-
Sasson Mordechay	-
Robert Levy	3
Anthony Landes	2
Gil Karni	-
*Number of Directorships excludes the Company and its subsidiary and counts external directorships held within the same group of companies as a single directorship. It excludes Directorships of non-commercial organisations.	

Table 11: Board Directorships

13. Appendix I – Own funds template

Disclosure according to Article 5 of the Implementing Regulation (EU) No. 1423/2013.

Common Equity Tier 1 capital: instruments and reserves		2018 £m	REGULATION (EU) No 575/2013 ARTICLE REFERENCE
1	Capital instruments and the related share premium accounts	78.06	26 (1), 27, 28, 29, EBA list 26 (3)
2	Retained earnings	126.41	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	(0.76)	26 (1)
3a	Funds for general banking risk	0.00	26 (1) (f)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	203.70	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
9	Adjustments to CET1 due to prudential filters	-0.04	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.00	36 (1) (g), 44, 472 (9)
20	Other transitional adjustments to CET1 Capital	3.02	
29	Common Equity Tier 1 (CET1) capital	206.68	
Additional Tier 1 (AT1) capital: instruments			
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0.00	
Additional Tier 1 (AT1) capital: regulatory adjustments			
44	Additional Tier 1 (AT1) capital	0.00	
45	Tier 1 capital (T1 = CET1 + AT1)	206.68	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	53.47	62, 63
50	Credit risk adjustments	0.00	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustment	53.47	
Tier 2 (T2) capital: regulatory adjustments			
58	Tier 2 (T2) capital		
59	Total capital (TC = T1 + T2)	260.15	
60	Total risk-weighted assets	1,402.82	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.73%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	14.73%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	18.54%	92 (2) (c)

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64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	1.65%	CRD 128, 129, 140
65	of which: capital conservation buffer requirement	1.25%	
Amounts below the thresholds for deduction (before risk-weighting)			
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1.37	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0.00	62

Table 12 Own funds template per EU regulation No. 1423/2013

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Disclosure according to Annex II of Commission implementing regulation (EU) No. 1423/2013.

Capital instruments' main features template ⁽¹⁾									
1	Issuer	Bank Leumi Le -Israel B.M.	Bank Leumi Le -Israel B.M.	Bank Leumi Le -Israel B.M.	Bank Leumi Le -Israel B.M.	Bank Leumi Le -Israel B.M.	Bank Leumi Le -Israel B.M.	Bank Leumi Le -Israel B.M.	Bank Leumi Le -Israel B.M.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
3	Governing law (s) of the instrument	English	English	English	English	English	English	English	English
	Regulatory treatment								
4	Transitional CRR rules	Common equity tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common equity tier 1	Eligible	Eligible	Eligible	Eligible	Eligible	Eligible	Eligible
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 1 as published in Regulation (EU) No 575/2013 article 50	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 78.060m	GBP 5m	GBP 3m	GBP 3.6m	GBP 1.2m	GBP 30.6m	GBP 7.5m	GBP 2.5m
9	Nominal amount of instrument	GBP 14.324m	GBP 5m	GBP 3m	GBP 3.6m	GBP 1.2m	GBP 30.6m	GBP 7.5m	GBP 2.5m
9a	Issue price	£1each	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	Non- redeemable	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Shareholder's equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Various	16 April 2008	22 December 2008	20 December 1991	31 December 1991	20 December 2006	18 October 2007	16 April 2008
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	N/A	N/A	5 years notice	5 years notice	5 years notice	5 years notice	5 years notice
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Coupons / dividends								
17	Fixed or floating dividend/coupon	N/A	Floating	Floating	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	N/A	3 months Libor+ margin	3 months Libor+ margin	3 months Libor+ margin	3 months Libor+ margin	3 months Libor+ margin	3 months Libor+ margin	3 months Libor+ margin
19	Existence of a dividend stopper	Yes	No	No	No	No	No	No	No

(1) 'N/A' inserted if the question is not applicable

Table 13 Capital instruments (continued on the next page)

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Continued from the previous page

Capital instruments' main features template ⁽¹⁾									
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	Yes	No	Yes	Yes	Yes	No
22	Noncumulative or cumulative	N/A	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Most junior	Subordinated to the rights of senior creditors	Subordinated to the rights of senior creditors	Subordinated to the rights of senior creditors	Subordinated to the rights of senior creditors	Subordinated to the rights of senior creditors	Subordinated to the rights of senior creditors	Subordinated to the rights of senior creditors
36	Non-compliant transitioned features	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) 'N/A' inserted if the question is not applicable

14. Appendix II – Leverage ratio

Summary reconciliation of accounting assets and leverage ratio exposure

	Item	Amounts £m
1	Total consolidated assets as per published financial statements	1,536.58
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	5.13
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	119
7	Other adjustments	1
8	Leverage ratio exposure	1,660

Table 14 Leverage ratio, summary reconciliation

Leverage ratio common disclosure

	Item	£m
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,537
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,537
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3.95
5	Add-on amounts for PFE associated with all derivatives transactions	5.13
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-4
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-
11	Total derivative exposures (sum of lines 4 to 10)	5
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-

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14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	343
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	-224
19	Off-balance sheet items (sum of lines 17 and 18)	119
Capital and total exposures		
20	Tier 1 capital	207
21	Total exposures (sum of lines 3, 11, 16 and 19)	1,660
Leverage ratio		
22	Basel III leverage ratio	12.45%

Table 15 Leverage ratio, Basel III disclosure

15. Appendix III – Countercyclical capital buffer

The disclosures required by Article 440 of the CRR are specified in the Commission Delegated Regulation (EU) No 2015/1555 of 28 May 2015 requiring firms to provide information in respect of the countercyclical capital buffer.

Details of BLUK's disclosures in respect of the countercyclical capital buffer are provided in the tables below.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

As at 31 December 2018	General credit exposures	Trading book exposures	Own funds requirements			Own funds requirement weighting	CCyB rate
	Exposure value	Sum of long and short positions of trading book	of which: General credit exposures	of which: trading book exposures	Total		%
	£'000		£'000	£'000	£'000		
Breakdown by country:							
Hong Kong	590.30	-	47.22	-	47.22	22.56	1.88
Sweden	11.61	-	0.93	-	0.93	0.44	2.00
Norway	2.46	-	0.20	-	0.20	0.09	2.00
Czech Republic	2,012.72		161.02		161.02	76.91	1.00
United Kingdom	874,054.22		69,924.34		69,924.34	33,397.93	1.00
Total	876,671.31		209.37		209.37	100.00	

Table 16 Countercyclical capital buffer, geographical distribution

Amount of institution-specific countercyclical capital buffer

Trading book exposures	As at 31 December 2018
Total risk exposure amount (£'000)	1,301
Institution specific countercyclical capital buffer rate	0.67%
Institution specific countercyclical capital buffer requirement (£'000)	8.77

Table 17 Countercyclical capital buffer, summary table

16. Appendix IV – Unencumbered assets

Details of BLUK's disclosure on asset encumbrance as at 31 December 2018 are provided in the tables below.

Template A – 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
010	Assets of the reporting institution	270		1,536,313	
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	32,309	32,309
120	Other assets	-		20,066	

Table 18 Asset encumbrance, Template A

Template B – Collateral received

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Table 19 Asset encumbrance, Template B

Template C – Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	137	270

Table 20 Asset encumbrance, Template C

Template D – Information on the importance of encumbrance

The encumbered assets are approximately 0.02% of the Bank Leumi UK Plc group's total assets. The Bank's encumbered assets portfolio and the sources of encumbrance include the cash placed by Bank as collateral for the derivative transactions.

17. Appendix V – Credit risk exposures

Table 21 and Table 22 review BLUK's credit risk exposures as at 31 December 2018.

Amounts in £000's	Exposure as at 31 December 2018	Average exposure
Central governments/central banks	263,712	274,564
Institutions	109,373	103,300
Corporates	714,653	752,305
Secured by immovable property mortgages	375,865	334,741
Exposures in default	9,469	8,815
Claims on inst & corp with CR assessment	22,589	27,004
Items with particularly high risk	132,430	137,167
Multilateral development banks	9,017	9,119
Other items	12,290	11,371
Total	1,649,397	1,658,386

Table 21 Total average exposures after individual impairment and prior to credit risk mitigation by exposure class

Amounts in £000's	UK	Europe	USA	Israel	Others	Total
Central governments/central banks	240,497	-	23,214	-	-	263,712
Institutions	77,896	2,573	22,211	-	6,693	109,373
Corporates	447,530	172,407	36,486	4,475	53,754	714,653
Secured by immovable property mortgages	276,882	81,458	11,150	-	6,374	375,865
Exposures in default	5,917	26	3,526	-	-	9,469
Claims on inst & corp with CR assessment	11,729	5,930	342	4,254	333	22,589
Items with particularly high risk	97,465	34,965	-	-	-	132,430
Multilateral development banks	-	9,017	-	-	-	9,017
Other items	12,290	-	-	-	-	12,290
Total	1,170,207	306,376	96,930	8,729	67,155	1,649,397

Table 22 Geographic distribution of exposure classes

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£000's	Central governments and central banks	Institutions	Corporates	Secured by immovable property mortgages	Exposures in default	Claims on institutions & corporate with CR assessment	Items with particularly high risk	Multilateral Development banks	Other	Total
Governments/ Central bank	263,712	-	-	-	-	-	-	-	-	263,712
Banks & Building Societies	-	10,984	-	-	-	22,299	-	9,017	-	42,300
Trading Care Homes	-	-	3,871	20,228	-	-	-	-	-	24,100
Media	-	-	78,554	-	5,133	-	-	-	-	83,687
Retail	-	-	181	-	-	-	-	-	-	181
Manufacturing	-	-	84,687	-	503	-	-	-	-	85,190
Wholesale Distribution	-	-	102,342	16,493	24	-	-	-	-	118,859
Commodities	-	-	289,502	-	-	-	-	-	-	289,502
Construction	-	-	12,012	50,521	-	-	106,172	-	-	168,706
Trading Hotels	-	-	50,614	67,593	-	-	-	-	-	118,207
Hi Tech	-	-	1	-	-	-	-	-	-	1
Income Generating Property	-	-	13,314	184,230	-	-	26,258	-	-	223,802
Other Financial	-	98,389	18,603	-	710	290	-	-	-	117,992
Private Banking	-	-	945	36,800	3,098	-	-	-	-	40,844
Other	-	-	60,026	-	0	-	-	-	12,290	72,316
Total	263,712	109,373	714,653	375,865	9,469	22,589	132,430	9,017	12,290	1,649,397

Table 23 Distribution of the exposures by industry and counterparty type

Amounts in £000's	<1 year	1-5 years	> 5 years	Total
Central governments/central banks	255,979	7,733	-	263,712
Institutions	92,841	16,533	-	109,373
Corporates	567,734	146,919	-	714,653
Secured by immovable property mortgages	124,406	251,458	-	375,865
Exposures in default	8,580	889	-	9,469
Claims on institutions & corporate with CR assessment	17,344	5,245	-	22,589
Items with particularly high risk	51,532	80,898	-	132,430
Multilateral development banks	-	9,017	-	9,017
Other items	12,290	-	-	12,290
Total	1,130,706	518,691	-	1,649,397

Table 24 Residual maturity breakdown of all the exposures

Amounts in £000's	Impaired loans	Past due loans	Value adjustments and provisions
Secured on real estate	19,134	-	7,767
Corporates	11,204	-	4,418
Total	30,338	-	12,185

Table 25 Impaired and past due exposures; value adjustments & provisions; charges for value adjustments by significant industry or counterparty type

Amounts in £000's	UK	Europe	USA	Israel	Others	Total
Impaired & Past Due Loans	27,884	2,454	0	0	0	30,338
Value adjustments and provisions	(9,903)	(2,282)	0	0	0	(12,185)
Total	17,981	172	-	-	-	18,153

Table 26 Geographical analysis of impaired exposures and provisions

Amounts in £000's	Loss allowance: Loans and Advances to Customers	Provision Charges- Off Balance Sheet commitments & financial guarantees	Total
As at 1st January 2018	24,377	2,522	26,899
Charge / credit against profits (net of recoveries)	(506)	(166)	(672)
Recoveries	87	0	87
Amount written off	(3,543)	0	(3,543)
FX Difference	27	0	27
As at 31 December 2018	20,442	2,356	22,798

Table 27 Allowances and movements for impairment of loans against credit losses

Bank Leumi (UK) plc Pillar 3 Disclosures

Amounts in £000's	Loss allowance: Loans and Advances to Customers	Provision Charges- Off Balance Sheet commitments & financial guarantees	Total
Impairment charge / credit	(506)	(166)	(672)
Recoveries	87	0	87
Total Income statement charge/(credit)	(419)	(166)	(585)

Table 28 Total Income statement charge/(credit)