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Contents

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Statement by the CEO

Part One
Description of the banking corporation's general business development

Part Two
Other information

Part Three
Description of the banking corporation's business by activity segments

Part Four
Matters related to the banking corporation's overall activities

Management review, financial and periodic reports

Statement by the CEO

The year 2011 was a complicated year from the economical aspect. The global economical situation was undermined as well as the beginning of a slowdown in the Israeli economy's growth. In the beginning of the year, the real-estate segment continued to flourish, but by the middle of the year a slowdown started in this field accompanied by mortgage assumptions.

Bank of Jerusalem continued with the implementation of its strategic plan in various areas:

In the area of accompanying building projects, the Bank experienced a material growth, while implementing many syndicate deals and thus the Bank, in fact, reduced risk, increased dispersion and yield. In a similar way, the Bank continued to develop the solar systems segment.

In the retail segment, the Bank continued to implement its competitive retail strategy in a number of levels.

1. Deepening consumer credit activity based on a working model combining examination of each and every customer in a supporting decision model and detailed examination by a branch banker.
2. Continuation of sales of the Bank's traditional products. Mortgages, deposits, Securities, credit cards and credit for vehicles, with the emphasis on the second-hand vehicle market.
3. Extensive upgrade of work procedures and supervising entities at the Bank, mainly in the retail area, with the emphasis on new areas in this segment.
4. Starting a project for upgrading the computer systems while strengthening the the Bank's core system, and adopting a multi-channel environment. This is an investment of tens of millions of Shekels over a period of a few years. As a result of this process, during 2012, the Bank expects to launch most of the upgraded and new systems.

Moreover, the Bank continued to develop new retail formats that are likely to be integrated into the focused retail vision in the future.

This year there was a material increase in the Bank's revenue from financing of its core business segment. As a result of this expansion and correspondingly, there was an increase in expenses, as direct consequence from the deployment of this activity.

During 2012, the Bank intends to continue these efforts and to expand even more in the retail segment.

Moreover, this year the Bank launched the closed deposit system, accompanied with changes in method in this segment, which in essence provides relatively high interest to the banking system on every deposit in any amount with full access to the Bank by starting an internet account, without the necessity of coming to the Bank.

The Bank views this area as a true message for consumers and having the capability of greatly extending its deposit volume, liquidity, and revenues deriving from this segment. Beyond this, it means leading in innovation and creativity in the retail segment in the entire banking system.

Uriel Paz
Chief Executive Officer

Part of the above-mentioned information is information facing the future. The bank's actual conduct may be essentially differ from the above-mentioned description as result from a large number of factors, including, among others, as a result of unexpected political/security events, changes in customer preferences and regulations, changes in legislative instructions, or instructions from supervisory factors.

Report of the Board of Directors

For the general assembly of Shareholders

Financial Statement for 2011

Bank of Jerusalem Ltd. and its consolidated companies

Report of the Board of Directors for the General Assembly of Shareholders

At the meeting of the Board of Directors held on February 28, 2012, it was decided to approve and publish the consolidated financial statements of Bank of Jerusalem Ltd. (hereinafter: "the Bank" or "Bank of Jerusalem") and its subsidiaries for the year 2011 (hereinafter "the book year"). The financial statements were prepared in conformity with the instructions of the Supervisor of Banks, and data presented in reported amounts.

Part One — Description of The General Development of The Business of The Banking Corporation

Activity of the banking corporation and description of business developments

The Bank

Bank of Jerusalem was founded in 1963, as a public company, in accordance with the definition in the Companies Ordinance, New Version, 5743 — 1983, in the name of Bank of Jerusalem for Development and Mortgages Ltd. Bank issued its shares to the public for the first time in 1992, thereby becoming a company whose shares are traded on the Tel Aviv Stock Exchange. During 1996, the Bank's name was changed to its present one, Bank of Jerusalem Ltd. (hereinafter: "**the Bank**"). Mrs. Kena Shoval is a controlling shareholder of the Bank conforming to the control permit from the Bank of Israel.

The Bank is a banking corporation, with a banking license according to the Banking Law (permit), 5741 – 1981, and operates as a commercial bank as of 1998. The Bank is based on an extensive homeowner customer base, Israeli and foreign residents, and operates in mortgage segment, consumer credit, savings and deposits, financing of constructions for residential purposes, financing vehicle purchase, other commercial credit and capital market activity.

The Bank's management is located at Airport City. Currently, the Bank operates 16 branches throughout Israel.

Objectives and Business Strategy

In February 2011, the Board of Directors of the Bank approved Stage A of the outline for the Bank's multi-year strategic plans. At the center of the strategic plans as approved above, and after re-examination by the Board of Directors in December 2011; is the extensive growth of the retail segment while increasing the customer base and the product packages, as well as services to households, while diversifying and dispersing its retail activity areas. For example: consumer credit and deposits (hereinafter in this report: "the Plans" or "the Strategic Plans").

According to the Plan, strategic growth will be accompanied by offering differentiated value while developing the Bank's retail expertise. At the base of the the Strategic Plans, is a decrease in the Bank's systematic risks by diversifying and customer deficit and minimum revenue resources, as well as public deposits with emphasis on households, and from well-dispersed consumer credit, also based on households.

The Strategic Plan is supported by competitive environment analysis that indicates the positive potential for customer recruitment from households. This, in view of the centralization in banking systems on one hand, and on the other hand, the increase in customer awareness and readiness to improve his situation. In this business environment, a bank that succeeds in building an efficient and slim operating model, could benefit over time in a material way by its customers, independently of one or another specific campaign.

For the purpose of realizing the above-mentioned plan's objectives, the Bank operates in a number of dimensions of operation that have been defined in the Strategic Plan as follows:

- Expansion of Bank activity based on its current activity, with the addition of expansion activity in checking accounts and consumer credit segments.

- Transition to a widespread use of technological means for communication with customers including multi-channel banking, enabling opening a deposit account via the Internet, while reducing the dependency on activity in the physical branches;

- Implementing an IT project including a CRM system, an advanced telephone service center, and infrastructure for service points and ATMs (project "New World" — see below), with a total investment volume of many millions in a gradual and controlled manner;

- Offering better financial value to the customer, in the savings and deposits segment, as well as in additional consumer areas. The value offer does not come only at the expense of costumer profitability, but is based on diverting the operating model to the Internet. This model enables lower costs, without damaging the service quality provided to the customer, and without the need to compromise the quality of risk management on the the part of the Bank;

- Increasing consumer awareness to the Bank's image as a competitive and creative bank.

In the consumer credit segment, the Bank 's Strategic Plan continues the procedure that had already begun during the fourth quarter of 2010, for providing consumer credit to the Bank's customers, as well as to new customers, members of the household segment. This procedure gradually brings diversification and deficit in the Bank's credit portfolio, which is concentrated in mortgages. Since the fourth quarter of 2010, extensive volume of consumer credit has been provided to trade receivables, activity volume enabling the validity of the statistic modules the Bank develops for the purpose of customer risk assessment.

The expansion procedure among households is supported by a number of organizational changes implemented by the Bank's management as derived from the plan:

— Organization structure changes: reorganization of business activity under four divisions: Resources Division, Retail Division, Financial Division, and the Risk Division. This change enables matrix management of interaction between product managers and customer managers, and thus enables advanced retail activity.

— Project "New World," headed by the Resource Division: Focused IT project designated to improve the Bank's retail capability to a level required for providing retail banking services. In the framework of this project, called "New World Project," implemented in cooperation with an outsourced solution vendor, the Bank upgrades its Internet site, integrates CRM systems, establishes advanced calling center, and improves the core system activity.

— Changes in the marketing system and customer care: As a result of establishing the Retail Division, secondary systems have been set up to improve the Bank's ability to handle a growing volume of customers to convert and support changing the Bank into a modern retail Bank. The major change has been the establishment of a new call center in cooperation with an outsourced expert service vendor. This center enables the implementation of most banking activities without the necessity of a branch and is characterized by advanced technological capabilities. Moreover, the Bank is expanding its communication and advertising activity.

As part of the Bank's work plan for 2012, the Bank intends to open a number of new branches, including some in the minorities and in the Ultra-Orthodox segments.

Additionally, the Bank places much emphasis on strengthening its supervision and control array. During the reportyear, the functions of the first control level have been strengthened, and a division of current accounts was established, supervision has been established in the branch banking department, with close supervision of branch work as the focus of its role. In addition, the functions of the second control level has been strengthened — by the Chief Risk Manager. For the third level, see details in the chapter on "Risks and Risk Management Methods."

During 2012, and in continuing the plan and examining of retail expansion; the Board of Directors intends to continue examining expansion of several contact points with the customer through cooperating with external retail partners. The Bank will examine a number of cooperative efforts with retail factors to enable sales points and services at the retail level for designated transactions (for example: deposits at the Postal Bank and/or credit for vehicle purchases in car agencies), as well as in general banking in the format of a store within a store. The Bank sees a strategic solution for the disadvantages of branch dispersion in these cooperative ventures. In addition to the review and validation of operational and budgetary aspects of each of the aforementioned cooperative efforts, all the mentioned communications are thoroughly reviewed from the aspect of risk management, and the required allocated capital, as well as the regulatory permits.

Moreover, the Bank continues with business activity in the realm of accompanying building projects, and this while conservatively reviewing business profitability, and integrating institutional entities in syndicates for dispersal of credit risk in large transactions. During 2011, the Bank extended its cooperation with institutional entities. The Bank is interested in continuing to implement this during 2012 as well.

The change in definition of the Bank's core activity and the massive expansion of contact points with the customers and the supply of retail services are accompanied by the Bank's meticulous examination for changes in the risk profile derived from new activity characteristics and the allocation of required capital suitable for the aforementioned risks;

The Bank work plan for 2012 is based on the principles of the Strategic Plans, supported, among others, by capital ratios (total capital ratios and core capital ratios) higher than the capital objectives as defined under the internal assessment procedure (the ICAAP) for 2010. At the base of this planning is the conservative approach of the Bank with regards to capital planning and maintaining as additional capital cushion. The Bank's work plan for the years following 2012 will be considered, among others, the future capital outline that has been presented in the framework of the discussions on this issue between the Bank and the Bank of Israel.

The Bank's plans and assessments as specified above, are future facing information, as well as based upon assumptions and various forecasts presented to the Board of Directors. This information may not be realized because of changes that may be applied because of various factors that are not solely controlled by the Bank. Influencing factors include forecasts and assessment concerning economic development in Israel and globally, especially concerning the economic situation, including the influence of macro-economic and geopolitical conditions, changes in capital markets, as well as other additional factors influencing risk exposure: public preference, instruction by supervisory factors and others, aspects related to the Bank's image, technological developments and the subject of human resources.

The Bank's activity during 2011

During 2011, the Bank of Jerusalem operated in a challenging environment, against the background of the local market's recovery with the increasing current crisis in the countries of the Euro Block, and the recovery attempts from the global financial crisis that broke out during 2008.

Developments in Profit and Loss items

Net income for the report year amounted to NIS 45.5 million, compared to NIS 34.1 million in the previous year, an increase of 33%. The rate of net return on average equity was 7.3% compared to 5.5% in the previous year. The main increase in profits derives from profit of unusual activities to the amount of NIS 20.8 million for the sales of the management building in Jerusalem.

Net income from unusual activities for the report year amounted to NIS 24.7 million, compared to NIS 34.1 million in the previous year, a decrease of 28%. The rate of net return from unusual activities on average equity was 4% compared to 5.5% in the previous year.

Despite the material increase of about NIS 50.1 million in financial profit from core banking activity (including profit from financial capital), there was a decrease in profitability deriving from decrease in nostro profit for the amount of about NIS 20.4 million, from an increase of about NIS 21.7 million in operating expenses (for details see below), from an increase of NIS 16 million in expenses for credit loss mainly for new instructions on the issue of bad debts as specified below, and a decrease to the amount of about NIS 7.7 million in operating income and others.

Below is the rates of yield on equity per quarter (in percentages):

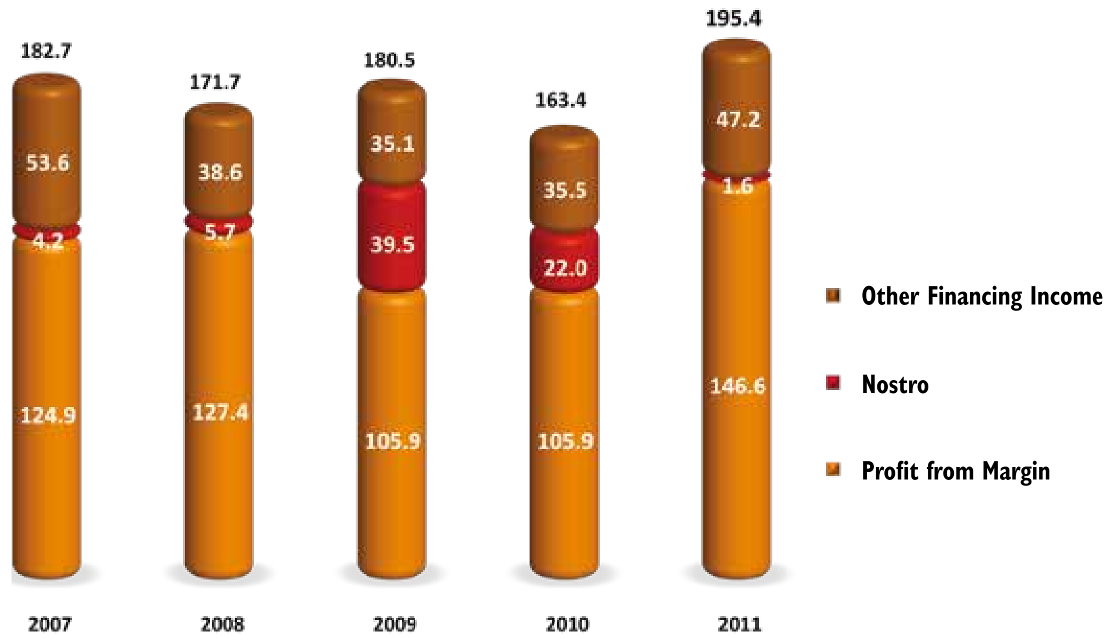
	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net profit from regular activities	5.4%	5.2%	1.2%	4.1%	3.9%	6.3%	4.7%	7.5%
Net profit	5.4%	6.1%	15.0%	4.1%	3.9%	6.3%	4.7%	7.5%

The income from finance activity before expenses for credit loss for the report year totaled NIS 195.4 million, compared to NIS 163.4 million in the previous year; an increase of 20%.

The main increase derives from increase in income from profits to the amount of NIS 40.7 million being an increase of about 40%, offset by decrease in nostro profit to the amount of NIS 20.4 million.

The source of increase in income profit derives from the improvement in performance margins of mortgages, increase in consumer credit performance having a relatively high margin and increase in interest environment.

Profit from Financing Activity
(in millions of Shekels)



The expenses for credit loss in the report year totaled NIS 13.4 million, compared to negative allowance (income) of about NIS 2.6 million in the parallel period in the previous year, an increase deriving mainly from the first implementation of new instructions in 2011 on the issue of allowance for creditloss. According to these instructions, the Bank is also required to register expenses for credit loss on debts that have not been identified as problematic debts and this according-to predictive statistical allowance rate. Accordingly, during 2011, deviation of expenses was registered in the group allowance on consumer credit balance for the amount of NIS 8 million and this because of a sharp increase in balance for this year. It should be emphasized that this allowance does not necessarily reflect the expected allowance for this credit in the coming years. Excluding the above-mentioned allowance, the rate of yield on net profit from regular activity, and in total, is 4.8% and 8.1% respectively.

The Bank's assessments as specified above, concerning the expected allowance in review of the future facing information, as well as based upon assumptions and different forecasts presented to the Bank. This information may not be realized because of changes that may be applied for various factors that are not controlled by the Bank only. Influencing factors include forecasts and assessment concerning economic developments in Israel, especially concerning the economic situation in the market, including the influence of macro-economic conditions, and also other additional factors influencing the risk exposure: instructions by supervising factors and others, aspects related to the Bank's image, technological developments and the subject of human resources.

Operating and other income for the report year amounted to NIS 77.5 million, compared to NIS 85.2 million in the previous year, an decrease of 9%. The main decrease derives from decline in operating income in Securities (at the Bank and the subsidiary).

Operating and other costs for the report year amounted to NIS 224.8 million, compared to NIS 203.1 million in the previous year, an increase of 11%. The main increase derives from an increase in salary expenses, building and equipment maintenance, computer and advertisement expenses. The increase of expenses is due to the integration of the Bank's Strategic Plan, which influenced the work force's growth and increased computer and advertisement expenses. In addition, in the report year the Bank's headquarters moved from a owned asset to a rented one, which resulted in an increase of building maintenance and equipment expenses.

The salary expenses during the report year amounted to NIS 134.1 million, compared to NIS 120.7 million during the previous year.

The provision for taxes on profits from regular activity in 2011 amounted to a total of NIS 10 million. The effective tax rate in the year 2011 reached 28.8%, compared to the statuary tax rate of 34.5%. For additional information see note 27 of the Financial Statements.

Below are details of net profit per share during the last three years:

Net profit per share (in Shekels)

	2011	2010	2009
Profit from regular activities	0.35	0.48	0.83
Profit from extraordinary operations	0.30	—	—
Total profit per share	0.65	0.48	0.83

Developments in Balance Sheet Items

The total of the balance as of December 31, 2011, amounted to NIS 11,483 million, compared to NIS 10,126 million in the segment during 2010; an increase of about 13%. The increase derives from an increase in the credit balance for the public, as detailed below.

The cash and deposits balances at the banks as of December 31, 2011, amounted to NIS 792 million, compared to NIS 652 million at the end of 2010; an increase of about 21%.

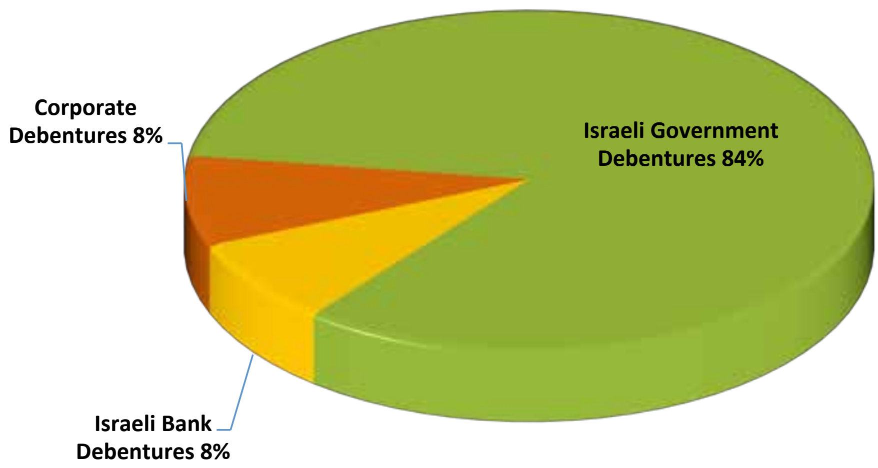
Balance of Public's Credit as of December 31, 2011, amounted to NIS 1,491 million, compared to NIS 1,315 million at the end of 2010; an increase of about 13%.

Below is the composition of the securities:

	Balance for December 31		
	2011	2010	
	Millions of NIS		Changes in %
Israeli government debentures	**1,245**	1,187	5
Israeli bank debentures	**120**	89	35
Corporate and other debentures	**126**	39	223
Total Securities	**1,491**	**1,315**	**13**

Balance of Public's credit as of December 31, 2011, amounted to NIS 9,058 million, compared to NIS 8,037 million at the end of 2010; an increase of about 13%. The increase derives from an increase in the housing credit portfolio, an increase in consumer credit, and in the business segment's credit balance.

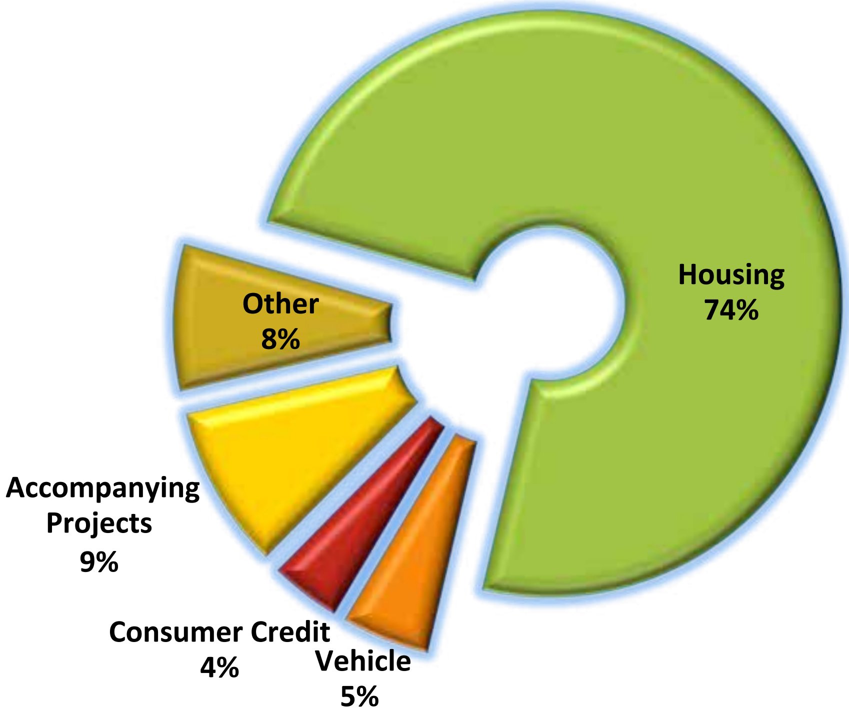
Composition of Nostro Portfolio.



Below is the composition of the public's credit balance:

	Balance for December 31		
	2011	**2010**	
	Millions of NIS		Changes in %
Housing credit	**6,721.7**	6,155.1	9
Credit for vehicle purchase	**439.5**	582.4	(25)
Consumer credit	**351.6**	46.4	658
Credit for contractors and other customers	**1,545.0**	1,253.0	23
Total credit to the public	**9,057.8**	**8,036.9**	**13**

Mix of Credit Portfolio

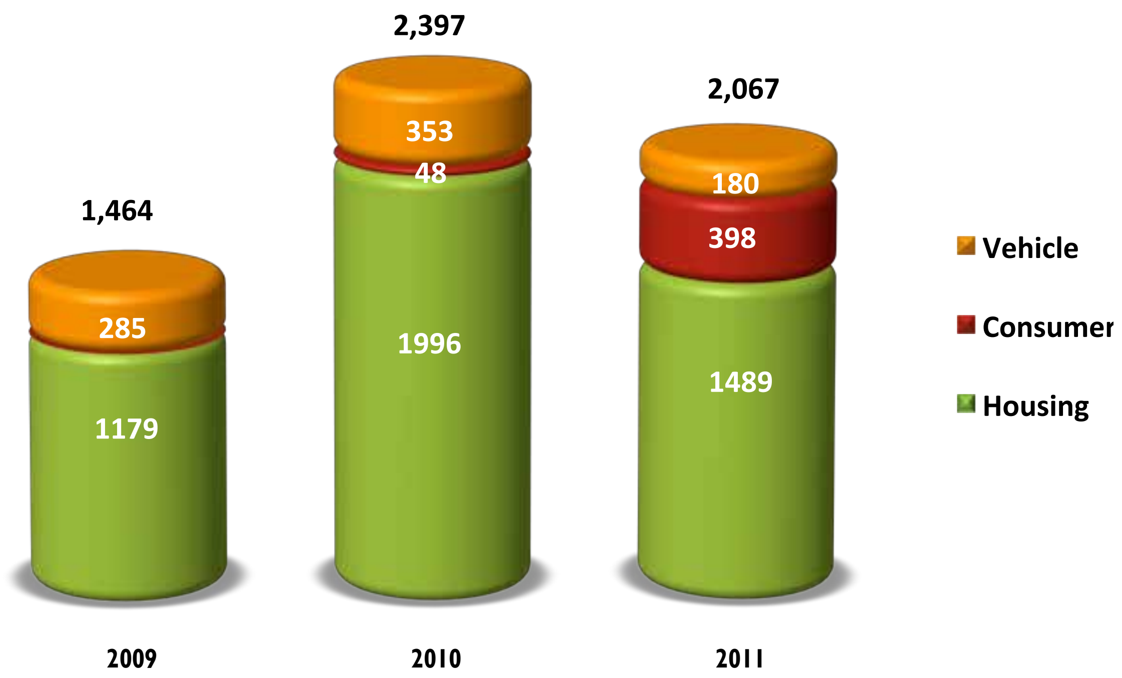


Below is a table with housing credit performance data, for consumer and vehicle credit:

	For the year ending on December 31		
	2011	2010	
	Millions of NIS		Changes in %
Housing credit performances	**1,402**	1,805	(22)
Recycling housing loans	**87**	191	(54)
Total housing credit (including recycling)	**1,489**	**1,996**	**(25)**
Consumer credit performance	**398**	48	729
Vehicle credit performance	**180**	353	(49)
Total housing, consumer and vehicle credit (including recycling)	**2,067**	**2,397**	**(14)**

Performance Retail Credit

(in Millions of Shekels)



During 2011, the Bank changed the credit performance mix, as may been seen in the above table, with the purpose of improving credit margins and adjusting them to the existing risk level in each of the products.

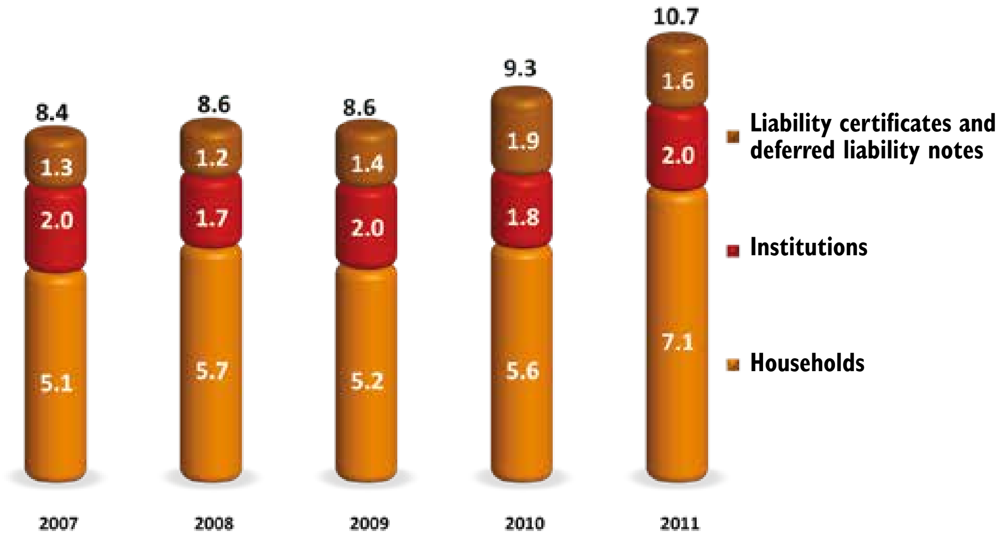
The decrease in vehicle credit performance derives from a decrease in providing credit to the first-hand vehicle market, and on the other hand, providing credit to the second-hand vehicle market.

Balance of public deposits as of December 31, 2011, amounted to NIS 9,065 million, compared to NIS 7,408 million at the end of 2010; an increase of about 22%. The main increase derives from an increase in recruiting households to the amount of NIS 1,400 million as specified below in chapter Recruitment and Finance Resources.

Balance of liability certificates and deferred liability notes as of December 31, 2011, amounted to NIS 1,612 million (from this — balance of deferred liability notes for a total of NIS 518 million), compared to NIS 1,921 million at the end of 2010 (from this — deferred liability notes for a total of NIS 450 million). On May 4, 2011, the Bank issued deferred liability notes for the total amount of NIS 100 million through its subsidiary.

Total balance of public deposits, liability certificates and deferred liability notes as of December 31, 2011, amounted to NIS 10,677 million, compared to NIS 9,329 million at the end of 2010; an increase of about 14%.

The Bank's Resource Mix
(In Billions of Shekels)



Developments in off-balance-sheet items

The balance of loans from deposits by collection level (loans to eligibles from government money) as of December 31, 2011, amounted to NIS 2,308 million, compared to NIS 2,617 million at the end of 2010; a decrease of about 12%. The main decrease derives from reduction of performance volume of loans to eligibles in the general market, and from the low-interest environment that caused low economical profitability for utilizing these loans. The income from collection fees by collection level, amounted to NIS 18.5 million in 2011, compared to NIS 19.9 million in 2010.

As of December 31, 2011, the balance of security portfolios held in the Bank's custody was about 4,100 customers and amounted to about NIS 1,800 million compared to NIS 1,990 million, held by 3,900 customers at the end of 2010. The income from securities activity amounted to NIS 11.4 million during 2011, compared to NIS 16.5 million during 2010.

The Trust Company of Bank of Jerusalem Ltd (a subsidiary fully owned and controlled by the Bank) handles the trust accounts and financial assets of foreign residents and others. Balance of assets at the Trust Company as of December 31, 2011, amounted to NIS 3.5 million (compared to a total of NIS 13.4 million during 2010). In 2011, the Company's income amounted to about NIS 28 thousand, compared to NIS 27 thousand during 2010.

Developments in revenue and expense rates

Below are the interest disparity (the difference between revenue rate on assets and expense rate on liabilities) in various linked segments (including derivative influence):

	For the year ending on December 31	
	2011	**2010**
Not linked	1.76%	1.45%
Index linked	0.15%	0.17%
In foreign currency and linked to foreign currency	1.65%	2.03%
Total including influence of derivatives	**1.17%**	**0.96%**
Total without influence of derivatives	**1.39%**	**1.04%**

The widening of the interest gaps in the non-linked segment derives mainly from improvement in housing credit profitability, as well as a change in the mix in the credit portfolio as detailed above.

Interest gaps in index linked segments is lower because of the fact that the average duration of resources is rather long compared to other segments, moreover, in the resources of this segment are included deferred liability notes with relatively high interest.

The decline in interest gaps in the foreign currency segment and the segment linked to foreign currency derives mainly from creased recruitment cost of foreign currency resources, including passing transactions.

Events during the report year

On February 27, 2011, the Board of Directors decided following its decision to approve the CEO's employment terms from March 2011; to adopt the options plan for allocating up to 3,525,885 option units of Series A and B that may be realized up to 3,525,885 shares with a nominal value of NIS 1 to Uriel Paz Counseling Ltd. (company fully owned and controlled by the Bank's CEO) (hereinafter: "the Plan" and "the Offeree," respectively). The shares deriving from the realization of the aforesaid options will constitute up to 4.7% of the Bank's capital (fully diluted). Nevertheless, in conforming to the plan, the Offeree shall be vested when realizing the shares, only for the benefit component. Moreover, according to the opinion of the Board of Directors, and subject to the argumentation of the decision, the Bank may decide that in exchange for the realization of shares, each option unit will provide the Offeree the right to receive consideration in cash. Therefore, the maximum possible quantity of shares for realization for aforesaid option units is only theoretical, and the holdings of the Offeree, if the option units will be realized by him, may be lower than the rate specified above. For details: see note 22a of the Financial Statements.

On May 30, 2011, the Bank published an immediate report concerning an invitation for the Board of Directors of the Israel Dexia Bank Ltd. (hereinafter: "Dexia Bank") for entering into negotiations for the full acquisition of the Dexia Bank shares by the Bank. For details, please see the immediate reports as of May 30, 2011, reference number 2011-01-167346. On August 31, 2011, the Bank published an immediate report following an immediate report from Dexia Bank concerning non-responsiveness from the Board of Directors of Dexia Bank to the Bank's application, reference number 2011-01-259083. On September 11, 2011, the Bank published an immediate report concerning the response on Dexia Bank, following the immediate report that Dexia Bank published about the decision to defer the offer of the Bank, reference number 2011-01-270219.

Events After the Balance Sheet Date

During the month of January 2012, after the Balance Sheet Date, the Bank made an announcement on a change in the deposit pricing model, including an undertaking, according to which the NIS interest rate on one-year deposits will not be decreased from 80% interest from the Bank of Israel, except for deposits with fixed interest for a period longer than three months, whose interest rate will not be reduced from 80% of the yield rate for the relevant short-term loan. On deposits for periods of one year or more, the Bank undertakes that the interest rate will not be reduced from 80% of the yield rate on government debentures or the price of cash, whichever is higher. This undertaking does not depend on the size of the deposit nor on opening a checking account. Since the announcement, there was a material increase in raising new deposits under this framework. The increase in public deposits for the month of January 2012, was NIS 250 million (annual rate of about NIS 3 billion).

Details of the Main Consolidated Companies

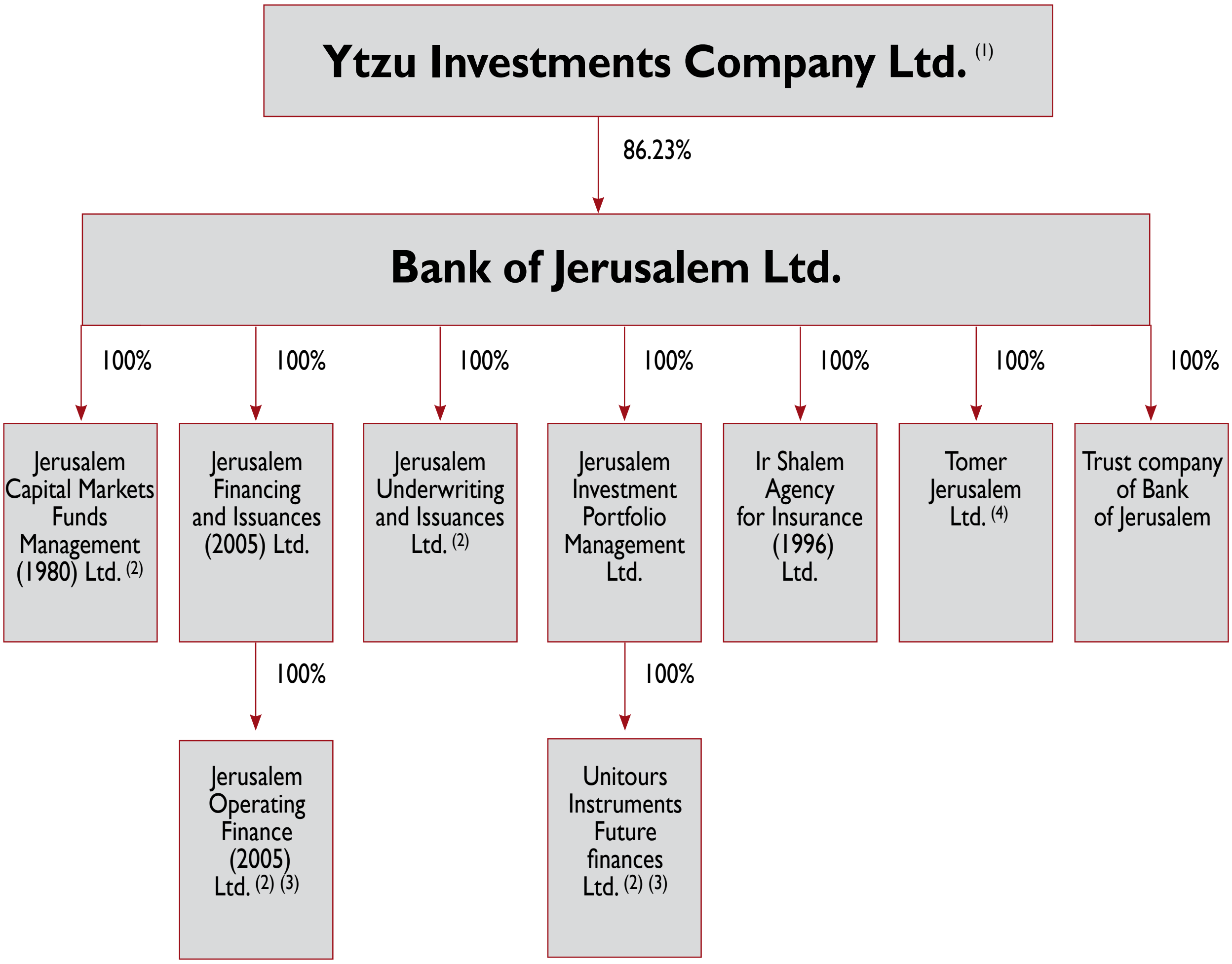
For details about the main consolidated companies, please see note 7 of the Financial Statements.

Main Data from the Financial Statements

Main data from the annual report of the Bank are attached in Appendix A of the Board of Directors' report.

Structural Diagram of the Bank's Holdings

Below is a structural diagram of the Bank's holdings in subsidiaries and in associated companies as of December 31, 2011. Regarding details of the activity segments of the subsidiaries and associated companies see note 7c.



(1) For details concerning the Bank's controlling shareholders, please see below.

(2) Not active

(3) Company in voluntary liquidation.

(4) Mr. Zalman Shoval has negligible holdings in the company as specified in the regulations 11-13 of the periodical report.

The Bank's Controlling Shareholders

- Mrs. Kena Shoval holds 74.30% of the capital securities from Yitzu Investments Ltd. issued and paid, which is a public company whose shares are registered at the Tel Aviv stock market (hereinafter: "Yitzu"). Yitzu holds 86.23% of the Bank's issued and paid capital securities. In addition, Mrs. Shoval holds 0.33% of the Bank's issued and paid capital securities through the companies: H. Shoval Holdings Ltd.; I.C.C. Israel Capital Corporation Ltd.; Financial Trust Corporation Ltd.; which are privately owned companies controlled by Mrs. Kena Shoval.

- According to the legal opinion presented to the Bank, Mr. Zalman Shoval (Mrs. Kena Shoval's spouse and a Bank director), Mr. Gideon Shoval (Mrs. Kena Shoval's son and a Bank director), may also be considered a controlling shareholders of the Bank under the instructions of the Bank Registration Law. Mr. Zalman Shoval is considered to be controlling shareholder even according to the instructions of the Securities Law.

Forward-looking Information

Part of the information included in the Board of Directors' Report, which does not relate to known information, constitutes forward-looking information, as defined by the Securities Law, 5728 — 1968.

The actual Bank results may materially differ from those included; and if included under forward-looking information, due to a large number of factors, including, among others, as results of deviating economic events, such as: extreme changes in interest rates, depreciation/appreciation of currency and inflation, and also unexpected political/security events that may change the conduct of the public from the aspect of credit taking volume, early repayment, return of current repayment difficulties in all activity segments of the Bank as well as from aspects of capability for raising resources. Also, regulatory or legislative changes, instructions issued by supervisory authorities and behavior of competitors may affect the bank's activity.

Forward-looking information is characterized by expressions including: "in the Bank's estimate", "the Bank intends …", "is expected to …", "may …", "might possibly …", "estimates that …", and similar expressions.

Such forward-looking expressions include risks and uncertainties since they are based on management's evaluations concerning future events that include, among others:

- Mergers and acquisitions in the banking system and their influence on the segment's competitive structure.

- Influence of changes in regulatory instructions on customer preferences and/or on the banking system's scope of activity, the competitive structure therein, and/or the bank's profitability.

- Ability to realize the bank's programs according to the objectives determined in accordance with its strategies.

- Unexpected responses of additional factors (customers, competitors, etc) operating in the bank's business environment.

- Future realization of segment estimates and macro-economic forecasts according to the bank's preliminary estimates.

- Possible results of legal procedures.

- Changes in consumer preferences and/or behavior.

The following information is based on professional evaluations of the bank, on macro-economic forecasts concerning the status of the economy and the business environment, publications and estimates of factors active in the segment, and statistical analysis prepared by the bank concerning its customer's behavior.

The aforementioned reflects the the Bank subsidiaries' point of view at time of editing the Financial Statements concerning future events, based on uncertain assessments. The evaluation of the Bank and its subsidiaries and its business plans is derived from these data and assessments. As mentioned above, the actual results may differ significantly and influence the implementation of business plans or bring about a change in those plans.

Summarized description of activity segments

The Bank of Jerusalem Group operates through the Bank's headquarters, its branches and subsidiaries. The Bank's activity segments are classified according to the guide lines of the Supervisor of Banks according to the type of customers included in each of these segments and do not necessarily match the Bank's organizational structure.

The Bank operates and provides various banking services in four main activity segments. Below are details on the reported activity segments:

- **The household segment** — household customers and small business with characteristics similar to that of households.

- **Private banking segment** — This segment includes customers with a medium to high level of financial wealth, and services are provided through a branch specializing in private banking, mainly for foreign residents (mostly from North America, England and France).

- **Business segment** — Customers in this segment are construction and real estate companies, business customers, corporations, and associations.

- **Financial management segment** — This segment includes the Bank's available financial capital and positions, management of the Bank's nostro portfolio, activity vis-a-vis banks in Israel and abroad, and implementation of transactions in derivative financial instruments. This activity is characterized as a business activity not implemented with the customer.

The Bank's activity in recruiting of resources from the public is concentrated in the Financial Division. Due to the fact that this activity concerns all of the Bank's segments and has unique characteristics differing from other segments; this activity will be concisely described in the chapter "Recruitment of Financial Sources" rather than in each segment individually.

The income and expenses attribution of the activity segments at the bank will be effected as follows:

Profit from financing activity before expenses for credit losses

From the profit obtained from the provision between the credit interest provided to the segment's customers and the price of cash (economic transfer price adjusted to the linked segment and the average credit duration).

This profit includes financial expenses between the segments — debt of the segment providing the loan and credit of the segment raises the deposit in the transfer prices (the income will be increased accordingly in the segment, which raises the deposits, and on the other hand, it decreases the income for the segment using the credit).

Expenses for Credit Losses

Expenses are attributed to the activity segment in which the customer activity is classified for which provision has been implemented. In a similar way, collection from implemented provision or reduction is also attributed to the segment for which the customer's activity is classified.

Income from Operations

Income from operations were directly attributed to the segment in which the customers' activity is classified.

Expenses From Other Operations

Direct identifiable expenses are specifically attributed to the activity segment. The balance of indirect or direct expenses that are not accurately identifiable, are attributed according to model by which these expenses are attributed in compliance to the relative part of the direct service in that segment of the Bank's total service to each of the activity's segments.

Income Tax

Taxes are calculated according to the effective tax rate and attributed accordingly to each segment.

Yield on Capital

The allocated capital for the yield calculation to capital in each of the activity segments is based on the average risk assets in each segment. Calculation of the yield for each segment was made according to the equity, as aforementioned, that is attributed to the segment.

Investment in The Capital of The Banking Corporation and Transactions of Its Shares

Equity

As of December 31, 2011, the shareholders' equity of the Bank amounted to NIS 645 million, compared to NIS 633 million at the end of 2010.

In the reviewed period there were several changes in the equity. On one hand there was an increase of a total of NIS 45.5 million deriving from the Bank's profits for this year, and an increase of a total of NIS 3.1 million deriving from issuance of options for the Bank's CEO (for details, please see note 22a of the Financial Statements).

On the other hand, there was a decline mainly deriving from:

1. Distribution of dividends for a total of NIS 25 million.

2. Reconciliations for presenting for sale available securities at a fair fair value totaling NIS 2.7 million.

3. From amendment of opening balance of equity following accumulating affect for provisions for credit losses for the total of NIS 5.1 million; and the accumulative affect of additional provision for housing at a rate of 0.75% for loans with finance rates above 60% for 2009 and the first half of 2010, for a total of NIS 4.4 million. These amendments have been made according to the new instructions from the Supervisor of Banks concerning bad debts (see note 2 of the Financial Statements).

As of December 31, 2011, the balance of deferred liability notes issued to the public, and deferred deposits raised from households and institutional customers, included in the capital for the purpose of calculating capital ratio of risk components, totaled NIS 315 million, compared to NIS 271 million at the end of 2010.

For data concerning decrease in value of debentures available for sale (government and corporate) recorded to capital reserve by period of time, and the rate of impairment, please see data in the Financial Management Segment.

For details concerning equity changes, please see the Financial Statements, Statement.

Concerning the capital objectives under the instructions of Basel II, please see the chapter below on

"Risk and Risk Management."

The Bank examines its capital needs under the Bank's annual work plan, and according to current business developments. In light of the uncertainty of implementation of Basel 3 instructions and their affect on various capital instruments (see chapter below ,"Risk and Risk Management"), the Bank cannot assess the necessity for recruiting capital instruments. Nevertheless, the Bank's business plan takes into account possible recruitment of deferred deposits by the Bank and/or issuing deferred liability notes by its subsidiary, Jerusalem Financing and Issuances (2005) Ltd. (hereinafter: "Jerusalem Financing and Issuances"), and/or the Bank, and this for its current activity. On May 4, 2011 the Bank issued deferred liability notes for the total amount of NIS 100 million through subsidiary.

Dividend Distribution

The Bank did not determine a dividend distribution policy. As of March 31, 2011, it was decided to pay dividends to the Bank's shareholders totaling NIS 25 million, namely, NIS 0.35 per ordinary share with a nominal value of NIS 1. The date for determining dividend distribution was April 12, 2011, the X-Day was April 13, 2011, and the actual date of payment was April 27, 2011.

During 2009 and 2010, the Bank did not distribute dividends.

On February 27, 2011, it was decided to approve stage A of the Bank's Strategic Plans. Among the Plan's objectives is striving to create higher and continuous value for the Bank's shareholders, including continuous annual dividend distributions in the range of 25%-40% of the net profit during the coming years. Nevertheless, the considerations for distribution of dividend and the actual distribution, if there will be, will be affected by the requirement to comply with the updated capital objective as determined by the Board of Directors (see below chapter Basel II that is in the chapter Risks and risk management) and subject to the instructions of the Supervisor of Banks, that are determined from time to time.

The aforementioned information concerning the distribution of dividend is forward-looking information, that may not be realized in whole or in part, or that may be realized differently from expectations. This information is based on the assessments and various forecasts presented to the Bank's Board of Directors. This information may not be realized because of changes that may occur because of various factors that are not solely controlled by the Bank. The influencing factors include forecasts and assessments concerning changes in the situation of the market's economy, legislature, instructions from supervising factors and others, and changes in the Bank's Strategic Plans and work plan.

The dividend distribution is implemented subject to the instructions of the Corporate Law, 5759 — 1999 and instructions of Proper Banking Management number 331, which discusses dividend distribution by banking corporations. On June 30, 2010, the Supervisor of Banks notified the banks that in addition to the Proper Banking Management instructions № 331, a bank not complying with the capital objective of 7.5% is not allowed to distribute dividends if such a dividend distribution will cause it not to meet the objective, except after obtaining the Supervisor of Banks' approval.

Nothing stated above concerning the distribution of dividend creates any liabilities towards any third party (including on the issue of payment dates and/or rates of dividend).

Part Two — Other Information

Financial information concerning the banking corporation's activity segments

Details of the banks activity according to segments are presented in note 29 in the Financial Statements. Developments that took place in activity segments are presented below in the descriptive part of the corporation's business by activity segments. Activity and other expenses related to the activity segment resulting from transactions between segments, are not recorded in the Bank's activity segments.

Significant Developments

The activity and profitability of the Bank are exposed to changes in the business environment, affected by the economic situation, by developments in real estate and capital markets, and by regulatory changes. An economic slowdown or possible crisis in the real estate market and/or in the capital market may affect the Bank's activity, in general, and its activity in the housing loan and real estate segments, in particular.

At this stage, the Bank is unable to assess the aforementioned influences, if there will be any, upon the Bank's activity. Below, in the chapter on "Risk and Risk Management," the main changes will be described in the business environment that may affect the Bank's activity, profitability, and preparedness in facing these changes.

Main Developments in the Industry

The first half of 2011 was characterized by continuous growth that began in the second half of 2009. On the other hand, the second half of the year was characterized by a decrease in growth rate, a decline of inflation rates, the housing market calmed down, and the monetary policy changed direction. According to the Bank of Israel's estimates, the expected growth of the gross domestic product for 2011 will be 4.8%. The Bank of Israel's combined index for examining the economic situation, recorded a yearly increase of 3.4%, in comparison to an increase of 5% during the previous parallel period.

Additional indicators for the slowdown in market growth can be found in Bank of Israel's companies review for the fourth quarter of 2011, from which can be seen that the business activity in the market continues to grow but at a moderate and lower rate as compared to the previous quarter. Moreover, the expectations and orders for the first quarter of 2012 in the industry branches, trade, business services (without hi-tech), and hotels are lower and mostly negative. From the answers received from the participating companies in the aforementioned survey, it can be seen and concluded that the main source for the slow down is from abroad and not from the Israeli economy.

The year 2011 in the Israeli economy will be remembered, largely, for the social protest that burst out during last summer; the "housing protest." Following a wave of protests, during August 2011, prime minister Benjamin Netanyahu appointed a committee headed by Prof. Trachtenberg and with the purpose of examining and proposing solutions for the cost of living problem in Israel. The committee published its recommendations, which included references to such areas as taxes, education, housing, transport, centralization in the market, and other subjects. Some of the committee's recommendations will probably be implemented during 2012.

The unemployment rate was 5.4% at the end of November 2011. The unemployment rate in Israel, compared to the United States and many countries in the Euro bloc, is defined as low one. The unemployment rate in the United States for January 2012 was 8.3%, while the unemployment rate in 16 Euro-bloc countries was 10.4% during December 2011.

During 2011, a slow down in economic activity was recorded in the United States when the annual growth rate amounted to only 1.8%. The American market is indeed in a growing process, but it is still slower when compared to the American market from before the sub-prime crisis that struck during 2009, and is not capable of creating enough new jobs that will significantly lower the unemployment rate. During 2011, the US' Central Bank (the Federal Reserve) continued to act to encourage growth and maintained a zero interest rate over a long period. The crisis of government debt and inability of the American Congress to lead a process of extensive cut backs, lead in August 2011, to a decision of the S&P rating company to lower the United States' perfect credit rate to AA with a negative forecast.

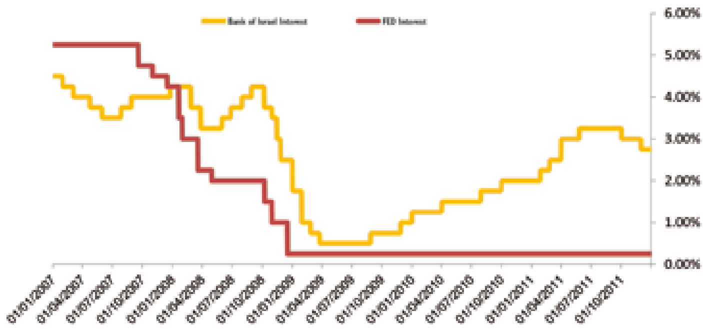
During 2011, the economic slow down continued in Europe, while in the background the debt crisis there was the of peripheral countries, which greatly tests the very idea of a united Europe. The austerity policy and the unemployment in Europe brought a substantial slow down in growth, and in several countries even a recession was recorded during 2011. At the end of October 2011, the leaders of European countries decided on a new plan for rescuing Greece. Moreover, already in the first quarter of 2012, 17 Euro bloc countries, headed by Italy, are dealing with recycling € 157 billion in debts, being an important test for the European Union's position. The existing forecasts concerning the expected grow rate in the Euro bloc to expect on average, a negative growth of 0.7% during 2012.

The Fiscal and Monetary Policy

The Bank of Israel raised its interest during the year from a rate of 2.00% up to the rate of 3.25% and later lowered it to 2.75%. After the balance sheet date, the interest rate was lowered to 2.5% during February 2012. The lowering of interest rates by the Bank of Israel was against the background of increasing fear for serious impact on the Israeli economic because Europe's debt crisis. One of the considerations supporting the decline in interest was inflation upsetting the price stability objective.

The slow down in the market caused a lower than planned tax collection and a higher deficit rate than expected. The total deficit — at 3.3% of the Gross Domestic Product, as compared to the original planned State budget with a 2.9% deficit.

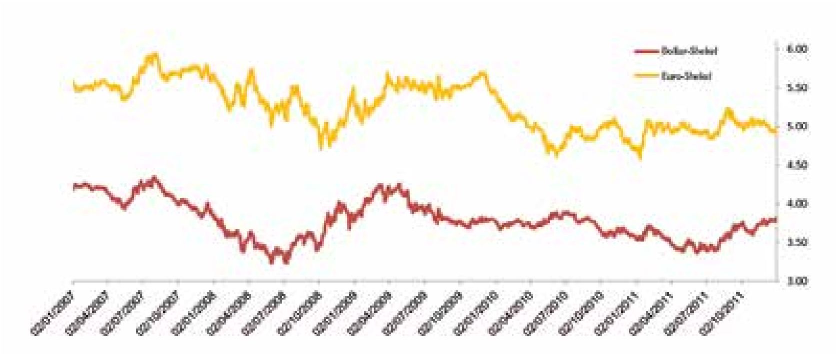
According to Treasury estimates, the total tax revenue amounted to about NIS 245 billion, about NIS 6 billion less than the original planned budget of NIS 251 billion.



Inflation and Exchange Rate

The increase of the Consumer Price Index during 2011 rose 2.2%, within the inflation objective area determined by the Bank of Israel, and was this after an increase of 2.7% during 2010. The main contribution to the Consumer Price Index increase came from housing paragraph (increase of 5.1%) but was offset by produce (decrease of 0.1%).

Overall for 2011, the Shekel depreciated by 7.7% against the dollar. The rate of the Euro weakened during 2011 by 4.2%.

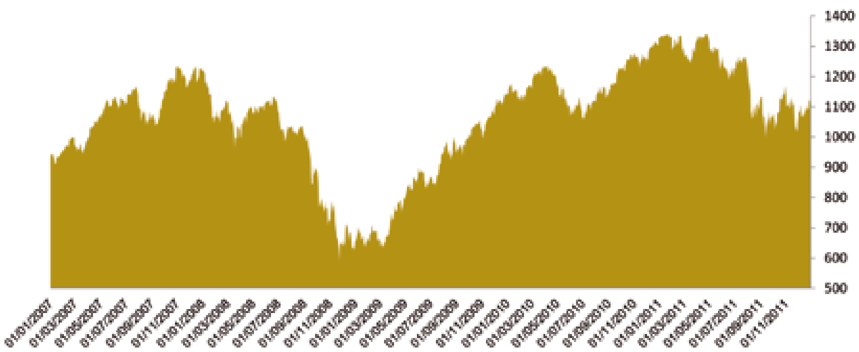


Capital and Monetary Markets

The year 2011 was characterized by a negative trend in capital markets. Tel Aviv 25 index declined during 2011 by 18.2% and Tel Aviv 100 index declined by 20.1%. On the debentures market the Tel Bond 60 index recorded an increase of 0.3% and the government debentures index recorded an increase of 5.0%.

The dominant factor that influenced the Israeli market in the year 2011 was the serious financial and economic crisis that caused an acceleration in the decline of European rates. The negative trend in the government debentures market in Israel, that continued since November 2010, was halted towards March 2011, and since shows a significant positive trend in the aforementioned debentures market.

Tel Aviv 25 Index



Construction Segment

During 2011, the trend in price increase in the Israeli housing market was halted. According to the Bank of Israel's data, Israel housing prices declined during November 2011, by 0.3%, the third consecutive decline. The Consumer Price Housing Index (rental contracts) decreased during this period by 0.1%.

Accounting Policies on Critical Issues

The Bank's Financial Statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and according to the instructions by the Supervisor of Banks and the guidelines concerning preparing a bank's Financial Statement. The principle accounting policies are specified in note № 2 of the Financial Statements. Implementation of the accounting policies by the Bank's management when preparing the Financial Statements involves assumptions, estimates and forecasts, which affect the Bank's reported amounts of assets and liabilities (including contingent liabilities) and its reported business results. Utilization of estimates involves extensive uncertainties and changes, which may significantly affect results presented in the Financial Statements. Part of the assessments and estimates are critical for the financial situation and the activity results reflected by the Financial Statements because of the subject's essence, complex calculations, or the planning level of realization of events for which an uncertainty exists. These forecasts are important and are called "critical subjects". A possibility exists that future realization of estimates and forecasts will differ from their presentation in the Financial Statements.

Below are details of the accounting policies for critical subjects:

Provision for Credit Losses

The bank determines provisions for credit losses on loans against mortgage of a residential housing according to the depth of arrears as determined in Appropriate Banking Management Instructions № 314 of the Supervisor of Banks. In addition, conforming to the Supervisor of Banks' guidelines, the group provision for credit losses is calculated for housing loans balance provided as of the beginning of 2009 and onwards, and while the ratio between debt and the mortgage asset value at the time of loan, providing (LTV) is higher than 60%.

With the other retail credit, as well as business credit, the Bank determined that its provisions conform to the Supervisor of Banks' circular: "The measurement and disclosure of defective debts, credit risks, and provision for credit losses," as published on December 31, 2007. The circular is based, among others, on American Accounting Standards and on regulatory instructions of supervision institutions of banks, and on the American SEC (Securities and Exchange Commission). This instruction will be implemented in the Financial Statements of banking corporations and credit card companies as of January 1, 2011 (in original instruction — from January 2010). The instruction is not to be implemented retroactively in Financial Statements from previous periods. This influence of this circular on the Bank is expressed in the following subjects:

Detailed examination — The Bank recognizes the necessity of detailed examination of each borrower (except for housing loans) whose contract balance is NIS 1 million or more, as well as other debts identified by the Bank (such as fraud and bankruptcy). Each borrower that has been individually examined, and concerning him there are signs of probable problems in repayment capability for the credit provided; the Bank will assess the collectible amount from this borrower according to the expected cash flow from his business activity, realization value of his assets, third-party , guarantees, and realization date. Since this information is based on estimates and forecasts, there is no certainty that the actual amounts received will be identical to the forecast.

Debt classification — Four main classifications have been determined, creating hierarchy in problem severity of the debt, and determining provisions for it: proper debt, debt under special supervision, inferior debt, and defective debt. Under this framework it was determined that no interest revenue will be recorded that is not collected from a debt classified as "defective".

Provision for credit losses — A distinction is made between provision on individual basis for debts that have been examined individually and identified as damaged, and between group provision for all debts that are not classified as defective. The group provision rates for credit losses of balance sheets and off-balance sheets based on historical loss rates in the various market branches as divided between non-problematic credit and problematic credit between 2008 and 2011, as well as for actual recorded net write-offs rates. Conforming to the Supervisor of Banks' transitional order, the validation and update of these provision rates will be implemented quarterly.

Write offs — for debts that have been examined individually and are recognized as non-collectible debts. In parallel, an examination is implemented whether to write off the provision for individual credit losses after two years. Moreover, write offs are implemented on debts for which group provisions have been made and are passed due for more than 150 days.

The group provision for credit losses due to non-defective credit risks, cancels the additional and general provision because of problematic debts and risk characteristics determined by the Supervisor of Banks' instructions. Among the included risk characteristics: debt classification, credit to individuals linked to the bank, lack of borrower financial data, credit to a borrower or to a group of borrowers deviating from the liability limitations of an "individual borrower". In 2011, in conformity conformity with Supervisor of Banks' instructions, the Bank continued to calculate the additional gross provision from taxes for the purpose of comparison for group credit losses provision, while the provision recorded in the balance sheet is the higher one of the two.

In general, the implementation of the instruction on the subject "Measurement of defective debts provisions for credit losses" that has been implemented as of January 1, 2011, brought a material change in the examination and classification method for debts, as well as a way of calculating the provisions for credit losses and performing write offs. In the Profit and Loss Report for the year 2011, one can notice that the expenses for credit losses were NIS 13.4 million (compared to the previous two years revenues), while in note 29 of the Financial Statements (on the subject of activity segments) one can notice that the increase results mainly from credit provided to household segment which was mostly included in the provision on a group basis. The increase in this segment is also explained by the Bank's strategy to expand implementing of retail credit.

Below the accumulated influence following the first implementation as of January 1, 2011, of the instruction on "Measuring defective debts provision for credit losses," and details on the development of credit losses provision at the Bank for 2011.

	Provision for credit losses			
		On group basis*		
	On individual basis	According arrears depth	Other	Total
Provision balance for beginning of period	47.0	69.2	6.6	122.8
Recognized net write offs as of January 1, 2011	(34.6)	(7.4)	—	(42.0)
Other changes in credit losses provision as of January 1, 2011 (reflected in equity)	(4.1)	6.6	13.6	16.1
Balance as of January 1, 2011	8.3	68.4	20.2	96.9
The year 2011				
Expenses for Credit Losses	(1.8)	1.8	13.4	13.4
Write offs	(3.0)	(9.2)	(11.1)	(23.3)
Collection of write off debts in previous years	0.2	0.8	3.0	4.0
Net write offs	(2.8)	(8.4)	(8.1)	(19.3)
Balance credit losses provision as of the day of the 31st of December 2011	3.7	61.8	25.5	91.0

For additional details concerning the quantitative influence, please see note 5 of the Financial Statements and appendix E on Management Review.

Deferred Taxes

Deferred taxes are calculated for temporary differences between the value of assets and liabilities in the financial reports, and the amounts taken into consideration for tax purposes. Deferred taxes are calculated according to tax rates expected to be applicable when such taxes are imputed to Profit and Loss, as such rates are known near the approval date of the financial reports. Deferred taxes receivable are calculated for temporary differences for which a tax saving is expected to be created as of the reversal date.

At the time the deferred taxes are entered, the bank utilizes estimates and forecasts concerning the possibility of future realization of deferred taxes receivable.

For information on quantitative influence — please see note 27 of the Financial Statements.

Derivative instruments

In conformity with the Supervisor of Banks' instructions, the derivative instruments at the Bank are presented in the balance sheet according to fair value. The fair value of the derivatives is determined according to quoted market prices in active markets or by estimated fair value that is determined according to prices of similar assets or similar liabilities (Mark to model). The estimation method includes various parameter; e.g., interest curves, currency exchange rates, and standard deviations. The estimate includes considering assumptions concerning various factors such as the other party's credit risk for transactions and its liquidity. For details, please Note 20 of the Financial Statements.

Measurement of Fair Value of Financial Instruments

On December 31, 2009, the Supervisor of Banks published a circular applying Standard FAS 157 concerning fair value measurement, on the banking system. Under implementation of this standard, the Bank uses appraisal techniques that utilizes to the maximum the observed relevant data, and minimizes the use of unobserved data. Observed data is data reflecting the assumptions that market participants would use for pricing the assets of liabilities, developed based on market data presented from resources that are independent of the Bank. The unobserved data is data reflecting the assumptions of the Bank itself concerning assumptions that market participants would use for pricing the assets or liabilities, developed based on the best data available under these circumstances.

Measuring the fair value is based on the assumption that the transaction will take place in the principal market for that asset or liability, or for lack of principal market, at the most useful one.

The Bank classifies fair value while using a fair value hierarchy reflecting the significance of the data used for implementing the measurement. Hierarchy of fair value consists of the following levels:

Level 1 — Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities. Quoted prices in active markets are the most reliable evidence for fair value, and are used as fair value measurement so long as they are available.

Level 2 — Measurement based on observed data for the asset or liability, directly or indirectly, that are not quoted prices, including: quoted prices for similar assets and liabilities in active markets; quoted prices for similar or identical assets or liabilities in non-active markets; data derived mainly from observed market data, or supported by observed market data through correlation or other means.

Level 3 — Measurement based on data concerning assets or liabilities that are not based on market data may be observed and are significant for measuring the overall fair value.

Below are details of the balance of financial instruments measured in fair value, included in the balance sheet as of December 31, 2011:

	December 31, 2011			
	Measurement of fair value used in —			
	Quoted prices in active markets (level 1)	Other material observed data (level 2)	Non-observed material data (level3)	Balance of balance sheet
	Millions of NIS			
Assets				
Securities available for sales:				
Israeli government debentures	1,011.8	—	—	1,011.8
Other corporate debentures	191.5	2.2	—	193.7
Asset–backed debentures	13.7	—	—	13.7
Securities available for sale	—	—	1.1	1.1
Total securities available for sales	**1,217.0**	**2.2**	**1.1**	**1,220.3**
Securities for sale:				
Debentures for sale	270.4	—	—	270.4
Total securities for sale	**270.4**	—	—	**270.4**
Assets for derivative instruments:				
Interest contract	—	1.2	—	1 .2
Foreign currency contract	—	2.4	—	2 .4
Securities contract	3.6	—	—	3.6
Total assets for derivative instruments:	**3.6**	**3.6**	—	**7.2**
Total financial assets	**1,491.0**	**5.8**	**1.1**	**1,497.9**
Liabilities				
Liabilities for derivative instruments:				
Interest contract	—	1.5	—	1 .5
Foreign currency contract	—	9.9	—	9 .9
Securities contract	3.6	—	—	3 .6
Total Liabilities for derivative instruments:	**3.6**	**11.4**	**—**	**15.0**

The Bank worked to implement Standard FAS 157 during 2011, according the Bank of Israel's guidelines. However, there was no material change in the method for measuring fair value and in forecasts on which they were based prior to the implementation of this standard.

For additional details concerning the quantitative influence for implementing the measuring of fair value — please see note 21 of the Financial Statement and appendix D in Management Review.

Impairment of securities that is not of temporary nature

Changes in fair value of securities available for sale are imputed to equity after deducting the tax influence, unless a non-temporary decrease is evident. In such circumstances, the impairment is included in the Profit and Loss report.

Periodically the bank examines the need to record a provision for an impairment that is not of a temporary nature. The bank has defined criteria for tracking securities and the aforementioned examination. These criteria are based, among others, on the following factors:

- Change in classification of securities by classification agencies.
- The length of time during which the security is traded at high yield.
- Exceptional cases such as irregular impairment.

In addition, the bank has determined additional criteria according to which immediate provision for impairment will be implemented . These criteria are based, among others, on the following factors:

- The current classification of the securities by the classification agencies.
- The current exceptional yield at which the securities were traded.
- The length of time during which the securities were traded at exceptional yield.
- Significant negative indications within the Financial Statements.

These criteria are discussed by the directors' credit committee and approved by it, and are reported to the Supervisor of Banks at the Bank of Israel.

During 2011, no provision for securities impairment was implemented at the Bank that was not temporary (during 2010 provision for securities impairment was implemented for the amount of NIS 1.2 million).

Contingent Liabilities

The Bank is a party in legal processes filed against the Bank by its customers, former customers, and other third parties who considered themselves injured or damaged by the Bank's activity. Estimation of the risk inherent in legal processes is based on the opinion of the Bank's internal lawyers or on the opinion of external legal advisers, which is examined by the Bank's internal lawyers. Such estimates are based on the best judgment of the relevant legal advisers, taking into consideration the stage of the legal proceedings and accumulated legal experience in various issues in Israel.

Estimates concerning chances of class actions involves greater difficulty because of the minimum accumulated legal experience concerning the realization of such claims in Israel. Moreover, chances of certain class actions cannot be estimated because of the stage of the proceedings they are at.

It should be taken into consideration that results of legal proceedings may differ from the determined estimate because in certain legal sectors it is not possible give such estimations.

For additional information concerning the contingent liabilities — please see note 19 of the Financial Statements.

Part three — Description of The Banking Corporation's Business Activities by Activity Segments:

Below is a summary of assets and liabilities according to activity segments:

	Assets			Liabilities		
	2011	2010	Change	2011	2010	Change
Sectors	Millions of NIS		%	Millions of NIS		%
Households	6,398.9	5,755.4	11	5,488.0	4,802.7	14
Private Banking	977.3	852.9	15	846.9	729.1	16
Business	1,373.9	1,262.8	9	3,764.0	3,279.1	15
Financial Management	2,023.1	1,589.0	27	51.9	86.0	(40)
Total	**10,773.2**	9,460.1	14	**10,150.8**	8,896.9	14

Below are detailed the profits from regular activities, and profit yield from regular activities on capital by activity segments:

	Net Profit		Yield on Capital	
	2011	2010	2011	2010
Segments	Millions of NIS		%	
Households	10.5	13.4	3.0	4.0
Private Banking	5.2	1.9	9.7	2.8
Business	15.5	14.5	8.1	7.3
Financial Management	(6.5)	4.0	(27.6)	15.2
Total	**24.7**	33.8	**4.0**	5.5

During 2011, the profit from household and financial management segments declined, and on the other hand, an increase in profitability was recorded for the private banking and business segments. For details, please see profitability data for each segment. Below is a comprehensive description of the activity segments:

Household Segment

General

In the household segment, the Bank provides a variety of services and financial products. The main products that the Bank provides to its customers under this activity segment are: deposits and savings, activity on the capital market, credit cards, loans for purchasing residential housing and for vehicles, loans for any purpose; and activities in securities and investment consultation.

Most of the Bank's customers belonging to this activity segment, receive banking services from the Bank through its branches.

Objectives and Business Strategy

One of the main objectives placed at the basis of the strategic plans of the Bank (as described above), is development and expansion of the household segment, while materially increasing the customer volume of this segment, and simultaneously expanding the range of services and products that are offered to this segment's customers, and increase the embedded profitability. The Bank has the intention to offer products in this activity area that include unique characteristics embodying added value compared to products currently existing in the Israeli banking system.

Below are the Bank's principles for the Strategic Plan in this activity segment:

— Significant increase in existing customer base through:

- Expanding branch activity and opening new branches.
- Increasing recruitment of deposits from households, through the Bank's branches, Internet, and cooperating with retail partners (such as the Postal Bank).
- Providing consumer credit to existing and new customers, and additionally by marketing credit cards and cooperating with retail partners.
- Developing unique mortgages adjusted to the customer's needs and personal preferences, while focusing on channels with high profitability.
- Recruiting customers active in the capital market through the Bank's branches and on existing customer base, while increasing the profitability deriving from this activity.

— Increasing marketing and sales efforts, including by means of continuous improvement of customer service level; among others, by:

- Establishing an advanced call center designated to provide responses to most of the Bank services.

- Integrating a CRM system and upgrading the Internet website while turning it into a site enabling implementing transactions.

- Operating an advanced credit underwriting system as a supporting decision tool, allowing for quick and proper customer service.

The Bank's plans and assessments, as specified above, are forward-looking information, and are based on assumptions and on various forecasts presented to the Bank. This information may not be realized because of changes that may be applied for various factors that are not controlled by the Bank only. Influencing factors include forecasts and assessment concerning economic development in Israel and globally, especially concerning the economic situation, including the influence of macro-economic and geopolitical conditions, changes in capital markets, as well as other additional factors influencing risk exposure: public preference, instruction by supervisory factors and others, aspects related to the Bank's image, technological developments and the subject of human resources.

Structure of the Activity Segment

Below is a description of the products and main services offered under this activity segment:

Mortgages:

— Providing loans for housing against a lien on the residential housing for individual Israeli residents and for acquisition groups for long periods, based on different linkages and according to a variety of interest tracks determined by the type of loan, customer preferences, and borrower's repayment capability.

— The activity in the mortgages area includes also providing related services of life insurance and asset insurance through the mortgage, provided they conform the Supervisor of Insurance and the Supervisor of Banks' instruction by means of: Ir Shalem Insurance Agency (1996) Ltd., the Bank's wholly owned and controlled subsidiary (hereinafter: "Ir Shalem").

Banking and Finance:

— Assistance in financing vehicle purchase — The activity in this area is implemented, among others, cooperating with companies and car lots for second-hand car sales.

— Providing credit for fixed time against collateral.

— Providing fixed-time credit for solo (single-name) household consumers.

— Issuing credit cards for Bank costumers.

- Credit facilities and activity for checking accounts determined by the customer's requirements and income level. According to Proper Banking Procedure 325, the customers may not deviate from the framework set for their accounts.

- Investments — Providing customer service to the household sector for deposits and savings.

The Capital Market:

- Providing services for securities — implementing purchases, sales, operating in securities transactions, in derivatives at the Bank's branches in Israel and abroad.

- Investment consultancy — Providing securities consultancy for customers at all of the bank's branches through authorized consultants.

- Managing of investment portfolios — managing financial assets for customers through Jerusalem Management Portfolios Ltd., the Bank's fully owned subsidiary (hereinafter: "Jerusalem Management Portfolios Ltd.").

Legislative restrictions, standard, guidelines and circulars from the Supervisor of Banks, and special constraints

The Bank in general, and the household sector in particular, operates within the framework of laws, standards, regulatory guidelines and instructions imposed on the banks by legislative and supervising entities, including the Supervisor of Banks, the Securities Authority, and the Commissioner for the Capital Market, Insurance and Savings at the Ministry of Finance.

Below are details concerning updated and proposed legislation on matters concerning providing banking services to households:

Banking Law (Customer Service) (Amendment № 17) (Early repayment by the loan because of residential housing realization) 5771 — 2011.

On December 13, 2011, the Knesset approved amendment № 17 to Banking Law (Customer Service) which determined that banking corporations will not charge an early repayment fee for realizing of mortgages or pledges that are recorded for residential housing used for an individual's housing, and is his only residence; and that the sale exchange will not be higher than NIS 2.5 million, but only from the remaining surplus of the exchange on the house sale after full settlement of the loan debt, in so far as there will be such a surplus.

The bank operates according the amended legislative instructions. The influence of the instructions on the Bank is not significant.

Memorandum from the Supervisor of Banks on the subject of housing loans at variable interest

On May 3, 2011, the Supervisor of Banks issued a letter to the banks in which was mentioned that, due to the continuing increase of loan performances at variable interest and the possible implications on this issue of increase in the market's interest rate, the banks are required to approve and provide housing loans only if the ratio between the "housing loan at variable interest" part and between the total "housing loan" part will not be higher than 33.3%. The banks are allowed not to impose the aforementioned limitation on housing loans in foreign currency for foreign residents, on bridging loans and on loans for any purpose in small amounts, and only if the ratio between the total housing loan at variable interest and between the total housing loan, that have been provided during calendar quarters, is not higher than 33.3%. Moreover, the banks are required to bring to the attention of the existing borrowers whose loan does not meet the above mentioned determined relation, the embedded risk in the composition of the loan, including an example for illustration. Regarding the housing loans for which in principle approval is applied, the letter is effective as of May 5, 2011.

As result of the above described limitation a change was applied on the customers' credit implementation mix.

The Bank received relief from the Bank of Israel according to which it is allowed to impose the aforementioned limitation of the aforementioned loans (foreign currency loans, bridging loans and loans for all purpose) and only if the ratio will not be higher than 40% (in contrast to the aforementioned 33.3% rate). The aforementioned relief is valid until June 30, 2012. In the event that the Bank of Israel will not extend the validity of the relief provided to the Bank, the Bank will adjust the customers' credit implementation so that it complies with the original limitation without this relief. By the Bank's assessment, not extending the relief will probably materially influence the Bank's revenue derived from providing housing loans.

Changes in the Segment's Activity Markets in Customer Characteristics

During last quarter of 2011, a decline in banking system activity in the mortgage area was observed in general, and at the Bank in particular. The decline in activity is a result of the Bank of Israel's limitations for providing housing loans with variable interest and of the social protests that influenced, among others, the demand for housing acquisitions.

During 2011, there was no change in the characteristics of the Bank's customers in this activity segment.

Critical Success Factors in the Activity Segment and Their Applied Changes

— Building variety of products adjusted to the needs of the existing and potential costumers that will have innovative and unique characteristics.

— The Bank uses of its knowledge and long experience accumulated in the mortgage area for assisting it in understanding the different relevant variables influencing real estate values used as collateral against loans provided to customers; high capability of credit underwriting, and high profitability channels.

— Exposure and availability of the distribution array (branches) across the country.

— Intensive marketing activity, among others, cooperating in assisting to reach main centers at which vehicle sales is implemented . This is in combination with fast response capability for integrating a flexible financing plan, adjusted to the marketing plan, and requirements by the importers and/or vehicle sales lots, on the one one hand, and the needs of potential customers on the other.

— Providing professional and reliable service to the Bank's customers, with response to their needs and personal preferences.

— Expanding the Bank's existing customer base in this activity area, as well as expanding the variety of products and services offered to this segment's customers.

— Flexibility and sensitivity for changes taking place in the market, including high response capability and access to new activity areas.

— Developing systems and computerized infrastructure that will enable to provide various and advanced products for the Bank's customers while maintaining low risk levels. In this framework a rating model has been developed for the purpose of rating the existing risk in services provided the customer as a tool to support decision and pricing for retail credit provisions, as well as development of an automated system for supporting the consumer credit sales, and the checking account facilities for assisting in provising the aforementioned services. Everything conforming and according to the Bank's customary policies.

The Main Entry and Exit Barriers of the Segment's Activity

Among the segment's entry barriers it is possible to count human service capita that is professional and experienced, customer habits, advanced computer systems and their maintenance, and minimum capital requirements. Entry barriers for the area of credit provision for second hand cars are the credit price, the capability of quickly closing a credit transaction resulting from a competition saturated market for quickly providing finance services by companies outside of banks, and subsidized finance transactions with the large banks.

Moreover, the exit from mortgages area falls within a range of years, because of the long life of the loans, granted for a period of up to 30 years. Or, alternatively, sales of a mortgage portfolio to another financial institute.

Alternatives to Products and Services of the Activity Segment of and Occured Changes

Alternative to products and services offered by the Bank to the segment's customers, are the same services and products offered by the non-banking system, including providing loans for vehicle acquisitions also offered by various leasing companies and capital market services, and also provided by investment houses having an Internet trade platform. As for the consumer credit, more financial non-banking entities and institutional entities (credit card and insurance companies) can be seen turning to relevant population segments with credit provision offers. In addition, the food retail chains in cooperation with credit card companies issue credit cards for customer, not by means of the banking system.

Competition in the Activity Segment

— In recent years there has been aggressive competition between the banks over the mortgage market. According to the Financial Statements by the banks over the last years — the four large banks have a market share of over 85% of the industry's total mortgage implementation. The other banks and insurance companies operating in this field share the remainder part. To the assessment of the Bank its part in the mortgage market is about 2.7%. In general, it should be mentioned that mortgage products offered by various banks are similar and therefore the competition is focused on the quality of the service, financing rate, credit prices, and fees paid by customers.

The Bank deals with competition in the mortgage field through its expertise in examination of collateral and the high and fast service level granted to customers even for complicated transactions.

— Concerning related mortgage services, there is additional competition for the banks from insurance companies that offer bank customers their life assurance and property insurance policies.

— In the finance sector credit for vehicles purchase, most the financing credit in previous years was granted by financing companies that are not banking entities. During the past years, with the entry of the large banks into the area, the profitability in financing new vehicles has been reduced, and with the purpose to strengthen the loyalty of its customers, the banks (including the Bank) lowered prices, and in subsidizing campaigns with various importers.

Nevertheless, in the finance market for acquisition of second hand vehicles, significant presence of the large banks is still not felt and the competition level is still low. This enables the Bank to finance acquisition of second hand vehicles with higher margins in relation to the area of new car acquisition. The competitors in this area are credit card companies who established mutual ventures in the vehicle area and non-banking financing companies such as: "Pama," "Direct Financing," and "Clal Financing" providing financing services enabling the customer to complete the acquisition and a method of financing in one place.

— In the credit card and consumer credit sector, in addition to competition among the banks, accelerated effort by the credit card companies in cooperation with retail and other chains is evident is felt in households by issuing credit cards directly to the customer without bank intervention, including granting credit.

— The capital market is characterized by sharp competition among banking factors, private brokers and institutional entities. A large number of players is active in the sector and the strength of the large banks plays a very significant part. As a result of the Bachar Committee, many customers now manage their capital market activity through institutional entities and investment houses, which try to attract customers for all their capital market activities. Competition in this area focuses mainly on long hours of service, advanced Internet platforms, and competitive prices.

Customers

The segment's customers are private Israeli residents. The segment's activity is characterized by large spread of customers, while the credit provided to each of them is at a relative low volume, and therefore the Bank is not significantly dependent on an individual customer or a limited number of customers while their loss may significantly influence the activity segment. Moreover, this segment has a great deal of weight in the Bank's recruitment of resources in various channels.

Out of 16 branches, 3 of the Bank's branches are located in areas characterized by population of mostly Ultra-Orthodox. In the mortgages area, the balance of the customers' average portfolio in theses sectors are lower than average.

Marketing and Distribution

The Bank's marketing activity in the household segment is based on a distribution array of bank branches, direct banking (Internet and call center), and direct mailing to customers. From time to time, the Bank holds advertisement campaigns through various media.

In financing credit area for vehicle purchasing, the bank also operates by cooperating with importers, car agencies and vehicle sale lots, which have mutual advertisement campaigns with the bank for customers to purchase vehicles with financing provided by the bank.

The Bank is not dependent on the marketing and distribution channels in the framework of this activity segment.

Human Capital

During 2011, the average number of direct positions in the segment totaled 174 positions. In the mortgages area — an average of 62 positions (similar to 2010), in the banking and financing area — 81 positions (an increase of 40% in relation to the number of average positions for 2010, mainly due to competition in the consumer credit area). In the capital market area — an average of 31 positions (similar to 2010). Moreover, headquarters and management employees were loaded onto this segment.

Below is a summary of the operating results of the household segment:

	For the year ending December 31, 2011				For the year ending December 31 2010*			
	Mortgages	Banking and Finance	Capital market	Total	Mortgages	Banking and Finance	Capital market	Total
	Millions of NIS							
Profit (loss) from finance activity:								
Externals	98.1	60.4	1.2	**159.7**	80.1	36.7	0.8	117.6
Between segments	(9.3)	(10.6)	—	**(19.9)**	(9.0)	(9.9)	—	(18.9)
Income from other operations	43.4	6.1	9.8	**59.3**	47.3	5.4	13.1	65.8
Total Income	132.2	55.9	11.0	**199.1**	118.4	32.2	13.9	164.5
Expenses for Credit Losses	(2.8)	(17.6**)	—	**(20.4)**	0.6	(2.0)	—	(1.4)
Expenses from operating and other:	(62.7)	(69.1)	(32.2)	**(164.0)**	(62.8)	(47.7)	(33.8)	(144.3)
Profit (loss) from regular operations before tax	66.7	(30.8)	(21.2)	**14.7**	56.2	(17.5)	(19.9)	18.8
Provision for tax	(19.2)	8.9	6.1	**(4.2)**	(16.3)	5.1	5.8	(5.4)
Net profit (loss)	**47.5**	**(21.9)**	**(15.1)**	**10.5**	39.9	(12.4)	(14.1)	13.4
Yield on Capital	**17.2%**	**(31.3%)**	**—**	**3.0%**	14.2%	(23.2%)	—	4.0%
Income rate of total income of the Bank	48%	20%	4%	72%	48%	13%	5%	66%
Average balance from assets	5,609.9	789.0	—	**6,398.9**	5,098.5	656.9	—	5,755.4
Average balance from liabilities	—	5,488.0	—	**5,488.0**	—	4,802.7	—	4,802.7
Average balance from risk assets	2,827.4	717.8	—	**3,545.2**	2,553.1	487.7	—	3,040.8
Average balance from securities	—	—	1,454.2	**1,454.2**	—	—	1,545.0	1,545.0
Average balance from other assets under management	2,426.3	—	175.2	**2,601.5**	2,736.3	—	126.5	2,862.8

* Reclassification.

** Included in a provision for deviation of expenses in the group allowance on consumer credit balance for the amount of NIS 8 million, and this due to a sharp increase in this year's balance.

It should be mentioned that since this year the consumer credit balances increased in a rather sharply, all the provision is recorded in the report year, while the revenue accumulated gradually.

Changes in the segment activity scope and its profitability

The total revenue in the segment increased in the year 2011 by NIS 34.6 million compared to the year 2010 — an increase of 21%, deriving from the improvement in profitability in the mortgage area and a sharp increase in consumer credit. The revenue rate in this segment is about 72% of the Bank's total revenue, compared to 66% for 2010.

In contrast, there was an increase in expenses due to credit loss in the banking and financing area, for a total of NIS 15 million as compared to the previous year; an increase deriving mainly from the beginning implementation of new instructions in 2011 concerning provision for defective debts. According to these instructions, the Bank is also required to register expenses due to credit loss on debts that have not been identified as problematic debts and this according to a predictive statistical provision rate. Accordingly, during 2011, deviation of expenses was registered in the group allowance on consumer credit balance for the amount of NIS 8 million and this because of a sharp increase in balance for this year.

In addition, there was an increase in operating and other expenses of about NIS 20 million because of the Bank's expansion in the retail area.

The net profit in this segment amounted this year to NIS 10.5 million as compared to NIS 13.4 million in 2010.

Material and Cooperative Agreements

Below are details on material and cooperative agreements in which the Bank is a relevant party for the household segment:

Agreements with Government of Israel for Granting Loans

The Bank has framework agreements with the Government of Israel to grant loans with government guarantees (including arrangement for implementing loans and their collection) to entitled Ministry of Housing borrowers. The agreements determine that the Bank is entitled to receive commissions at different rates as determined in the aforementioned agreements and participation in collection expenses. The last framework agreement was signed in July 2004, for a period of two years, and is renewed automatically for additional periods of one year each, unless either party terminates the agreement 4 months prior to its termination date.

Additionally, during May 2008, the bank signed an agreement with the Government of Israel concerning loans to entitled Ministry of Housing borrowers from the date of signing the agreement and onward. Loans that will be granted to entitled borrowers according to this agreement are mostly from bank funds and are under the bank's warranty, and only a small part from Government funds and are under the Government's warranty. The Bank is entitled to receive a subsidy from the Government for loans granted from bank funds, and commissions at various rates for loans granted from state funds. The agreement is in effect for one year and is renewed automatically for additional periods of one year each, unless either party terminates the agreement 3 months prior to its termination date.

The Bank has committed to the Bank of Israel that by providing the services according to the aforementioned agreements, it operations conform to the government's letter of instructions and that it will reimburse the State of Israel if it did not. The Bank's operations conform to the government's letter of instructions on the issue of loans for eligibles, and therefore it estimates that the indemnification commitments will not create material exposure to the Bank.

Borrowers Life Insurance Agreement

The Bank is a party in agreements from 1992 (as periodically updated) with several insurance companies, Ir Shalem Insurance Agency, and other insurance agencies. According to the agreements, the insurance companies are committed to insure the lives of the borrowers, subject to conditions determined in the agreements and in the insurance policies. The insurance companies are entitled to a premium, and the Bank and the aforementioned insurance agencies are entitled to payments from the insurance companies in accordance with their services. The bank is the policy owner and beneficiary in accordance therewith. The aforementioned agreements apply only to life insurance of borrowers made up until December 31, 2005.

Borrowers Property Insurance Agreement

On April 1, 2007 agreements were signed between the Bank, Ir Shalem, and several insurance companies, according to which the insurance companies committed to insure property mortgaged in favor of the Bank, subject to conditions determined in the agreements and in the insurance policies, and to payment of commissions to Ir Shalem. The agreements were renewed at the end of March 2011 and were extended until March 31, 2012, and will be renewed yearly. These agreements apply only to property insurance because of loans granted until December 31, 2005.

Framework Agreement — Life Assurance and Property Insurance in Respect of Housing Loans

On April 10, 2006, an agreement was signed, and effective from January 1, 2006, between Ir Shalem and an insurance company, according to which the insurer will issue life assurance and property insurance policies (including water damage), in respect of housing loans granted by the Bank to its customers, which will be marketed by Ir Shalem through a subsidiary of the insuring corporation.

Agreement with Bank Leumi of Israel Ltd.

The Bank has an agreement with Bank Leumi of Israel Ltd, ("Bank Leumi") as of November 15, 1998, according to which the Bank receives from Bank Leumi clearing services for transfers presented at the Bank and relays drawn at the Bank through Bank Leumi clearing, commission compensated as determined in the agreement.

Agreements with Credit Card Companies

As of August 8, 2002, the Bank has agreement with Israel Credit Cards Ltd. and as of February 25, 2010, with Poalim Express Ltd. These agreements reflect the relationship in the cooperating framework between the Bank and the aforementioned credit card companies, including the issue of dividing responsibility between the credit card companies and the Bank, and the commercial terms between the parties.

Private Banking Segment

General

Activity in the private banking segment provides banking services and products granted under the household segment, to customers with medium to high financial status; mainly for foreign residents. The segment's services are provided through a bank branch specializing in providing these services and products to foreign residents. Under this activity segment, greater emphasis has been made on providing personal and highly professional service.

Objectives and Business Strategy

The Bank sees this activity segment as an important tier for its business activities, and accordingly operates, among others:

— To maintain the status and reputation that the Bank has created among Jewish communities abroad.

— To expand the range of financial services and products relevant to this market sector.

The Bank's plans and assessments, as specified above, are future facing information, as well as based upon assumptions and different forecasts presented to the Board of Directors. This information may not be realized because of changes that may be applied for various factors that are not controlled by the Bank only. Influencing factors include forecasts and assessment concerning economic development in Israel and globally, especially concerning the economic situation, including the influence of macro-economic and geopolitical conditions, changes in capital markets, as well as other additional factors influencing risk exposure: public preference, instruction by supervisory factors and others, aspects related to the Bank's image, technological developments and the subject of human resources.

Structure of the Activity Segment

In recent years, there is more and more evidence of a trend for most banks operating in Israel, in developing and promoting services and products provided by private banking services.

The activity in this segment mainly consists of services and products as specified below:

Mortgages — Providing loans for financing acquisition of housing in Israel, as well as providing credit for other purposes backed by pledging other collateral.

Banking and Finance — Variety of products and services in this area including providing credit, activity in checking accounts, recruiting deposits in foreign currency and others, while the emphasis is on providing advanced professional service and adjusted to the personal and specific needs of the customer.

The capital market — Providing customer securities services, including implementing and operating transactions in securities and in derivatives in Israel and abroad; investment advice by consultants who specialize in investment areas that are relevant for foreign residents, with special expertise in markets abroad. Management activity of investment portfolios is implemented by a Bank of Jerusalem subsidiary: Jerusalem Investment Portfolio Management Ltd.

Legislative Restrictions, Standards and Special Constraints

In addition to the details provided on this issue in relation to the above household segment and the relevance also concerning this activity area; the provided services are also subject, in the framework of this segment, to specific limitations of the applicable laws in the various countries of the customers' residence from this segment.

During 2011, in the United States the Fatca Bill has been enacted, according to which the world's financial institutions are required to identify all their American customers and reports of these customers' transfer data to the U.S. Income Tax (IRS). In February 2012, standards regulating this issue were published and while their coming into force will probably be during the second half of the year 2013. As of the date of this report, the Bank is not capable of assessing the aforementioned legislative influence on its activity.

Moreover, in view of the existing enactment in the United States, the financial institutions not having a suitable American permit, are prevented from providing a variety of securities services to customers who are residents of the United States. Therefore, Bank of Jerusalem is prevented from providing securities services to its customers who are residents of the United States.

Critical Success Factors in the Activity Segment

The unique success factors include, a system of widespread connections with Jewish communities in various countries around the world, and providing professional and personal services to segment customers in private banking areas, and this in addition to success factors that are extensively detailed in the household segment and also relevant to this segment.

The Main Entry and Exit Barriers of the Segment's Activity

Customer habits, regulatory limitations, training of professional and skilled human resources and technological infrastructure may be the entry barriers to this activity segment. The exit from mortgages area falls within a range of years, because of the loans' long life.

Alternatives to Products and Services of the Segment of Activity

Alternative products and services offered by the Bank to its customers in this segment are the same services and products offered by the designated branches for private banking and banking for foreign residents in the entire banking system.

Customers

The customers of this segment are mainly foreign residents with a great attraction to the State of Israel as well as a medium to high financial status. Most of these customers are residents of the United States and Western Europe. The bank does not have significant dependency on any individual customer. Activity in this segment is characterized by dispersion of credit risk and widely spread recruitment of resources. The services are provided through the private banking branch, while most of the assets purchased in the this segment are financed by the Bank and are in the Jerusalem area.

Marketing and Distribution

Most of the marketing is implemented by a personal request from potential customers during conferences and events in which the Bank participates, as well as through request of customers by professionals involved in the aforementioned communities abroad; among them, lawyers, consultants, accountants with whom the Bank has current contacts.

Competition

All the banks compete for this market segment. The Bank cannot assess its relative part in the banking system concerning this activity area. In order to deal with the competition, the Bank invests a great deal of efforts in unique professional training of the employees for the private banking branch. Another of the Bank's advantage in this activity segment is the service level and the availability of bankers at the Bank speaking various languages and capable of creating personal contact with the segment's customers.

Human Capital

In 2011, the average number of positions in this segment amounted to about 24 direct positions (similar to the year 2010). In addition, head office and management personnel were loaded onto this segment. The segment's personnel includes tenured employees trained to provide appropriate service adapted to the segment's customers.

Below is a summary of the operating results for the private banking segment:

	For the year ending December 31, 2011				For the year ending December 31 2010*			
	Mortgages	Banking and Finance	Capital market	Total	Mortgages	Banking and Finance	Capital market	Total
	Millions of NIS							
Profit (loss) from finance activity:								
Externals	11.3	10.4	1.6	**23.3**	10.2	8.8	0.7	19.7
Between segments	(1.6)	(1.4)	—	**(3.0)**	(1.5)	(1.3)	—	(2.8)
Income from other operations	0.8	3.2	0.2	**4.2**	1.5	3.0	0.6	5.1
Total Income	10.5	12.2	1.8	**24.5**	10.2	10.5	1.3	22.0
Expenses for Credit Losses	2.7	—	—	**2.7**	—	—	—	—
Expenses from operating and other	(5.8)	(10.9)	(3.1)	**(19.8)**	(7.4)	(9.2)	(2.8)	(19.4)
Profit (loss) from regular operations before tax	7.4	1.3	(1.3)	**7.4**	2.8	1.3	(1.5)	2.6
Provision for tax	(2.2)	(0.4)	0.4	**(2.2)**	(0.8)	(0.4)	0.5	(0.7)
Net profit (loss)	**5.2**	**0.9**	**(0.9)**	**5.2**	2.0	0.9	(1.0)	1.9
Yield on Capital	**10.4%**	**27.8%**	**—**	**9.7%**	3.6%	13.4%	—	2.8%
Income rate of total income of the Bank	4%	4%	1%	**9%**	4%	4%	1%	9%
Average balance from assets	961.4	15.9	—	**977.3**	841.6	11.3	—	852.9
Average balance from liabilities	—	846.9	—	**846.9**	—	729.1	—	729.1
Average balance from risk assets	522.5	33.0	—	**555.5**	530.2	49.5	—	579.7
Average balance from securities	—	—	211.3	**211.3**	—	—	207.6	207.6

* Reclassification.

Changes in the segment activity scope and its profitability

The net profit for 2011 amounted to NIS 5.2 million compared to NIS 1.9 million in 2010. The main increase derives from a profit increase in the mortgage area. The increase in the mortgages area derives mainly from a decline in operating expenses related to this area.

In the banking and finance area there was an increase in total revenue of NIS 10.5 million in 2010, to NIS 12.2 million in 2011, deriving mainly from an increase in conversion fees. In the capital market area loss was caused totaling NIS 0.9 million for 2011, similar to the loss in 2010.

Business Segment

General

The business segment provides banking services to business customers, corporations, and associations. These services are provided to the Bank's customers, mainly through the business division and the business department specializing in providing these services and located in the Bank branches in Jerusalem and Tel Aviv, as well as in private banking branches. The segment includes activity in the real estate sector, accompanying housing construction projects mainly by the financial accompaniment method, among others, project financing according to NOP 38. In addition, the Bank provides financing for companies implementing solar energy projects, as well as commercial mortgages.

Objectives and Business Strategy

Under its Strategic Plans (as described above), the Bank works to implement a policy in selective sectors in this realm by providing credit to construction companies and residential real estate, with the emphasis on potential growth and without increasing the existing risk level. For this purpose, the Bank works to create cooperation with insurance companies and other institutions for providing project credit loans (operating model) and issuing guarantees according the Sales Act (Apartments) and other guarantees. This strategy enables the bank to increase the scope of projects it handles, and with adjustment to the Bank's policy, using its accumulated expertise, entering large and complicated transactions, dispersion risk and, respectively, increases the yield of allocated capital deriving from this activity while reducing risk.

Moreover, the Bank works to shift risk and inputs, for financing transactions (escorting resident construction) or financing transactions requiring allocated capital as low as possible, and this while reducing, as far as possible, the scope of commercial credit for financing current activity of small companies and business, .

In addition, the Bank operates to expend the financing of transactions in the solar energy branch, which have a long-term agreement with the Electric Company, among others, by cooperating between the Bank and insurance companies, as well as other institutional entities for providing credit. Such cooperation, similar to the aforesaid for financing projects (operator model), enables entry into large and complexed transactions and risk dispersion.

The Bank's plans and assessments, as specified above, are future facing information, as well as based upon assumptions and different forecasts presented to the Board of Directors. This information may not be realized because of changes that may be applied for various factors that are not controlled by the Bank only. Influencing factors include forecasts and assessment concerning economic development in Israel and globally, especially concerning the economic situation, including the influence of macro-economic and geopolitical conditions, changes in capital markets, as well as other additional factors influencing risk exposure: public preference, instruction by supervisory factors and others, aspects related to the Bank's image, technological developments and the subject of human resources.

Structure of the Activity Segment

The activity in this segment mainly includes:

Construction and real estate — The bank finances the acquisition of land and establishment of housing projects, as well as providing various types of guarantees according to the transaction's requirements. Financing for erecting housing projects is mostly provided by the accompanied financing method conforming to the specific requirements of the project and its characteristics. Some of the activities were implemented by obligo guaranty methods. In the accompanied financing method, the project is separated from the customer's remaining activity. A special account is opened for the project, only for that project's purposes, into which proceeds from housing unit acquisitions, equity, and bank credit are deposited. The proceeds are used for implementing the project and are released as per the construction's rate of progress according to reports from the expert inspector. Under financing the construction project, the Bank grants implementation, financial, and Sales Law guarantees for purchasers of project units. Realty and receivables mortgaged to the bank. Sales Law guarantees are issued for most of the transactions by the insurance company with whom the Bank has a cooperative agreement.

The Bank cooperates with financial entities for the purpose of expanding the scope of its activity and maximizing profitability, while dispersing credit risks, and complying with the required regulatory limitations.

The difference between the types of cooperation with institutional entities, is expressed in the type of credit or collateral provided by the institutional entity: providing guarantees according to Sales Law; providing guarantees to the land owners in combination transactions; and providing financial credit according to the operator model.

Operator model in the construction and real estate area, is implemented according to the principles below:

The project is examined and approved by the financial partner institutions; the collaterals in the project will be pari-passu, when the ratio of distribution in case of collateral realization is determined in advance between the Bank and the financial partner; the volume ratio of the provided credit will remain during the project life. Release of surplus obtained for the project developer, is implemented by the Bank according to the Bank's approved surplus release formula and is included in the cooperation agreement.

Management of the project according to this model, is implemented by the Bank at its discretion and according to accepted banking standards; monitored project reports are transferred by the supervisor to the Bank and to an additional entity, while the Bank reports to the additional entity about irregular events in the project.

Banking and Finance —

Credit provided on behalf of the financing of current activity of companies —The Bank made a decision for reducing the credit volume provided under this activity area for 2012, with the credit provided during 2011, and this due to the large capital allocation and that required current operations. Financing of commercial activity including financing of income-producing assets and current activity, is generally implemented against material collateral. Current activity of the companies is also financed, among others, against liens on the current assets. Additionally, the Bank provides vehicle purchasing credit for customers of this activity segment, similar to customers of the household segment.

Credit for the solar energy branch — financing acquisition, installation, and operating solar energy systems is implemented against a contract with the Electricity Company for a period of 20 years at a defined electricity purchasing rate and fixed for the whole operating period. Additionally, the bank mortgages the system equipment and the total arrangement of transaction contracts, as required, accumulating various reserve funds during the financing period. In this area, the Bank cooperates with financial entities, similar to the real estate area, according to the operator model.

Operator model in the construction and real estate area is implemented according to the principles below:

The cooperation agreement between the Bank and financial entities is formed and generally signed before the project's establishing stage. The solar project's establishing stage is mostly financed only by the Bank. The mutual financing starts in the operating stage of the project, when the credit provided until then by the Bank in the framework of the establishing stage, is paid in full through the mutual credit provided by the Bank and the financial partner under the operating stage; the collateral in the project will be pari-passu, when the ratio of distribution in case collateral realization is determined in advance between the Bank and the financial partner; the volume ratio of the provided credit will remain during the project life.

Management of the project according to this model, is implemented by the Bank at its discretion and according to the accepted banking standards; monitoring project reports are transferred by the supervisor to the Bank and the additional entity, while the Bank reports to the additional entity about irregular events in the project.

Legislative Restrictions, Standards and Special Constraints

Below are updates on the legislative instructions applicable on this segment:

Regulations on Sales (Apartments) (Assurance of Investments of Persons Acquiring Apartments) (Bank Guarantee), 5770 — 2010 and Proper Banking Management instruction 456

On February 20, 2011 the Regulations of Sales (Apartments) (Assurance of Investments of Persons Acquiring Apartments) (Bank Guarantee), 5770 — 2010 (hereinafter: "Regulations") became effective, that determined the determined a formula for bank guarantees according to paragraph (1)2 of the Regulations of Sales (Apartments) (Assurance of Investments of Persons Acquiring Apartments) (Bank Guarantee), 5734 — 2010.

With validation of the regulations, Proper Banking Management instruction 456 was annulled, that determined the formula for the guarantee that was to be issued by banks under the aforementioned law. The Bank issues guarantees according to the formula determined by the regulations.

Taxation Law (Appreciation and Acquisition) (Amendment № 70), 5771 — 2011

Conform the aforementioned amendment, the buyer of land rights is required to pay an advance on the to the Tax Appreciation manager at a rate of 7.5% from the exchange, after payment of 40% from the exchange, on the account of the tax the buyer is obliged, and this payment will be considered a payment paid to the seller by the buyer on the account of the exchange that has been determined in an agreement between them.

The amendment contradicts the instructions of Sales Law (Apartments) (Assurance of Investments of Persons Acquiring Apartments), 5734 — 1974), obligating (in the case of bank borrowers) full payment of exchange by means of a voucher booklet to the account of the project. In addition, this means that 7.5% from the receipts for sales of each house in the lender's project will not enter the project account, and will not be part of the project's resources.

For the purpose of solving the aforementioned problematics, the tax authorities in cooperation with the banking organization established a track (project approval accompanied by banks) under which the contractor provides the lending bank an irrevocable instruction, according to which the Bank will not transfer the "determined amount" from the surplus in the accompanying account to the assessee until receiving the approval by the income tax assessor. In any event, the obligation of transferring the advance is not applied if the income tax assessor provided an approval under paragraph 50 of the Real Estate Tax Law.

The bank operates according to legislative instructions.

Amendment to the Proper Banking Management Instruction 313 on the topic of borrowers' group

On May 8, 2011, the Supervisor of Banks published an amendment to instruction № 313 on the issue of limitation on debts of borrowers and a groups of borrowers under centralized risk reducing activity in the banking system Below are the principles of the amendment:

- The definitions of capital have been amended, the debts and deductions from the debts in order to adapt the Supervisor's new instructions on the issue of measurement and capital adequacy.

- Increase of the limitation on debts of a group of borrowers from 30% of the banking corporation's capital to 25%.

- Also setting a new limit on the banks' exposure to 25% of banking corporation's capital or NIS 250 million; whichever higher.

- Limitation to 120% of the banking corporation's capital on the total net debts for borrowers, group of borrowers, and group of bank lenders, whose net debts to the banking corporation exceed 10% of their capital.

- Transfer instructions have been determined for the handling irregularities that will be created following implementation of the first circular.

Implementation of the amendments of the instructions: December 31, 2011 The bank operates according the instruction's amendment.

Changes in the Segment's Activity Markets in Customer Characteristics

The real estate branch is characterized by price increase in the past few years and the large housing demands accompanied by a lack of available land for building. The second half of the year 2011 was characterized by a slowdown in sales of housing units and this in light of expectation for a price drop. This expectation has not yet been realized. Therefore, there still in uncertainty in the real estate market concerning the price levels, influence, among others, by the lack of available land for construction and decrease in the volume of construction starts in the requested areas (marketing of the land of the Ministry of Housing and the Israel Lands Administration is mostly centralized in the periphery areas), and a burden on the mortgages takers.

In addition, part of the banks extracted the existing branch limitation conform the Proper Banking Management instructions № 315: additional provision for doubtful debts, and because of that the Bank is exposed to additional customers that are not "home customers" of these banks.

Critical Success Factors in the Activity Segment and Occurred Changes:

- Improvement in the technological capability for providing services.
- Professional training of manpower with experience and skills.
- Providing qualitative and quick service.
- Intelligent risk management, while establishing proper credit control systems for locating and minimizing risk.

In the real estate area:

— Specific professional knowledge in this area, including understanding and ability to analyze the relevant variables affecting risk level in real estate projects, such as areas of demand, construction in stages, land prepared for construction, and so forth.

— Locating opportunities through connections with experienced entrepreneurs operating in this branch.

— High credit underwriting ability expressed in correct choice of the accompanied project as a derivative of the project's location and its marketing possibilities in accordance with market needs.

— Defining a financing structure for the transaction according to project and customer requirements.

— Control and supervision of project income and expenses until completion.

— Ability to manage credit in crisis conditions.

— Appropriate assessment of the customer's repayment ability.

Banking and Finance:

— Careful management of credit, while implementing diligent control.

— Thorough comprehensive analysis of new transactions, including understanding of risks inherent in financing.

— Defining a loan structure and adapting the of amount of financing to cash flows in respect of corporate transactions and activity.

— Reliable current assessment of the Bank's existing collateral and following the company's current reports.

— Development of expertise in the financing area of the solar energy branch and access to operating factors in the branch.

— Legal examination concerning providing financing for solar energy transaction including examining the rights of the assets on which the solar systems are installed, examination of rental contract between the entrepreneur and the owner of the asset (as far as it concerns a transaction on this type), examination if the financial model of the transaction, etc.

The Main Entry and Exit Barriers of the Segment's Activity and the changes applied to them

— Regulatory limits on banking corporations, including limitation on borrower debts or group of borrowers, as well as also other regulatory limits; as for example, non-bank factors have limited independent access to the real estate branch as result of mandatory Sales Law, in certain conditions, issuance of bank guarantees for buyers of construction project units.

— Requirements for minimum capital.

— Establishment and maintenance of physical and technological infrastructure.

— Long-term relationship with factors operating in areas under the business segment.

— Knowledge and accumulated experience working at financing under the accompanied financing method.

— Cooperation agreements (operator model) with real estate and solar energy projects.

Alternatives to Products and Services of the Activity Segment of and Occured Changes

As an alternative to banking credit, alternative financing products have been developed and provided by non-banking entities. An alternative credit including mobilization on the capital market, among others, by issuing debentures to real estate companies, which may be backed by specific cash flows, including direct credit granted to these bodies. This credit alternative and its availability is influenced by the capital market situation. Therefore, there exists a decline in the issuance scope.

Customers

Construction and real estate area, the bank accompanies 160 projects with an average size of 58 residential units per project. More than half of the accompanied residential units are located in high-demand areas — Greater Jerusalem, Central, and Sharon areas.

The bank's credit portfolio is spread and the bank does not have dependency on any individual customer or limited group of customers. The credit balance of bank customers is not dependent on any single borrower. Scatter of the portfolio is also enabled through the bank's strategic cooperation with insurance companies that generally issue policies according to the Sales Law (Apartments) to buyers in projects accompanied by the bank. Also, there are also several joint projects with an insurance company to provide financial credit for accompanied projects (on the operator model).

In the area of credit for commercial activity in the solar energy branch — the customer portfolio is spread among a large number of customers across the country. In financing the solar energy branch there are two types of customers: asset owners that install solar systems on roofs owned by them, and a second; entrepreneurs that rent roofs for installing solar systems.

Marketing and Distribution

The marketing and the distribution are performed through managers and employees of the business department of the Bank and at commercial departments in the Bank's branches in Tel Aviv, Jerusalem and in the private banking branch.

The bank mobilizes customers and expands its activity in the realty branch, among others, by collecting data concerning tenders for land acquisitions intended for construction; analyzing the tenders, and then initiating contact with the tender winners through its wide familiarity with those operating in this branch. Additionally, the Bank works to expand its activity using its existing customer base.

The bank initiates exposure to the target public by sponsoring events organized by the association of contractors and builders and by local contractors' organizations, through participation in various meetings, including speakers and/or panelists from the bank at these events.

In the solar energy sector the bank markets itself among installation companies and potential customers as well as initiating contact with these factors.

Competition

The competition among the banks to attract quality real estate customers is expressed on equity rates of invested in the project, transaction structure, commission size, interest on transactions, and the level of customer service. During 2012, insurance companies also intend entering the project financing area. The Bank's principle methods for dealing with competition, is based on the connections that have been creating over the years, as well as its existing customer base constitute a lever for continuing its activity. Also, the bank sometimes utilizes excess sources in existing projects to leverage future activity by its customers' new projects. The bank operates a mechanism to determine the amount of equity required for the project, derived form the rate of project implementation, as well as sales. The aforementioned mechanism constitutes an incentive for promoting project sales and therefore reduces the projects' risk levels.

Most of the banks in the banking system participate in financing the solar energy branch. Moreover, at transactions with high volumes, institutional entities and insurance companies are also taking part in the financing. The level of professionalism, the knowledge and extensive familiarity with the branch enables the Bank to expand it activity with existing and new customers.

The Bank has no ability to assess its share of this area's credit balance of the entire banking system. Nevertheless, the Bank assesses that for 2011, its relative portion in accompanying new housing units, stood at about 10% of all the housing units starts during 2011. Also, its part in the solar energy branch is higher than the Bank's share in the banking system.

Cooperative Agreements

The bank has cooperative agreements with several insurance companies for providing credit and/or for issuance of insurance policies to buyers of apartments in residential projects financed by the bank according to the accompanied financing method (the policies are issued by the insurance companies as required in accordance with the Sales Law (Apartments). The agreements with insurance companies include arrangement of cooperation between the bank and the insurance companies concerning the following: responsibility for current management of the project, submission of reports, receipt and release of collateral, and following procedures for realizing liens and creditor arrangements between the parties.

Human Capital

In 2011, the average number of positions in this segment amounted to about 30 direct positions (similar to the year 2010). From these 14 positions for activity in construction and real estate, 14 positions for banking and finance activity and 2 positions for activity in the capital market area for customers of the sector. Moreover, head office and management personnel were loaded onto this sector.

Below is a summary of the operating results of the business sector:

	For the year ending December 31, 2011				For the year ending December 31 2010*			
	Construction and real estate	Banking and Finance	Capital market	Total	Construction and real estate	Banking and Finance	Capital market	Total
	Millions of NIS							
Profit (loss) from finance activity:								
Externals	21.8	27.0	0.2	**49.0**	20.9	24.3	0.6	45.8
Between segments	(1.4)	(6.9)	—	**(8.3)**	(1.4)	(6.7)	—	(8.1)
Income from other operations	10.3	2.5	1.2	**14.0**	7.8	3.4	2.8	14.0
Total Income	30.7	22.6	1.4	**54.7**	27.3	21.0	3.4	51.7
Expenses for Credit Losses	3.7	0.6	—	**4.3**	3.4	0.6	—	4.0
Expenses from operating and other	(18.5)	(16.1)	(2.6)	**(37.2)**	(15.5)	(17.2)	(2.5)	(35.2)
Profit (loss) from regular operations before tax	15.9	7.1	(1.2)	**21.8**	15.2	4.4	0.9	20.5
Provision for tax	(4.6)	(2.0)	0.3	**(6.3)**	(4.4)	(1.3)	(0.3)	(6.0)
Net profit (loss)	**11.3**	**5.1**	**(0.9)**	**15.5**	10.8	3.1	0.6	14.5
Yield on Capital	**9.7%**	**6.6%**	**—**	**8.1%**	9.5%	3.6%	—	7.3%
Income rate of total income of the Bank	11%	8%	1%	**20%**	11%	8%	1%	21%
Average balance from assets	668.8	705.1	—	**1,373.9**	599.2	663.6	—	1,262.8
Average balance from liabilities	222.6	3,541.4	—	**3,764.0**	207.6	3,071.5	—	3,279.1
Average balance from risk assets	1,195.8	779.1	—	**1,974.9**	1,035.9	800.6	—	1,836.5
Average balance from securities	—	—	289.3	**289.3**	—	—	265.7	265.7
Average balance from assets Others in management	—	—	125.9	**125.9**	—	—	252.2	252.2

* Reclassification.

Sector Profitability data

The net profit in this segment amounted this year to NIS 15.5 million as compared to NIS 14.5 million in 2010.

In 2011, a recovery was recorded (canceling of provision) for a total of NIS 4.3 million.

In 2011, the real estate area's profit totaled NIS 11.3 million, compared to NIS 10.8 million for the previous year.

In 2011, a total of NIS 30.7 million in revenues was recorded, compared to NIS 27.3 million in 2010, an increase of about 12%.

In contrast, an increase in operating expenses ascribed to this area was recorded, among others, because of provision for off-balance sheet credit risk.

In the banking and finance area profits totaled NIS 5.1 million compared to NIS 3.1 million during 2010. The principal increase in revenue derives from an increase in revenue ascribed to this segment, as well as from an increase in revenue from recovery.

By the Bank's assessment for 2012, this segment's revenue will increase because of an increase in credit provision according to operator model in the real estate and construction area, as well as in the solar energy credit area.

The Bank's assessments in relation to the expected increase in the Banks revenue from this activity segment during 2012, are future facing information, and are based on assumptions and various forecasts presented to the Bank. This information may not be realized because of changes that may be applied for various factors that are not controlled by the Bank only. Influencing factors include forecasts and assessment concerning economic development in Israel and globally, especially concerning the economic situation, including the influence of macro-economic and geopolitical conditions, changes in capital markets, as well as other additional factors influencing risk exposure: public preference, instruction by supervisory factors and others, aspects related to the Bank's image, technological developments and the subject of human resources.

Financial Management Segment

General

The activities in this segment are not with customers, including the bank's financial management, and include:

— Managing the bank's available financial capital.

— Managing the bank's nostro portfolio.

— Managing exposure to market risks, including basis, interest, and liquidity exposure.

— Activity relative to banks in Israel and abroad.

Objectives and Business Strategy

The purpose of this activity is to increase the yield on excess liquidity while maintaining appropriate risk levels.

Structure of the Activity Segment

This segment's activity is concentrated in the Financial Division. The bank currently manages the positions in the various linkage sectors through a variety of financial instruments available to it. This management is implemented in accordance with the risk management policy as defined by the Board of Directors, and taking into account changes in relevant economic data and current supervision of risks resulting from such exposure.

In April 2011, the Bank signed an agreement with an external portfolio manager, under which the portfolio manager will handle for the bank the investments of part of the Bank's nostro funds, and this according to the guidelines and limitation the Bank will receive from time to time. Moreover, the portfolio manager will advise the Bank in relation to the investments concerning these funds according to the Bank's policy.

The nostro portfolio is divided into the following types of activity:

— Activity for commercial purposes characterized by short-term investments in government and corporate securities in the primary market, as well as in the secondary market.

— Activity used as protection for short-term, medium-term and long-term deposits with the Bank, as well as investments against the Bank's equity.

— Investment activity in debentures mainly for the purpose of reaching surplus yield on the Bank's liquidity balances.

— Activity of investment in non-government securities, mainly bank or corporate debentures, according to the banks credit policy.

The investment portfolio and the financial products are examined currently, taking into account macro-economic forecasts on the issues of exchange rates, short-term and long-term interest rates, inflation, economic growth, and yield curves. Such analysis is required in order to arrive at correct costing of financial products and investment decisions relating to the nostro portfolio.

As part of managing the surplus liquidity, and in consideration of the limitations determined by the Bank's Board of Directors, surplus liquidity is deposited at the Bank of Israel and banks in Israel and abroad. For details concerning the liquidity model and limitations of the management and the Board of Directors, please see chapter Risks and Risk management.

The Bank has credit frameworks from banks in Israel, which it uses from time to time in accordance with its regular needs.

Legislative Restrictions, Standards and Special Constraints

The Bank, and the financial management segment in particular, operates in the framework of laws, regulations and instructions from the authorities, imposed on the banks by the Supervisor of Banks, the Securities Authority, and the Commissioner for the Capital Market, Insurance and Savings.

Critical Success Factors in the Activity Segment

The critical success factors in this segment may correctly recognize the market conditions and the expected timing for a change in these conditions, the ability yo understand and analyze the possible influence of macroeconomic factors on market condition and to predict their power, and the ability to operate quickly, to changes in positions, and exposure according to the market conditions. An additional factor is the professionalism of the employees relied upon to manage the financial sector in general, and the nostro portfolio in particular.

Human Capital

In 2011 the number of direct positions in this sector amounted to three positions, similar to 2010.

Below is a summary of the operating results of the financial management segment:

	For the year ending December 31, 2011	For the year ending December 31 2010*
	Millions of NIS	
Profit (loss) from finance activity:		
Externals	**(36.6)**	(19.7)
Between segments	**31.2**	29.8
Income from other operations	**—**	(0.2)
Total Income	**(5.4)**	9.9
Expenses for Credit Losses	**—**	—
Expenses from operating and other	**(3.8)**	(4.2)
Profit (loss) from regular operations before tax	**(9.2)**	5.7
Provision for tax	**2.7**	(1.7)
Net profit	**(6.5)**	4.0
Yield on Capital	**(27.6%)**	15.2%
Income rate of total income of the Bank	**—**	4%
Average balance from assets	**2,023.1**	1,589.0
Average balance from liabilities	**51.9**	86.0
Average balance from risk assets	**306.8**	244.1

* Reclassification.

Sector Profitability data

This year, net profit amounted to NIS 6.5 million, compared to NIS 4.0 million in 2010.

The main decrease in revenue derives from decline of a total of about NIS 15 million in the segment's revenue of.

The surplus revenue from negotiable securities and available for realization, position profits and fair value, have recorded a decrease of NIS 20.2 million for 2011, compared to the previous year.

On the other hand, an increase in the income for financial capital has been recorded for a total of NIS 7 million compared to the previous year, mainly due to raising the interest rate by the Bank of Israel.

As of December 31, 2011, the Bank holds NIS 244.6 million in nominal value in liability certificates its subsidiary issued (Jerusalem Financing and Issuances). Due to purchasing these liability certificates the Bank recorded gains totaling NIS 3.9 million, that have been reflected in this segment (during 2010 — NIS 0.4 million).

Below is data concerning the decrease in value of debentures available for sale (government and corporate) recorded under capital reserve by time periods and the impairment rate:

Impairment rate at the date of the financial report	Impairment amounts (in millions of NIS)					
	Period of time in which fair value of asset was less than its cost				Total impairment for December 31	
	up to 6 months	6-9 months	9-12 months	Over 12 months	2011	2010
until 20%	0.1	3.5	—	12.4	**16.0**	12.0
20%–40%	—	—	—	5.4	**5.4**	3.1
Over 40%	—	—	—	—	**—**	—
	0.1	3.5	—	17.8	**21.4**	15.1

Note: It should be emphasized that the rate of decrease in value and the period of time of the decrease in value relates to different periods — the period of time is measured from the date on which the fair value of the asset was materially lower than its cost price, while the rate of decrease in value is stated as of a specific point in time, December 31, 2011.

Fourth part — Matters related to the activities of the overall banking corporation

Attracting financial resources

General Information

Over the years, the Bank has adopted a policy committed to expanding activities with households for the purpose of expanding the resource recruitment base. During these years, the policy added a significant increase to the weight of the households in the total public deposits and this was concurrent with the decrease in weight of the deposits from institutional entities. The balance of public deposits as of December 31, 2011, amounted to NIS 9,065 million, compared to NIS 7,408 million at the end of 2010. About NIS 1,400 million of the increase in the balance originated from the household deposits. The balance of the increase originates from deposits from institutional entities.

The Bank's activity in the mobilization of financing sources from the public is managed by the financial divisions.

Objectives and Business Strategy

The Bank set long-term policy for itself to expand mobilization of sources, with an increase in the weight of household resources out of the total deposits by the public while maintaining the ability to mobilize sources from institutional customers. Long-term deposits are mobilized according to the volume of new long-term credit granted. Through the "Jerusalem Financing and Issuances Ltd." subsidiary, the bank mobilizes deferred liability notes according to the bank's capital requirements.

The Bank management determines specific branch objectives and for the head office in all sectors of activity and manages current monitoring for meeting these objectives.

The bank acts to perform the strategy and objectives through a variety of products and their adaptation to customer requirements and variable market conditions. Also, the bank holds campaigns to the depositor public and through the media and online means to existing and potential customers. The bank offers closed circuit banking services that enable mobilization of funds from customers of all banks, as listed below. Moreover, the bank attributes importance to strengthening cooperation with institutional customers, including the new pension and monetary funds.

Structure of the Activity Segment

The financing sources in the banking system, in shekels and in foreign currency, are mainly deposits from households, companies, institutional entities, banks in Israel and abroad, and by mobilization of marketable debentures on the capital market.

The sources include, among others, deposits in all linkage segments, bearing fixed interest or variable interest, deposited for various periods from one day to eighteen years.

During 2011, there was a net accumulation in the households deposits for a total of about NIS 1,400 million, compared to net accumulation of a total of about NIS 500 million in the previous year. The increase derives from improvement in work procedures at branches, recruitment of new customers at branches, through a closed system, and from improvement in the interest environment.

Below is the composition of the bank's financing sources including deposits by the public, liability certificates and deferred liability notes:

	Balance for December 31		Change	
	2011	2010		
	Millions of NIS		Millions of NIS	%
1. NIS deposits and checking accounts	**4,962**	3,712	1,250	34
2. Savings programs and deposits linked to index	**2,764**	2,671	93	3
3. Deposits in foreign currency	**1,287**	964	323	34
4. Deposits linked to foreign exchange	**52**	61	(9)	(15)
Total public deposits	**9,065**	7,408	1,657	22
5. Liabilities certificates and deferred liability notes	**1,612**	1,921	(309)	(15)
Total finance resources	**10,677**	9,329	1,348	14

The average balance of liabilities in 2011 amounted to NIS 10,258 million, compared to NIS 8,667 million in 2010. This balance includes an average balance of liabilities to households for the amount of NIS 5,595 million (household segment), an average balance of liabilities to private banking entities of the amount of NIS 847 million, an average balance of liabilities to companies and institutional entities amounting to NIS 3,764 million (business segment) and an average balance of liabilities to banks for the amount of NIS 52 million (nostro sector).

The bank has credit frameworks from banks in Israel, which it uses from time to time in accordance with its current needs. The height of the credit lines is determined by other banks and is unknown to the Bank. As of the balance sheet date, the Bank did not exploit any credit lines from Israeli banks.

Legislative restrictions, standard, guidelines and circulars from the Supervisor of Banks, and special constraints

Draft Amendment for Prohibition Money Laundering (Requirements Regarding Identification, Reporting and Managing of Records of Banking Corporations), 5770 — 2001.

On November 6, 2011, the Knesset approved (at the Constitution, Law and Justice Committee) part of the amendment to the order for prohibiting money laundering applicable to banks, according to which deposits may be provided in closed systems also from Postal Bank accounts, as well as managed trust funds in closed systems. It should be clarified that currently the Bank can not sell deposits in closed systems to Postal Bank customers, whereas Proper Banking Management instruction 417 (on the issue of deposits in closed system) does not enable it as such, the Bank sells deposits in closed systems only to bank customers.

Competition Structure

Competition structure in the banking system is such that most customers in the banking system deposit their funds with the commercial bank in which their checking account is maintained and these customers are generally indifferent to interest offers on various investment products in other banks. Accordingly, only part of the customers in the banking system compare prices between banks in order to obtain the maximum interest on their investment.

During the report period the Bank included a unique venture for recruiting deposits from households, called "Closed System". The system enables customers to deposit money in deposit notes at the Bank through the Internet without the bother involved in opening a full account at a bank branch, and thus increasing the Bank's access to potential customers. The venture is built according to Proper Banking Management Instruction № 417 of the Bank of Israel.

After the balance sheet date, the Bank made an announcement on a change in the deposit pricing model, including an undertaking, according to which the NIS interest rate on one-year deposits will not be less than 80% interest from the Bank of Israel, except for deposits with fixed interest for a period longer than three months, whose interest rate will not be less than 80% of the yield rate for the relevant short-term loan. On deposits for periods of one year or more, the Bank undertakes that the interest rate will not be less than 80% of the yield rate on government debentures or the cash cost, whichever is higher. This undertaking does not depend on the size of the deposit nor on opening a checking account.

By the Bank's assessment, this combination of the new pricing policy alongside the existing access within the closed system, will probably add to the competition in the deposits sector of the banking system.

The success of the process will bring an increase of the Bank's customer base, dispersal of resources, reducing the reliance on capital markets, and may improve the Bank's profitability.

The information concerning the Bank's readiness as mentioned in this section is "future facing information" that may not be realized in whole or in part, or may be realized differently from expectations. This information is based on the Bank's estimates concerning the ability to realize the Bank's plans and programs, and may not be realized as a result of public response to the process, customer conduct and/or competing banks and/or macro-economic data.

The bank acts to recruit resources also through the capital market by issuance of liability certificates and deferred liability notes. The issuance is performed by fully controlled subsidiary, Jerusalem Financing and Issuances that is the recruitment force of the Bank, and therefore, the Bank commits to comply with all the conditions of the liability certificates, to take up the payment of full amounts that will be required for the payment of the liability certificates to their holders and their interest, conform the conditions determined in the issuance prospect that has been published by Financing and Issuances.

On May 4, 2011, the Jerusalem Financing and Issuances company issued, according to the shelf offering report as of May 1, 2011, that has been published according to the shelf prospect as of June 17, 2009, deferred liability notes (series B) in nominal value for a total of NIS 100 million in exchange of NIS 100 million.

Customers

During recent years the bank placed emphasis on expanding the depositor base and increasing deposits from households, in order to reduce the reliance on large depositors. The bank's deposits portfolio is spread among many customers, thereby decreasing the liquidity risk and providing a low level of sensitivity in the bank in respect of individual depositors. The bank does not have any customer or group of customers whose deposit balance exceeds 5% of the total deposits by the public.

Marketing and Distribution

The recruitment of households is implemented through 16 Bank branches spread throughout the country and through the closed system enabling recruitment of deposits without opening an account at the Bank's branch Recruitment of institutional customers is generally implemented directly by savings and deposits department that is in constant contact with them.

During 2011, the bank joined with the Postal Bank, which has a larger nationwide deployment, in a cooperative agreement, under which the Bank of Jerusalem's deposit notes will be sold at Postal Bank branches. For details please see the paragraph "Material and Cooperative Agreements." The parties started a pilot with ten Postal Bank branches. The parties intend to expand this activity during 2012. This agreement enables the Bank to market deposit notes to customers of the Postal Bank living all over the country, and will expose these customers to the Bank of Jerusalem.

This information in relation to expanding activity with the Postal Bank is future facing information, that may not be realized, in whole or in part, or that may be realized differently from expectations. This information is based on the Bank's assessment and may not be realized in the event that the Postal Bank will be allowed to perform this activity by itself, other regulatory changes in relation to the Postal Bank or the Bank, customer preferences, unsuccessful and unpredicted business responses in the Bank's business environment.

Competition

The competition in the resource recruitment area is strong and includes all the banks. Competition focuses mainly on that segment of customers that is sensitive to changes in interest rates. The Bank deals with the competition, among others, by attractive campaigns for customers and developing new products to vary the product basket. Moreover, various capital market products are alternative investments for deposit notes offered by the Bank.

Bank of Israel

The Bank of Israel acts as a central agent for financing and short-term absorption of money for the banking system, including for the Bank. It should be mentioned that, every bank borrowing money from the Bank of Israel requires collateral, this fact is taken into consideration in current liquidity management. An additional market for recruiting short-term resources is the interbank money market.

The scope of deposits and their types in the banking system are influenced, among others, by the Bank of Israel's monetary policies. Below is a review of monetary tools activated by the Bank of Israel for the purpose of implementing its monetary policy:

Interest — Each month the Bank of Israel publishes the prevailing interest rate for the following month. This interest in the basic interest of loan and deposit centers provided to the banking system as specified below.

Liquidity obligation — The Bank of Israel's instructions require banks to keep balances by means of liquidity for public deposits, at different rates according to the deposit period. Current liquidity obligation rates are 6% on deposits for a period longer than one day and up to 6 days; and 3% on time limited deposits from one week up to one year. There is no liquidity obligation for deposits with a period of one year and more.

As of the end of January 2011, the Bank of Israel imposed new liquidity obligation for currency swap and future Shekel — foreign-currency transactions for foreign residents, including foreign banks.

Deposits for absorbing surplus liquidity — The Bank of Israel provides deposit tenders for the banking system as an absorption tool for system liquidity surplus. The deposit tenders are for the following time periods: day, week, and month. The maximum interest in these tenders is the interest announced by the Bank of Israel. Additionally, there is a window for depositing daily deposits at the Bank of Israel without limit, at an interest rate of 0.5% lower than the Bank of Israel's interest rate.

Short-term loans — The main financial instrument for absorbing Shekels surplus are short-term loans, by means of current issuances to the public and the Bank of Israel's secondary market activity.

Bank of Israel loan tenders at the — The Bank of Israel provides short-term loan tenders (up to one week) for the banking system as instrument for the system's liquidity flow. The minimum interest in these tenders is the Bank of Israel interest rate. Moreover, there is a daily credit window at the Bank of Israel at an interest that is 0.5% higher than the Bank of Israel interest rate. Obtaining credit from the Bank of Israel, through tenders as well as a credit window, is limited according to the amount of collateral each bank has at the Bank of Israel.

Material and Cooperative Agreements

Agreement with the Postal Bank

As of September 25, 2011, the Bank has an agreement with the Israel Postal Company Ltd. (on its behalf and on the behalf of the Postal Bank Ltd.), under which cooperation between the Bank and the Postal Bank is agreed, to offer its customers the use of the postal services for the purpose of opening deposit certificates at the Bank. According to the agreement terms, Postal Bank customers may request to open a deposit certificate and make a deposit at the Bank, to transfer funds from their Postal Bank accounts to the deposit certificate at the Bank and to manage the deposit certificate at the Bank.

Ranking of Bank's Liabilities by Standard & Poor's Maalot

On October 7, 2010, Standard & Poor's Maalot (hereinafter: "Maalot") ratified the issued rating for the Bank at level Ali+. The rating forecast remained negative. On June 2, 2011, Maalot announced the entry of the Ali+ rating for the Bank otCreditWatch with negative implications (immediate report on above was published on June 2, 2011; reference 2011-01-175164. This reference constitutes a generality for referral). On June 28, 2011, Maalot maintained the Ali+ rating of the Bank in-CreditWatch with negative implications, as entered on June 2, 2011 (immediate report on above was published on August 28, 2011, reference 2011-01-254850. This reference constitutes a generality for referral).

It should be mentioned that, maintaining the Maalot rating by CreditWatch with negative implications expresses their assessment regarding the merger implications between the Bank and Dexia Bank, if and when it will be implemented. The company draws the attention to the Bank's reference on the aforementioned in the Bank's immediate report as of June 2, 2011; (reference 2011-01-175221).

On December 6, 2011, Maalot informed the Bank that it performed a rating examination of seven banking groups including the Bank. The examination was performed by applying the updated methodology of bank ratings from Standard & Poor's (as published on November 9, 2011). Maalot also announced that, it will reexamine all the ratings in CreditWatch within 90 days (including the Bank's rating).

This rating is also the rating for the debentures (except for the deferred liability notes as listed below) that have been issued by Jerusalem Financing and Issuance, the Bank's fully owned and controlled subsidiary, that is ilA+. Deferred liability notes that have been issued by Financing and Issuance are rated at one rating level lower than the Bank's rating. Therefore, the rating is ilA (instead of Ali+).

Fixed Assets and Installations

As of December 31, 2011, the amortized cost of the bank's buildings and equipment amounted to NIS 79.7 million, compared to NIS 56.7million for December 31, 2010.

Most of the premises in which the Bank conducts its business are rented ones. As of December 31, 2011, the Bank had a total area of about 9.6 thousand sq.m. at its disposal, as compared to 7.5 thousand sq.m. for December 31, 2010.

As of the end of 2011, the head quarters area extended over a total of 4.9 thousand sq.m. The balance of 4.7 thousand sq.m. was used by the Bank's branches.

On April 7, 2011, the Bank's headquarters were transferred to Airport City according to the rental agreement from December 19, 2010. The rental agreement is for a period of 7 years (until 2018) with an option for extending it an additional 7 years (until 2025, and an additional option for 7 years (until 2032). At the beginning of the year 2012, the bank rented additional 800 sq.m. in the headquarters building.

On April 14, 2011, Tomer Jerusalem Ltd. (the Bank's fully owned and controlled subsidiary, hereinafter: "Tomer"), signed the sale agreement of the Bank's management building at 2 Jerusalem Street, for a total exchange of about NIS 35 million plus VAT. The profit from the building's sale is NIS 20.8 million (the profit was updated in the third quarter for obtaining the final tax assessment). For additional details please see chapter Material Agreements.

The appraiser's assessment of January 4, 2011 has been added to this report, assessing the value of the sold asset for NIS 35 million. According the Bank's assessment there was no material change in the asset's value from the assessment date until the sales date and this despite the passage of 90 days between these dates. For additional details, please see the immediate reports published in the Electronic Disclosure System concerning the approval and completion of the sale of the Bank's management office building on April 17, 2011 and on June 30, 2011. Reference numbers 2011-01-124077 and 2011-01-197571.

Other fixed assets are equipment, furniture, and vehicles (mainly computer systems, see below chapter Computers) that are utilized by the bank for its current activity.

For additional information see Note 8 of the 2011 Financial Statements.

It is the Bank's policy to only hold actually required real estate assets or that is expected to be required in the future. The Bank continually examines their scope, characteristics and location of the areas needed by it, based on its business plans and nationwide distribution of branches and makes the required adjustments.

Intangible Assets

Trademarks and Domain names — The Bank has the following intellectual property rights, registered in its name at the Registrar of Trademarks: "Bank of Jerusalem", "BANK OF JERUSALEM", "Bank of Jerusalem a Capital Bank", "BANKAOOT LEMADRIN". Moreover, the Bank is the registered owner of the domain names bankofjerusalem.co.il www.bankofjerusalem.co.il, www.bank-jerusalem.co.il.

Databases — The Bank and companies in its group are the owners of registered databases containing data concerning the Bank's business and its customers.

Information Systems and Computerization

The Bank 's computer department handles all of the Bank's computer activity through the Tomer Company and works to develop advanced technological systems for continuously improving the Bank's systems and computer infrastructure.

Computer Centers

The Bank's main computer center is at the Head Office in Airport City, Lod.

The Bank operates a backup site (DR) located in the Bank's building on 2 Herbert Samuel ST., Jerusalem.

The Bank's branches are connected through a TCP/IP network with the computer center, through a route at each branch. In total, about 450 work stations are operated by the Bank's communication network.

Information Systems

The support of the Bank's business activities implemented on the basis of 3 core systems:

Commercial system (BankWare) — For management of commercial activities and the ledger. The package is installed on a platform — with AIX/Unix as the operating system, and Oracle for database.

Mortgages system — for management of mortgage activities. The software program is installed on a LINUX platform and Cache as a database.

Securities trade system — for managing the activities in the capital market, the package is run on IBM AS/400 computers.

In addition to the core systems, the Bank operates about 60 software/hardware systems. The additional software programs are characterized by 3 categories:

Accompanying banking systems.

Accompanying managing systems.

Infrastructure, communication, and storage systems.

Backup and Disaster Recovery (DR)

The Bank's disaster recovery policy is based on operating the systems defined as essential, conforming to the time period as set by the policy.

For this purpose, a backup site (DR) has been established in Jerusalem including the systems defined by a high critical rating.

In the year 2012, the site's expansion will continue and establishment of backup systems for additional and new systems that have been defined as critical ones, and this according to priorities as will be determined by the Bank.

In the first quarter of 2012, an exercise is planned for examining a number of systems that are operated from the backup site; and in the last quarter of 2012, a more extensive exercise is planned for examining a larger number of systems.

Information Security

The Bank invest many resources for integrating new products and continuously improving the level of information security. In view of the high importance the Bank places on this issue, the Bank's information security policy is determined by the Bank's Board of Directors, which oversees actual policy implementation. The policy is implemented by the Information Security Manager and the Bank's computer department.

Projects

During recent years the Bank did not invest significant amounts in its computer systems. The investment made during these years was meant to enable reasonable system activity. During 2011, the computer department started to develop and implement new infrastructure systems enabling implementing the Bank's new strategies. These investments are also required for the closing significant gaps created over the years in comparison to computer banking systems of other banks.

The main directions and derived development activities in which the Bank will operate during the years 2012-2015

In response to the Bank's new retail strategy (full retail bank), the Bank will actualize the "New World" program, which is a long-term program, focused on realizing a multi-channel concept for the customer, as well as upgrading computer infrastructure and information security.

Multi-channel concept and direct banking — The Bank will actualize the multi-channel concept for activity with the customer mainly through direct banking. It will implement this through developing and entering new information systems enabling the customer to obtain information and perform activities in various channels.

The "New World" program consists of introducing new systems, upgrading the existing one, upgrading computer infrastructure and information security.

Customer Relations Management system (CRM) — a Customer Relations Management system (CRM) will be established. The CRM system will be the main system for activity and interaction with the customer, and will have with links to other systems.

Internet site — the Web site will be upgraded thus enabling the Bank's customers to implement banking activities in addition to obtaining information.

Direct mailing system — a direct mailing and distribution system will be established for the customer that will enable mailing and distributing information to the customer in an efficient and interactive manner.

Upgrading and expanding the call center (Contact Center) — that will be used as the "Central Branch" for the Bank's customers and enable full support of the Bank's customers in obtaining information and implementing activity, as well as for marketing and sales purposes. Advanced technological systems will be established for supporting the center's work procedures with customers, as well as with the Bank's business units.

ATMs/Information stations — a nationwide ATM system will be established enabling cash withdrawals, cash deposits, depositing of checks, implementing additional activities and obtaining information.

Digital archive — A digital archive for saving customer documents (account statements, operation vouchers, original documents, etc.) will be established. The archive will be connected to the relevant bank systems in a manner to enable quick retrieval of the customer's documents.

The Bank will upgrade the core systems (Bankcore) and implement required functional adjustments, and will also enable exposure of the service systems to integrate and to "talk" with the new systems. Moreover, adjustments and required update will also be implemented in other core systems.

The Bank will upgrade the computer infrastructure and information security as result of opening of the bank to multi-channel work with customers and introducing new systems. The Bank will work to introduce information security and infrastructure products in order to ensure the availability of the information, information protection, system survivability, and required response time.

Cooperation

The Bank will establish computer infrastructures and will actualize information security solutions for supporting the Bank's cooperation with factors such as the Postal Bank, car agencies, and so forth.

The computer infrastructure and the systems that will be developed, will enable implementing activities and obtaining information for customers who will purchase the Bank's financial products (deposits, savings, credit, and so forth) through the Bank's business partners.

Integration and Connectivity

The Bank will implement project integration of the (Service-Oriented Architecture) SOA" concept, and will integrate software tools that will support the multi-channel concept and realization of customer-focused business activities.

The Bank will integrate software tools (ESB — Enterprise Service Bus) that will enable integration between the core and other systems.

The integration method between systems will be through developing Web services .

Management Information

Producing information for managers will be implemented by an effective method, while providing qualitative information in fast response time — as required by dynamic business reality.

For this purpose, during 2012, the BIsystem will be expanded so as to be based on data storage (DWH), which will enable dynamically generated management and business information in various profiles.

Computing Infrastructure

The existing computer infrastructure at the Bank varies and mainly includes UNIX, Linux and Windows platforms .

During 2011, the Bank started to develop and upgrade the computer infrastructure from the aspect of servers, storage arrays, telephony, communication infrastructures, in order to enable a stable and protected infrastructure for ongoing operations of all the systems, as well as a good infrastructure for entering and developing new systems.

The information detailed above in relation to computer plans and planned projects is "future facing information" that may not be realized in whole or in part or may be realized differently from expectations. This information is based on the assessment by the Bank's management, the agreements signed with different suppliers, and the Bank's work plans. These estimates may not be realized, among others, as a result of economic events, political/security-related events, non-compliance with timetables set in the agreements with suppliers, and changes in the Bank's work plans.

Supplier Management

The Bank relies on different systems including the core systems developed and maintained by various companies. The Bank maintains proper connections with all the external suppliers of information technology, in order to ensure system normality, continuous operation, as well as technological and functional upgrading.

Periodically the Bank verifies the situation of the companies and their economic soundness, mainly their essential and central systems.

The Bank's relations are anchored in individual agreements with each supplier specifying the supplier's obligations to the Bank (including SLA) and also the Bank's obligations to the supplier.

The Bank is not materially dependent on suppliers, except for IBM, Oracle, Matrix, Kav Systems and F.M.R.

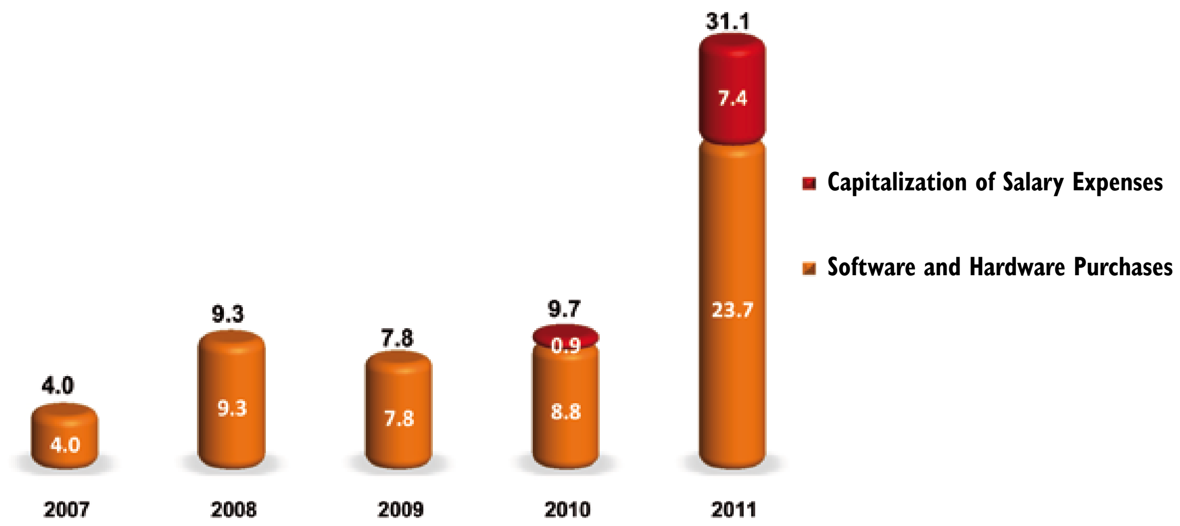
Investment Scope

During 2011, the investment scope in software and hardware amounted about NIS 31 million and planned for about NIS 37 million in 2012, for the purpose of meeting work plans as approved by the Bank's management.

It should be mentioned that this investment scope includes investment in software and hardware purchasing, as well as capitalized salary costs. It should also be mentioned that the additional investment in computers for the purpose of realization of the Strategic Plans (without capitalized salary costs), as approved by the Bank's Board of Directors for the coming years, is about NIS 40 million.

Investment in Computing

(in millions of Shekels)



Computing costs for the year 2011

Expenses recorded in the profit and loss report (in millions of NIS)	
Salaries and accompanying expenses	9.3
Expenses Depreciation	9.0
Other expenses	14.4
Total	32.7

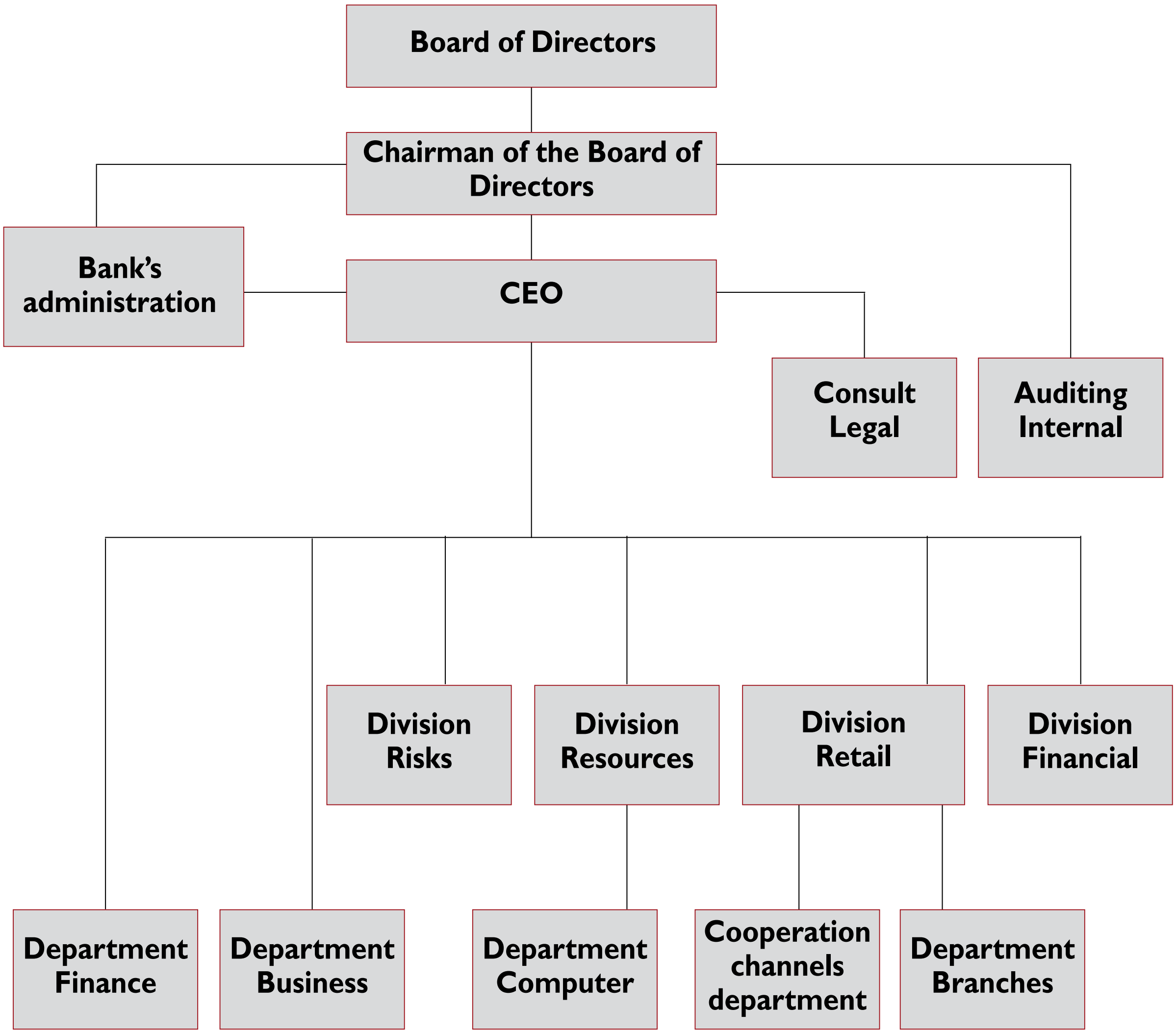
Costs recorded as assets (in millions of NIS)	
Costs of wages and capitalized outsourcing	7.4
Other software cost	13.3
Hardware and others	10.4
Total	31.1

Assets balance for information technology system (in millions of NIS)	**40.3**

Human Capital

Structural Diagram of the Organization Structure

Below is a Diagram of the Bank's Organization Structure:



During 2010, changes have been implemented in the Bank's organizational structure, which has been transferred to a divisional structure, under which retail and resource divisions have been established. The retail division centralizes all the issues of product and service sales and relations with the Bank's customers. The resource division is responsible for the management of the Bank's resources (IT, human resources, and logistics), thus being able to support the provision of services and products by the Bank. The purpose of the changes was to strengthen the Bank's management capability by creating clear specialization lines and more efficient control span in organizational management.

The credit activity (provided under the retail, commerce and real estate segment), which was managed partly by the financial division and partly by the business department, has been merged under the business department during 2011.

During 2010, new members of the Bank's management began working, some of whom later filled new positions that were created during the changes in the Bank's organizational structure. During 2011, additional changes were applied in the composition of the Bank's management and filling part of the management functions (including the retirement of members of the Bank's management). Including in this, on December 22, 2011, the manager of the Bank's business department retired, and as of the date of this report, the CEO of the Bank actually holds this position as well. For details concerning members of the Bank's management and their functions, please see paragraph "The Bank's Management Members," their functions and the periodic report attached to this report.

Additionally, branches of the Bank's headquarter that were previously located in Jerusalem and Tel Aviv, have been merged into one central headquarters operating from the Bank's new residence at Airport City.

Personnel

Below are details of the number of personnel in the bank and in its subsidiaries *:

	For the end of the year		Annual average	
	2011	**2010**	**2011**	**2010**
Number of employees:	463	412	440	393
Of this outsourcing	49	27	43	23
Number of positions:				
In normal hours	453	401	427	383
In extra hours			16	13

* In this report the paragraph on Bank Personnel, are also includes managers providing their services through management companies controlled by them. In the paragraph "Outsourcing," are included workers employed through employment agencies, software houses, and other companies providing services to the Bank, from whom certain workers for specific positions are hired.

Below details on the expense levels on salaries:

	Number of positions *		Total expenses ***
In thousands of NIS per year	Bank employees	Outsourcing	in millions of NIS
until 100	58	31	5.6
above 100 until 300	269	1	55.7
above 300 **	113	4	60.9
Total salaries	**440**	**36**	**122.2**
With addition of expenses not included in salaries			**15.2**
With deduction of salaries and accompanying capitalized expenses ***			**(3.3)**
Total salaries and accompanied expenses			**134.1**

* Including employees according to 100% of a position. Employees in part-time jobs have been merged.

** Including emolument for managers employed through management companies.

*** Outsourcing not included.

For details concerning division of personnel by various segments of activity, see paragraph "Financial Data by Segments of Activity" in this report.

During 2011, according to the Bank's Strategic Plans, the labor force increased, mainly in the computer department and retail division. During 2012, according to the objectives as set by the work plan, the Bank has the intention to recruit about 50 new employees. These employees are expected to fulfill positions at new branches the Bank intends to open during the year, and at the computer department of the Bank that will continue upgrading of the Bank's information systems. The information detailed above is "future facing information" that may not be realized in whole or in part or may be realized differently from expectations. This information is based on the assessment by the Bank's management concerning implementing of the Bank's annual work plan. These assessments may not be realized, among others, as result of economical events, political/security-related events, ability to realize the Bank's programs according to the objectives determined in accordance with its strategies, unexpected responses by additional factors (customers, competitors, etc) operating in the bank's business environment.

Rotation

The Bank operates according to the Proper Banking Procedures instructions on the issue of rotation, and considers the rotation of sensitive functionaries an important component in the organization's internal auditing procedures. In the event that mobility between positions does not exist, the Bank implements compensating controls.

Training

The Bank provides regular guidance and professional training to its employees in accordance with the employee's position and the Bank's requirements. The year 2011 was characterized by professional strengthening of the existing system and training activity in the checking accounts and consumer credit areas, while accepting and training new employees. In preparation of the absorption of new computer systems during 2012, training of the headquarters representatives and branch arrays has started.

In 2011, the Bank's training focused on training the branch arrays, the call center, and backup system for the support of new business objectives issued the Bank's management. The training in the core area includes, among others, checking accounts training and consumer credit, training on automatic underwriting and credit cards, and also training in the investment area. In addition to the aforementioned, training is given in the risk management channel (money laundering, operating risks, arrears controls management).

In the area of soft skills, comprehensive training is given to improve the sales skills of banker operations with customers (branch arrays, sales banker at car agencies, representatives in call centers). Branch managers received personal training and exercise with an emphasis on sales management.

During 2011, the Bank provided 2,588 training days at a cost of NIS 937 thousand (of which NIS 745 thousand for sales training and exercise). The aforementioned, compared to 1,735 training days at a cost of NIS 420 thousand during 2010.

Employee Compensation Policy

On November 25, 2010, the Bank 's Board of Directors approved a compensation policy for employees and management members (except for the CEO), determining metrics and threshold for receiving annual bonuses (hereinafter: "the Plan") and this according to guidelines of the Bank of Israel on this issue.

Should the Bank meet the threshold for bonus payments, as set by the plan, the employees, included management members, will be eligible for annual bonus payments according to rating, as follows (in thousands of Shekels):

Yield calculated (as defined below)	Grant sum for employees		Grant sum for management members		Total bonus sum for employees and management members	
	starting with	until	starting with	until	starting with	until
8.5%–9%	1,200	1,200	—	—	1,200	1,200
9%–10%	2,900	4,500	400	700	3,300	5,200
10%–11%	4,500	6,000	700	950	5,200	6,950
11%–12%	6,000	7,250	950	1,500	6,950	8,750
12%–13%	7,250	8,500	1,500	2,000	8,750	10,500
13%–14%	8,500	11,000	2,000	2,700	10,500	13,700
14%–15%	11,000	13,000	2,700	3,300	13,700	16,300
15%–16%	13,000	15,000	3,300	4,500	16,300	19,500

It should be mentioned that in the event the Bank will, in a certain year, not comply with the determined threshold, the total of NIS 800 thousand will be allocated for paying bonuses to outstanding workers.

The threshold for receiving the bonus, two situation have been defined:

A. Before the Board of Directors approved the project (as determined below) or after the Board of Directors determined that the project becomes accounting profit — the minimum reporting yield (as determined below) shall be higher than 8.5%.

B. After the Board of Directors approved the project and before the Board of Directors determined that the project becomes an accounting profit — the minimum reporting yield shall be higher than 5% (in case the reporting yield was higher that 5% but did not reach 8.5% only the relative part of the bonus will be distributed derived from the above table).

"Considered yield" meaning "reported yield" as per definition below, neutralizing the influence of the aforementioned project hereinafter.

"Reported yield" means the average between the annual yield (net) on equity as reported in the Bank's annual audited Financial Statements and between the growth rate in the Bank's equity as reported in the Bank's annual audited Financial Statements. A dividend announced and paid during the year and capital issuances if there were any, will be neutralized for the purpose of growth calculation in equity (meaning, it will not be taken into account for the purpose of calculating the equity growth rate).

One-time gains (defined as financial profits such as nostro will not be considered one-time), as well as capital earnings.

An project has been defined in the plan for establishing and operating new retail banking for the Bank ("the Project") and a period has been determined for approving the project by the Board of Directors and until the date when the activity of the project will be profitable from the accounting aspect, the project implications will be neutralized from the bonus formula components (the captive project capital will be neutralized from the denominator of yield formula for capital; the income and expenses related to the project, such as the tax shield created by it, will be neutralized from the numerator in capital yield calculation for the purpose of determining the bonus amount). The implementation of the formula will be controlled and examined by independent factors.

It is noted that the bonus calculation conforms to the aforementioned, will be done in a linear manner and pro-rata, between the above specified ratings, within the set boundaries of these ratings. Furthermore, the height of the bonus is limited to 8 salaries for bank employees and 12 salaries for management members.

The bonus will be paid on dates and terms as determined by the plan. It should be mentioned that, according to the plan, the bonus for management members will be paid in stages over three years from the eligible date (60% per eligible year and 20% for one and two years after the eligible date), while the payment of each part of the annual bonus depends on continuous compliance with the objectives in the year determined for payment.

The actual payment of the annual bonus depends therefore on the year in which the payment should be implemented, that there will be no regulatory limitation and/or capital adequacy limit on dividend distribution at a rate of at least 33% of the net profit in the payment year for the Bank's shareholders. As far as the aforementioned limitation is applied on dividend distribution, the bonus payment will be deferred, in whole or in part, to a date on which the aforementioned limitation is removed. In the event of partial payment capability of dividend, the dividend will be paid pro-rata to the shareholders and the bonus, for the aforementioned limitation rate, and the payment of the bonus balance will be deferred to a date on which the regulatory and/or capital adequacy limitation is removed.

At this stage, and according to the plan, the instruction of the above paragraph will not be implemented due to objections by the Bank of Israel to the paragraph expressing the relation between incapability to paying a dividend because of regulatory and/or capital adequacy limitation and between paying a bonus given in relation to the terms of employment of the Bank's CEO (see details on the aforementioned objections and the letter from the Chairman of the Board of Directors 2010 to the Bank of Israel on August 11, in describing the CEO's employment terms. Note 22 of the Financial Statements

The payment of the bonus according to the plan is conditional for at least six months of employment at the Bank, and actual employment on the day of bonus payment. Nevertheless, the Bank's CEO in relation to the employees, and the Bank's Board of Directors in relation to management members, have exclusive discretion to approve bonus payments also in the event in which the employer employee relation is terminated, prior to the bonus payment date and to stipulate conditions, as seen fit.

The Bank's Board of Directors will examine whether to increase the bonus ceiling while paying attention to the labor force, the total profitability, risk profile, and so forth.

For details concerning the CEO's compensation and the Board of Directors, see Note 22 of the Financial Statements.

Description of Employment Agreements

About 47% of the Bank's employees are employed under personal employment agreements, regulating the employment terms at the Bank. Once a year the update of their terms of employment are examined according to the employee's differential contribution to the bank, as well as recommendations by his managers. The personal employment agreements are signed separately with each employee, according to the salary and social benefits arrangements as individually agreed with them at the time of recruitment.

The employment terms of about 53% of the Bank's employees are arranged under an agreement signed with the Bank's Employees Committee for arranging the employment terms and their salary increments (hierarchical employee agreement). This agreement has the status of a collective agreement. Every two years the agreement is updated with the consent of the employees committee through an additional letter signed by the management and the Employees Committee. This update includes salary increases in respect of the basic salary and related expenses, and takes into consideration the increase of Consumer Price Index for the update period. In addition, the bank also holds annual personal rating negotiations with the aforementioned employees. The aforementioned arrangement is also applied on part of the employees who are the Bank's approved signatories and are included in the population of rank employees, except for the fact that salary due to their signing authority, they are eligible for an additional increment.

Retirement arrangements — retirement terms for employees with personal agreements are included in their employment agreement.

Employees of subsidiaries are employed according to the Bank's employment terms.

In addition, the Bank and its subsidiaries purchase services from employment agencies and software houses (for details see "Outsourcing Workers" in the above table).

Senior Officers and Approved Signatories

There are 13 senior officers at the Bank. Of these, 10 have personal agreements, and 3 have service agreements through management companies controlled by them and with approval of the Bank of Israel, and 162 approved signatories, 82 in branches and 80 at headquarters.

Development of Human Resources

The Bank places emphasis on value investment in its personnel, concurrent with developing employees and human resources.

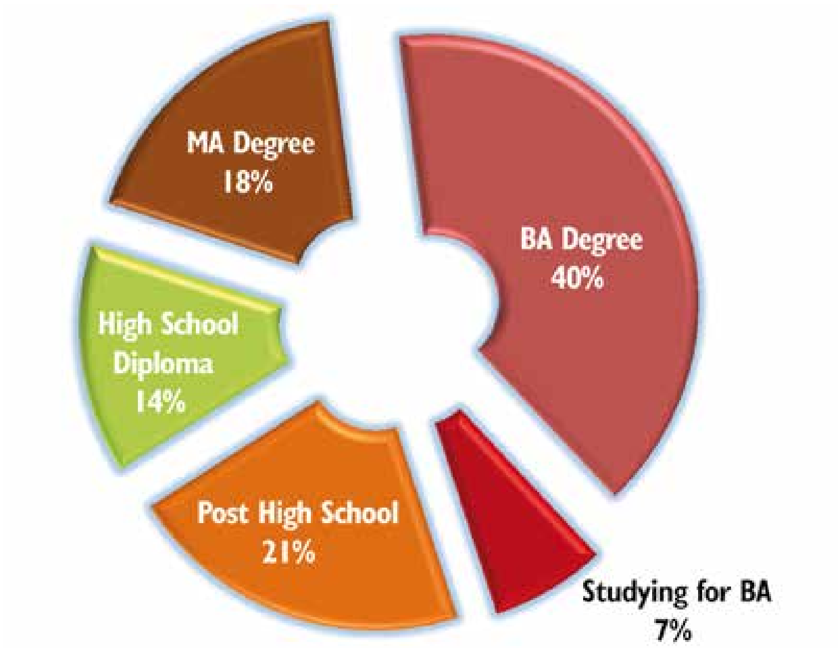
In addition to specific integral training dealing with the Bank's core business and risk management, the bank encourages its employees to participate in academic studies and external training in the areas that touch upon their activity areas. Moreover, the Bank sends its employees to courses, seminars and professional conferences that touch upon banking industry.

The Bank also encourages mutual support between its employees, and established a mutual fund between the Bank and its employees for supporting employees in financial distress.

At present, the Bank recruits mainly academic personnel. As of the end of 2011, 65% of the Bank's employees possess an academic degree, of whom 18% have a master's degree and 7% are studying towards a master's degree. A total of 86% of the Bank's employees possess a high school education or higher and 7% are studying towards their first degree.

During the last quarter of 2011, a screening was held for a management training course. The course, starting in 2012, combines a variety of workshops for the improvement of personal skills for management and implementation, professional training, and is accompanied by a personal trainer and a direct manager-mentor.

Distribution of the Bank's employees according to their education



Taxation

General

The Bank is defined as a "financial institute" on the issue of Value Added Tax Act 5735 — 1975, and as such payroll tax and income tax are imposed on its activities according to the rate as determined by the VAT law.

In June 2005, the Knesset approved amendment of the Israel Income Tax Ordinance (number 147), 5765 — 2005 determining, among others, that the corporate tax rate will be gradually decreased to the following tax rates:

For the year 2008 — 27%; for 2009 — 26%; for year 2010 and after — 25%.

In July 2009, the Knesset approved the Economic Efficiency Act (legislative amendment to implement the economic plan for the years 2009 and 2010), 5769 — 2009 that reduced the tax rates gradually starting with 24% in 2011 and until 18% in 2016 and after. During November 2011, the Knesset improved the law changing the tax burden (legislative amendment) that canceled the outlined decrease in tax rate in the Economic Efficiency Act, and set its rate at 25%, for the year 2012 and after.

In December 2009 the Knesset approved, as a temporary order, beginning January 1, 2010 and until December 31, 2010, a reduction of income tax rate applicable to financial institutions from 16.5% to 16%.

On December 14, 2010 a Value Added Tax ordinance was published that extended the validity of the temporary order for the years 2012-2011 so that the tax rate for the extended period will remain at 16%. At the end of the validity of the temporary order, as of 2013, the future VAT rate will be 15.5%.

In view of this, the statuary tax rate applicable for the Bank and its subsidiaries as set for "financial institutions" for the purpose of VAT, will be as follows:

year	Corporate tax rate	Profit tax rate	Total tax rate
2011	24%	16.0%	34.48%
2012	25%	16.0%	35.34%
2013 and so on	25%	15.5%	35.06%

Assessments

The bank issued final assessments until and including the year 2007. For its two subsidiaries, final tax assessments have been issued until and including the fiscal year 2005. The tax assessments until and including the year 2007 are considered final.

The current and deferred taxes are calculated according to the new tax rates.

Restrictions and supervision of the activity of the banking corporation

The Bank and a bank permit, according to paragraph 10 of the Banking Law (permit) 5741 - 1981. According to the permit, the following limitations are applied on the Bank: the Bank may not control and may not be an interested party in entities of any type, in Israel or abroad, except auxiliary corporations, to a certain corporation or to a type of corporation, without the Supervisor's approval. The aforementioned will not be applicable to corporations held by the Bank according to relevant legislation immediately prior to receipt of the license, and such holding is according to the determined conditions.

Moreover, appointment of the Chairman of the Board of Directors and the Managing Director is subject to advance written approval from the Supervisor of Banks.

It is clarified that license requirements concerning control in auxiliary corporations and approval for appointing Chairman and CEO, are requirements included nowadays in the banking enactment and relate to all the banking corporations.

In the Bank's license it is recorded that the Supervisor will determine a special capital adequacy ratio for the Bank. In the Proper Banking Management instructions number 201, it is mentioned that the banking corporations should maintain a capital ratio including minimum of 9% (8% for first tier and 1% for second tier). Further, it is mentioned in the instruction that the Supervisor is authorized to determine a higher minimum capital ratio for certain corporations. This determination will only be done after completing the ICAAP and the SREP procedures. Since these procedures have not yet been completed at the Bank, the minimum unique capital ratio is not yet determined for the Bank. For details, please see chapter Basel II in this report.

The Bank of Israel informed the Bank that it may carry out options and spot transactions between currency rates or interest rates solely for the purpose of hedging. During 2011, the Bank turned to the Bank of Israel with the request to cancel this limitation, and is awaiting the response of the Bank of Israel. Transactions that are not for the purpose of hedging require the prior approval of the Bank of Israel.

According to the announcement submitted by the Bank to the Bank of Israel, the Trust Corporation of Bank of Jerusalem Ltd., a wholly owned subsidiary, implements the customers' instructions without exercising discretion.

Licenses for Activities of Subsidiaries

Ir Shalem Insurance, the Bank's wholly owned and controlled subsidiary, has an corporation insurance agency license according to the Law for Supervision of Financial Services (insurance), 5741 - 1981. According to the relevant instructions by the Supervisor of Insurance and the Supervisor of Banks, Ir Shalem is entitled to engage only in marketing of life assurance and property insurance policies, as a result of housing loans granted by the Bank (this limitation does not apply concerning insurance made before January 1, 2006).

Jerusalem Investment Portfolio Management Ltd, the Bank's wholly owned and controlled subsidiary, has a license from the Securities Authorities for managing portfolios.

General

The Bank is a commercial bank, a public company whose shares are traded on the Stock Exchange in Tel Aviv Ltd., member of the Stock Exchange in Tel Aviv Ltd., member of the Clearing House and Derivatives Clearing House and thus all the relevant laws apply to it.

The Bank's activities are subject to laws, standards and instructions that are partly unique for the banking system, and partly, even if not unique as mentioned, influence material sections of its activities. Banking orders, different banking laws, and proper banking management instructions that are periodically published by the Supervisor of Banks, are the legal and central basis of the Bank's activities. These determine, among others, the allowed activity boundaries of the Bank, relationships between the Bank and its customers, usage of the Bank's assets, manner of reporting on the aforementioned activities to the Supervisor of Banks and the public and the allowed activities of the Bank's subsidiaries, and the terms of control and capital ownership.

Besides them, the Bank is subject to extensive legislation that regulates the Bank's activities in the capital market for its customers as well as for itself (e.g. in the area of investment consultancy and managing customer portfolios, Securities Laws, and limitations on activities in the insurance area).

Bank commissions, including those of the Bank of Jerusalem, are supervised by the Bank of Israel. Moreover, the Bank of Israel determined a fees schedule that includes a list of the services for which banks may charge commissions and the method for calculating such commissions.

Additional laws, on unique subjects, imposed of banks, on the Bank included, specific obligations and rules. For example, the enactment in relation to the prohibition of money laundering, the prohibition of financing terror, law for provision of credit, enactment in relation to housing loans, collateral laws, etc.

In addition to these, there is an enactment, that due to its connection to the Bank's activities, has great affect upon its conduct. On this issue, among others, the execution proceeding office law, liquidation and receivership laws, and various tax laws should be mentioned.

The activity of the Bank is under the supervision and control of the Supervisor of Banks, as well as other factors in this specific activity area; for instance, Securities Authorities, Commissioner on Capital Market, Insurance and Savings at the Ministry of Finance, and the Anti-Trust Commissioner.

The Bank and its subsidiaries operate in order to comply with obligations applied on them by provision of law.

In the framework of the legislation, in most of the laws applied on the Bank's activity is the possibility of imposing financial sanctions due to violations of legal instructions and secondary legislative instructions (including circulars and guidelines) issued for or excluded from enforcement.

Below are, in summary, details of legislative changes (including instructions by the Supervisor of Banks) relevant to the report period that influence or may influence in a material manner the Bank's activity (for relevant legislative changes for the report period that influence or may influence the activity of activity segments, please see reference for each segment separately):

Law for Efficiency of Enforcement Procedures at the Securities Authority (Legislative Amendments), 5770 — 2010

Law for Efficiency of Enforcement Procedures at the Securities Authority (Legislative Amendments), 5770 - 2010 has been published in the gazette on January 27, 2010. The purpose of the law is to optimize enforcement in the capital market, shorten the period between performing a breach and imposing punishment, and to adjust the extent of the punishment's severity. For the realizing the purpose of the law, three parallel enforcement channels have been defined — the process of imposing financial punishment by the authority; the administrative enforcement process, and the criminal process.

The instructions of the law are applicable to the Bank, being a member of the Stock Exchange and as a public company, and is subject to providing securities services to customers, including brokerage services, managing portfolios (through controlled companies), and investment consultancy. In addition, these legislative instructions are applicable to the Bank's subsidiary, Jerusalem Finances and Issuances, that is a non-reporting corporation. Part of the legislative instructions became effective as of January 27, 2011.

On August 15, 2011, the Securities Authority published criteria for recognizing its internal compliance program in the securities and investment management area. The internal compliance program is a voluntary mechanism a corporation adopts and continuously implements for verifying compliance by the corporation and individuals with the legislative instructions in the Securities area. The document reviews, among others, what the internal compliance plan is, what efficiency the compliance program provides, and how is it possible to improve the existence of an efficient compliance program. The Bank implements the legislative instructions, and therefore prepares to adopt the internal compliance program at the Bank and its subsidiaries to which the law is applicable, including in view of the aforementioned criteria. On August 1, 2011, Mr. Michael Ben Yishay, Chief Risk Manager of the Bank and a member of the Bank's management, has been appointed as Commissioner of Compliance of the Bank and its subsidiaries.

Companies Law (Amendment № 16), 5771 — 2010

On March 15, 2011, the Companies Law lists (Amendment № 16), 5759 — 1999 (hereinafter: "Companies Law") has been published on the issue of adapting and implementing of principles of Corporate Governance in Israel. Under the framework of the law is determined, among others:

The principle of the director's independent opinion; to add and detail in the first appendix of the Companies Law Recommended Corporate Governance Principles, that in order to be applicable upon the companies, it will have to be anchored specifically in its articles; amending various paragraphs in the companies law relating to composition and activity of the Board of Directors and its committees, including the Audit Committee; paragraphs on the issue derivative claim, purchasing offers, external companies and the authority for Securities Authority to impose financial sanctions for a number of violations of legislative instructions; in addition to amend paragraphs dealing with transactions of companies claiming special permits.

The Bank adjusted its organizational structure and the documents stated by law, and implements the aforementioned, according to issue and according to authority interpretation.

Law for Enforcing Labor Force laws, 5771 — 2011.

On December 12, 2011, the Knesset passed second and third readings of the law for enforcing Labor Laws, 5771 — 2011, that has as purpose to increase the responsibility imposed on the employers because of violation of labor laws (by them and by employment agencies hired by them) and determination of deterrent sanctions because of these violations.

The main innovations in the law are: imposing administrative fines on the employer due to violation of the legislative instructions including in the area of labor laws (The Hours of Work and Rest Law, the Wage Protection Law, etc.), imposing civilian and criminal responsibility for service ordering due to violation of obligations towards workers of a subcontractor that supplies the service (applicable concerning subcontractors and service requests in the protection, security, cleaning and nursing areas) and also imposing responsibility, including criminal, upon CEO of an employer that violates the aforementioned instruction. Validation of the law — as of June 19, 2012.

The Bank implements the legislative instruction and relevant labor laws and because of this prepares to implement internal compliance program on this issue as well.

Instructions of the Supervisor of Banks on the issue of measurement and disclosure of the defective debts, credit risk and provision for credit losses

On December 31, 2007, the Supervisor of Banks published a circular that includes amendments to requirements for reporting to the public concerning "Measurement and Disclosure of Impaired Debts, Credit Risk and Provision for Credit Losses" (the "New Instructions"). According to the circular, the instruction will be implemented for Financial Statements of banking corporations as of January 1, 2010 and onwards. According to the announcement by the Bank of Israel, implementation of the instruction has been postponed until January 1, 2011.

The Bank's management prepared to implement the instructions effective as of January 1, 2011 For details concerning the influence from implementing the instruction, please see notes 2 and 5 of the Financial Statements.

The accumulated influence of the first implementation of the instruction, is NIS 5.1 million, as specified in the accounting policy note in the Financial Statements.

Instructions of the Supervisor of Banks on the issue of group provision for credit losses

On May 1, 2011 the Supervisor of Banks issued a letter to the banks, in which the banks were required to transfer work papers to the Supervisor explaining how the group provisions were calculated according to the aforementioned letter and to mention whether they expect changes in these calculation methods.

In addition, banks having material activity in housing loans are required to send details clarifying the manner in which the bank intends to act in calculating the aforementioned provisions, this taking into consideration the decline in the risk rate for the provision in the mortgage portfolio, in view of the fast increase took place in housing credit in the recent years, and which has not yet been expressed in provisions according to depth of arrears. The Bank, having material activity in the housing loans, examined the issue and increased the additional provision for housing to a rate of 0.75% for housing loans owned by LTV for over 60% for 2009 also, as well as for the first half of 2010. On January 1, 2011, the amendment for a total of NIS 4.4 million has been directly recorded in the equity paragraph and in paragraph on accumulated affect due to the additional housing provision.

For details concerning the influence from implementing the instruction, please see notes 2 and 5 of the Financial Statements.

The circular from the Supervisor of Banks on the issue of function of internal compliance (Proper Banking Management instruction № 307)

On December 25, 2011, the Supervisor of Banks published a circular on Proper Banking Management instruction № 307, concerning the functioning of internal compliance. According to the circular, Banking Regulations (internal compliance), 5752-1992 are being canceled, and will be replaced by Proper Banking Management instruction 307 concerning the functioning of internal compliance. The circular refers, among others, to the characteristics of internal compliance function, its functions, the letter of appointment for strengthening the position, activity scope, work method, functions and skills of the internal auditor, his reports to the Board of Directors through the Audit Committee, and outsourcing of internal compliance activity. The circular is effective as of July 1, 2012.

The Bank studies the instructions of the circular and therefore changes its procedures and outsourcing agreements accordingly.

Circular from the Supervisor of Banks on the issue of Business Continuity

On December 25, 2011, the Supervisor of Banks published a circular on the issue of Business Continuity. The circular determines the Proper Banking Management instruction № 355 that has the purpose of ensuring adopting and implementing of proper conduct for business continuity management by banking corporations. The circular refers, among others, to responsibility of the Board of Directors and senior management for integrating a work frame for business continuity management and to establish proper supervision, for the main components that should be included in the work framework of business continuity management, for various aspects requiring to be included in the banking corporation's business continuity program, conditions to be achieved by the banking corporations to be included in the communication agreements with suppliers and service providers for their procedures or essential services, and guidelines in relation to location, infrastructure and method of operating alternative sites of the banking corporation. The circular is effective as of July 1, 2012, except for the instructions concerning the alternative site and guidelines during an emergency which will be effective as of December 31, 2012. The Bank studies the instructions of the circular and prepares for their implementation. To the assessment of the Bank, the cost for business continuity management will be NIS 3 million in the year 2012, and in the following years about 7% of the Bank's computer budget.

Proper Banking Management Instruction № 350 on the Issue of Operating Risk

On February 14, 2012, the Supervisor of Banks published Proper Banking Management Instruction № 350 on the issue of Operating Risk.

In the instruction the basic principle for Operating Risk Management is determined while referring to corporate governance issues and the risk management environment including reference on the issue of control and decrease in operating risk.

The instruction will be effective from the 1st of January 2013. The Bank prepares to implement the instruction of the Supervisor.

Legislative Proposals

From time to time, proposals for legislative amendments on various issues are brought before the Knesset. Some of them may affect the business of the banking corporations including the Bank. As of the date of the Financial Statements there are a number of legislative proposals in various stages of enactment. The legislative proposals are designated to increase the supervision and arrangements of customer bank relation, to arrange the work of the directors and more. Nevertheless, as of the date of the Financial Statements, these proposals are in various enactment stages. There may be changes, and there is no certainty when they will be completed and finally become obligatory legislative instructions.

Material Agreements

For summarized description of the material agreements, not in the regular course of business of the Bank, and also relevant cooperation agreements for activity segments, that were signed and/or that are in effect, in the reporting year, please see details in each of the segments.

Sales agreement for the building owned by the subsidiary of the Bank of Jerusalem

As of April 17, 2011, Agreement was signed under which the Bank's wholly-owned subsidiary, sold realty and building on it, at 2 Herbert Samuel Street, in Jerusalem, for the total amount of NIS 35 million. The the subsidiary's net profit due to the building sale, is about NIS 21 million. As part of the sale, the subsidiary committed to rent from the purchasers part of the area of the sold asset and to rent out the balance of the asset to third parties, according to a rental lease signed with the purchaser, in such a manner ensuring the purchaser fixed consideration for the asset at an agreed rate for a period of 10 years.

Agreements with suppliers for establishing multi-channel computer infrastructure

During April 2011, Tomer entered an agreement with Teldor Computer Systems (1986) Ltd., according to which the company Teldor will establish and integrate a multi-channel computer infrastructure for managing the Bank's customer relations. Implemented the project is expected to end during the first half of 2012, and the planned investment volume is about NIS 20 million over a period of 6 years.

Providing liability for indemnification of senior officers at the Bank and its subsidiaries

In January 2012, the Bank's General Assembly of shareholders approved the decision, according to which the Bank will grant somebody serving from time to time as senior officer at the Bank and its subsidiaries, indemnification liability due to financial debts imposed on some one and for reasonable litigation expenses related to the list of events attached as appendix to the liability letter. Provision of indemnifications depends on the existence of conditions specified in the liability letter and the maximum indemnification amount per senior officer of the Bank and its subsidiaries, as accumulated and not exceeding 25% of the Bank's equity.

Legal Procedures

For information on the issue of legal procedures see note 19c of the Financial Statements.

Risk and Risk Management Methods

Discussion on Risk Factors

The activity of the Bank as a financial intermediary exposes it to a variety of financial risks, including credit risks, market risks and liquidity risks. Moreover, the Bank is exposed to accompanying risks, that are not financial risks derived mainly from operating risks, from legal and strategic risks. The risk management policy in various areas is used for supporting supervision of business objectives while limiting the risk exposure involved in various activities.

The activity and profitability of the Bank are exposed to changes in the business environment, affected by the economic situation, by developments in real estate and capital markets, and by regulatory changes. An economic slowdown or possible crisis in the real estate market and/or in the capital market may affect the Bank's activity, in general, and its activity in the housing loan and real estate segments, in particular.

Below are described the main changes in business environment that may affect the Bank's activity and profitability:

- The development of the financial crisis in Israel, and a deepening of the economic slowdown, may affect the repayment ability of the Bank's borrowers; on increasing the scope of arrears of borrowers due to deterioration of their repayment ability; and on the Bank's ability to raise capital and the margins of its activity.

- Incorrect forecasts and faulty estimations, unexpected responses from factors (customers, competitors and more) operating in the Bank's business environment , late recognition of market trends, changes in consumer preferences and/or conduct, changes in the banking system and/or its regulation and affect of the above on the branch's competitive structure, lack of monitoring the realization of multi-year objectives — realization of each of the above different than expected being at the base of the Bank's strategic plan, may harm the Bank's margins and expected revenue, and prevent it from implementing the plan in the best possible manner.

- Significant changes in the residential real estate market may affect both the value of collateral for credit provided by the Bank and the increase of provision for credit losses as well as on the credit scope provided to households against a lien on their residence. These changes may even affect the credit provided for projects accompanied by the Bank.

- Tangible damage in real estate assets used as bank collaterals for provided credit, for example diminished value as result of war or destruction of buildings are result of a natural disaster, may, in case of lack of full insurance coverage, diminish the repayment capability and bring an increase in the extent of problematic debts. Extensive damage as aforementioned may cause the development of economic crisis and deepening of the recession.

- Change in recovery from the crisis in global financial markets and/or its deepening, may affect the repayment ability of foreign resident borrowers, reducing demand for new credit to finance the purchase of residential property in Israel, and affecting the ability to raise sources to finance foreign currency activity.

- A slowdown in capital market may affect the Bank's possibilities for raising sources for the bank by means of negotiable issuances. Moreover, the slowdown in this market may affect the bank's activities in the capital market.

- The increase in interest rates may increase the repayment of the borrowers burdened with loans with variable interest and may therefore affect the insolvency probability of these borrowers.

- Future realization of the market's macro-economic forecasts in a manner different than the bank's assessments concerning these forecasts (sample of exceptional and unexpected increase of the real interest) may affect the results in the financial management segment and the fair value of the Bank's securities portfolios.

- Material, sudden and unexpected deviation from the macro tracks (e.g., explosion of uncontrolled inflation, increase in exchange rate of the dollar at an exceptional rate) may cause an unexpected increase of risk assets, and prevent the Bank from implementing its work plans.

- Changes in regulatory instructions and also possible results of legal procedures may affect the banking system's scope of activity, the competitive structure therein, and/or the Bank's profitability.

- Damage to the Bank's image and decline in the Bank's credit rating may damage the Bank's profitability due to curtailment in its activity scope and increase capital recruitment cost and liquidity because of a rating decline.

- Improvement of financial activity, complexity of products and technology becoming the activity of the banking corporation and its risk profile becoming more complex. Concurrent to business risks, such as credit risks, market risks, interest and liquidity risk, accompanied by operating risks, that may be expressed, among others, in failure of information systems not having proper control, or an embezzlement and fraud event, as well as damage to information security, because of the increase in the scope of electronic business.

The information detailed above is "future facing information" that may not be realized in whole or in part or may be realized differently from expectations. This information is based on estimates by bank management concerning future realization of industry forecasts and macro-economic forecasts according to the bank's preliminary estimates. These estimates may not be realized, among others, as a result of economic events, political/security-related events, changes in customer preferences, and increased competition.

The Bank's risk management is implemented continuously, according to instructions from the Bank of Israel and according to the rules determined in the second tier instructions of Basel II. In this framework the Bank appointed a Risk Manager for each of the material risks as listed below, and a Chief Risk Manager (CRO), serving as Vice President and Manager of the Risk Division.

The Supervisor of Banks published various guidelines in the framework of Proper Banking Management, various guidelines on the issue of risk management by banks, including Basel II instructions. The bank has integrated a work framework for risk management and control, adjusts the policy of the bank for managing various risks to the principles appearing in the instructions of Basel II.

Factors involved in risk management

For each of the various risks, a management array is determined, including a supervision circle and three control circles, according to the details of the following entities below:

The supervision circle contains supervision entities — Board of Directors, designated Board of Directors committees, and senior management.

Board of Directors—Board of Directors — has the responsibility foe determining the Bank's business strategy, including in risk management and securing the Bank's capital. The Board of Directors is responsible for determining the risk tolerance and the Bank's appetite for risk, among others, through defining the scope of the Bank's exposure limitation for risks and risk management. Moreover, the Board of Directors is responsible for verifying the functional adequacy of the Bank's risk management; to approve principle internal methodologies of recognition, valuation and management of risks, and for the calculation of the required capital; performing control and supervision on applying policies determined by it.

Quarterly, the Board of Directors discusses the central risks exposure document presented by the Bank's Chief Risk Manager of the.

The Board of Directors appointed a Board of Directors' Committee for risk management, that has among its functions discussions and recommendations to the Board of Directors on everything related to plotting and approving of the Bank's policy in risk management; examination of risk management procedures, and the level of adjustments to the policy framework approved by the Board of Directors; supervision over implementation of risk management policies determined by the Bank's Board of Directors, including receiving reports on deviations from policies or limitations determined by the Bank's Board of Directors. In addition, the Board of Directors' committee discusses and approves products and/or new procedures at the Bank according to the recommendations by the forum for monitoring operating risks headed by the Bank's CEO. It should be mentioned that this forum discusses each product and/or new procedure and decides whether to transfer it to the Board of Directors' Committee for approval.

The management — committed to manage the risks according to policies, appetite for risk, and the limitations determined by the Board of Directors. The management, headed by the CEO, is responsible for the implementing the risk management policies, realization of controls, supervision over quality of risk management, and adequate risk measurement and assessment. In addition, management is responsible for creating an effective system for risk management and their control. The management operates through designated committees for management of various risks, as well as through the Risk Division headed by the Chief Risk Manager.

Description of Control Circles

First cycle of control—this circle includes the risk-takers and managers, which constitutes the business and operational function, making business decisions involving risk-taking. The controls implemented under the framework of the ongoing activity, by the business factors, include a variety of activities, including: compliance with policies and procedures, complying with limitations, and reporting to the senior management and the Board of Directors.

Below are details of risks and management members and department managers serving as risk managers:

Type of risk	Risk Manager
Credit	CEO *
Market	Manager of Financial division
Liquidity	Manager of Financial division
Operating	Manager of operating risks and compliance department
Strategy	Manager Retail division
Legal	Legal consultant
Regulatory	Legal consultant
Reputation	Manager Retail division
Operating — information system	Manager resources division
Compliance	Manager of operating risks and compliance department
Money Laundering and Terrorism Financing	Manager of operating risks and compliance department
Clearance and opposite party	Manager of Financial division
Environmental	Manager of administrative enforcement department
Human resources	Manager resources division
Administrative enforcement	Manager risks division

* On December 22, 2011, the business department manager, Mr. B. Adiri, retired. He served as Credit Risk Manager until that time.

Currently the CEO of the Bank serves as Credit Risk Manager.

Second cycle of control — this circle includes the risk management functions used as control factor of the management and is non- contingent of risk creators headed by the Chief Risk Manager. The processes involved in this circle of control include, among others: outlining risk management policy, identifying and independent measuring levels of exposure to risk, examining the existence of proper work and reporting processes for levels of exposure, as well as deviations from the Bank's policy and procedures.

Chief Risk Manager — according to the instructions by the Bank of Israel, and according to the framework outlined in the second tier of Basel II, the Bank appointed a Chief Risk Manager for the Bank (CRO). Mr. Nissan Levy (currently manager of the Bank's Financial Division) served in this function until July 1, 2011. As of August 1, 2011, Mr. Michael Ben Yishay serves as manager of the Bank's Risks Division and as Chief Risk Manager. The role of the Risks Management Division is to strengthen the Bank's capability to understand the total risks the Bank faces and ensuring their cautious management. The instructions of the Bank of Israel define the operating principles for the Chief Risk Manager and risk management functions, and specifies their position, their function, and areas of responsibility.

The purpose of the CRO's function is to create a wide and cross-organization view of the overall risks inherent in the Bank's activities, among others, through creating a risk management culture influencing all the Bank's activities.

Under the responsibility of risk management functions and its head, is to provide, directly and indirectly, to the Board of Directors and its senior managers, all the relevant data for the proper supervision of the Bank's risk profile in such a manner that it assists in directing the Bank's activities.

Third control circle — this circle includes independent control factors, such as internal auditing and risk controllers. These elements control the appropriateness of risk management procedures and the tools used in the management process, their effectiveness and adequacy, the validity of models and methods for assessing exposure to risk, compliance with restrictions, examination of yield with levels of risk, and periodic reporting to the Chairman of the Board of Directors and to additional supervisory factors.

Basel II

General Background

On June 20, 2010, the Bank of Israel published Proper Banking Management instructions dealing with measurement and capital adequacy. The instructions define the method for calculating capital adequacy and are based on the Basel committee recommendations on the issue of international Convergence for Measuring Capital and Capital Regulations (Basel II) that was published June 2006.

The Basel II recommendations are divided into three segments:

First Tier — Minimum capital requirements for credit risk, market risk and, for the first time, also for operating risk.

Second Tier — The ICAAP process an supervising survey process (SREP).

Third Tier — Market compliance.

The first Tier enables, for purposes of calculating minimum capital requirements, several approaches for measurement of risk components for credit risks, market risks and operating risks: the Standardized Approach or more sophisticated approaches, based on internal models of customer ranking and relevant operating risks. The sophisticated approaches are subject to specific approval by the Supervisor of Banks. In these reports, similar to all banking systems, the capital adequacy data were reported according to standard presentation principles in Basel IIas integrated in the Proper Banking Management instructions 201-211.

The second Tier emphasizes integrated risk management. Under this, the banks are required to determine methodologies, processes, and procedures intended to ensure long-term capital adequacy, including examination of all significant risks to which each bank is exposed. The banks are required to prove implementation of the required methodologies for ensuring capital adequacy. The Supervisor of Banks is required to evaluate these procedures, and to levy supervisory means insofar as required for evaluation results.

The third Tier relates to the level of transparency and requirements for disclosure in reporting to the public by banking corporations, to supplement the second segment. These requirements are intended to assist entities utilizing the financial statements to evaluate the bank's capital adequacy and the addition data concerning the bank's capital, as presented in the reports, the exposure to various risks and the evaluation processes.

During December 2010, the Basel committee published recommendations on the issue of "Framework of global supervision to strengthen the banking system's durability" that received the name Basel 3. Among others, the recommendations included the requirement to increase the ratio of the minimum equity tier 1 (core capital) from 2% up to 7% (4.5% minimum capital ratio and additional 2.5% cushion of capital preservation) in 2019. The recommendation also included new requirements in the area of liquidity risk management, defining additional capital cushions (counter-cyclical cushion and specific cushion against systemic risk), requirement for leverage ratio management, and more. The committee further recommended that capital instruments in Tier 1 be required to include a mechanism for absorbing losses, and that instruments than do not comply with the new conditions will be gradually reduced from the capital.

At this stage there is no clarity concerning the scope and pattern for adopting Basel 3 recommendations, including the minimum capital objectives that will be determined in Israel's banking system, characteristics of those capital instruments that will be recognized by the Supervisor, rate for reducing the existing capital instruments, and more. The Supervisor of Banks announced that during 2012 he will probably publish the adoption pattern for the Basel III recommendations and the timetables for their implementation.

The ICAAP and SREP procedures.

During June, 2011, the Bank presented to the Bank of Israel a report as of December 31, 2010, on the internal process of adequate capital assessment ICAAP — Internal Capital Assessment Adequacy Process. The ICAAPis an ongoing process by which the Bank recognizes and handles risks embedded in its activity, examines the required capital for support of these risks and verifies that the provided capital exceeds this requirement. Building this process at the Bank is a central part in the preparation of the Bank for the requirements of Basel II, and the requirements of the Bank of Israel for implementing the second tier of these instructions.

The purpose of this process is adequate capital assessment and determining the Bank's capital objectives. The products of this process, which is an internal one performed by the Bank, are summarized in the ICAAPdocuments submitted to the Bank of Israel. By the end of the ICAAP process, and in view of identifying material risks embedded in the Bank's activity, on June 12, 2011 the Board of Directors of the Bank determined the capital objectives under the regime of Basel II for the coming years:

In a normal business situation:

- The total capital objective for long-term risk components (first segment) will not be reduced from 12.5%. In spite of the aforementioned, for the interim period, the Bank will maintain the total capital ratio of 13.5% (including a capital cushion adjusted to strategy of 1%) parallel to the implementation of the strategic plan and until a decrease of uncertainty in realization, and the actualization of additional tiers at the base of the plan.

- Objective core capital for risk components (first tier) will not be reduced from 8.0%.

Minimum capital ratio for an extreme situation under the assumption of an realization of a holistic event:

- Total capital ratio including risk components will not be reduced from 9%.

- Core capital ratio for risk components will not be reduced from 5.5%.

Simultaneous to the ICAAP procedure, the Supervisor of Banks performs the process of review and evaluation (called SREP — Supervisory Review and Evaluation Process) under which the Supervisor is required to determine the capital adequacy of a banking corporation and the appropriateness of the ICAAP process in relation to risk exposure (risk profile), taking into consideration the Bank's corporate governed framework. This process will assist the Supervisor to formulate an opinion concerning the appropriate level of capital adequacy, the supervisory measures, and additional risk reducing activity in relation to the Bank's capital adequacy.

Minimum capital adequacy ratio including that required by the banking system under the Basel II regime is 9%; of this 8% is for the first segment. In addition, the Bank of Israel determined that the banks have to adopt a minimum capital core ratio of 7.5%. Nevertheless, during the third quarter of 2011 the Bank of Israel announced that it will adopt the Basel III instructions in the coming period and the banking system in Israel should prepare for this. As aforementioned, the meaning of the adoption of the Basel III instructions is mainly the requirement to increase the capital core ratio objectives beyond the objectives determined in Basel II. The Bank prepares for the adoption of the Basel III instructions as required and conform to the final guideline the Bank of Israel will determine.

In preparing the framework for Basel III, the Bank of Israel requires from the Bank, as from all the other banks in Israel, to present capital planning until the end of 2011, with the emphasis on the capital core ratio, for the coming five years and increasing outline of capital adequacy ratio. In the framework of refreshing the strategy, the Bank's management prepared an outline for a strategic plan for the coming five years including capital planning assuming core capital beyond the minimum objective as defined by the ICAAP process as mentioned above. The Bank's Board of Directors approved the program and submitted it to the Bank of Israel. The discussions between the Bank and the Bank of Israel on all the issues concerning capital ratio and the rising trend of capital planning continued as of the report date.

Within the framework of the continuous dialog between the Bank of Israel and the Bank in which issues rising from theICAAP and the SREP procedures are being discussed, in January 2012, the Bank received the SREP letter from the Bank of Israel, referring to the ICAAPdocument for 2010, submitted during June 2011, in which was mentioned the requirement to increase the Bank's capital adequacy ratio in relation to the ICAAP results. The letter included additional remarks in relation to the aforementioned ICAAPdocument which the Bank studies their implications and prepares to implement them in the ICAAP document for 2011. The Bank will probably present this document to the Bank of Israel during the second quarter of 2012. According to the procedure's results, the Bank's Board of Directors will determine the new capital objectives for the coming years, while referring to the Basel III instructions and the results of the discussion on this issue with the Bank of Israel.

The Bank expects that the capital ratio that will be determined in the capital planning of the Bank for the coming years will be beyond the capital objectives that have been determined in the ICAAP document for 2010.

In June 2011, as part of the ICAAP document of December 31, 2011, the Board of Directors instructed the

Bank's management to present a strategic plan to the Board of Directors' committees on risks management and capital planning that refers to the issue of completing the material gaps and significantly strengthening the material weaknesses that were raised by the ICAAP document, as well as those requirements for improving management quality of various risks. Moreover, the Bank's management is requested to consolidate other alternatives for capital allocation designated to hedge the embedded risk in the various extreme scenarios that have been examined under ICAAP (for example transfer of risks to a third party), and a comprehensive plan for creating optimal capital structure that will include within it loss-absorbing instruments .

As part of this, full mapping of the gaps in the quality of risks management was conducted, based on a variety of resources (weaknesses that have been recognized in the risks assessment procedure in the framework of the ICAAP process, findings of internal auditing, material gaps within reviews implemented by the Bank in relations to 14 instructions of Basel II, etc.). Detailed work plan for completion of gaps has been submitted to the Board of Directors' Committees for risks management and capital and strategic planning by the Bank's management during the fourth quarter of 2011.

According to the plan all material gaps are supposed to be closed not later than the end of the second quarter of 2012.

The Supervisor of Banks issued an interim instruction on the application of disclosure requirements ofTier 3 of Basel II. Below is the table of relationships between exposure requirements in the aforementioned instruction and between paragraphs of the report by the Board of Directors or the note on the Financial Statements in which the required information is included except for the requirements that are not relevant to the Bank (such as the securitization issue):

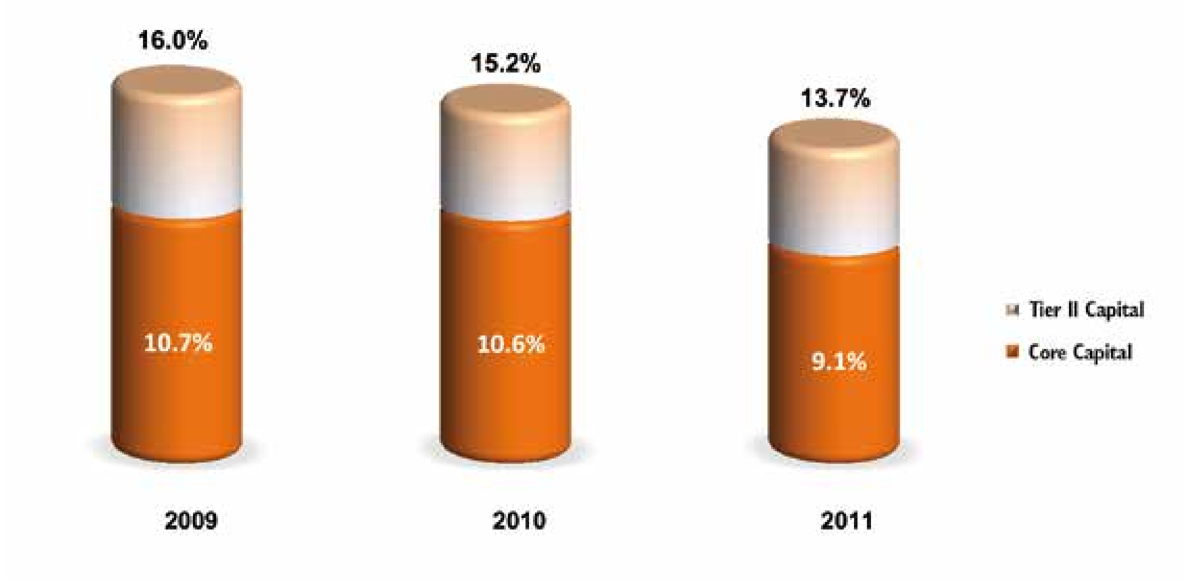
Number of table	Subject	Location	Number of columns
Table 1	Implementation of application	Basel II	102–107
Table 2	Capital structure	Basel II Note 16	108 286
Table 3	Capital adequacy	Basel II Note 16 b	108 287
Table 4	Credit risk — general disclosure requirement	Credit risks Appendix E to the Management Review Note 5 Note 18	110–125 195–199 265–272 293–296
Table 5	Credit risk — disclosure concerning portfolios handled conform the standard approach	Basel II Credit exposures to foreign financial institutes	109 124
Table 7	Decrease Credit risks	Basel II	109
Table 8	Credit risk of opposite party	Note 20c Clearance risks and opposite party risks	304 128
Table 10	Market risk	Market Risks	129–138
Table 12	Operating risk	Operating risks	138–141
Table 13	Position of Securities in the Bank's portfolio	Note 4	261–264
Table 14	Interest risk in the Bank's portfolio	Interest Risk	132–134

Below is the calculation for capital ratio according to Basel II instructions:

Capital for the purpose of calculating capital ratio

	December 31	
	2011	**2010**
	Millions of NIS	
Capital tier 1, after deductions	644.6	633.2
Capital tier 2, after deductions	318.6	271.5
Total of all capital	**963.2**	**904.7**
Average balance from risk assets		
Credit risk	6,395.8	5,457.8
Market risks	171.6	18.3
Operating risk	491.1	480.1
Total average balance from risk assets	**7,058.5**	**5,956.2**
Capital ratio for risk components		
Capital ratio tier 1 for risk components	9.1%	10.6%
Total capital ratio for risk components	13.7%	15.2%
Minimum required total capital ratio according to the Supervisor on Banks	13.0%	13.0%

Capital Ratio for Risk Components



Below are the balances of the Bank's risk assets in accordance with the first Tier (in millions of Shekels)::

Credit risk	Assets risk	Capital requirement [1]
Exposure of sovereignties	—	—
Exposure of the public sector	0.9	0.1
Exposure of banking corporations	263.2	23.7
Exposure of corporations	1,679.4	151.2
Exposure in collateral commercial real estate	60.3	5.4
Exposure of retail for individuals	807.6	72.7
Exposure of small businesses	238.1	21.4
Exposure for housing mortgages	3,211.7	289.1
Exposure for other assets	134.6	12.2
Market risk	171.6	15.4
Operating risk	491.1	44.2
Total	**7,058.5**	**635.2**

(1) Capital requirement for Tier 1 is 8%, and for Tier 2 a minimum of 1%, and for the total required minimum capital ratio of 9% according to the Supervisor of Banks.

Below is the composition of exposure (according to conversion to credit of off-balance-sheet exposure) by the weight of risks according to the first tier (in millions of Shekels):

Weight risk	Before Amortisation	After amortisation
0%	1,168.4	1,168.4
20%	402.5	402.5
35%	4,358.7	4,357.3
50%	359.6	370.7
75%	3,571.9	3,467.3
100%	2,580.5	2,499.6
150%	135.2	134.5
Total	**12,576.8**	**12,400.3**

Below are the exposure composition and balances covered by collateral and guarantees according to the first Tier (in millions of Shekels):

	Credit exposure gross	Risk exposure covered by proper financial guarantee	Risks caused because of guarantees	Additional amounts because of guarantees	Credit exposure net
Debts of sovereignties	1,162.1	—	—	—	1,162.1
Debts of entities of public sector	1.8	—	—	—	1.8
Debts of banking corporations	760.3	—	—	11.0	771.3
Debts of Securities companies	—	—	—	—	—
Debts of corporations	2,111.3	(69.7)	(11.0)	—	2,030.6
Debts in commercial real estate security	60.3	—	—	—	60.3
Retail exposure to individuals	1,237.3	(54.5)	—	—	1,182.8
Loans for small businesses	373.3	(49.6)	—	—	323.7
Housing mortgages	6,729.4	(2.7)	—	—	6,726.7
Securitisation	—	—	—	—	—
Other assets	141.0	—	—	—	141.0
Total	**12,576.8**	**(176.5)**	**(11.0)**	**11.0**	**12,400.3**

Credit Risks

Credit risk is the risk for damaging the Bank's value derived from the potential that a borrower or other party of the Bank fails to meet his liabilities in relation to the agreed terms or due to worsening of borrowers quality and the value of the collaterals provided by them.

The credit risk is the Bank's main risk. The materiality of this risk is compatible with the Bank's core business. The risk is expressed mainly in the activity with retail customers but also with business customers and nostro activity. In order to manage the credit risk, the Bank defined credit risk management policy and credit policy that is approved annually by the Board of Directors.

The credit risk management policy describes the creating factors, managers, and controllers of this risk, the principles of risk management, its decrease, and risk management control tools. Moreover, the process of determining authority, orderly reporting process, and reporting of irregularities are also described in it.

An additional document is the credit policy document approved by the Bank's Board of Directors, outlining the policy for providing Bank credit, and specifies the principles for providing credit, limitations, and collaterals. Under the policy are also determined the principles and rules of credit portfolio management and control on it, that refer to households, as well as to business customers according to the branch classification.

The activity of credit for public is managed in a number of principle segments differing between them in customer characteristics and their required banking services, as well as the organization unit responsible for handling each of the customer types:

- Household segment and customers operating internationally are under the responsibility of the retail division.

- Business customers, mainly in the area accompanying real estate projects, and commercial customers are under the responsibility of the business department and subject to the Bank's CEO.

In the credit providing process, transaction data are examined to conform with the criteria that have been determined in the Bank's procedures. The underwriting mechanism and credit approval are hierarchical, from the branch level and up to the level of the Board of Directors according to the authority ranking that has been approved by the Board of Directors.

The Bank operates in a number of levels in order to monitor and to reduce the credit risk as much as possible, starting from the credit underwriting stage, its approval, the required collaterals are according to the credit policy and relevant procedures, and until the monitoring and continuous control implemented in the business units that are the first control circle and in designated control units. The Bank invests many efforts to improve the professionalism and expertise of those dealing with the credit provision and their management and also in developing automatic tools assisting in effective management.

Measurement and monitoring systems — The Bank uses a number of automatic systems for the purpose of credit risk management and control. Computer systems provide control tools for the first control circle and also for the second and third circle, for credit risk detection.

Among the principle systems the following can be mentioned: commercial credit system, mortgages management system, and supporting systems fro obtaining credit decisions.

The Bank has a number of internal systems for ranking borrowers for supporting the decision for receiving credit: In the accompanied project sector, the system integrates parameters from project exposure reports; e.g., examination of rate of completion, liquidity status, erosion of margins, value of inventories, and more. In retail credit the customer is rated according to the Bank's existing rating mode. The Bank is in the stage of advanced development of customer rating system for consumer credit

The Bank's management continues to improve the measuring, reporting, and control tools for obtaining more comprehensive information for assisting with credit risk management.

Reducing credit risk — for the purpose of reducing the credit risk the Bank operates according to policy, processes, and work procedures for obtaining collaterals and their management, reliance rates on collaterals, recording collaterals, and so forth.

Collaterals — The principal collateral provided to the Bank is a mortgage on rights to a real estate asset. Moreover, the bank receives current liens, project liens and project accounts, liens on deposits and securities, third-party bank guarantees, personal guarantees by debt guarantors, liens on property insurance and contractors' insurance policies, and more. The rules for reliance on each of the types of collateral according the collateral characteristic, its negotiability, realization rate, and the collateral's legal status are determined by the Bank's policy. The collaterals are adjusted to the loan circumstances.

The regulations for management of collaterals and update of their value are determined by the Bank's procedures.

The examining unit in the second control circle, credit control, as well as the internal controls, examine the collateral portfolios, in addition to business factors in the first circle.

In calculating the capital adequacy, the Bank operates according to the 201-211 instructions of the Proper Banking Management instructions from the Supervisor of Banks concerning measurement and capital adequacy, and offsets from credit to the public only deductible collateral according to the mentioned instruction.

In this calculation, according to instruction 203, the bank refers to two central CRM instruments, according to the Basel II guidelines, clarifications by the Bank of Israel, and legal opinions. The first is deposits and savings that were established and managed at the Bank, and the second is third party guarantees to secure the exposure of bank customers.

Deposits and savings that may be used to secure credit are deposits that are marked in the Bank system as mortgaged, where the owner of the deposit is also exposed, as well as deposits that are recorded in the Bank system and mortgaged in favor of the Bank, where the mortgages is recorded in the Register of Mortgages or the Company Register, as applicable. Offsetting of deposits and savings from the total credit for the public is implemented according to compliance of the collateral with the aforementioned instructions.

Description of the active creating factors, managing and controlling the credit risk:

The Bank has adopted a work framework for risk management and control, based on control circle and 3 "control circles".

The Supervising Entities

Board of Directors — The Board of Directors and its committees have the ultimate responsibility for determining the Bank's business strategy, including the risk management area, and securing the Bank's capital. Moreover, the Board of Directors approves the business policy and the Bank's work plan for each year, and examines the risk asset allocation for business factors. The Board of Directors approves the credit risk exposure limitations, credit risk management policy document; establishing periodical follow-up of credit risks exposure developments; discusses the required changes in limitations in order to ensure that the determined limitation enables ongoing operations while complying with the determined risk appetite; the Board of Directors examines the embedded credit risk characteristic in activity or new relevant products. In addition, the Board of Directors has the credit approval authority for amounts that have been determined according to the credit approval authority ranking determined by the Bank's procedures.

Board of Director's committee for risk management — Its role is to examine the Bank's credit risk management procedures and the level of adjustments to the policy framework that was approved by the Board of Directors, and the report systems, lines of responsibility and authority. Their functions and authorities include, among others: discussion on the Bank's exposure policy for various risks, on the exposure document, and recommendations according to the Board of Directors; discussion of product offers or new activities and accordingly, recommendation to the Board of Directors.

The Board of Directors Credit Committee — the Board of Directors Credit Committee holds advanced and individual discussions on subjects, according to the Board of Directors' decision, which from time to time, requires delving into, and accordingly makes recommendations to the Board of Directors.

According to the transitional order that has been determined under the new Proper Banking Management instruction 301, the Bank 's Board of Directors approved a plan to reduce the involvement of the Board of Directors in credit approval. The Board of Directors will approve credit requests that are materially of irregular quantities during normal business of the Bank and therefore constitutes an irregular policy. The requests will come to the Board of Directors without prior discussion by the Board of Directors' credit committee according to the rank of authority and guidelines as specified in the credit policy for 2012, as has been approved on November 22, 2011 by the Board of Directors.

Until January 1, 2012, the credit committee's functions and authorities included, among others, the following issues: approval of credit request or recommendation to the Board of Directors for approval of credit requests; according to authority ranking the credit approval will be determined in the Bank's procedures; discussion on ongoing reports or special reports that have been submitted to the committee on credit issues; additionally, this committee would also serve as a Board of Directors' committee for doubtful and problematic debts.

Management — Among others, through its committees, is responsible for establishing effective systems for risk and control management, including: consolidating an annual work program at the Bank and its credit policy, consolidating the Bank's annual risk management policy, defining the credit risk exposure levels and defining the actual requested levels, determining procedures connected to recognition, measurement, neutralization and control of credit risk exposure and ensuring the effectiveness of this risk management procedure through established procedures and through control factors in the risk division.

Risk-takers and Managers — Circle I

Internal Credit Committee — in which senior management having financial and legal skills, are members, some of whom are Bank credit department managers, and is headed by the Bank's CEO. The committee discusses requests for providing/renewing credit to borrowers/group of borrowers in amounts that have been determined according to the collateral mix as has been determined by the Bank's management that has been approved by the Bank of Directors. As part of the program the reduce the involvement of the Board of Directors in credit approval and increase of authority of the internal credit committee, the Chief Risk Manager or representation on his behalf, has been added as an observer at credit committee meetings. The Chief Risk Manager will report at his discretion on a particular credit to the Chairman of the Board of Directors/Chairman of the Risk Managing Committee.

Credit Authorizers — Their function is to approve credit requests according to criteria that have been determined in the approved credit policies by the management and the Board of Directors and Bank's procedures.

Underwriting system — operates at the retail and commercial retail credit department in the business wing, and, after valuation and reexamination, transfers approvals for any credit request deviating from the branch manager's approval authority, for approval by more senior officers.

Business Credit Department — the business credit department includes real estate sector activity and the retail and commercial credit activity handled by the retail and commercial credit department.

Screening Department — this department is responsible for activities at the branches that create credit risk. The department is responsible for training branches, directing them, sales management, and complying with objectives.

Collection Department — has the function of enforcing the collection of problematic debts. The Collection Department deals with classification, regulation and collection and measurements of provisions for doubtful debts in the retail, business and commercial credit area.

Risk Management Functions — Circle II

Chief Risks Manager — The Chief Risks Manager is responsible for the independent control circles and it is his role to verify the overall effectiveness of the risk managing and control system. Moreover, he verifies the ongoing risk reports, to be reliable and relevant, and periodically examines compliance with the division of authorities and the determined exposure limitations.

Risk Control Unit — The risk control unit serves an independent function, while its role, among others, is to provide information to the management and Board of Directors about credit risks; gives an independent opinion on credit risk exposures, developing models for credit provision (established and statistically validated) and developing tools and methodologies (Best Practice) for credit risk management. This assessment process by the unit is independent of the functions that approve credit, since credit control is not involved in decisions concerning the provision of credit and its terms.

A credit controller operates in the unit whose area of responsibility includes a number of realms:

Assessing the quality of specific borrowers and the quality of the Bank's credit portfolio as a whole, coverage of main borrowers, and checking and reviewing these borrowers. Moreover, the unit prepares a quarterly report on credit exposure trends that is submitted to the credit risk management forum, the risk management committee, and the Board of Directors. The report includes review of credit risks measurements, business as well as retail, compared to periods and to other banks (as many as possible).

Credit Risk Management Forum — Its purpose is to review reports received from credit takers and risk managers in relation to the Bank's exposure situation to credit risks, as well as to discuss policy before submitting it for approval. Also, the forum discusses the monthly exposure estimates, the quarterly trend report, and the issues arising during the work of the credit risk management unit or credit control, reviewing examination, reviewing collection and also on additional issues according to demand.

Central Examination Unit — Examines the mortgages portfolios according to criteria determined by the management of the Bank prior to actual implementation, as well as reviewing of vehicle loans prior to implementation. The examination system is subject to the Resources division and thus there exists a management separation between the credit approval process and transferring of documents for examination.

Examining and analyzing credit risk unit — The unit was set up under the preparations for Basel II with the purpose of separating between the level that creates the credit risk (that brings the transaction to the Bank), the one that prepares the credit request, and the one that approves it. The unit has two principle roles:

1. Examining credit portfolios and analyzing credit risks. Under the second control circle the unit deals with examining credit portfolios and borrower collateral (from the real estate sector and from the commercial banking division), prior credit provision, as well as during the current credit life.

2. The credit risk management unit receives credit applications before their transfer for approval, and examines whether the business structure as specified in the credit request complies with the Bank's credit policy and risk appetite policy. The Manager for credit risk management unit gives his opinion on the credit transaction brought for approval at the Bank's institutions in a separate and independent document (hereinafter — "credit risk management unit document"). Credit application will not be discussed in the credit committee without the credit risk management unit document that is submitted simultaneously.

After the departure of the Business Department manager, the credit risk management unit manager was placed under the manager of the Risks Division, and reports directly to him about his activity. This change strengthens the separation of functions and enables independent control.

Extreme scenarios team — The team determines the various extreme scenarios such as, extreme holistic scenarios, adhesive effects occurring between the markets; and according to Basel II guidelines, examines their results. If necessary the teams will advise the management on required preparedness for realization of extreme scenarios.

Control Entities — Circle III

Internal auditor / internal auditing — The audit is responsible for the examination of activity and procedures implemented by the Bank, and mainly: integrity of activity performed by the Bank and its employees; the Bank's compliance with regulatory instructions and internal procedures; implementing decisions of the Board of Directors and management; management of assets and liabilities; amendment of deficiencies discovered in the auditing reports; and examination of the Bank's risk management procedures.

Financial Department — The function of this department is responsibility for accounting registration and providing of all the financial information used for the risk management. In addition, the department provides specific information in relation to capital composition, capital specifications, and capital forecast and risk assets for the coming 3 years. Additionally, the department is responsible for composing reports on Tier 1 issues and on monitoring the ongoing compliance with capital adequacy outline as determined in the annual work plan, including risk assets allocation for the activity area.

Internal Committee for Doubtful And Problematic Debts — In which advanced discussions are held on borrowers/group borrowers on amounts that are determined by the policy prior to the discussion by the Board of Directors' Committee.

Credit Audit and Guarantees in Securities — is required to supervise compliance with the instructions of the Stock Exchange regulations on the issue of credit provision (as part of Securities activity), securities requirements and short sales, as well as compliance with the instructions by the Board of Directors on these issues. The audit includes examination of barriers and alerts, custodian activity, audit on special accounts, as well as additional checks. In case of irregularities, the auditor will report to the relevant factors at the Bank according to the level of irregularity, and if necessary, will also report to the Chairman of the Board of Directors. In addition, the Bank will continuously monitor credit irregularities, short securities and Securities activities.

External accountant — perform auditing and accounting review assignments with reference to the Bank's Financial Statements.

Concentration

The risk of concentration is the risk deriving from the lack of dispersion in credit portfolios. With the purpose of reducing centralization deriving from the lack of dispersion of the Bank's credit portfolios, the Bank works to spread its credit portfolio between many borrowers in various sectors of the economy.

The Bank's credit centralization risk has a number of principle aspects:

Borrower Centralization Risk — Risk deriving from credit provided to the borrower or a number of borrowers belonging to the same borrowing group. As the dispersion of the credit portfolio between the various borrowers becomes larger, the borrower centralization risk will become smaller.

Under the preparations of the Bank for changes in the business environment, and with the willingness to reduce the Bank's exposure of the to large borrowers, the Bank's Board of Directors has narrowed, beyond the regulatory limits determined by the Supervisor of Banks, the limitations of the sole borrower, of the framework for group borrowing and of the framework for the six large borrowers.

The Bank continuously monitors large borrowers and meeting the limitations set by the Board of Directors.

On November 8, 2011, the Supervisor of Banks published guidelines concerning additional disclosure for material exposure of group borrowers. Since there are no group borrowers at the Bank (as defined in Proper Banking Management instructions № 313) while its debts increase with 15% from the Bank's capital, the Bank is not required to provide additional disclosure according to the aforementioned guideline.

Centralization risk of economic sectors — The risk results from a large volume of credit provided to borrowers in a certain economic sector relative to the credit portfolio.

In order to reduce the credit risk derived from centralization in the construction sector in accompanying projects in which the Bank cooperates with insurance companies issuing sale policies to housing purchasers in projects and share mutual collateral with the bank — “pari passu”.

The Bank complies with the limitations of the Bank of Israel concerning the exposure to economic sectors.

Geographical centralization risk — The risk derives from insolvency of the borrower centralized in a certain geographic area or collaterals centralized in a certain geographical area.

It is the Bank's credit policy to set limitations concerning geographic dispersion with the purpose of reducing this risk.

Segment centralization risk — Risk deriving from insolvency of the borrower belonging to the same population segment.

The Bank is centralized in providing credit to the Ultra-Orthodox segment and the minorities segment.

The Bank is centralized in the Ultra-Orthodox segment beyond its estimated proportion of the population. Its credit part for the minorities segment of the Banks is not materially higher than the population ratio. The Bank continuously examines its exposure to these populations and performs scenario analysis from which it appears that the Bank will probably not have irregular losses as result of the Bank's exposure to these segments.

Every quarter the Bank examines the its credit centralization, also for extreme scenarios. The examination results are submitted to the Board of Directors in the framework of quarterly credit exposure report.

The Bank's Credit Implementation Procedure

The Banks' credit portfolio is managed in the Business Vision, in two departments: Accompanying Projects and Construction Financing Department, and Retail and Commercial Credit Department, with clear division concerning credit authorization, type of credit, type of customers, and amount of credit. The underwriting process is also defined. Each credit application is examined and approved by the appropriate level of authority according to principles approved by the Bank's Board of Directors.

The Retail Credit Division includes an underwriting center, that sends each mortgage application exceeding the branch manager's approval authority, for endorsement at the level authorized for approving such credit.

In addition, the Bank has a central system for examining all mortgage portfolios before actual implementation. The examination process focuses on a review of the credit documents and the collateral, compliance with the terms defined when the credit was approved, and all with the purpose of performing a monitoring function of the loan creation process , to reduce exposure to operating risks in mortgage activity, and to ensure that the Bank as a whole, works according to uniform and controlled standards. The examination system is subject to the Resource Division and thus there exists a managerial separation between the credit approval process and document transfer for examination.

In the Business Credit Division, applications for credit are prepared by the division's auditing and reports team and not by the referents (creating the risks), and are examined by the credit risk management unit (subject to the manager of the Risks Division), before being submitted for approval in the relevant credit committees, in accordance with the specified authority level.

As part of examining the credit and collateral portfolios, the unit even checks the existence of all required documents and collateral, before granting the credit, and approves the provision of credit to the customers by the credit teams. As part of analyzing credit risks, the Credit Risk Management Unit provides an additional and independent opinion on the credit application submitted for approval at the Bank's institutions in a separate and independent document (hereinafter — "the CREA document"). It should be emphasized that credit applications are not discussed in the Bank's institutions without the CREA document that is submitted in parallel with the application. Once quarterly, the CREA unit manager of the reports to the Risk Management Control division on the CREA documents prepared by him.

In the department for project accompaniment, each accompanied project is managed in close accompaniment to the Construction Supervisor, making periodical reports on its progress. The required additional credit needed for completing the construction is approved only after examining the updated exposure report for the project, in considering its progress rate and the conditions, parameters and set milestones, which the borrower needs to meet. In addition, during the project's life, generally once per month (with the receipt of the supervisor's performance report), the financial solidity of the project is examined by the division's referents.

In the business credit area, requests for renewal are submitted at least once a year. The credit portfolio and collateral are examined, as of the credit grant date, and as of the renewal date. Also in this area, examinations are implemented concerning the borrowers' financial stability, as well as the financial statement reports. Moreover, daily controls are being implemented on irregularities in the credit lines and collateral.

Handling and recognition of problematic credit

For the purpose of providing recommendations concerning credit classifications and provisions for credit losses existing once a quarter, an individual review is held quarterly for all customers from the real estate sector, as well as commercial customers under the Retail Credit Department.

As part of the review customers with negative symptoms are located such as: passed due debts, cash flow difficulties expressed in difficulty in paying loan principal and/or interest, worsening of business activity, and so forth. The need for providing a new classification recommendation for the customer or a change in the customer's classification with an existing one is examined.

The recommendations are submitted to the Problematic Debts Committee according to the set authority level, which conducts discussions and make decisions.

When the business department recognizes that a borrower is in trouble or there is suspicion that he may get into trouble, immediate discussions are held with the participation of the main factors handing the customer and immediate decisions are taken whether to transfer handling to the Bank's Collection Department, external legal treatment, imposing receivership, liquidation or arranging debt settlement.

In retail credit — when the loan is in arrears — the branches will handle the collection up to a certain depth of arrears as determined by the procedures. Loans beyond the aforementioned depth of arrears will be passed for handling by the Collection Department. In irregular events in which there is suspicion of forgery, fraud, or suspicion of flight abroad by the borrowers, and so forth, the portfolio will be transferred immediately to the Collection Department independently of the arrears' scope.

The Collection Department centralizes all the procedures in the framework of as part of the Banks collecting activity, and supervises the work of lawyers and subcontractors involved in the collecting process.

The Bank's management strives to settle with the borrower whose debts to the Bank are passed due, and continuing the current monthly payments, but only if there exists sufficient collaterals in the borrower's portfolio.

In the event, in which the borrowers do not cooperate and/or avoid repaying the debt, receivership proceedings will be initiated as a last resort for clearing the debt.

The Bank has orderly procedures for allocating, classification and handling of problematic debts and there is a mutual work relationship between the Business and the Collection Departments.

Control of significant events that may affect a customer group or the Bank's credit portfolios, the Bank examines the affect of the event on the credit portfolio and responds accordingly. The response may be in the form of change in policy or by means of an activity with the existing borrowers.

The Board of Directors and its committees receive periodic reports concerning distribution of credit, distribution by sector, large borrowers, and other parameters measuring the exposure to credit risk.

The Bank has an internal system for ranking borrowers that supports credit decision making. In the Accompanied Project Sector, the system integrates parameters from project exposure reports; e.g., examination of completion rate, liquidity status, erosion of margins, value of inventories, and more. For all extended retail credit, the customer is rated according to the Bank's existing rating model.

The bank determines provisions for credit losses on loans against mortgage of a residential housing according to the depth of arrears as determined in Appropriate Banking Management Instructions № 314 of the Supervisor of Banks. In addition, conforming to the Supervisor of Banks' guidelines, the group provision for credit losses is calculated for housing loans balance provided as of the beginning of 2009 and onwards, and while the ratio between debt and the mortgage asset value at the time of loan, providing (LTV) is higher than 60%.

For the remaining retail credit, as well as business credit, the Bank determines its provisions according to the circular from the Supervisor of Banks on the issue: "The measurement and disclosure of defective debts, credit risk and provision for credit losses" as published on December 31, 2007. The circular is based, among others, on American Accounting Standards and on regulatory instructions of supervision institutions of banks, and on the American SEC (Securities and Exchange Commission}.

According to the circular, the Bank sets as separate liability account, the provision at suitable level for coverage of the expected credit losses related to the off-balance-sheet credit instruments, such as agreements for providing credit and collaterals.

The required provision for covering the expected credit losses in relation to the estimated credit portfolio, is in one of two tracks: "individual provision" and "group provision".

Individual provision for credit losses — The Bank identifies for need to examine individually each debt whose contractual balance (without deduction of write-offs that are not involved in accounting waiver, unrecognized interest, provisions for credit losses and collaterals) is NIS 1 million or more. The Bank also identifies the need for individual valuation, other debts (except housing debts concerning to which provision has been calculated according to the depth arrears formula) while the provision for their depreciation is not included in the group provision. The individual provision will be recognized for every debt classified as defective. Debt will be classified as defective when according to the information and updated events the Bank may probably not be able collect all the entitled amounts according to the debt's contractual terms. Debt classified as defective when the debt is passed due for 90 days or more, except if the debt is properly insured and is in collection process.

The individual provision for credit losses is estimated, based upon future cash-flows, discounted by the debt's effective interest rate, or when the debt is backed up with collateral or when the Bank determines that seizure of the asset is probable according to the fair value of the mortgaged collateral to ensure that credit after deducting sales cost.

The provision for credit losses is estimated on a group basis — implemented for depreciation provision of the large groups of small and homogeneous debts (such as: credit card debts, housing loans and loans for the purpose of consumer debts paid by installment), and also for debts that have been individually examined and have been found defective. The specific provision for credit losses for debts estimated on group basis, except for housing loans for which provision has been calculated according to the depths arrears formula, will be calculated according to the regulations determined in the American Accounting Standard FAS 5: Accounting for Contingencies (hereinafter — "FAS 5"), based on the updated estimated past loss rates for each of the homogeneous groups of debts with similar risk characteristics. The formula is based on rates of historical losses in the various market branches as divided between non-problematic credit and problematic credit between 2008 and 2011, as well as for actual recorded net write-off rates.

The required provision in relation to the off-balance-sheet credit instruments are estimated according to the regulations determined in the American Accounting Standard FAS 5.

In addition to this, the instruction determined the definitions and various classifications of off-balance-sheet credit risks, recognition rules at entering of interest from defective debts and also write off regulations for problematic debts. Among others, the Bank operates to write off all debts estimated on an item by item basis and is considered uncollectible and has such a low value that the remaining assets is unjustified or debt for which the Bank manages efforts for long-term collecting. Concerning debts estimated on a group basis, write-off regulations have been determined based upon the depth arrears period (in general, when passed due over 150 days) and their collaterals.

This instruction will be implemented in the Financial Statements of banking corporations and credit card companies as of January 1, 2011 (in the original instruction — from January 2010). The instruction is not to be implemented retroactively in Financial Statements from previous periods.

Below is a table presenting non-performing assets, defective debts accumulating income interest, commercial problematic credit risk, and non-defective debts in arrears of 90 days or more (*)

	As of December 31	
Credit risk	**2011**	**2010**
1. Non — performing assets		
Damaged credit to the public:		
Examined on individual basis	35.6	21.1
Total	35.6	21.1
2. Damaged debts in new organization of problematic debts accumulated in interest revenue	—	8.8
3. Problematic credit risk (1)		
Credit risk off — balance sheets for the public	408.6	357.3
Credit risk off — balance sheets for the public (2)	25.7	41.8
Total problematic credit risk for the public	434.3	399.1
Credit risk balance sheet for others (2)	3.6	7.5
Total	437.9	406.6
4. Non damaged debts in arrears of 90 days or more	**286.5**	**246.5**
From this: housing loans for which exist provision according to depths arrears (3)	136.6	147.8 *
Housing loans for which is no provision according to depths arrears (3)	96.1	83.8

* Presented again

(1) The balance sheet credit risk (credit, debentures, other debts that are recognized in the balance sheets, and income for derivative instruments) and off-balance-sheet risk that is not defective, inferior or under special supervision.

(2) As calculated for the purpose of limitation of debts by borrowers and group borrowers, except for collaterals provided by the borrower to ensure obligation by a third party, according to which the affect of the collateral may be deducted.

(3) Housing loans for which the minimum provision has been calculated according to depths arrears being passed due beyond 3 months and up to 6 months, and other housing loans, that are not defective, that are passed due for 90 days or more, and minimum provision for not calculated according to depths arrears.

(*) All the balances presented in this appendix are presented according to the new measurement and disclosure instruction for defective debts, credit risk, and credit loss provision, in case they were implemented for the first time on December 31, 2010.

Balance sheet and off-balance-sheet credit risk is represented according to the affect for provision of credit losses before collateral affects allowed for deduction for the purpose of the borrower's obligation, and for groups of borrowers.

Below are details concerning the provision rates from credit risks for the public:

	31.12.2011
Credit rate balance for the damaged public that does not accumulated interest revenue from public credit balances	0.39%
Creadit rate balance for the public that is not damaged that is in arrears of 9 days or more of the public credit balance	3.06%
Rate balance of provision for credit loss for public credit from public credit balances	0.99%
Balance rate of provision for credit loss for public credit from damaged public credit that does not accumulate revenue from interest	255%
Problematic credit risk for the public from total credit risk for the public	4.17%
Expenses rate for credit losses fro, average balances of credit for the public	0.16%
Off writes rate net for credit to the public from average public credit balances	0.22%
Off write rate net for credit for the public from credit loss provision balance for credit to the public	21.21%

Credit exposure for foreign financial institutions on consolidated basis as of December 31, 2011:

External credit rank	Short term rank	Number of institutes	Credit risk in millions of NIS	
			Balance sheet	Total
–AA	A–1+	1	22	22
without rank	without rank	1	25	25
Total credit exposure to foreign financial institutes		2	47	47

With the outburst of the financial crisis in 2008, the Bank reduced its deposits in financial institutions abroad, determined limitation on centralized depositing and determining procedures and examinations required prior depositing funds on foreign banks abroad. The bank relies on the rating by the rating companies "Standard & Poors", and "Moody's". The ratings are relevant in relation to deposits that have been deposited at foreign banks only.

The exposure of the Bank to foreign policy as of December 31, 2011 is not significant.

Exposure to Environmental Risks

Increase in global and Israeli awareness, expressed in regulatory extensions, for meeting instructions concerning environmental quality requiring the Bank to relate to the functional financial exposure deriving from the environmental risks. The Bank is obligated towards its customers and shareholders to manage its business in a profitable and responsible manner. As part of this obligation, the Bank works to recognize, assess and manage the environmental risks involved in its activity and that of its customers. The appetite of the Bank for risks in this area is lower and therefore the Bank operates according to conservative principles for environmental risk management in its financial activity.

The current activity of the Bank focuses on borrowers in the retail segment who do not have a high exposure to environmental risk.Actually, the Bank's exposure to this risk is not significant.Also, the activity of the Business Department in providing credit in the real estate construction area and commercial activity for corporations and individuals does not expose the Bank to material environmental risks, among others, in view of preventing the Bank from providing credit to branches prone to environmental pollution.

Housing Loans

The Bank of Jerusalem has made it its objective to improve the quality of its credit portfolio. This objective is obtained by the activity for improving its new customers. The Bank's activity in the housing loans area is with the middle decile and higher population level and as main target public. Therefore, the customers with the following characteristics are preferred: customers living in the center of Israel, the assets mortgaged in loans secured by real estate located in an area defined by the Bank as preferred, the gross income of the family will be less than the average income in the economy and finance rate, in general, will not exceed 75% of the asset's value.

The Bank's average finance rate — Balance of the loan divided by the estimated value of the assets, as examined in relation to the existing credit portfolio at the Bank, is very low and stands at about 30% (value of the estimated assets calculated from the last assessment day, according to the Housing Price Index that the Bureau for Central Statistics publishes in distribution according to geographical areas and according to the number of rooms).

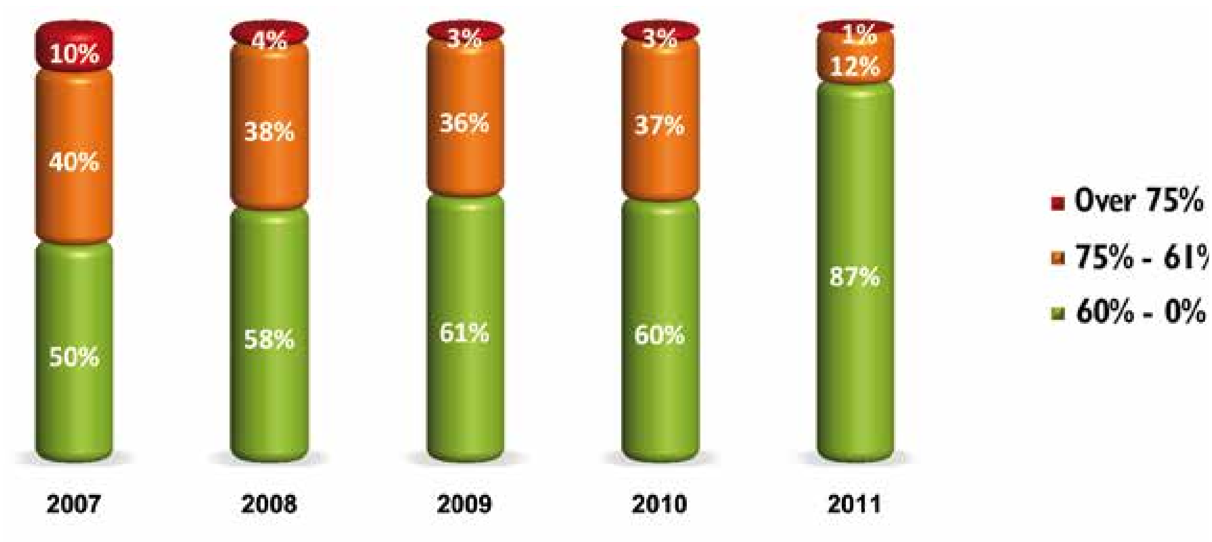
The following table present the developments in quality of the housing credit portfolios:

	2011	2010	2009	2008	2007
Total implementation (millions of NIS)	1,489	1,996	1,179	937	1,230
From this:					
Variable interest in frequency less than 5 years					
in millions of NIS	731	1,198	743	523	517
In percentages of total implementation	49%	60%	63%	56%	42%
In foreign currency	243	482	247	252	402

General data with mortgages in NIS:

	2011	2010	2009	2008	2007
Average loan period in months	226	217	203	199	166
General data:					
Average income per person (NIS)	3,740	3,716	3,322	3,082	3,064
Implementation amount distribution according to percentage of asset financing:					
0%–60%	87%	60%	61%	58%	50%
61%–75%	12%	37%	36%	38%	40%
Over 75%	1%	3%	3%	4%	10%
Distribution in the number of agreements according to implementation amount:					
0–500	72%	75%	82%	85%	86%
500–1,000	19%	18%	14%	11%	10%
over 1,000	9%	7%	4%	4%	4%
Average loan amount (in thousands of NIS)	458	447	324	300	295

Distribution in implementing mortgages according to the asset's finance percentage



Customer Quality

The population of mortgage customers mainly at the end of their thirties from the 6th decile and above, with income higher than the average income in the economy. The return ratio of the average income is materially lower than the minimum requirements as defined in the Bank's credit policy.

Distribution of the portfolio according to the financing rate

In the credit policy of recent years, the Bank decided to reduce the credit risk exposure by the maximum financing rate limitation, in general to 75% of the mortgaged asset's value.

It can be seen clearly that the implementation in the recent years advances at a financing rate not exceeding 75% of the mortgaged asset's value. The leveraged loan rate above 75% is on less than 1% of the implementation.

Following the instructions published by the Supervisor of Banks in the second half of 2010, the Bank significantly reduced the loan rate provided to a financing rate above 60%.

According to the credit policy, the Bank does not grant loans in which there is an element of deferred payment of principal and interest.

The loan balance secured in secondary mortgages or when the Bank's collateral rights is unsecured, is not significant. There are no housing loans at the Bank on which the information is incomplete.

Distribution of the portfolio according to geographical areas

The Bank's housing loans portfolio is distributed between many borrowers most of whom purchased assets in the centralized in the center of Israel. Some 54% of the portfolio is granted to assets in central and in Greater Jerusalem.

Housing credit provision process

The mortgages activity mainly includes providing loans for housing against a lien on the apartment for Israeli residents with various linkage bases and according to a variety of interest tracks; and to foreign residents in the major foreign currencies (mainly in US dollar, English Pound and Euro).

The loans are divided into two types: loans from the Bank's funds, and loans from government funds and under its responsibility for those entitled by the Ministry of Construction and Housing (hereinafter: the "budget loans"). The Bank has no credit risk on budget loans.

The procedure of assessment and credit approval for residential housing mortgage is a structured and standardized process.

The loan approval is performed by the branch and/or transferred to a more senior approval level, according to the authority level determined by the Bank's Board of Directors.

The procedure required separation of functions (the credit officer is not allowed to approve the application he assesses – the computer system blocks this possibility) thus, also those applications within the branch's authority may not be performed by the same officer.

In other retail credit, the control is performed through separation of functions between the executing factor and the approving factor having greater authority.

Applications deviating from the authority of the branch manager are transferred for approval to an underwriting center. The role of the underwriting center is to reexamine the application, to approve or reject it. In case the credit application is under the greater authority than the underwriting center authority; the underwriting center presents its recommendation and transfers it to a senior factor for approval (department manager, CEO or credit committee) according to the relevant authority.

As part of the loan creation process, credit portfolios in the framework activity of mortgages are examined by the central examination unit that examines the completeness of the portfolio after approval, and receiving all the documents and required collaterals. The unit is subject to the back operating system in the Resource division and thus there exists a managerial separation between the credit approval process and document transfer for examination prior to implementation.

The retail credit activity is closely supported accompanied by legal guidance of lawyers from the Bank's legal department, who examine, among others, the documents' legal suitability and types of collateral.

Clearance risks and other party risks

The clearance risk is the risk that the other party does not fulfill its part and does not transfer to the Bank on the fixed date the required amount in the clearance transaction, this although the Bank did transfer its part to the other party. The risk only exists when the exchange for the transaction is not simultaneously transferred. The exposure to clearance risk is for a short period of time and generally for a day.

The other party's risk is a risk when the other party to the transaction is in lapse before the final clearance of the transaction flows. The transaction's market value, which may be positive or negative for any of the parties, actually depends on the fluctuation of the market factors. Only in case the transaction will have a positive fair value for the Bank and the other party will be in lapse – a general loss may be caused to the Bank during the lapse. The risk exposure to the other party may be created during the transaction's entire life time.

Until September 2007, the banking system mainly cleared receivables through the central banking clearance center, in addition to the check clearing system. In addition, as of September 2007, the banking system started to operate RTGS systems (Real Time Gross Settlement), that is a real-time financial transactions clearing system. The transaction amount requiring transfer via RTGS was set by the Bank of Israel at NIS 1 million.

The main source for exposure of the Bank for clearance risk is clearance of derivative transactions (OTC – Over The Counter). The Bank operates with its customers in derivative instruments traded at the various stock exchanges, but does not operate with them in OTC derivatives. The Bank operates in these derivatives for itself and only for risk hedging, and as an additional tool it uses for managing its assets and liabilities. In addition, the Bank 's exposure to clearance risks resulting from trading in foreign securities performed with brokers through clearance NON-DVP (Delivery Versus Payment) type of process.

Therefore, the main exposure of the Bank to other party risk is formed with banks and recognized financial institutions abroad for clearance of derivative transactions (OTC) and with brokers and custodian service provides in securities for transaction clearance of foreign securities. In the framework of the activity with these institutions approved at least once a year by the Board of Directors of the Bank in the credit framework of these same institutions. During the review period, clearance risks or other party risks were not realized at the Bank.

Decrease of risk – the Bank has signed agreements with ISDA and CSA appendixes with some of the banks where derivative activities are implemented. Enabling offsetting of transactions, so that the amount transferred between the transaction parties is only the net exposed amount, and thus reducing the exposure of each of the parties. CSA appendixes regulate the transfers of the finances between the transaction parties whenever the exposure reaches a certain predetermined scope, and thus reducing the other party's exposure.

Market Risks

General

Market risks are a group of risks whose essence is loss exposure as a result of changes in various market parameters (exogenous parameters). In this risk group, several types of specific risks are included, managed at the Bank in similar manner, based on similar work structure and through the same principle factors.

Management market risks

Board of Directors – Carries the ultimate responsibility for management and supervision on market risks and liquidity and creating a proper risk environment. The function of the Board of Directors, as determining the Bank's policy, is to outline the risk management characteristic and the required corporate governing structure.

Board of Director's Committee for Risk Management – Its role is to examine the Bank's credit risk management procedures; the level of adjustments to the policy framework that has been approved by the Board of Directors; the report systems; and lines of responsibility and authority. The committee holds discussions in advance of the discussion by the Board of Directors on everything concerning the exposure policy for market risk and liquidity (including nostro policy). Moreover, the committee discusses the organizational preparedness for management and these risk controls. The committee even discusses every proposal for new financial activity or irregular activity by the Bank and every deliberate investment in new financial instruments, and submits, if necessary, its recommendations to the Board of Directors.

Senior management – convenes very frequently on current issues. On behalf of the senior management, a number of sub-committees have been established, whose members are the relevant senior management members for issues to be discussed, handling among others, the Banks risks management.

Committee For Management of Assets and Liabilities – headed by the CEO, it convenes twice weekly, and reviews reports on all issues connected to the Bank's management of assets and liabilities. The committee monitors compliance with the Bank's objectives, as defined by the work plan and after complying with the exposure limitations for market risks, as has been approved by the Board of Directors. The committee makes operative decisions on various issues and determines prices and quantitative objectives for each of the business activities.

At each meeting, the committee reviews the current parameters of the activity including quantities and prices for each segment. These parameters are central indicators for the exposure and liquidity situation. This review includes data concerning credit implementation and implementation of prices, recruitment in current month and prices of recruitments, balances of liquid assets and their components, activity in the nostro portfolio, index positions and foreign currency, Profit and Loss from index positions and foreign currency, financial forecasts, and more.

It is the responsibility of the committee to continuously monitor all the reports connected to risk management and the Bank's liquidity and management of the Bank's nostro portfolio.

Risk Management Forum – Convenes monthly in order to review the reports received from the risk manager in relation to the Bank's exposure situation to market risks. Moreover, the forum discusses on the monthly exposure estimates, the exposure document (quarterly), issues arising during the risk manager's work, the risk management department or auditor, and addition as issues as required. At each meeting the forum reviews the exposure situation in various risk and liquidity situations, among others, through monitoring all the parameters appearing in the exposure document including the model and extreme scenario results. Moreover, the forum monitors events affecting the Bank's various exposures and liquidity.

Financial Division Manager – Serves as market risk and liquidity manager and responsible for implementation of the Bank's policy and to consolidate work setting including this risk management and its approval by the Bank institutions. In principle, the division deals with the current management of market risk exposure and guidance of the various units dealing with the management of the Bank's financial instruments, and creating exposure by the various activity segments. The Financial Manager even makes recommendations to management, the Board of Directors and the Board of Directors' committees concerning the feasibility of creating risks through financial instruments allowed for creating and hedging risks, and all the remaining issues connected to exposure creation and management.

Moreover, it has the responsibility for managing the nostro portfolio while examining the implication of the nostro activity on all the exposures.

The Risks Division headed by the Chief Risks Manager – deals with consolidating models for market risk assessment, exposure and liquidity; development of techniques for risk management; and support current management of market risk exposure. The division also makes recommendations to the Internal Committee on issues connected to the feasibility of exposure management, while considering the expected income components from these exposures and costs of exposure hedging, and the feasibility and profitability examination of new and/or existing financial products.

It is the responsibility of the division to implement and currently monitor compliance with the limitations as determined for the various exposures.

The Mode and Scope of Reporting Systems

The Bank manages its risks, among others, with the assistance from the ALM system that has been developed by Oved Gubi and Partners. The system controls Bank's cash flows, derivative of its various financial activities. This system enables asset and liability management – ALM – (Asset Liability Management) and among others, enables quantification of market risk according to the value methodologies provided for the risk – VaR. In addition, the system enables monitoring additional risk measurements such as: interest exposures and Stress Testing. During the first half of 2012 the ALM system will pass a validation process according to instructions by the Bank of Israel on the issue of model validation.

The VaR measures the maximum loss expected to occur at the Bank resulting from realization of market risks in a given period of time and at a predetermined statistical level, according to previous market conditions. The calculation at the Bank is performed monthly, during a period of 10 days and at a significant 99% level. Through this system, the Bank measures the comprehensive risk through the VaR of the total banking portfolio and the portfolio's exposure to market risk. In addition to management and control through the VaR model, the Banks also uses other models for quantifying risks.

The bank set limitations for a given risk value (economic VaR): total VaR – NIS 20 million. As of December 31, 2011, the VaR amounted to NIS 9.7 million, compared to NIS 13.8 million as of December 31, 2010. The maximum economic VaR (month end) amounted to NIS 13.8 million during the reporting year, compared to a maximum value of NIS 17.1 million in 2010.

Hedging Policy and/or Risk Decrease

The Bank's financial risk management policy is based on exposure management for market risk and liquidity by determining quantitative limitations. The means used for the purpose of complying with the limitations include, among others: purchase and sales of marketable securities (mainly government of Israel debentures), recruitment of non-negotiable deposits (from private and institutional departments), recruitment of negotiable deposits, and activity in derivative financial instruments.

Interest Risk

Interest risk results from the differences between the relative sensitivity of assets and liabilities to unexpected changes in interest rates and between this sensitivity of liability changes – changes that may result in corrosion of the Bank's capital. The Bank's role as a financial intermediary creates this risk exposure, and the Bank works to reduce it. The Bank's principal exposure is in the index-linked sector, since this is the sector in which most of the assets and liabilities bear fixed long-term interest rates. Moreover, the exposure in the non-linked NIS segment in concerning the activity scope should be noted, in the credit area as well as in nostro and resource recruitment. This, although the main activity in this segment, except for the activities in the nostro portfolio, is made for the average duration (interest) of up to a year. The Bank monitors the development during the loan's average duration along with the deposits, for the purpose of taking measurements for minimizing the affect of possible changes in the interest rate upon the value of its net financial flows. To this end, it continuously measures the average duration deriving from the current new activity, and also monitors the extent of early loan repayments that have a significant affect on the effective average duration.

The Bank's policy on management of exposure to interest risk is periodically examined in consideration of expectations concerning the decrease in various interest rates, examining the costs required to reduce exposure to this risk, and taking into consideration the estimated early repayment rates on loans and factors affecting it. Estimates of early repayment rates is implemented by relying on past experience and on the Bank's assumptions concerning a number of factors affecting the early repayment rate, and of them mainly the interest rates. The assumption of early repayments by borrowers serves as in the index-linked segment for calculating the gap between the average duration and the interest risk exposure.

According to the Bank's estimation, considering the extent of early repayments during recent years and the risk exposure in all linked segments, the risk exposure as result of unexpected change of 1% interest in the index linked sector was smaller, relatively to the value of the net flows of the Bank's capitalization. This assessment by the Bank is "future facing information" and may be realized differently as expected in view of the fact that it is based on scope of advanced repayments in recent years and the exposure in all linked segments and probably that the actual scope of future repayments may be different,

Moreover, the Bank's exposure to risk resulting from reducing the margins in the mortgages area and that due to the acute competition in this area. One of the objectives of the strategic plan at the Bank is to reduce this risk and to reduce the Bank's dependency in this area.

Below is a summary of various exposures because of unexpected changes in interest (in millions of Shekels):

	The potential erosion in economic value				The potential erosion in annual revenue	
	December 31, 2011		December 31, 2010		December 31	
					2011	2010
Immediate effect of changes parallel to the yield curve	increase 1%	decrease 1%	increase 1%	decrease 1%	increase 1%	increase 1%
Segment						
Un–linked	(13.1)	14.3	(9.3)	9.9	1.5	5.4
linked	(5.2)	6.5	19.0	(19.6)	(3.5)	(5.5)
Foreign Currency	(5.6)	(6.0)	1.1	(2.1)	6.7	2.1
Total	(12.7)	14.8	10.8	(11.8)	4.7	2.0
Limitation	20.0	20.0	15.0	15.0	12.0	12.0
Maximum during the period	9.8	14.8	24.5	(3.7)	7.9	(2.8)
Minimum during the period	(12.7)	(9.8)	3.4	(26.7)	(12.1)	(11.6)

Below is information concerning the affect of hypothetical changes in the interest rate upon the fair value of the Bank and its consolidated companies' financial instruments as of the December 31, 2011 (in millions of Shekels):

a. Fair value of the Bank and its consolidated companies' financial instruments, except for non-financial items (before hypothetical changes in the interest rate):

	Israeli currency			
	Un–linked	Index linked	Foreign currency (3)	Total
Financial assets (1)	6,424.6	3,565.0	1,541.7	**11,531.3**
Receivable amounts for derivative financial instruments (3)	139.2	105.5	20.7	**265.4**
Financial liabilities	5,951.4	3,584.9	1,372.3	**10,908.6**
Payable amounts for derivative financial instruments (3)	127.8	–	145.4	**273.2**
Fair value net	484.6	85.6	44.7	**614.9**

b.The affect of hypothetical changes in interest rates on the Bank and its consolidated companies' fair value of the financial instruments, except for non-financial items:

	Net fair value of financial instruments after the affect of changes in interest rates				Change in fair value	
	Israeli currency		Foreign currency linked to foreign currency index		Millions of NIS	In percent
Change in interest rates	**Un-linked**	**Index linked**		**Total**	**Total**	**Total**
Immediate concurrent increase of one percent	471.5	80.4	50.3	602.2	**(12.7)**	**(2.11%)**
Immediate concurrent increase of 0.1 percent	483.2	85.0	45.3	613.5	**(1.4)**	**(0.22%)**
Immediate concurrent decrease of 1%	498.9	92.1	38.7	629.7	**14.8**	**2.35%**

(1) Not including balance-sheet statements of derivative financial instruments and fair value of off-balance-sheet financial instruments.

(2) Including Israeli currency linked to foreign currency.

(3) Amounts receivable (payable) for derivative financial instruments and for off-balance-sheet financial instruments, capitalized at interest rates utilized to calculate fair value.

Basic Risk

The exposure to basic risk results from changes in the interest rates, in the exchange rate, and the inflation rate.The policy of the Bank is to manage the risks resulting from basic exposure in a controlled manner, as part of the limitations determined by the Board of Directors.

The Bank currently manages the positions in the various linkage segments through a variety of financial instruments available to it, in accordance with consideration of changes in relevant economic data and current supervision of risks resulting from such exposure.The limitations were determined while maintaining the Bank's flexibility and its ability to change the various positions in short time according to the economic forecasts. In order to limit this risk exposure, the Bank's Board of Directors determined the maximum rates for each linked segment.

Below are limitations on exposure rates in each linkage segment as determined by the Board of Directors (not necessarily an accounting exposure). The limitations are on the excess amounts (deficit) of assets over liabilities in each segment:

	In percentages of the financial capital (1)		**In millions of NIS as of 12/31/2011**	
	Maximum amount	Minimum amount	Maximum amount	Minimum amount
Index linked	50%	(50%)	291	(291)
In foreign currency linked to foreign currency index	$10 m.	($10) m.	38	(38)
Un–linked	150%	50%	874	291

(1) The financial capital is equity less non-financial assets in consolidation.

The Bank measures its positions daily by various linkage bases through its data system. This data reports to responsible units on position management and adjustment to the applicable limitations. The date on the issue of position height is reported in a current manner at the meetings of the Assets and Liabilities Management Committee, as well as at meetings of the other forums operating in risk management.

Below are the economic exposures (that are not necessarily an accounting exposure) active in each linkage segment (in millions of Shekels):

		Exposure during the reviewed period (2)		
	Exposure as of 12/31/2011	Maximum	Minimum	Average
	Millions of NIS			
Index linked	51	57	(143)	(5)
In foreign currency linked to foreign currency index	0.9	16.3	(14.9)	0.9

(2) Exposure for the index linked segment is determined on the 15th of each month.

Below are data about the Bank's capital sensitivity for changes in the Consumer Price Index (the theoretical change in economic value as result of the scenario, in millions of Shekels):

Scenario	**For December 31, 2011**	**Maximum for 2011**	**Minimum for 2011**
Increase of 5% of the index	(8.6)	(11.9)	1.2

Below are data about the Bank's capital sensitivity of the for changes in the Consumer Price Index (the theoretical change in economic value as result of the scenario, while the scenario is strengthening, it means there is a strengthening of the relevant currency against the Shekel, in millions of Shekels):

	For December 31, 2011		Maximum for 2011		Minimum for 2011	
	US Dollar	Other	US Dollar	Other	US Dollar	Other
Scenario						
Strengthening of 10%	0.5	(0.2)	1.8	0.5	(1.0)	(1.5)
Increase of 5%	0.3	(0.1)	0.9	0.3	(0.5)	(0.8)
Weakening of 10%	(0.5)	0.1	0.5	0.8	(0.9)	(0.3)
Weakening of 5%	(0.3)	0.2	1.0	1.5	(1.8)	(0.5)

Part of the Bank's overall strategy for managing the exposure level to market risks, as mentioned above, the Bank implements, among others, transactions in derivative financial instruments for reducing its exposure to these risks. The Bank's activity in derivative financial instruments is as an intermediary, trader or end-user. The Bank has derivative financial instruments such as future transactions for exchange between currencies (Swap), future contracts for protection of currency rates (Forward).

The transactions in derivative financial instruments is recorded according to fair value and changes in the fair value are recorded in a continuous manner in the Profit and Loss Report. Moreover, the Bank enters into contracts that do not actually constitute derivative instruments but that include integrated derivatives.

The policy of the Bank is to prevent, as much as possible, exposure to exchange rate risks between the various foreign currencies. Inter-currency exposure is managed within a restricted framework, and within such limits as have been approved by the Bank's Board of Directors.

Liquidity Risks

Liquidity risk is a profitability risk of the Bank and for the stability deriving from its uncertainty concerning capability of supplying liquidity needs because of uncertainty concerning availability of sources and ability to recruit (without having an unusual affect upon prices) and concerning the ability to realize assets in fixed time and at a reasonable price. The exposure results from providing long-term loans (even if provided with fluctuating interest) financed by short term deposits. Liquidity risk also exists when recruiting short-term deposits suitable for the period of interest changes in loans, if by this the exposure of interest risk is reduced. This risk also exists in relation to the Bank's activity in foreign currency.

The Bank is exposed to liquidity risks and to uncertainty due to a slowdown in its ability to mobilize negotiable debt or from institutional sources because of market changes, legislative changes and/or changes in depositors' preferences. In order to comply with this risk, the Bank implements a policy of enlarging its depositor base and a decreasing reliance on large depositors. Additionally, emphasis is placed on maintaining a high level of liquidity.

The Bank's policy is to adjust, as much as possible, the repayment periods of these resources to those of utilizable in each linked segment. The characteristic of credit and rates of early repayment in the various linked segments and learning the recycling of short-term deposits have a significant affect on estimated exposure to this risk.

The Bank's risk management is managed similar to market risk as described above in the chapter on Market Risks.

In accordance with Bank of Israel's instructions, every banking corporation is required to establish a comprehensive policy to manage liquidity, and to maintain a data system for supervision, control, and reporting of the liquidity position and its measurement. The instruction requires the Bank to establish a minimum ratio of 1 in respect of liquid assets and liabilities for a repayment period of up to one month (hereinafter: "the Liquid Assets Ratio"). Exposure to liquidity risk and the liquid assets ratio may be measured utilizing an internal model.

On February 1, 2011 the Supervisor of Banks published Proper Banking Management Instruction 342 on the issue of Liquidity Risk As part of preparing to implement the Basel III instructions, the supervisor found it appropriate, for the interim period until the full update of the instruction according to the Basel documents, to clarify and to emphasize a number of aspects in risk and liquidity estimations. The implementation date for the instruction has not yet been determined. The Bank examines and prepares to implement the instructions when they will be published.

The Bank examines its liquidity status at least once a month through an internal liquidity model (the Bank determined the situations in which it is required to run the model at more frequently). For the purpose of the model, the Bank collected and continues to collect data concerning early repayment rates, timing and rate of renewal of deposits and savings. In addition, the Bank examines its liquidity status through two extreme scenarios expressing: one scenario is system pressure (e.g., failure at all the banking systems) that may affect the Bank. The second scenario is internal pressure occurring only at the Bank. The various scenarios differ from each other mainly in the recycle rate of the deposits and the ability to realize liquid assets.

The Bank's Board of Directors has determined the liquidity management principles, the level of responsibility and authority, and the warning system, and handling of exceptions to predetermined limits. Determination of the aforementioned limitations and restrictions, takes into account expected events at the Bank and in the business environment, and possibilities available to the Bank concerning mobilization of alternative sources insofar as required, as well as the costs of these resources

The Bank's Board of Directors determined the limitations (according to the internal model) in relation to the liquid assets for liabilities (for the repayment period of up to one month) that will not be less than 1.8. Moreover, the Board of Directors has determined additional limitation and among them the limitation relating to liquid assets for liabilities (for repayment periods of up to one month) in an extreme scenario, of not less than 1.0.

The aforementioned ratio as of December 31, 2011 was about 2.3 compared to the ratio of 2.5 for December 31, 2010. Average ratio during the period was 2.5, and the lowest was 1.9.

According to the Bank's estimation, in consideration of the recycling rate of deposits in past years, the aforementioned exposure risk is higher, among others, because the Bank diversifies its financing sources, meticulously expands the depositor base, and reduces the reliance on large depositors, and maintains sufficient liquidity cushion expressed by a higher than required liquid assets ratio.

Below are the capital requirements due to market risks according to the first segment (in millions of Shekels):

Type of risk	Capital requirement (1)
Interest rate risk	0.8
Risk of securities prices	2.6
Exchange rate risk	12.0
Options	–
Total	**15.4**

(1) Capital requirement for Tier 1 is 8%, and for Tier 2 a minimum of 1%, and for the total required minimum capital ratio of 9% according to the Supervisor of Banks.

Operating Risks

Operating risk is the risk of loss resulting from failure or incompatibility of internal processes, including defective data processing methods, the human factor including human error, the Bank's systems; e.g., lack of appropriate examination and control procedures, or external events. Defining the operating risk includes legal risks, but does not include strategic or goodwill risks.

In January 2011, the Bank approved an updated policy for operating risk management. The policy includes narrowing of risk appetite of the operating risk, and thresholds for monitoring and reporting. This document regulates the activity of all the participating factors in management and control of this risk according to the format that was set by the Bank's risk management based upon three control circles.

Board of Directors – Carries the ultimate responsibility for managing and supervising operating risks, outlining and approving operating risks.

Board of Directors Committee for Risk Management – Holds advanced discussions for the deliberations by the Board of Directors on everything concerning operating risks. The committee discusses each new procedure whose entrance exposes the Bank to new operating risks according to the recommendations by the forum, headed by the CEO, for locating operating risks and receives quarterly reports concerning the Bank's exposure to them.

The Bank's management by means of the Risk Division consistently and regularly examines the operating risks affect upon the Bank.

Forum for Locating Operating Risks – the committee, headed by the Bank's CEO, discusses the Bank's operating risk management policies and its update before submitting it to the management and the Board of Directors. The committee deals with examining and approving the new activities or material changes in products and existing procedures that have relevant significance for the Bank's risk map, and approving relevant work procedures.

Chief Compliance Officer and Manager of Operating Risk and Compliance – as part of this function he also serves as Operating Risk Manager (including embezzlement and fraud risks). He is responsible for implementing the Bank's policies and consolidating the work framework including this risk management and approval in the Bank's institutions, this framework includes: planning, implementing and update of operating risk management methodologies, implementing operating risk reviews including embezzlement and fraud reviews, defining report procedures for the various management factors, professionally guiding various factors and appointing segment operating risk managers.

Resource Division Manager – Responsible for implementing the Bank's operating risk policy. As part of his function he is responsible for managing information systems, human resources, logistics, Back-End System, and Organization and Methods.

Back-End System – The Back-End System is responsible for implementing banking activity for complementing branch activity such as examination of mortgage portfolios before their approval, or as control after approval, handling mortgages for their lifetime period including clearance, handling rear activities in credit cards and also all complementary activity in checking accounts, foreclosures, and other banking activity.

The Bank is in the middle of a process to divert the activities currently performed at branches to the Back-End System. The principle advantages deriving from the activity's diversion are the reducing risks, streamlining work processes deriving from expertise and uniformity in work procedures, capability of controlling procedures and maintaining fixed standards in operating activities handled by the system.

Organization and Methods Department – Responsible to defining of manual and automatic work procedures according to requirements received from the business factors in Retail and Financial Divisions. The business requirements are examined in a independent manner by the department, and implemented subject to the regulatory guidelines and risk analysis. Separation of functions between the initiating business factor and between the one determining the procedures and approving them with compliance and responsible factors for operating risks reduce the risks and improve their procedures.

Information Security – The information security at the Bank is managed by the the Resource Division manager by means of an external company and is responsible for updating the policy and control of this issue. Once a year, the Information Security manager examines the need for updating the information security policy and its ratification is effected by the management and the Board of Directors.

Segmental Operational Risk Manager – The segment activity manager is responsible for operating risk management in this area and he is professionally subject to the Operating Risk manager. His functions are: recognizing and assessing risk and control of business and new operational procedures, preparing an annual work plan for operational risk management in the area of his responsibility and plan for operational risk development and meeting the exposure objective, examining and updating the risk map and exposure assessments for operating risk, reporting on operational failure events and implementing structured procedure of lessons learned because of operational failures in cooperation with Operational Risk manager.

As mentioned, the Bank of Israel published a temporary order on arranging the calculation of capital adequacy. According to the instructions, the Bank is required to allocate capital for operating risks as of the the instructions' effective date. The Bank allocates capital according to this instruction and conform to the Basic Indicator Approach. This approach calculates required allocated capital for operational risk, based on the average gross income multiplied by the last three years by a factor of 15%.

In February 2012, the Bank of Israel published an instruction on the topic of operating risk management. This instruction is based mainly on the guidelines of the Basel committee on the subject of proper management of operating risk. The Bank is examining the instructions and the implications stemming from implementing the required instruction, and will later operate to implement and integrate the operating risk procedures at the Bank.

The Bank is exposed, as any other financial/banking system is, to operating risks or to fraud and embezzlement risks. The bank operates on several levels in order to reduce the exposure to losses from operating risks:

- Reducing operating exposure through taking continuous control measures, and a requirement for performing double controls on each process in which a real operating risk exists.

- Implementing centralized controls in various areas of activity according to the risk embedded in the procedure, emphasizing procedures without double controls.

- Implementing an operating risk survey and reviewing embezzlement and fraud.

- Regular improvements of processes according to a risk evaluation.

- Approval of all new procedures and products by a designated committee, headed by the CEO, for monitoring operating risks and embezzlement and fraud risks.

- Collection of data on operating failures for drawing conclusions. The Bank Management and the Board of Directors receive current reports on operating deficiencies and failures and events that include a potential loss, even in the event that actual loss was not incurred.

The Bank performs, in cooperation with an external consultant, a comprehensive operating risk survey under which operating risks are mapped and evaluated, risks levels and effectiveness of controls with reference to the substantial business and operating procedures. The Bank prepared a plan for reducing residual risks (the risks remaining after all controls) at high or medium level risks originating in higher risk. The plan includes, among others, treatment to reduce risks related to embezzlement and fraud risk. In order to keep the operational risk map updated, specific risk review is performed during implementation of new products or material business procedures. Each quarter the management and the Board of Directors is presented with a full report of failure events that occurred during the period, as well as existing risk centers and progress status of the abatement plan's implementation.

In order to reduce the operational risks to which the Bank is exposed, each year the Bank purchases professional liability insurance, as well as property insurance. These insurances provide a response to the following principle issues: external and internal fraud risks (embezzlement), cases of theft of money and precious property, financial damage as result of fake documents such as: checks, exchange bills, deposit confirmation, Guarantee certificates, Letters of Credit, mortgage certificates, and more; damage as result of computer crimes including penetration by a hostile factor into the Bank's computer systems, and damage to physical assets. Financial damages caused to customers or a third party following hardware or software failure. The general liability limit of the banking policy is up to US$ 22.0 million.

Together with external consultants, the Bank also conducted a review of infrastructures, including two segments: the first – a survey to examine the suitability of the Bank's procedures and forms to the consumer's instructions; the second – the manner the consumer instructions were of implemented at the Bank. As part of this, an examination of the manner the Bank manages the risk resulting from the instruction, and existing controls and existing risk (if any) due to above management and controls. The findings of this survey will form the basis for the compliance plan, whose purpose is to strengthen compliance with all the obligations applying to the Bank, with an emphasis on consumer instructions.

The Bank completed the absorption and integration of a designated system for operating and compliance risk management under which all risk reviews in this area are managed. Moreover, in this system failure events reports are managed in this system including the details of the event and lessons learned as will be required.

Information Technology Risk and Information Security

Information Technology is a central component in the Bank's proper operation and management. This risk is a business and operating risk deriving from ongoing activity in the Bank's information systems; the complexity of work procedures implemented by the various computer units or from ongoing activity in the infrastructure system and/or component from the hardware or software used for the purpose of inputting, storing, editing, operating, transferring, and data output. Information technology risks include also information security risks and banking risks in communications, that may affect the Bank's business and/or operational procedures.

The manager of the Resource Division is responsible for the Bank's Information Technology risks. According to Proper Banking Management Instruction Amendment № 357, the Bank appointed an information security manager, subject to the Resource Division manager. The information security manager is responsible for determining the Bank's information security policy, to develop an information security plan, monitor its implementation, s well as handling irregular events in the information security area.

Is there a policy for managing this risk? Details should be provided concerning the nature of the risks themselves – for example, what are the risks in transverse procedures, risks to production systems and infrastructure components of Information Technology and so forth.

The Bank is in the process of project implementation for improving its computer infrastructure as part of the project called "New World." As part of this, there are project risks that may prevent compliance with project objectives from the aspect of contents, budget and timetables. These risks are managed through forums arranged for project risk management and assistance by external consultants guiding the Information Technology department manager and the Chief Risk Manager (CRO). Moreover, the amortization plan is examined for project risk management. Continuous monitoring is performed after the implementation of the risks reduction plan included in the plan.

Legal Risks

Definition of Legal Risk is – The risk resulting from potential loss and result of a breach of laws, regulations, or regulatory instructions, or as a result of the Bank's rights or debts that were not founded as required; the risk is also effective when there are contracts with no enforcement capability, legal procedures, or mistaken judgment, that may make it harder for realization or harm the Bank's rights.

The legal risk may result from poor legal or faulty infrastructure on which the Bank relied in providing service to the customers, received sufficient service and/or received collateral from customer or from third party such as: connection that is not properly backed up by a contract, collateral that cannot be used as result of a defect in its creation or recording, or because the collateral was stolen or lost its value, etc.

In addition, legal risk at the Bank may be created as result of external factors that are not dependent on the Bank, such as: change in legal instructions, regulations or instructions of the various supervising (instructions of the Supervisor of Banks, instructions from the Securities Authorities, Money Laundering Prohibition Authority, etc.) or new verdict by the courts according to which the Bank is required to operate on a certain issue in a different manner then it used to operate before that verdict.

The legal risks are part of the overall operating risks the Bank is exposed to. The lawyer, Sarit Weistuch, Vice CEO and legal adviser is responsible for the Bank's legal risk management, assisted by employees from the the Bank's legal department. The regulatory legal risk is managed at the Bank in an organized and structural manner, anchored in written procedures and policies for the purpose of minimizing as much as possible the realization of these risks and to minimize the damage caused to the Bank in case this risk was indeed actually realized.

According to the Bank's policy and procedures, any legal issue emerging as part of business management is transferred to the Bank's Legal Department (each in its area of responsibility). Each claim, legal procedure or lawsuit threat due to the Bank's employees are transferred for handling by the legal department. Every contact by a customer to a Bank employee with a legal question is transferred to the legal department or legal assistance for a response.

Goodwill Risk

Goodwill Risk is a risk for loss deriving from damage to the Bank's good name or damage to the external assessment of its banking capabilities or to its financial strength. Such a risk may be caused as result of factors within the Bank such as: operational failure of the Bank's systems, failure in preventing events connected to the capital core, fraud and embezzlement by employees and so forth; or as result of external factors of the Bank such as: economic crisis in Israel or worldwide, failures at other banks, class action, etc.

The Goodwill Risk is characterized by two principle risk factors – first grade risk and second grade risk. The first grade level is pure Goodwill Risk in which the risk is realized that is not managed elsewhere in the Bank, materializing and damaging the Bank's profits. For instance, credit risk, that is a first grade risk, may cause loss from actual realization of the event according to which, a certain borrower does not repay his debts to the Bank. Second grade risk is risk deriving from realization of other risks. For instance, realization of operational risk from theft on a large scale may lead to decline in reputation (and this without connection to the loss from the actual theft) expressed by a decrease in the Bank's profits.

Among the risk factors are also included a number of additional risks such as operational risk, compliance risk and strategic risk.

Management of Goodwill Risk is divided into two: risk prevention, and managing risk after realization of the event or indications for the event's realization.

On the level of risk prevention, the Goodwill Risk takes up a central place in the Bank's management. The risk appetite, procedures, limitations, and activity areas clearly aim to reduce the exposure to Goodwill Risk. On the level of risk management after realization of the event, the Board of Directors has the ultimate responsibility for managing and supervising Goodwill Risk and creating a proper risk environment. The senior management is generally responsible for reducing and managing Goodwill Risk. The manager of the Retail Division has been defined as this risk manager. In addition, various units of the Bank are involved in risk management. The spokesman unit serves as responsible default for handling all crystallizing or potential events, concentrating and reporting to the Retail Division manager.

The additional units involved in risk management are: unit for public complaints, legal department, compliance officer responsible for implementing the Money Laundering Prohibition Act, factors involved in risk management, Human Resources.

The Bank's policy for risk management defines three types of events that may be risk events: (1) expected events which can be prepared for in advance (2) "rolling" events gradually developing and may become a Goodwill Risk event, and (3) unexpected events suddenly occurring. The handling of each risk event is managed and centralized by the Bank's spokesman in cooperation with the Retail Division manager while in relation to each of the types of the aforementioned events, operating methods and identity of additional relevant factors working with them were defined.

Compliance Risk

Compliance Risk is the risk of legal or regulatory sanction imposed on a corporation, significant financial loss or damage to its reputation as a result of failure to comply with consumers instructions.

Consumer instructions are laws, regulations and instructions governing the banking activities on every issue covering the relation between the Bank and its customer as part of the obligations applicable to the Bank towards the public and its customers, including the Money Laundering Prohibition Act, 5760 – 2000, prohibition on money laundering (requirements concerning identification, reporting and recording of banking corporations to prevent money laundering and financing terrorism), 5761 – 2001, instructions of the Banking Supervision Order and Securities Authorities guidelines.

Compliance risks are managed at the Bank at all organizational levels including branches and product managing departments. Therefore, the Bank bases all its work procedures on the principle of dual control of edits and checks. Moreover, there is a structured process according to which, each change in consumer instructions affecting the Bank will be integrated into the Bank's procedures, work procedures and forms, and training. The Legal Department, Organization and Methods Department, and Operational and Compliance Risk Department support this procedure.

concentrating handling of risk management for compliance with customer instructions are implemented by the Chief Compliance Officer and through the responsible person in the compliance area operating as part of the Operating and Compliance Risks Department in the Risk Division. The complexity and development of banking activity, requires the Bank to be more strict on the existence of the overall obligations applicable to banking corporations, in its relations with its customers, by virtue of legislation, regulations, orders, permits and the instructions by the Bank of Israel.

Appropriate Banking Management Instruction No. 308 – Compliance officer, requires the Bank to enforce the consumer instructions, that is: laws, regulations, and instructions regulating the banking activity concerning relations between the Bank and its customers, including prohibition on money laundering and prohibition on terrorist financing. According to the instructions, a infrastructure survey will be implemented as part of which maps the consumer instructions, risks occurring at irregular events along with specific instructions preventing controls.

During 2010, the first part of the infrastructure compliance at the Bank was been implemented. Based on the survey a multi-year compliance plan has been determined. The results of the review have been entered into the dedicated system enabling dynamic managing and monitoring of compliance risks. The second part of the survey will be implemented during 2011.

Money Laundering and Terrorism Financing Risks

Money Laundering and Terrorism Financing Risk is the risk of a loss that may be caused to the Bank as a result of exploitation for the purpose of money laundering and financing of terrorism by its customers, or as result of sanctions applied due to failure of the Bank to comply with the regulatory instructions applicable on this issue. Exposure to this risk has additional consequences resulting from Goodwill Risks, operating risks, and legal risks resulting from it. As part of its activity, the Bank is exposed to money laundering and terrorism financing risks. This exposure focuses at the account opening stage, as well as in the process of account managing. The Bank may be exposed to parties that are interested in "exploiting" it for the purpose of money laundering which have at their source violations as defined as "predicated offenses" in the Money Laundering Prohibition Act and to finance terrorism through it.

Appropriate Banking Management Instruction 411, that deals with Prevention of Money Laundering and Funding of Terror and Identification of Customers, determines, among others, the role of the responsible person in fulfillment of the obligations under the Prohibition on Money Laundering and Financing of Terrorism (hereinafter the "responsible person"). The responsible person at the Bank who is also the the Bank's Chief Compliance Officer, operates as part of the Bank's Risk Division and is subordinate to and reports directly to the division manager, who is a member of the Bank's management.

The Board of Directors and the Bank's management determine the procedures and policies on the issue of Prohibition of Money Laundering. Other instructions are according to and subject to the provisions of the law.

During 2010, the Bank integrated computerized systems for locating irregular activity in customer accounts. It constantly performs training and implementation of the relevant instructions on the issue to groups of employees, according to the professional, occupational, and management area while adjusting the issues and scope. Moreover, all new employees of the Bank receive training on the issue of prohibition of money laundering, before receiving permission to enter the Bank's computer systems.

Each branch and each headquarter unit appoints a trustee for money laundering, which is a professional factor linked to the location where the transactions are implemented and provide an immediate response to questions arising at branches. The trustee receives increased training and seminars for the purpose of raising its level in the area and is a linking factor between the responsible person on the issue of prohibition of money laundering and the branch.

The responsible person is updated continuously on renewals of the legislation, the orders and standards linked to the prohibition of money laundering, among others, by participating in meetings and seminars on the issue. It is his responsibility to take care of the implementation of all the implications resulting from the updating of the Bank's activity.

Affect of Risk Factors on the Transactions of the Banking Corporation
Table of risk causing factors as of December 31, 2011.

The Bank is required, as all the banking corporations, to included a table with risk factors in each of the detailed categories below, and to estimate the affect of the risk factor on its business. As part of these evaluations, the potential exposure or the damage as result of the occurrence of a certain event, as well as the probability that such an event may occur, should be estimated. Moreover, the adequacy of the control of the risk environment, as other activities implemented by the Bank, for purposes of risk management, as it affects the level of risk exposure. Therefore, the risk assessment in the table below are the Bank's subjective evaluation of the affect of the residual risk on its business.

	Risk factor	affect The risk
1	**Total Affect of Credit Risks** The risk derives from the borrower's non–compliance for his liabilities to the Bank according to the agreement. Deterioration of various borrowers' stability and/or ability to repay the credit may negatively affect the value of the Bank's assets and profitability. Risk exposure is managed, among others, through the Bank's credit policy and exposure limitations concerning various types of borrowers in various segments of activity.	Medium
1.1	**Risk due to quality of borrowers and collaterals** Risk stemming from deterioration of the quality of the borrowers and/or the value of the collateral provided as security to the Bank, which may negatively affect the chances of collecting the credit and therefore upon the value of the Bank's assets and its profitability. Risk exposure is managed, among others, through clear definition of credit policies, appropriate underwriting and limitation of activity to specific types of borrowers in the specific segments of activity and various products.	Lower
1.2	**Risk due to branch centralization** The risk results from a large volume of credit provided to borrowers in a certain economic branch relative to the credit portfolio. Deterioration in operating results in the same branch may harm repayment ability and/or the value of the collateral provided by some of the borrowers in the branch and, as a result, may negatively affect the value of the Bank's assets and its profitability. Risk exposure is managed, among others, through restrictions of the Bank of Israel in this regard, and limitations determined by the Board of Directors concerning maximum exposure in various economic branches. The Bank does not go beyond the aforementioned restrictions.	Medium

	Risk factor	affect The risk
1.3	Risk due to centralization of borrowers/group of borrowers The risk results from deterioration in the situation of a large borrower or a large group of borrowers (relative to the credit portfolio), which may negatively affect the chances for collecting the credit, as well as the value of the Bank's assets and its profitability. Risk exposure is managed, among other, through restrictions by the Bank of Israel in this regard, and limitations determined by the Board of Directors concerning maximum exposure for a borrower and for a group of borrowers. Current controls also exist concerning compliance with these restrictions. The Bank does not go beyond the aforementioned restrictions.	Lower
2	Total Affect of Market Risks The risk results from changes in prices or changes in financial market rates or other economical parameters, which affect the value of the Bank's assets or liabilities, and which may result in erosion of its capital or damage to its profitability. Risk exposure is managed separately for each risk as detailed below and also centralized through the VaR model.	Lower
2.1	Interest rate risk The risk derived from the difference between assets value for unexpected changes in interest rates and between this sensitivity of the liabilities – changes may bring erosion in the Bank's capital. As a result from the exposure to interest the various linkage bases may cause future decrease (during assets' or liabilities' life) of financing income. Risk exposure is managed, among others, according to estimates of market variables and subject to restrictions on sensitivity from net capitalizing financing income of the Bank in a scenario to change in shekel interest curves and index linked interest. The exposure restrictions are being controlled continuously.	Lower
2.2	Inflation risk The risk results from changes in the rate of inflation that may result in a loss in the value of the economic difference between assets and liabilities (active financial capital) in the index linked sector. Risk exposure is managed, among others, subject to limitations concerning the amount of active financial capital, while considering changes in relevant economic data according to market conditions. The exposure restrictions are being controlled continuously.	Lower

	Risk factor	affect The risk
2.3	**Exchange rate risk** The risk results from changes in the rate of inflation that may result in a loss in the value of the economic difference between assets and liabilities (active financial capital) in the foreign currency and linked to foreign currency segments. Risk exposure is managed, among others, subject to limitations concerning the amount of active financial capital, while considering changes in relevant economic data according to market conditions. The policy of the Bank is to prevent, as much as possible, exposure to exchange rate risks between the various foreign currencies. The exposure restrictions are being controlled continuously.	Lower
2.4	**Price risk for securities and debentures** The risk results from a decrease in the value of securities and debentures held by the bank. The Bank's securities portfolio includes mostly Government debentures and a small part in corporate debentures. The Bank's policy does not enable significant activity in securities (not for purposes of investment and not for purposes of trading). The percentage of the Bank's holding (including indirect holding) in securities and indexes of securities is negligible. Risk exposure is managed through limitations and restrictions on the amount of investments, characteristics, marketability, average duration of the portfolio, and the amount of expected loss from these investments. The limitations and restrictions are managed through the VaR model and through extreme scenarios	Lower
3	**Liquidity risk** Liquidity risk results from uncertainty concerning availability of sources and ability to recruit (without influencing unusual affect on prices), and concerning the ability to realize assets in limited time and at a reasonable price. Extreme "supply and demand" circumstances in financial markets, may create unexpected costs of source mobilization that may affect the financing income. The management for risk exposure is implemented, among others, through expanding the depositor base and decreasing reliance on large depositors, extension of the sources' average duration, and maintaining a high level of liquidity. The Bank has a system of controls based on an internal model that examines a number of scenarios. Moreover, over time, the Bank examines behavior of its customers that may affect exposure to this risk.	Lower

	Risk factor	affect The risk
4	**Operating Risk** The risk stems from failure or non–compliance of the internal procedures and including defective methods for data editing; the human factor such as human error, Bank systems such as: lack of procedures for prevention, proper control, or external events. Risk exposure is managed, among others, through operating risk survey, writing of procedures, controls and integration of systems for issues affecting risk exposure; e.g., human resources, data security, processes, etc. The Bank monitors events resulting in operating deficiencies or failure (including events not resulting in actual damage) in order to prevent such occurrences in the future.	Medium
5	**Information Technology Risks** This risk is a business and operating risk stemming from ongoing activity of the Bank's information systems, the complexity of work procedures implemented in the various computer units, or from ongoing activity of infrastructure system and/or from hardware or software components. Including, information technology and banking risks in communications, that may affect the Bank's business and/or operational procedures. The Bank is in the process of project implementation for improving its computer infrastructure as part of the project called "New World." As part of this, there are project risks that may prevent compliance with project objectives from the aspect of contents and timetables. These risks are managed, among others, through forums arranged for project risk management and assistance from external consultants guiding the manager of Information Technology Department and the Chief Risks Manager (CRO). Moreover, the amortization plan is examined for project risk management. Continuous monitoring is performed after the implementation of the risks reduction plan included in the plan.	Medium
6	**Legal Risk** The risk results from unexpected events, such as legal claims, including class actions, inability to enforce agreements, or judicial rulings against the Bank that may harm the Bank's profitability. The management of risk exposure is performed, among others, through legal controls and internal and external legal consultancy system. Past experience ascertains that the aforementioned events did not expose the Bank to significant losses.	Lower

	Risk factor	affect The risk
7	Regulatory risk Regulatory risk is an existing or prospective risk on the Bank's income and capital that may create regulatory changes or in legislation, which can have significant affect on the bank's activity and obligations imposed upon it. The Bank, as a banking corporation and as a public company, is subject to many regulatory instructions expressed by legislation, secondary legislation, policies and instructions for the implementation of various authorities and supervising entities. Management for risk exposure is implemented, among others, through existence of ongoing monitoring of proposals and legislative circulars, legislative instructions, and drafts and instructions from the various regulators (the Supervisor of Banks, Securities Authorities, Money Laundering Prohibition Authority, the Authority for Information and Technology, Ministry of Justice, etc.). Moreover, monitoring is implemented after new verdicts by the various legal systems in Israel. In order to verify completeness of the instructions concerning the implementation of the monitoring, the legal department is responsible for current professional publications of a number of leading law firms in the banking area in Israel, capital market, real estate, Labor Law, etc.	Lower
8	Goodwill Risk The risk stems from damage to the Bank's reputation as a stable and reliable financial institution following publications, correct or incorrect, on customer issues, investments, and various regulatory entities. Damage to reputation may result in transfer of customers' activity to other providers of financial services, harming the Bank's activity and profitability. Management of reputational risk is divided into two: risk prevention, and managing risk after realization of the event or indications for realization of the event.	Medium
9	Strategic risk The strategic risk results from mistaken business decisions, improper implementation of decisions or lack of response to sector changes, economical or technological. The risk results also, among others, from income from new areas, expansion of existing services and increase of infrastructure investment for realization of business strategy. This risk has a potential of adjustment between the Bank's strategic objectives, business plans developed for obtaining these objectives, allocating resources to comply with these objectives, and the quality of the implementation. Exposure management for this risk is implemented, among others, through building strategic arrangements, receiving external professional advice in the area, and addition activity for reducing the risk.	Medium

Internal Auditor

The Internal Auditor, Mr. Motti Gedali, serves in his position as of December 2010. He has a BA in economics and political science and a MA degree in business management from Hebrew University. Mr. M. Gedali has extensive experience in auditing. During the years 1976-2005, he held various positions at the Bank of Israel at the Supervision of Banks Department as auditor and as manager of the control unit specializing in supervising and controlling the manner of exposure by the banking corporations in Israel to all types of financial risks. His appointment was approved by the Auditing Committee and the Board of Directors on November 25, 2010. The appointment was approved in view of Mr. Gedali's skills, experience, and education.

The Internal Auditor complies with the conditions determined under paragraph 3 (a) Internal Audit Law; the instructions of section 146 (b) of the Companies Law 5759 – 1999, as well as paragraph 8 of the Internal Audit Law, 5752 - 1992. The Internal Auditor is no family member to any of the senior officers or parties of interest at the Bank; he has no material business relations with the Bank and does not indirectly hold Bank securities. The Internal Auditor does not serve any additional function besides his position as the Bank's Internal Auditor. In addition, the Internal Auditor does not serve in any function outside the Bank that creates or may create a conflict of interest with his position as Internal Auditor.

The internal auditing employees comply with the instructions of paragraph 8 of Banking Regulations (internal auditing), 5752 – 1992, and are only appointed with the approval of the Internal Auditor.

The person responsible for the Internal Auditor is the Bank's Chairman of the Board of Directors.

The Internal Auditor scope of employment and and the staff subject to him during 2011, was on a yearly average of 6 positions, (including editing the internal audit through external professional factors to 80% of an average position). The deputy internal auditor and his replacement are also responsible for the inquiries from the public, while the extent of the average position in the area of public inquiries is one position, for 2011. The extend of the position of the Internal Auditor for 2011 was 50% of a position (with the knowledge of the Supervisor of Banks), and this in view of the fact that this appointment was for a predetermined period and this until the appointment of Mr. Ron Sagi, and also in view of the fact that Mr. Sagy serves as his full-time replacement. Currently Mr. Sagy serves as Vice President and replacement for the Bank's Internal Auditor. Mr. Sagy is responsible for the current management of internal auditing at the Bank and this under Mr. Gedali's supervision.

On February 22, 2012 (after recommendation of the Auditing Committee as of February 9, 2012) the Board of Directors approved the resignation of Mr. Gedali (as predetermined, with his consent, for a set period) and also appointed Mr. Rom Sagy as the Bank's Internal Auditor. It should be clarified that this decision will become effective only after approval of Mr. Ron Sagi's appointment by the Bank of Israel. Until then Mr. Gedali will continue to serve in his position.

Auditing Program

The internal auditing at the Bank operates according to the annual work plan based on the multi-year auditing work plan, consisting of an ongoing annual work plan and a work plan for the next three years.

The multi-year work plan refers to most of the audit subjects included: the Bank's organizational units, subsidiaries and associated corporations, work processes, products marketed, and computerized systems. Moreover, the internal audit audits the Bank exposure management procedures to the various risks, such as: credit, financial, operating (including fraud and embezzlement risks), compliance risks and so forth. Moreover, the internal audit monitors the correction of significant deficiencies disclosed in the audit work of the Internal Auditor, of the auditing accountant and of the Supervisor of Banks at the Bank of Israel. An annual summary report is submitted once a year to the Chairman of the Board of Directors, the CEO of the Bank, and members of the Audit Committee.

The work plans, annual and multi-year, are arranged according to the Internal Audit Law, 5752 - 1992, according to the Banking on Internal Audit (5752 – 1992) and according to the Proper Banking Management instructions.

The annual and multi-year work plans are derived from the systematic methodology of risk assessment and controls, according to which the audit frequency for each issue are determined. In the second half of 2009, with the assistance of an external company, a comprehensive review of risks was carried out on all the Bank's divisions, while the multi-year work plan for the 2010-2013 year relies on this review. Towards the preparation of the annual work plan for the year 2011, multi-year work plan was updated and because of this, the mapping controlled entities of the bank were also updated and the update frequency for examination of these entities was determined according to the business developments and regulator guide lines. The frequency of the audit is determined according to a matrix managed by the Internal Auditor, relating to evaluation of the exposure to financial damage and the evaluation of the quality of the controls intended to reduce risks. These estimates are updated regularly. As result, concerning the issues with higher risks, the audit frequency will be yearly and on issues with a lower risk, the audit frequency is two or three years.

During 2011, the internal auditing performed a comprehensive updating of the multi-year work plan of the internal auditing, which will be derived from the annual work plans as of 2012. The audit committee and the Board of Directors approved this work plan and because of this the increase of internal auditing resources conform the requirements according to the new multi-year work plan.

As part of the integration process of the ICAAP at the Bank and according to the guidelines of the Supervisor of Banks and also the Basel II instructions, it is required that an independent factor will challenge and examine the Bank's implementation process. The Bank's internal auditing is determined as the independent factor that has the task to prepare the independent review document. The independent review document reviews the risk management system that is implemented by the Bank, the ratio between risk and capital level of the banking corporation, and the methodologies developed for monitoring the compliance with the internal capital policy. The independent review document includes details of the examination procedures and implemented audits, the implementing factor, as well as the main conclusion arising from the review. The document will be presented to the audit committee and the Board of Directors. For the purpose of preparing this review, the internal auditing is assisted by an external professional consultant.

The annual and multi-year work plans were discussed and approved by the audit committee on December 23, 2010, and after that by the Chairman of the Board of Directors and by the assembly of the Board of Directors at their meeting on December 31, 2010.

During 2011, the internal audit operated according to this work plan. However, in light of the changes in business activity and in a number of material procedures at the Bank, and conforming to the recommendations of the internal audit, the internal audit approved, during the year, an update to the work plan. The annual and multi-year work plan leaves to the Internal Auditor's discretion to deviate from them, subject to updating the Chairman of the Board of Directors and the Chairman of the Audit Committee in a current manner and receive their approval.

Also significant transactions, if any, implemented by the Bank, are reported to the Internal Auditor and are examined by him, including the process for approval of these transactions. As part of this examination, a material transaction agreement in the area of information systems were examined, as well as the sales transaction of the Bank building was guided by the Internal Auditor.

The Internal Auditor, is authorized as part of the approved budget, to be assisted through outsourcing, for performing the auditing work requiring knowledge and special expertise and/or in case of lacking a job opening.

The Internal Auditor prepares the internal audit according to accepted professional standards, and operates according to instructions and guidelines issued by the Supervisor of Banks.

During 2011, an external assessment was performed on the internal auditing activity of the Bank and its compliance in arranging the Financial Statements according to the accepted professional standards was examined. The findings of the examination, that the internal audit the Bank operated according to the accepted professional standards, has been presented to the Audit Committee and the Board of Directors.

The Internal Auditor has free and complete access to information and data as stated in paragraph 9 of the Internal Audit Law, 5752 – 1992, including free and complete access to the corporation's data systems including financial data derived from these systems.

During December 2011, the Bank of Israel published a new banking management instruction referring to the internal audit's function. The purpose of this instruction is to implement the general principles specified in the Basel II documents concerning the Internal Audit. The instruction defines the functional role of the Internal Audit, the required work method for applying the audit function in order to effectively fulfill it, the reporting formula for the audit function, and more. The instruction will be effective as of July 1, 2012. The Internal Auditor works in order to implement this instruction.

Reference to corporations that constitute material holdings

The Internal Auditor also serves as Internal Auditor of all the Bank's subsidiaries. The subsidiaries are included in the annual and multi-year work plan and are audited according to the frequency determined according to risk estimates and the existing audit, as specified in the previous paragraph.

Audit Reports and Discussions Thereon

According to the Audit Committee's work procedure and the work Internal Auditor's procedure derived from it; each audit report is submitted in writing to the auditing factor, the CEO, the Chairman of the Board of Directors and to the Chairman of the Audit Committee. For every audit report there is a discussion with those audited and also a concluding discussion is held with the responsible managers and the Bank's CEO on the findings and material recommendations. The audit reports are also presented for discussion to the audit committee and this after receiving suitable reference to the report's findings from the auditing factor and the Bank's CEO.

The Summary of the internal auditing activity for the first half of the year 2011 has been discussed by the Audit Committee on August 11, 2011. The annual report summarizes the internal auditing activity during all of 2011, also including monitoring implementation of the annual work plan, and was discussed at the meeting by the Audit Committee held on February 9, 2012.

Internal auditing also reports quarterly to the Audit Committee, on the manner and level of implementation of the by the internal auditing's recommendations that arose from the audit reports that were held in the Bank's various activity areas.

The reports on the summary of internal auditing activity and on the manner and level of implementation of the by the internal auditing's recommendations are also submitted to the Chairman of the Board of Directors and the Bank's CEO.

Compensation of the Internal Auditor

As mentioned above, the Internal Auditor is in this position since December 5, 2010. His salary cost amounted in the annual report to the total of NIS 229 thousand (for 50% of a position as specified above).

Evaluation of the Board of Directors

Annually, the Audit Committee holds a meeting with only the Internal Auditor. This meeting took place on December 20, 2011.

Based on the current information received by the Audit Committee, the current reports submitted by the Internal Auditor, reports forwarded to the committee by the Bank's CEO and Chairman of the Board of Directors, and the annual audit report by the external accountant, the Audit Committee expresses its opinion concerning the Internal Auditor's fulfillment of professional standards, according to which the auditing reports on the Bank's various activity were made.

The audit committee and the Board of Directors believe that the salary and the payments that have been provided to the Internal Auditor have no affect on the Auditor's professional discretion.

The Board of Directors and the audit committee believe that the Internal Auditor's scope, nature, continuity of activity, and work program are reasonable for the existing circumstances, and they address and meet the objectives of the bank's internal audit.

Disclosure Concerning the Process for Approving Financial Statements

The organization at the Bank responsible for the ultimate control (as defined in Proper Banking Management Instruction № 303) is the Bank's Board of Directors, the names of the Board of Directors' members and their accounting and financial skills are specified in chapter "The Board of Directors, the management and the salaries of senior officers" are listed below.

Principle issues related to disclosure are provided in the Financial Statements, discussed in the Disclosure Committee headed by the CEO with the participation of the Chief Accountant, legal advisers, additional management and accounting managers. As part of the discussions, the committee included issues with material affect on the Financial Statements, issues of public interest, developments that must be reported to the public, and any issue the committee finds necessary to discuss before transferring the reports to the Audit Committee.

Prior to approval of the Financial Statement by the Board of Directors, drafts of the financial reports, directors' report, and the annual periodic report are transferred to the Audit Committee. The Bank authorized the Audit Committee to serve also as a committee for examining the Financial Statements. The committee consists of the following members of the Board of Directors: Chairman of the committee, Mr. Shmuel Eshel who is an external director, Mrs. Efrat Tolkowsky and Mr. Shalom Hochman who are external directors and Mr. Oved Ben Ozair.

The committee discusses the Financial Statements' format and decisions are made for recommending approval of the Financial Statements for the Board of Directors.

After reaching an agreement concerning such recommendation, drafts of the financial reports, directors' report, annual periodic report are transferred for review by members of the Board of Directors a number of days prior to the date of the meeting fixed for approving the reports.

During the meeting of the Board of Directors, operating results and financial status are reviewed, and information concerning the Bank's activity is presented and the directors' questions are answered.

The Bank's external accountant also participates in the meeting in order to express a professional opinion concerning the financial reports and accounting issues relating to the financial reports. After concluding the discussion, the Board of Directors decides on approving the financial reports.

Miscellaneous

Circular on the issued of "Management Responsibility for Internal Controls on Financial Reporting – SOX Act 404"

On December 5, 2005 the Supervisor of Banks published a circular detailing instructions for implementing the requirements of Paragraph 404 of the SOX Act. Paragraph 404 determines regulations of the SEC and the Public Company Accounting Oversight Board (PCAOB) concerning management responsibility for internal controls on financial reporting.

The Supervisor's instructions in the circular determine as follows:

- Banking corporations will implement the requirement of paragraph 404 and the SEC regulations published thereunder.

- Proper internal auditing requires establishing a control system according to a defined and known framework and COSO model meeting the requirements and may be used for the purpose of internal auditing assessment.

- Application of requirements obligates upgrading and/or establishment of an infrastructure system of internal controls at the Bank and the process of development of such systems requires the Bank to implement preparations and to determine intermediate stages and objectives until comprehensive implementation.

- The project and the independent accountant's audit should be completed by the reporting date of December 2008.

As part of implementing the instructions, the Bank implemented , in cooperation with an external accountant, recognition of business accounts and procedures relating to financial reporting and appropriate disclosure. In these processes, documentation was prepared and risks and controls were evaluated, including review of existing internal controls and risks at the level of processes, procedures and transactions

Moreover, the Bank completed evaluation of the effectiveness of the controls, including documentation of control effectiveness examinations and analysis of existing differences relative to the internal control model.

The Bank management, under the supervision of the Board of Directors, evaluates the effectiveness of the internal auditing of the Bank on the financial reports as of December 31, 2011, based on the criteria that has been determined in the internal auditing model of Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Based on this assessment, the management believes that as of December 31, 2011, the internal auditing of the Bank on the financial reports was effective.

The effectiveness of the Bank's internal auditing of its financial reports as of December 31, 2011 has been audited by the Bank's visiting accountant from "Kost Forer Gabbay & Kasierer", as was stated in their report on page 157 in which an unqualified opinion has been included concerning the effectiveness of the Bank's internal auditing of its Financial Statements as of December 31, 2011.

Evaluation of Controls, Processes and Procedures Concerning Financial Statement Disclosure

The Bank's Management, in cooperation with the CEO and Chief Accountant, as of the end of the period covered by the report, evaluated the effectiveness of the Bank's controls, processes and procedures relating to disclosure. Based on this assessment, the Bank's CEO and Chief Accountant concluded that as of the end of this period the Bank's controls, processes and procedures relating to disclosure are effective; in order to record, process, summarize and report on data that the Bank is required to disclose in the interim report according to the public reporting requirements of the Supervisor of Banks, as of the date determined in these requirements.

During the fourth quarter ending on December 31, 2011, there was no change in the Bank's internal control of Financial Statements that materially affect, or that could reasonably significantly affect the Bank's internal control on Financial Statements.

Ethical Code

The Bank has an ethical code that was approved by the management in 2009 whose purpose is to express the Bank's policy in the area of professional ethics of its employees and determine the level of ethical standards according to which its employees are required to operate.

The Bank insists on the fulfilling the law and the instructions of various authorities, and these are anchored it is procedures. The Bank's ethical code is intended to add a value-based infrastructure to its procedures in order to ensure a valued and qualitative work environment for its employees.

At the base of the ethical code are a number of principles: personal honesty, fairness, reliability, professionalism, responsibility, as well as loyalty to the Bank and its customers.

Donations

The Bank's donation policy is implemented according to management's decision according to the framework of the Bank's budget. This policy includes criteria for the selection of institutions and associations. During 2011, the Bank donated NIS 598 thousand (2010 – NIS 560 thousand) to assist associations and public institutions.

As part of the "Adopt a Fighter" project operated by the Soldiers' Association, Bank of Jerusalem adopted the School for Field Artillery in Shivta.

The "Adopt a Fighter" project interconnects between businesses and the fighting units by adoption of moralistic, supportive and cooperative values. Adoption of the unit provides the fighters with a sense of belonging and reinforces the feeling of consensus surrounding their military service.

Transactions with a Controlling Shareholder

1.1 According to the Securities Regulations (Periodic and Immediate Reports), 5730 - 1970, a corporation that must report under these regulations will submit in the immediate and in the periodic report details "concerning every transaction entered into by the corporation with the controlling owner or where the controlling owner has a personal interest in its approval." Among others, the reporting corporation is required to include "details of the identity of the parties to the transaction, its content and qualitative and quantitative features, the personal interest of the controlling owner, the date of approval, and details of the entity that approved the transaction."

1.2 The aforementioned will not apply in the case of a "negligible" transaction as the term is defined in Regulation 64(3)(d)(1) of the Securities Regulations (Preparation of Financial Reports), 5753 - 1993; i.e., a transaction answering to "the types and characteristics of the transactions" that the corporation views as negligible. The Association of Banks contacted the Securities Authority in order to determine the reporting format applying to banks in this context. Further to this query by the aforementioned Association of Banks and the discussions between the Bank and the Securities Authorities on this issue, it was determined that the reporting format for the Bank's transactions with its controlling owner or with another person with whom the controlling owner has a personal interest, the division into banking and non-banking transactions, will be as follows:

A. For banking transactions – the Bank will determine criteria for exceptional banking transactions for which the Bank will publish an immediate report upon their occurrence. On the other hand, banking transactions that are not exceptional will be specified cumulatively in the framework of the annual reports (see the table below), even though according to the Securities Regulations (Periodic and Immediate Reports) 5730 - 1970, the Bank is required to submit an immediate report as well as for transactions that are not exceptional.

B. Concerning non-banking transactions – the Bank will determine criteria for classifying such transactions that are "negligible", and they will be subject to the provisions concerning reporting of transactions with a controlling owner that apply to other reporting corporations (i.e. that are not banks).

Proper Banking Management instructions (312) from the Supervisor of Banks (hereinafter: "PBM 312") determines that as a rule the Bank shall not make a transaction with a "linked person" (as this term is defined in the mentioned instructions) on better terms than those under which it makes similar transactions with others, excluding a "linked person" that is a corporation fully owned by the Bank and that does not give any credit or other service to anyone outside the bank group.

1.3 Below are details of the criteria defined as mentioned at the meeting of the Board of Directors' Audit Committee of February 18, 2010. These criteria have been re-approved by the Board of

Directors' Audit Committee on February 9, 2012, in the banking transactions division that are non-banking:

1.3.1 "Exceptional" banking transactions:

Banking transactions meeting the following criteria will be deemed exceptional:

A. On the matter of "liability" transactions – a liability transaction will be deemed exceptional if following its implementation the total liability of the controlling owner's group will be more than 5% of the Bank's capital; within the meaning of this term in Appendix A of the Proper Bank Management Instructions (311), as reported in the Financial Statements last published before the transaction date (hereinafter: "regulatory capital"), or if the growth in an individual borrower's liability from the controlling owner's group following the transaction is more than 2% of the regulatory capital at the time of the transaction.

   If the Bank learns of liability transactions in which the controlling owner has a personal interest and to which PBM 312 does not apply because they were not made with a "linked person", within the meaning of PBM 312, the Bank shall bring them for approval as determined in the aforementioned PBM 312. Concerning these transactions, the Bank will cumulatively submit information as part of the annual reports in the format shown in the tables below (separate tables for these transactions and for transactions to which PBM 312 applies). In this context it should be clarified that the criteria for an exceptional liability transaction with a controlling owner, or in which a controlling owner has a personal interest, will apply whether or not Instruction 312 applies to it.

   In addition, any specific provision for credit losses or write off of a particular amount due to the liability of a controlling owner or a corporation linked to him shall be considered a significant transaction.

B. Concerning "deposit" transactions – the deposit of money in a certificate of deposit of any type shall be considered an exception transaction if as a result the total deposits of a controlling owner's group is greater than 2% of the total public deposits, as reported in the last financial reports published by the Bank before the transaction date. Receiving a deposit from a company that is a "linked person" to the controlling owner (as the term is defined in PBM 312), which is not one of the companies that are controlled by the controlling owner, shall be considered exceptional if as a result the total deposits of that "linked person" are greater than 2% of the total public deposits, as reported in the last financial reports published by the Bank before the transaction date.

   On the issue of securities transaction or foreign currency transaction (that is not a liability transaction or deposit transaction as specified above) – transaction in securities or transaction in foreign currency will be considered as exceptional if the yearly commission collected is equal or exceeds 4% of the annual total of the Bank's operating income (with deduction on income from investment in shares) according to the the Bank's last annual financial reports.

C. Any other banking transaction, of the type that the Bank usually implements with the public, providing that it does not involve granting of credit by the Bank, where the amount of such transaction exceeds 0.1% of the regulatory capital at the transaction date.

A negligible temporary deviation from the scope specified in paragraphs (a) to (d) above, and for a period of no more than 30 days, shall not lead to a change of classification of the transaction as a "transaction that is not exceptional", and such exceptions shall be disclosed as part of the annual report. It should be clarified that any change to an exceptional transaction is in itself, an exceptional transaction for which an immediate report shall be submitted.

1.3.2 Non-banking transactions:

The following transactions shall be considered negligible transactions:

A. A transaction to purchase services from a controlling shareholder or where the controlling shareholder has a personal interest, provided that it is not an arrangement with a controlling shareholder or his relative concerning the terms of his service and employment, which is in the normal course of business, and on market terms, and whose scope is no more than the sum of NIS 250 thousand, providing that the total number of transactions of this type in one calendar year does not exceed 0.1% of the regulatory capital. The aforementioned total shall not include individual transactions whose value is less than NIS 25,000.

B. Transactions concerning the renting areas from a controlling shareholder or where the controlling shareholder has a personal interest, that were approved in one calendar year, in the normal course of business, and on market terms, and whose scope does not exceed 0.1% of the regulatory capital.

C. Bearing the costs of a controlling shareholder, in the normal course of business, and on market terms, for the purpose of participating in representative events and conferences of customers and subsidiaries of the bank at their invitation – expenses up to a total of NIS 250,000 per year.

D. Any other transaction in the normal course of business, and on market terms, and whose scope is no more than the sum of NIS 250,000, providing that the total of such transactions in one calendar year will not exceed 0.1% of the regulatory capital. The aforementioned total shall not include individual transactions whose value is less than NIS 25,000.

Definitions:

For the purpose of the above mentioned decision, on each of the paragraphs, the following terms will have meaning as specified below:

(1) "Liability" – as this term is defined in Proper Banking Management Instruction number 312 of the Supervisor of Banks.

(2) "Market terms" – conditions that are not better than the conditions on which similar transactions of the same type are made by the Bank with people or with corporations that are not controlling shareholders of the Bank or with people with whom the controlling shareholder has no personal interest in the transaction with them. Market terms with respect to banking transactions are examined in comparison to the terms under which transactions of the same type and of similar size are made, as accepted when examining transactions with related people according to Proper Bank Management Instruction 312, with customers of the Bank who are not related people or with entities where the controlling shareholder has a personal interest in the transaction with them; market terms in respect of transactions that are non-banking transactions will be examined in relation to transactions of that type that the Bank enters into with suppliers and/or in relation to offers of other suppliers who were examined before a decision was made about the transaction. In cases where the Bank has no transaction of this type, the market conditions will be examined in relation to transactions of that type made in the economy, on condition that the transaction is in the normal course of business and that the transaction of this type has a market in which similar transactions are made.

(3) "The controlling shareholder's group" – the controlling shareholder together with the private companies related to him within the meaning of the term "related person" in Proper Banking Management Instruction 312, and together with his relatives and private companies related to them, including family members living with him or supported by him. The definition of "relative" according to the provisions of the Banking Act (Licensing) includes brother, parent, issue, spouse's issue, and the spouse of each of these.

Below are details of the balances of the controlling shareholder's group and of others in which the controlling shareholder has a personal interest in their dealings with the Bank, as of December 31, 2011 (in thousands of Shekels):

	Balance as of December 31, 2011			The high balance during 2011		
Type of balance	Controlling group	Relatives of controlling shareholders	Ytzu Investments Company Ltd.	Controlling group	Relatives of controlling shareholders	Ytzu Investments Company Ltd.
Credit	5.0	–	0.1	170.7	0.2	12.9
Unused credit line	145.6	–	–	148.4	–	–
Deposits	(8,516.0)	(623.7)	(82.9)	(13,263.6)	(639.9)	(923.8)

Below are details of income from commissions due to transactions in securities and/or transactions in foreign currency (that are not liability transactions or deposit transactions) paid by the controlling shareholder's group or by others where the controlling shareholder has a personal interest in their dealings with the Bank, for the year ending December 31, 2011 (in thousands of Shekels):

	Relatives of controlling shareholders	Controlling group	Ytzu Investments Company Ltd.
Revenues from commissions	448.6	2.1	6.8

1.3.3 Below are details of non- banking transactions with a controlling shareholder or where the controlling shareholder has a personal interest, for the year ending December 31, 2011 (in thousands of Shekels) and where there is no "negligible" transactions as defined above:

(1) During the year 2010, the bank (through a wholly controlled subsidiary) made an agreement with I.T.P. Line Ltd (company controlled by "relative" of controlling shareholder), according to which the company will grant the subsidiary, interior design services for the offices rented by the bank at Airport City (hereinafter: "the building"), in exchange of NIS 495,000, while the payment is by the project's progress. The period of the agreement: for the whole period of the renovation project and the modifications to the building (about 5 months).

The agreement has been approved by the Board of Directors of the Bank during the meeting on December 30, 2010, after receiving approval from the auditing committee during the meeting on December 23, 2010.

Examination of "market conditions" of the agreement is done by the comparison of the paid compensation by this type of service company in other projects the company performed at the asset serving the Bank and also from assessments obtained by other architects for accepted compensation and conduct for these types of services.

(2) On September 21, 2011, the Bank's the Board of Directors approved (after approval of the Audit Committee as of September 18, 2011), in continuation and according to the decision of the General Assembly of the Bank's shareholders on September 7, 2010, the Bank's agreement with the its directors and senior officers (including subsidiaries), as may be from time to time, in regards to the life insurance policies of senior officers (D&O), as specified below:

(a) The limits of insurance coverage and policy period will be: US$ 22 million per event and the period, and this for a period of 12 months starting on October 1, 2011 until September 30, 2012.

(b) The yearly premium the Bank will pay for the purchasing of a senior officer policy according to this decision (including the compensation for the insurer's front services) will not exceed the total amount of US $100,000. The amount of deductible of the senior officer insurance policy will not exceed the total amount of US $25,000 for the Bank.

The audit committee and the Board of Directors also approved insuring senior officers through administrator insurance policies, as follows:

(a) The annual premium as aforementioned will be as per market conditions;

(b) The contract of the Bank in the senior officer insurance policy will also apply to senior officers who are related to the controlling shareholders serving at the Bank at the time of this decision, and that the contract terms with them will be identical to the contract terms of other senior officers at the Bank, as per market conditions, and this will not materially affect the profitability of the Bank, its assets and its liabilities.

(c) Transaction agreements of the Bank with the directors and its senior officers (including the subsidiaries), from time to time, per issue, whenever the senior officers insurance (O&D) does not damage the Bank's best interest.

(3) Reimbursement Letters

On January 29, 2012 the general assembly of the Bank's shareholders approved providing liability letters for reimbursement of senior officers in the formula as attached to appendix C of the immediate report on invitation of the general assembly from December 22, 2011, as has been amended in the immediate report of January 19, 2012 (hereinafter: "the immediate report"), and this (a) for the senior officers of the Bank serving and/or have served at the bank from time to time and for the senior officers in another company, as defined in the immediate report serving and/or have served from time to time as per request of the Bank, as senior officer at another company, except for senior officers who as controlling shareholders may be considered party of personal interest in providing these liabilities letters for reimbursement. (b) For senior officers whose controlling shareholders may be considered a third party with personal interest in providing them liability letters for reimbursement, serving and/or will serve at the Bank from time to time, and also for senior officers as aforementioned that serve or will serve from time to time per request of the Bank, as senior officers at another company. For details concerning reimbursements, please see the immediate report of the Bank of January 19, 2012 [reference № 2012-01-020319].

Names of the members of the Board of Directors and their occupation: (2)

Name of director	Main occupation	Members of the Board of Directors: bodies in which they are senior officers or members of the Board of Directors
Zeev Gutman	Chairman of the Board of Directors of the Bank (started serving as director of the Bank as of 10.18.11 and as Chairman of the Board of Directors as of 10.2.11).	Chairman of the Risks Management Committee; member of the Capital Planning and Strategy Committee. Member of the following organizations: Board of Directors Friends of the Rabin Center, and a member of Friends of Tel–Aviv University. Served in various management positions at the BenLeumi HaRishon Bank Ltd., member of management, Vice CEO, as follows: Chief Group Risk Manager (CRO), head of Risk Management Division (from October 2010 until August 18, 2011); Chief Financial Risk Manager, head of Division of Financial Management and Risk Management. (From March 2007 to October 2010); Department head of Capital Market and Foreign Exchange (from 2000 until March 2007 Served as director at the following Board of Directors until 08.18.11: Sickle Issuing Company Ltd., Pahnke Ltd., FIBI BANK Ltd.,Switzerland ; International Issuances Ltd. (until 2/16/11), Stokofin (Israel) Ltd. (until 16.2.11); HIGHTRADE (until 10/03/10) Tel Aviv Stock Exchange (until 20/1/09); Maof Clearing House (until 20/1//09) Chairman of the Board of Directors of Otzar HaChayal Bank (until 18/10/10), "Maalot" (until 16/4/08) International Insurance Agency (2005) Ltd. (until 7/3/07); UBank Ltd. (until 8/8/07). He is not an external director; has accounting and financial expertise.
Dr. Zalman Shoval	Chairman of the Board of Directors of Ytzu Investments Corporation Ltd. (parent company); shared Chairman of the Faire Foundation.	Chairman of the Compensation Committee; Chairman of the Board of Directors of the following corporations: Ytzu Investments Company Ltd.; C. F. C. Comprehensive Financial Corporation Ltd.; I.C.C.– Capital for Israel Corporation Ltd. Shared Chairman of the Board of Directors at Shuval Grofman Real Estate Ltd. and Shuval Grofman Real Estate Holdings Ltd. 2007. Member of the following Board of Directors: Terra Firma Inc., Cane Shovall Holdings Ltd., Hadassah Hospital, and at Moore International Real Estate Ltd. Served as Chairman of the Board of Directors of the bank from 12/89 until 9/90 and also from 3/93 until 6/98. During the period from 10/90 until 03/93 and between 06/98 – 01/00, during his service as Israel's ambassador in Washington, there was a break in his membership from the Board of Directors. He is not an external director; has accounting and financial expertise.

Name of director	Main occupation	Members of the Board of Directors: bodies in which they are senior officers or members of the Board of Directors
Jonathan Irroni	Financial consultant; Served as Chairman of the Board of Directors of the Bank until 27.10.11 Financial consultant for the Gandir Group	Member of the Risk Management Committee and Capital Planning and Strategy Committee; Member of the following Board of Directors: Shagrir Car Systems Ltd., N.R. Spantec Industries Ltd., I.P. M. Automatic Solutions Ltd., Edgar Investments and Development Ltd., A.A. Assets Ltd. (non–active company); Director and controlling shareholder in Jonathan Irroni Holdings Ltd. Chairman of the Credit Committee of Institutional Entities at Migdal Insurance Group (external representative who is not a director). He is not an external director; has accounting and financial expertise.
Shmuel Eshel	Consultant and financial guide	Chairman of the Audit Committee; member at the Risk Management Committee, the Board of Directors' Credit Committee, and Compensation Committee. Director and controlling shareholder of Shmuel Eshel Business Consultancy Corporation Ltd. Until June 2009, served as director at Liblov Agency and Insurance and at Carmel – Union Mortgages and Investments Ltd. External director. Has accounting and financial expertise.
Moshe Bauer	CEO and director of C.F.C. Comprehensive Financing Corporation Ltd.	Chairman of the Board of Directors' Credit Committee. Deputy chairman of the Board of Directors of Ytzu Investments Corporation Ltd. Member of the Board of Directors of the following corporations: Terra Firma Ltd, I.C.C. Comprehensive Financing Corporation Ltd., Mercator Management Corporation Ltd., Foreign Mutal Inc., Financial Trust Corporation Ltd, and Eitanim Insurance Ltd. (non–active company). He is not an external director. Has accounting and financial expertise.
Oved Ben Ozair	Company manager.	Member of the Audit Committee, Board of Directors' Credit Committee and Compensation Committee. Director at Ytzu Investments Corporation Ltd., Foreign Art Ltd., Financial Trust Company Ltd. and at Shalom Meir Tower Ltd. Serves as a member of the Board of Governors at the Jewish Agency and a member of the Committees of Funds and Assets and Liabilities at the Jewish Agency. Until 2010 served as director at Jerusalem Investment Portfolios Ltd. He is not an external director. Has accounting and financial expertise.

Name of director	Main occupation	Members of the Board of Directors: bodies in which they are senior officers or members of the Board of Directors
Prof. Shalom–Yosef Hochman	Lecturer in Financing: Consultant and member of the Board of Directors.	Member of the Risks Management Committee, Audit Committee; Board of Directors' Credit Committee and Capital Planning and Strategy Committee. Member of the following Board of Directors: Migdal Trust Funds (external director); member of the Investment Committee at Clal Gemmel (no director); Director and controlling shareholder at Hochman Financing Ltd. External director. Has accounting and financial expertise.
Pinchas Volovelsky	Lawyer	Member of the Board of Directors' Credit Committee. Member of the following Board of Directors: C.F.C. Comprehensive Financing Ltd., Ytzu Investments Corporation Ltd., I.C.C. Israeli Capital Corporation Ltd., Ofer Dor Trustee Corporation Ltd., Oh Trust Corporation Ltd., Comprehensive Holding Corporation SA and CHC Finance. Director and controlling shareholder at Pinchas Volovelsky Ltd. He is not an external director. Has accounting and financial expertise.
Dr. Efrat Tolkowsky	University lecturer, academic manager at the Chaim Katzman Gazit Globe Real Estate Academy	Member of the Risk Management Committee, member of the Audit Committee, and Compensation Committee. Member at the following Board of Directors: Babylon Ltd. (external director); Eco City Ltd.; Echo City S.L.. Entrepreneurship and Construction Ltd.. External director. Has accounting and financial expertise.
Gideon Shoval	CEO and Deputy Chairman of the Board of Directors of Ytzu Investments Corporation Ltd.	Chairman of the Committee of Risk Management and the Committee for Capital Planning and Strategy.; member of the Compensation Committee. Serves as director at Mercator Investment Management Company Ltd.; He is not an external director. Has accounting and financial expertise.
Dr. Nurit Krausz (started as of 1/29/12)	CEO and founder of Redstar Modeling Services and Consultancy Ltd.	Member of the Capital Planning and Strategy Committee Head of validated models and head of Risk Branck including Bank BenLeumi (2006–2011). External director according to instruction 301 of the Proper Banking Management Instructions amendment and an independent director. Has accounting and financial expertise.

(2) Additional details on the members of the Board of Directors of the Bank, including the dates they started serving, whether they are Bank employees, or of its subsidiaries, its consolidated companies or if an interested party and whether they are family of other interested parties, are presented in the periodical report of the Bank for 2011.

Report on directors with accounting and financial expertise

According to the instructions of the Companies Act 5749 - 1999 (hereinafter: "Companies Act") and the companies regulations (conditions and examination of the director with accounting and financial expertise), 5765 - 2005, at least two directors will have accounting and financial expertise as the term is defined in the aforementioned Companies Law (hereinafter: "having accounting and financial expertise"). At least two of the external directors will have accounting and financial expertise. According to the Proper Banking Management instruction 301 at least five of all the members of the Board of Directors will have accounting expertise. According to instruction 630 of the Public Report instructions from the Supervisor of Banks, the required minimum number of directors with accounting and financial expertise will be specified in the report of the Board of Directors, as determined by the Board of Directors, and the reasons of the Board of Directors for its decision as specified in the aforementioned instruction. In addition, the minimum number of directors with accounting and financial expertise should be specified, as determined by the Bank what will be appropriate for the Board of Directors' Audit Committee as well as in each of the other committees of the Board of Directors, that are authorized to discuss the Financial Statement. In addition, the above mentioned instruction 630 determines that the Board of Directors' report will list the number of directors that "have no accounting and financial expertise" as of the report date.

According to the decision of the Bank's Board of Directors, the minimum number of directors with accounting and financial expertise will be as determined in the Proper Banking Management instruction 301 and Companies Law, that is: (a) at least five of all of the members of the Board of Directors will have accounting and financial expertise, provided that at least two of the directors will have accounting and financial expertise and at least two from the external directors will have accounting and financial expertise; (b) at least two members of the Audit Committee will have accounting and financial expertise.

This is for the reasons specified below: (a) By the Board of Directors' assessment, the above minimum number will enable the Board of Directors and the Audit Committee to comply with the obligations imposed on them according to the provisions of law and the corporate documents; in particular for their responsibility to examine the Bank's financial status and the evaluate the Financial Statements; (b) the above minimum number considers the size of the Bank, the complexity of its activity, and variety of involved risks.

At the time of reporting, all the members of the Board of Directors of the Bank have accounting and financial expertise according to their education, skills and experience, as detailed below:

Zeev Gutman:

Education: Accounting Studies, College of Management (non-degree), MBA, Herriot - Watt Adnivoro.

Skills and experience: current occupation – Chairman of the Board of Directors of the Bank. In the past, served in various managing functions at the Bank HaBenleumi HaRishon Ltd (the First International Bank of Israel), member of management and Assistant CEO, as specified above (until August 18, 2911);

served at the above specified Board of Directors and additional directorates of the Bank HaBenLeumi Group.

Dr. Zalman Shoval:

Education: BA in International Relations from the University of California, Berkeley; M.A. in international relations, economics and political science from the University of Geneva; and a Ph.D in International Relations and Political Science from Pacific University.

Skills and experience: Chairman of the Board of Directors of Ytzu Investments Corporation Ltd. and shared Chairman of the Faire Foundation; Chairman or Director of the above listed directorates. In the past served as CEO of Bank of Israel's exports, ambassador to the U.S., Chairman of the Bank of Jerusalem, member of the Financial Committee of the Knesset, member of the Budget and Security Committee of the Knesset.

Jonathan Irroni:

Education: B.A. in Economics from the Hebrew University, Jerusalem.

Skills and experience: current occupation – financial consultant Served as Chairman of the Board of Directors of the Bank until the end of October 2011; director at above listed corporations; Chairman of Credit Committee of financial entities at Migdal Insurance Group (external representative that is not a director); CEO and Director of Investec Bank of Israel Ltd. (currently UBank Ltd.) between the years 1998 to 2005.

Shmuel Eshel:

Education: B.A. in Political Science and Labor Studies, Tel - Aviv University.

Skills and experience: present occupation – adviser and financial consultant. Served as Vice CEO at the Union Bank in the mortgages area (2004-2009); member of management at the Union Bank, Vice CEO, head of Business Department at the Union Bank (1998 - 2004); additional positions at the Union Bank starting from 1977. Until June 2009 served as director at Liblov Insurance Agency and at Carmel - Union for Mortgages and Investments Ltd. In addition, served as Chairman of the Union Leasing Corporation Ltd., and director at the Planus Loans Fund (2004 - 1998).

Moshe Bauer:

Education: High school education.

Skills and experience: present occupation - CEO and director of C.F.C. Comprehensive Financing Corporation Ltd. Deputy Chairman of the Board of Directors of Ytzu Investments Corporation Ltd., and director at the above listed corporations. Formerly Manager of the Foreign Currency Department in Bank Elran, Secretary General of Bank Elran, and afterwards Secretary General of the Export Bank.

Ben-Ozair Oved:

Education: B.A. and M.A. in political science from Paddington School of Political Science.

Skills and experience: present occupation – Manager of Companies. Director at the above listed corporations. Serves as a member of the Board of Governors at the Jewish Agency and a member of the Committees of Funds and Assets and Liabilities at the Jewish Agency. Served as CEO of Unitrust Investment Company Ltd. and as Chairman of the Association of Members of the Stock Exchange in Tel Aviv. Served as a member of the Board of Directors of Maalot and its Ranking Committee, and until 2010, as director of Jerusalem Portfolio Management Limited.

Shalom-Yosef Hochman:

Education: B.A. in Economics from the Hebrew University in Jerusalem, M.B.A. funding from the Hebrew University, Ph.D in finance from the University of Toronto.

Skills and experience: present occupation – financial lecturer, consultant and member of the Board of Directors. Member of the above listed Board of Directors. Served as CEO of the Mercantile Discount Bank (until 2006); served as full professor at Houston University, USA. External lecturer (full prof.) at the Faculty for Business at the University of Tel Aviv and at the Interdisciplinary College – Herzliya.

Pinchas Volovelsky:

Education: B.A. in Economics and International Relations from the Hebrew University in Jerusalem, an M.Jur from the Hebrew University, Jerusalem.

Skills and experience: present occupation – lawyer, partner in a law firm. Member of the above listed Board of Directors. Formerly Chairman of the Board of Directors of the Bank.

Dr. Efrat Tolkowsky:

Education: B.A in Electronic Engineering from Tel - Aviv M.A. in Finance and Accounting from Tel - Aviv, Ph.D. in Finance and Accounting from Tel - Aviv University.

Skills and experience: present occupation – Lecturer at Tel Aviv University, academic manager of the Haim Katzman Institute Gazit Globe Real Estate. During 2002-2004, served as member of the Faculty of Industrial Engineering at the Technion, Haifa. From 2005 and until the end of 2006 – member of the Board of Directors and Auditing Committee of Dash Securities and Investments Ltd. Member of the above listed Board of Directors.

Gideon Shoval:

Education: L.L.B. Law, University of Buckingham; L.L.M. in Law, Columbia University; M.B.A. in Business Administration, Harvard Business School IMD.

Skills and experience: present occupation – Managing Director and Acting Chairman of Ytzu Investments Company Ltd. Serves as director at Mercator Investment Management Company Ltd.

Dr. Nurit Krausz (started to serve on January 29, 2012):

Education: B.Sc, Aerospace Engineering, Technion, Haifa; degree M.Sc., Physics, Technion, Haifa; degree D.Sc., Physics, Technion, Haifa.

Skills and experience: current occupation – Director and Founder of Redstart Services for Modeling And Consulting Ltd. dealing in consulting and development of models for trading securities in U.S. only; Head of Model Validation and Head of Risk, including at Bank Leumi (for years 2006 - 2011); Director of Trading Algorithms - Schonfeld Securities, USA (in years 2000 - 2006).

The Board of Directors

During 2011, and until the report's publication date, the following changes were applied to the composition of the Board of Directors:

In the general assembly of October 3, 2011, is was decided to chose and appoint the directors (that are not external directors) serving at the Bank for an additional period – the Chairman Jonathan Irroni; Zalman Shoval; Gideon Shoval; Pinchas Volovelsky; Moshe Bauer; Ben-Ozair Oved. At the above assembly it was also decided to appoint Mr. Zeev Gutman as Director of the Bank as of October 18, 2011.

On October 27, 2011, Mr Jonathan Irroni terminated his tenure as Chairman of the Board of Director of the Bank, and the Bank's Board of Directors chose Mr. Gutman to serve in this position.

In the general assembly of January 29, 2012, Mrs. Nurit Krausz was appointed external director according to instruction 301 of the Proper Banking Management instructions and as an independent director as the term is defined in the Companies Law.

As of the publication of the report, the Bank's Board of Directors appointed 11 directors, 4 of them external directors), 3 external directors according to the Companies Law, and one external director according to instruction 301 of the Proper Banking Management instruction amendment).

It should be mentioned that on October 14, 2010, the Supervisor of Banks contacted the Bank's Board of Directors, as part of examining the functioning of the Bank's Board of Directors and its structure, for determining regulations concerning the composition of the Board of Directors and the relation between external directors and other directors.

After the discussions held with the Supervisor of Banks, a discussion in the Board of Directors was set for February 22, 2012, that with the existing composition of 10 to 11, of whom 4 will be appointed as external directors.

Moreover, it is determined that future change in this composition (if required) will be coordinated with the Supervisor of Banks.

During 2011, and until the report's publication date, the following changes were applied in the composition of the Board of Directors' committees:

On October 27, 2011, Mr. Gutman was appointed as member of the Committee for Risk Management, and on November 29, 2011, he was appointed as member of the Capital Planning and Strategy Committee and Chairman of the Risks Management Committee. On January 29, 2012, Mrs. Tolkowsky was appointed as a member of the Compensation Committee, and Mrs. Kraus as a member of the Capital Planning and Strategy Committee.

As of the report's publication date, the committees and the Board of Directors operate as follows:

Audit Committee: Shmuel Eshel (Chairman) (external director), Efrat Tolkowsky (external director), Shalom Hochman (external director) and Oved Ben Ozair;

Risks Management Committee: Zeev Gutman (Chairman), Shmuel Eshel (external director), Efrat Tolkowsky (external director) Shalom Hochman (external director), Jonathan Irroni;

Capital Planning and Strategy Committee: Gideon Shoval (Chairman), Zeev Gutman, Shalom Hochman (external director), Jonathan Irroni, Nurit Krausz (external director according to instruction 301).

Compensation Committee: Zalman Shoval (Chairman), Gideon Shoval, Shmuel Eshel (external director), Oved Ben Ozair, Efrat Tolkowsky (external director).

Credit Committee of the Board of Directors: Moshe Bauer (Chairman), Oved Ben Ozair, Pinchas Volovelsky, Dr. Shalom Hochman (external director) Shmuel Eshel (external director).

During 2011, there were 15 meetings of the plenum of the Board of Directors and 61 meetings of its committees.

Members of the Board of Directors as of the 31st of December 2011 (1) (2)

Uriel Paz	CEO
Asher Ben David	Vice CEO, Retail Division Manager
Michael Tayer (3)	Vice CEO, Resource Division Manager
Nissan Levy (4)	Vice CEO, Manager of the Financial Division
Michael Ben Yishay (5)	Vice CEO, Manager of Human Resources Division (C.R.O)
Sarit Weistuch	Vice CEO, legal consultant
Eric Zuili	Vice CEO, Manager Cooperation Channels Department
Arnon Zait	Vice CEO, Manager Of Financial Department
Dina Frumovich	Vice CEO, Manager Screening Department
Motti Gedali	Replacement and Deputy, Internal Auditor
Ron Sagi	Vice CEO, candidate for management member, Internal auditor
Carmel Florentz	Secretary of the Bank
Daniel Nahum	Manager Information, Systems Department
Salaries of senior officers	See below in appendix A.
Salary of auditing accountant	See below in Appendix A.

The Board of Directors thanked Mr. Jonathan Irroni who served as Chairman of the Board of Directors for 6 years, for his contribution to the Bank's achievements and business results. The Bank's Board of Directors thanks the management of the Bank and it employees for their dedicated work and contribution for the Bank's business advancement.

Zeev Gutman	**Uriel Paz**
Chairman of the Board of Directors	**Chief Executive Officer**

February 28, 2012

(1) Additional information on senior officers at the Bank are presented in the Bank's periodical report for 2011, and on the web site Magna from the Securities Authority at the address http//www.magna.isa.gov.il

(2) Mr. Bentzi Adiri served in the position of Business Credit Department manager until December 22, 2011.

(3) Mr. Michael Tayer served in this position as of September 15, 2011. Until August 2, 2011 Mrs, Arela Meridor, RIP, served in this position.

(4) Mr. Nissan Levy serves in this position as of July 1, 2011. Until July 1, 2011, Mr. Nachman Nitzan served in this position.

(5) Mr. Michael Ben Yishay Levi serves in this position as of August 1, 2011. Mr. Nissan Levy served in this function until June 30, 2011.

Principal data on the Bank and on its consolidated companies for the year ending on December 31, 2011

Appendix A. to the Report of the Board of Directors

	Rate Changes in %	For the year ending on the day December 31 2011	2010
A. Profit and profitability			
		In percent	
1. Net profit yield for average capital		**7.3%**	5.5%
2. Profit yield from normal operating of average capital		**4.0%**	5.5%
		Reported amounts Millions of NIS	
3. Profit from financing activity before expenses for credit losses	20%	**195.4**	163.4
4. Expenses due to Credit Losses[1]	–615%	**(13.4)**	2.6
5. Profit from financing activity after expenses for credit losses	10%	**182.0**	166.0
6. Income from other operations	– 9%	**77.5**	85.2
7. Operational and other expenses:	11%	**(224.8)**	(203.1)
8. Profit from normal activity before tax	–28%	**34.7**	48.1
9. Provision for taxes	–29%	**(10.0)**	(14.0)
10. Net profit from regular activities after taxes	–28%	**24.7**	34.1
11. Profit from extraordinary operations after taxes		**20.8**	–
12. Net profit	33%	**45.5**	34.1

	Change rate	As of December 31	
		2011	**2010**
B. Main financial relations			
Provision for credit loss due to credit balance of the public (including off–balance–sheet average credit risk) at the end of the year:			
		In percent	
13. Annual provision (1)		**0.15%**	–0.03%
14. Accumulated provision (1)		**1.5%**	1.5%
15. Core capital ratio to risk components (Basel II).		**9.1%**	10.6%
16. Capital ratio for risk components (Basel II)		**13.7%**	15.2%
		Reported amounts	
		Millions of NIS	
C. Balance sheet – main paragraphs			
17. Total balance sheet	13%	**11,483**	10,126
18. Cash and deposits at the Bank	21%	**792**	652
19. Securities	13%	**1,491**	1,315
20. Credit for the public	13%	**9,058**	8,037
21. Public deposits	22%	**9,065**	7,408
22. Liability certificates and deferred liability notes	–16%	**1,612**	1,921
23. Equity	2%	**645**	633
24. Capital for the purpose of capital ratio for risk components (Basel II)	6%	**963**	905
D. Off–balance–sheet paragraphs			
25. Loan balance from deposits according to collection level	–12%	**2,308**	2,617
26. Collateral balance	–18%	**339**	416

(1) On 1.1.2011 the Bank adopted for the first time the instructions of the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses". The comparison numbers from the previous period have been presented again. Therefore, the data for the period ending on 12.31.2011, are comparable to the data of the previous period. For additional explanation concerning the affect of the instruction's first adoption, please see note 2(23) of the Financial Statements.

Principal data on the Bank and on its consolidated companies for the year ending on December 31, 2011

Appendix A (continuation) to the report of the Board of Directors

E. Specifications of benefits for senior officers (thousands of NIS)

For the year ending December 31, 2011											
Details of the benefits receiver				Benefits for services				Other benefits		Total	
Name	Function	Position scope	Holding rate in capital of corporation	Salary[1]	Management fee[2]	Bonus[3]	Benefit for share–based payment[4]	Interest[5]	Other[6]		
Zeev Gutman[7]	Chairman of the Board of Directors	Partly	–	–	283	–	–	–	–	283	
Jonathan Irroni[8]	Chairman of the Board of Directors	Partly	–	–	622	310	–	–	–	932	
Avi Bezura[9]	Former CEO	–	–	–	–	1,015	–	–	110	1,125	
Uriel Paz[10]	CEO	Full	–	–	2,049	–	781	2	–	2,832	
Bentzi Adiri[11]	Vice CEO, Manager of Business Department	Full	–	282	766	171	–	–	–	1,219	
Asher Ben David[12]	Replacement and Vice CEO, Manager of the Retail Division	Full	–	–	1,194	–	9	2	–	1,205	
Nissan Levy[13]	Replacement and Vice CEO, Manager of the Financial Division	Full	–	1,053	–	–	2	4	–	1,059	
Arnon Zait[14]	Vice CEO, Manager of Finance Department	Full	–	1,047	–	–	2	4	–	1,053	

For the year ending on December 31, 2010 *											
Details of the benefits receiver				**Benefits for services**				**Other benefits**		**Total**
Name	Function	Position scope	Holding rate in capital of corpo–ration	Salary(1)	Manage–ment fee(2)	Bonus(3)	Benefit for share–based payment(4)	Interest(5)	Other(6)	
Jonathan Irroni(8)	Chairman of the Board of Directors	Partly	–	–	621	–	–	–	–	621
Uriel Paz(10)	CEO	Full	–	378	1,391	–	2,326	–	–	4,095
Avi Bezura(9)	CEO	Full	–	2,204	–	716	–	–	–	2,920
Bentzi Adiri(11)	Vice CEO, Manager of Business Department	Full	–	1,122	–	35	–	–	–	1,157
Ronit Schwartz	Vice CEO, Manager of Securities and Foreign Currency Department	Full	–	965	–	30	–	–	–	995
Ron Sagi	Vice CEO, Vice and Replacement of internal auditor	Full	–	929	–	35	–	–	–	964

Appendix A (continuation) to the report of the Board of Directors

E. Details of the benefits of the senior officers (in thousands of Shekels) – (continuation)

(1) Including provisions for remuneration, benefits, education funds, social insurance, and holidays as well as attendant conditions to the salary, but does not include payroll tax. Included in the profit report in paragraph Salaries and Accompanying Expenses

(2) Includes monthly management fees and accompanying benefits but does not include VAT. Included in the profit report in paragraph Salaries and Accompanying Expenses

(3) Includes bonus for which was set aside in the report year but not yet paid (without payroll tax). Included in the profit report in paragraph Salaries and Accompanying Expenses.

(4) For details: see note 22a of the Financial Statements. Included in the profit report in paragraph Salaries and Accompanying Expenses

(5) Including interest benefit for loans provided with benefit conditions. Included in the profit report in paragraph Profit from financing activity before expenses for credit losses

(6) Including car value benefit. Included in the profit report in paragraph Other Expenses. See remark 9 below.

(7) Mr. Zeev Gutman - Chairman of the Board of Directors of the Bank – is employed by the Bank for an average of 4 days per week as of October 15, 2011, according to the agreement through the company controlled by him, "Zeev Gutman Management and Consultancy Ltd.", for an unlimited period. For additional details, see note 22. It should be mentioned that certain subjects were not included in the invitation of the general assembly for approving the conditions, and that the Bank has the intention to assemble again for the approval of these conditions.

(8) Mr. Jonathan Irroni served as Chairman of the Board of Directors of the Bank as of March 30, 2006, and until October 27, 2011 (but continues to serve as director). According to the employment agreement, as of March 30, 2006, Mr. Irony will grant services to the Bank as Chairman of the Board of Directors at a scope of about 1.5 days up to 2 days per week. The services will be provided to the Bank in a standard agreement between the ordering party and the independent contractor and this through the company controlled by Mr. Irony ("Jonathan Irroni Holdings Ltd."). The compensation for these services are determined for a monthly total of NIS 41,666 with addition of VAT, linked to the CPI. Moreover, the managing company is entitled to a monthly payment for return of fixed expenses (telephone, car, petrol, etc.) for a total of NIS 4,065 with addition of VAT and return of current expenses involved to the granting of the services (such as: travel expenses abroad, entertainment, and so forth), according to the Bank's policy, and against receipts. The Chairman will be entitled to an annual bonus according to and subject to the recommendations of the Bank's Board of Directors and approval of the General Assembly, without this being a liability to pay annual bonus. The agreement period is for one year, and at the end of each year is will be automatically renewed for an additional year. Each party may terminate the agreement at any time, with a written announcement 3 months in advance. On January 29, 2012, the General Assembly of shareholders of the Bank approved the payment of a retirement bonus to Mr. Irony for the total of NIS 360 thousand including VAT.

(9) Mr. Avi Bezura served as CEO as of December 5, 2007, and ended his tenure on April 13, 2010. With the termination of his employment, Mr. Avi Bezura was paid amounts due to advance announcement of 6 months and adjustment period of 3 months, according to the employment agreement (period of in advance announcement and adjustments period ended on December 31, 2010). According to the employment agreement and subject to the conditions determined in it, Mr. Avi Bezura is entitled to a bonus for the termination of his tenure for the total of NIS 1.3 million and that has not yet been paid to him. Following claims raised by the aforementioned concerning the termination of his employment, and following the additional discussion held with him, the Board of Directors of the Bank decided on February 22, 2012, (after receiving approval from the Audit Committee on February 21, 2012), that in principle, the settlement in

relation to the termination of his employment of Mr, Avi Bezura, according to which the former CEO was entitled to six additional months of adjustment period beyond as set in his employment agreement (amounting to a total of NIS 1,505,942 gross), and also he will be entitled to use a Bank vehicle that is provided to him and this until the end of February 2012. The bonus that was included in 2010, is the bonus he was entitled to according to his employment conditions as aforementioned and with deduction of the provision for the beginning of the year. The amount for 2011, is the provision for the payment of the six months additional adjustment period as aforesaid (and with deduction of agreed amounts) based on the Banks assessment concerning the amount that will be paid according to the settlement approved in principle as aforementioned.

(10) Mr. Uriel Paz – CEO of the Bank, was a Bank employee as of April 13, 2010 until May 31, 2010. As of June 1, 2010 Mr. Uriel Paz provided managing services to the Bank according to the agreement of providing management services through the company controlled by him "Uriel Pal Consultancy Ltd." for a period of 4 years. For additional information see note 22 and also note 22a of the Financial Statements. Mr. Uriel Paz has a credit balance with benefit terms as of December 31, 2011 for a total of NIS 27 million.

(11) Mr. Bentzi Adiri – manager of business department, employed at the bank as of April 2, 2007 and until December 22, 2011, (as of April 1, 2011, Mr. Bentzi Adiri is employed according to the agreement of providing management services through the company controlled by him "Bentzi Adiri Management Services Ltd."). Mr. Bentzi Adiri's monthly salary is linked to the CPI. In November 2011, the payment of the retirement bonus for the amount of NIS 171 thousand for Mr. Bentzi Adiri has been approved.

(12) Mr. Asher Ben David - manager of Retail Division, employed at the Bank as of May 1, 2010, according an agreement to provide management services through the company controlled by him "Yak Asset Management Ltd.," for an unlimited period. The monthly salary of Mr. Asher Ben David is linked to the CPI. Each of the parties may terminate the agreement while giving advance announcement of three months in advance. In addition, Mr. Asher Ben David is entitled to an adjustment period of 3 months from the date of advance announcement of termination as part of the full management fees to be paid. Mr. Asher Ben David is allocated under the options program for senior managers, 564,142 option units of type A as well as 282,070 option units of type B for details concerning the options program for senior managers see note 22a, and for details concerning compensation program see chapter on "Human Capital" in the report by the Board of Directors. Mr. Asher Ben David has a credit balance with benefit terms as of December 31, 2011 for a total of NIS 55 million.

(13) Mr. Nissan Levy – manager of financial division, employed at the Bank as of June 1, 1999, according to personal agreement, for an unlimited period. The monthly salary of Mr. Nissan Levy is linked to the CPI. Each of the parties may terminate the agreement while giving advance announcement of three months in advance. Moreover, when his employment will be terminated, Mr. Nissan Levy will be entitled to all the accumulated amounts the Bank will release on his behalf that are accumulated in his favor over various periods. Mr. Nissan Levy was allocated under an options program for senior managers 155,139 option units of type A, as well as 77,569 option units of type B. For details concerning the options program for senior managers see note 22a and for details concerning compensation program see chapter the "Human Capital" in the report of the Board of Directors. Mr. Nissan Levy has a credit balance with benefit terms as of December 31, 2011, for a total of NIS 51 thousand.

(14) Mr. Arnon Zait - manager of finance division, employed at the Bank as of April 2, 2000, according to personal agreement for an unlimited period. The monthly salary of Mr. Arnon Zait is linked to the CPI. Each of the parties may terminate the agreement while giving advance announcement of 3 months in advance, moreover, Mr. Arnon Zait will be entitled to, when his employment will be terminated, all the accumulated amounts the Bank will release on his behalf that are accumulated in his favor in various periods. Mr. Arnon Zait is allocated a framework of options program for senior managers of 103,426 option units of the type of A and also 51,713 option units of the type B for details concerning the options program for senior managers see note 22a and for details concerning compensation program see chapter the "Human Capital" in the report of the Board of Directors. Mr. Arnon Zait has a credit balance with benefit conditions as of December 31, 2011, for a total of NIS 217 thousand.

Principal data on the Bank and on its consolidated companies for the year ending on December 31, 2011

Appendix A (continuation) to the report of the Board of Directors

	For the year ending on the day December 31	
	2011	**2010**
F. Data of organization structure		
1. Number of Bank branches	**16**	16
2. Number of employees including subsidiaries (including employees from employment agencies and outsourcing)	**463**	412
3. Number of positions with overtime (monthly average)	**16**	13
4. Number of meetings of the Board of Directors assembly	**15**	15
5. Number of meeting of the Board of Directors' committees	**61**	66

G. Salary of Auditing Accountant (1,2,3,) in thousands of NIS

	Consolidated		The Bank	
	For the year ending on December 31			
	2011	**2010**	**2011**	**2010**
For auditing activity: (4)				
Auditing accountant	**1,220**	1,086	**1,006**	907
For tax services (5)				
Auditing accountant	**240**	259	**240**	259
For other services				
Auditing accountant	**273**	488	**273**	488
Total salary of auditing accountant	**1,733**	1,833	**1,519**	1,654

(1) Report of the Board of Directors for the annual general assembly on salary of the Auditing Accountant for auditing activities for additional services during the audit, according to paragraphs 165 and 167 of the Companies Law, 5759 - 1999.

(2) The salary of the Auditing Accountant includes payments to to partnerships and corporations under their control, and includes payments based on VAT Law.

(3) Including paid salary and accumulated salary.

(4) Auditing annual Financial Statements and review of the interim reports.

(5) Current tax services and preparation of the reports for the tax authorities.

Management Review

Financial Statement for 2011

Bank of Jerusalem Ltd. and its consolidated companies

Management Review of the Bank's business situation and the results of its operations

Below are multi-period information and various details of Financial Statements that could provide a broad picture on the Bank's financial situation and its activity results, and are present in the addition below:

Consolidated balance sheets – multi-period for the years 2007 - 2011

Reported amounts

Appendix A

	December 31				
	2011	2010	2009	2008	2007
	Millions of NIS				
Assets					
Cash and deposits at the Bank	**792.3**	652.3	765.1	350.7	369.5
Securities	**1,490.7**	1,314.9	1,083.2	1,291.7	1,350.4
Credit for the public *	**9,148.8**	8,158.4	7,481.1	7,652.3	7,326.2
Provision for credit losses *	**(91.0)**	(121.5)	(131.8)	(142.2)	(137.7)
Net credit for the public	**9,057.8**	8,036.9	7,349.3	7,510.1	7,188.5
Buildings and equipment	**79.7**	56.7	52.4	51.8	43.8
Assets for derivative instruments	**7.2**	23.9 **	23.6 **	9.9 **	9.9 **
Other assets	**54.9**	41.0 **	27.8 **	37.1 **	16.3 **
Total assets	**11,482.6**	10,125.7	9,301.4	9,251.3	8,978.4
Liabilities and capital					
Public deposits	**9,064.6**	7,407.8	7,115.7	7,279.3	6,960.3
Deposits from banks	**76.2**	86.5	103.9	139.5	170.8
Government deposits	**0.8**	4.9	5.4	3.7	9.0
Securities that have been loaned or sold as part of the return purchasing agreement	**-**	–	–	50.0	–
Liability certificates and deferred liability notes	**1,611.9**	1,921.1	1,391.8	1,188.3	1,261.7
Liabilities for derivative instruments	**15.0**	10.7 **	11.0 **	17.2 **	9.7 **
Other liabilities	**69.5**	61.5 **	67.7 **	53.4 **	64.5 **
Total liabilities	**10,838.0**	9,492.5	8,695.5	8,731.4	8,476.0
Equity	**644.6**	633.2	605.9	519.9	502.4
Total liabilities and capital	**11,482.6**	10,125.7	9,301.4	9,251.3	8,978.4

* On 1.1.2011, the Bank adopted for the first time the instructions from the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses". Comparison numbers for the previous period has not been presented again. Therefore, the data for the period ending on 31.12.2011 is not comparable to the data from the previous period. For additional explanation concerning the affect of the instruction's first adoption, please see note 2(23) of the Financial Statements.

** Reclassified

Consolidated Profit and Loss reports – multi-period information for the years 2007 - 2011

Reported amounts

Appendix B

	For the year ending on December 31				
	2011	**2010**	**2009**	**2008**	**2007**
	Millions of NIS				
Profit from financing activity before expenses for credit losses	195.4	163.4	180.5	171.7	182.7
Expenses for Credit Losses *	13.4	(2.6)	(1.3)	6.8	12.6
Profit from financing activity after expenses for credit losses	**182.0**	**166.0**	**181.8**	**164.9**	**170.1**
Income from other operations					
Operating fees	77.4	84.3	84.0 **	83.1 **	88.5 **
Net profits (and losses) from investments in securities	–	0.3	–	(1.0)	(0.2)
Other revenues	0.1	0.6	0.1 **	0.8 **	0.1 **
Total operating revenue and others	**77.5**	**85.2**	**84.1**	**82.9**	**88.4**
Operational and other expenses:					
Salaries and accompanying expenses	134.1	120.7	105.8	102.6	103.7
Maintenance and depreciation of buildings and equipment	37.6	29.4	27.9	24.4	24.0
Other expenses	53.1	53.0	39.9	39.2	39.3
Total operating and other expenses	**224.8**	**203.1**	**173.6**	**166.2**	**167.0**
Profit from normal activity before tax	34.7	48.1	92.3	81.6	91.5
Provision for taxes on profit from regular activities	10.0	14.0	33.6	29.9	30.6
Profit from regular activities after taxes	**24.7**	**34.1**	**58.7**	**51.7**	**60.9**
Profit from extraordinary operations after tax	20.8	–	–	–	0.1
Net profit	**45.5**	**34.1**	**58.7**	**51.7**	**61.0**
Net profit per share (in NIS)					
Profit from regular activities	0.35	0.48	0.83	0.73	0.87
Profit from extraordinary operations	0.30	–	–	–	–
Total net profit per share (in NIS)	**0.65**	**0.48**	**0.83**	**0.73**	**0.87**

* On 1.1.2011, the Bank adopted for the first time the instructions from the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses". The comparison numbers from the previous period have been presented again. Therefore, the data for the period ending on 12.31.2011, are comparable to the data of the previous period. For additional explanation concerning the affect of the instruction's first adoption, please see note 2(23) of the Financial Statements.

** Reclassified

Rates of income and expenses – of the Bank and its consolidated companies[1]

Reported amounts

Appendix C

	2011			
			Revenue (expense) rate[5]	
	Balance Average for the period[2]	Revenue (expenses) Financing	without affect derivatives	Total Affect of derivatives
	Millions of NIS		In percent	
Israeli currency not linked				
Assets [7]	6,124.9	300.5	4.91	4.91
Liabilities [7]	5,413.6	(164.5)	(3.04)	
Affect of ALM [8]	145.6	(10.4)		
Total liabilities	5,559.2	(174.9)		(3.15)
Interest gap			**1.87**	**1.76**
Israeli currency index linked				
Assets [7]	3,282.6	205.1	6.25	
Affect of ALM [8]	256.8	8.1		
Total assets	3,539.4	213.2		6.02
Liabilities [7]	3,590.5	(210.8)	(5.87)	(5.87)
Total liabilities	3,590.5	(210.8)		
Total liabilities			**0.38**	**0.15**
Foreign currency – local activity [3]				
Assets [7]	1,281.0	131.1	10.23	
Affect of ALM [8]	341.3	26.5		
Total assets	1,622.3	157.6		9.71
Liabilities [7]	1,114.0	(86.5)	(7.76)	
Affect of ALM [8]	452.6	(39.8)		
Total liabilities	1,566.6	(126.3)		(8.06)
Interest gap			**2.47**	**1.65**
Total				
Financial assets that generated financing revenue [7]	10,688.5	636.7	5.96	
Affect of ALM [8]	598.1	34.6		
Total assets	11,286.6	671.3		5.95
Financial liabilities that caused financing expenses [7]	10,118.1	(461.8)	(4.56)	
Affect of ALM [8]	598.2	(50.2)		
Total liabilities	10,716.3	(512.0)		(4.78)
Interest gap			**1.39**	**1.17**

Notes: at the end of Appendix C.

Rates of income and expenses – of the Bank and its consolidated companies[1] (continuation)

Appendix c (continuation)

	2011	
	Balance Average for the period of[2]	Revenue (expenses) financing
	Millions of NIS	
For other derivative instruments		1.4
Commission from financing business and revenue from other financing [4]		34.7
Profit from financing activity before expenses for credit losses		195.4
Expenses for Credit Losses		(13.4)
Revenue from other financing activity after expenses due to credit losses		**182.0**
Financial assets generating financing revenue	10,688.5	
Assets deriving from derivative instruments [6]	19.6	
Other financial assets [7]	153.1	
Provision for Credit Losses	(88.0)	
Total financial assets	**10,773.2**	
Financial liabilities that caused financing expenses	10,118.1	
Liabilities deriving from derivative instruments [6]	7.4	
Other financial liabilities [7]	25.3	
Total financial liabilities	**10,150.8**	
Total surplus financial assets on financial liabilities	622.4	
Non–financial assets	35.3	
Non–financial liabilities	(34.9)	
Total capitalized means	**622.8**	

Notes: at the end of Appendix C.

Rates of income and expenses – of the Bank and its consolidated companies[1] (continuation)

Reported amounts

Appendix C

	2010			
			Income (expense) rate[5]	
	Balance Average for the period[2]	Revenue (expenses) Financing	Without affect derivatives	Total Affect of derivatives
	Millions of NIS		In percent	
Israeli currency not linked				
Assets [7]	4,993.2	178.8	3.58	3.58
Liabilities [7]	4,071.6	(79.7)	(1.96)	
Affect of ALM [8]	305.3	(13.6)		
Total liabilities	4,376.9	(93.3)		(2.13)
Interest gap			**1.62**	**1.45**
Israeli currency index linked				
Assets [7]	3,208.5	204.0	6.36	
Affect of ALM [8]	370.1	12.4		
Total assets	3,578.6	216.4		6.05
Liabilities [7]	3,700.8	(217.5)	(5.88)	(5.88)
Interest gap			**0.48**	**0.17**
Foreign currency – local activity [3]				
Assets [7]	1,227.3	(38.0)	(3.10)	
Affect of ALM [8]	268.1	(21.8)		
Total assets	1,495.4	(59.8)		(4.00)
Liabilities [7]	1,085.7	65.5	6.03	
Affect of ALM [8]	332.9	20.0		
Total liabilities	1,418.6	85.5		6.03
Interest gap			**2.94**	**2.03**
Total				
Financial assets that generated financing revenue [7]	9,429.0	344.8	3.66	
Affect of ALM [8]	638.2	(9.4)		
Total assets	10,067.2	335.4		3.33
Financial liabilities that caused financing expenses [7]	8,858.1	(231.7)	(2.62)	
Affect of ALM [8]	638.2	6.4		
Total liabilities	9,496.3	(225.3)		(2.37)
Interest gap			**1.04**	**0.96**

Notes: at the end of Appendix C.

Rates of income and expenses – of the Bank and its consolidated companies[1] (continuation)

Appendix c (continuation)

	2010	
	Balance Average for the period (2)	Revenue (expenses) financing
	Millions of NIS	
For other derivative instruments		1.0
Commissions for financing business and other financing revenue (4)		52.3
Profit from financing activity before expenses for credit losses		163.4
Expenses for Credit Losses		2.6
Revenue from other financing activity after expenses due to credit losses		**166.0**
Financial assets generating financing revenue	9,429.0	
Assets deriving from derivative instruments (6)	17.3	
Other financial assets (7)	20.2	
General provision and additions for doubtful debts	(6.4)	
Total financial assets	**9,460.1**	
Financial liabilities that caused financing expenses	8,858.1	
Liabilities deriving from derivative instruments (6)	8.3	
Other financial liabilities (7)	30.5	
Total financial liabilities	**8,896.9**	
Total surplus financial assets on financial liabilities	563.2	
Non–financial assets	32.5	
Non–financial liabilities	30.2	
Total capitalized means	**625.9**	

Notes: at the end of Appendix C.

Rates of income and expenses – of the Bank and its consolidated companies[1] (continuation)

Appendix c (continuation)

Foreign currency – nominal in US dollar

	2011			
			Income (expense) rate[5]	
	Balance Average for the period[2]	Revenue (expenses) Financing	without affect derivatives	Total affect derivatives
	Millions of US$		In percent	
Local activity [3]				
Assets [7]	362.3	9.7	2.68	
Derivative affect ALM [8]	108.1	0.8		
Total assets	470.4	10.5		2.23
Liabilities [7]	316.4	(2.4)	(0.76)	
Derivative affect ALM [8]	145.0	(0.5)		
Total liabilities	461.4	(2.9)		(0.63)
Interest gap			**1.92**	**1.60**

	2010			
			Revenue (expense) rate[5]	
	Balance Average for the period[2]	Revenue (expenses) Financing	without affect derivatives	Total affect derivatives
	Millions of US$		In percent	
Local activity [3]				
Assets [7]	328.0	7.3	2.23	
Derivative affect ALM [8]	110.9	0.7		
Total assets	438.9	8.0		1.82
Liabilities [7]	278.1	(1.4)	(0.50)	
Derivative affect ALM [8]	121.2	(0.4)		
Total liabilities	399.3	(1.8)		(0.45)
Interest gap			**1.72**	**1.37**

Notes:

(1) The data provided in this table is data before and after the affect of derivative instruments (including off-balance-sheet affect of derivative instruments)

(2) On the basis of the monthly opening balance, except for the non-linked Israeli currency sector where the average balance is calculated on basis of daily data, and after deduction the average balance-sheet balance of specific provisions for doubtful debts.

(3) Including Israeli currency linked to foreign currency.

(4) Including profits and losses from investment sales in debentures and fair value adjustments of negotiable debentures.

(5) The percentages are calculated on the basis of data in thousands NIS.

(6) The average balance-sheet balance of derivative instruments (not including average off-balance-sheet balance of derivative instruments).

(7) Except for derivative instruments

(8) ALM – Derivatives that are part of the assets and the Bank's liability management system (except of options), that concerning them is possible to ascribe the income (expense) to the linked segment.

Complete data on revenue and expense rate in each segment, according to various balance sheet paragraphs, will be provided upon request.

Exposure of the Bank and its consolidated companies for changes in interest rates as of December 31

Appendix D	December 31				
	2011				
	with Requirement until month	Over month until 3 months	Over 3 months until year	Over year until 3 years	Over 3 years until 5 years
	Millions of NIS				
Non-linked Israeli currency					
Financial assets	3,848.1	283.0	1,116.6	849.3	100.5
Derivative financial instruments (except options)	139.2	–	–	–	–
Total fair value	3,987.3	283.0	1,116.6	849.3	100.5
Financial liabilities	(3,263.4)	(1,356.8)	(789.6)	(494.7)	(32.2)
Derivative financial instruments (except options)	–	(104.3)	(22.0)		(1.5)
Total fair value	(3,263.4)	(1,461.1)	(811.6)	(494.7)	(33.7)
Financial instruments, net					
Exposure to changes in segment interest rates	723.9	(1,178.1)	305.0	354.6	66.8
Accumulated segment exposure	**723.9**	**(454.2)**	**(149.2)**	**205.4**	**272.2**
Israeli currency index – linked					
Financial assets	68.8	162.0	756.3	1,010.9	846.6
Derivative financial instruments (except options)	–	105.5			–
Total fair value	68.8	267.5	756.3	1,010.9	846.6
Financial liabilities	(90.0)	(148.5)	(662.7)	(1,554.4)	(881.6)
Derivative financial instruments (except options)	–	–	–	–	–
Total fair value	(90.0)	(148.5)	(662.7)	(1,554.4)	(881.6)
Financial instruments, net					
Exposure to changes in segment interest rates	(21.2)	119.0	93.6	(543.5)	(35.0)
Accumulated segment exposure	**(21.2)**	**97.8**	**191.4**	**(352.1)**	**(387.1)**
Foreign currency (2)					
Financial assets	1,293.5	52.0	95.6	26.0	23.8
Derivative financial instruments (except options)	–	–	20.7	–	–
Total fair value	1,293.5	52.0	116.3	26.0	23.8
Financial liabilities	(836.5)	(219.9)	(279.2)	(35.5)	–
Derivative financial instruments (except options)	(143.0)	(2.4)		–	–
Total fair value	(979.5)	(222.3)	(279.2)	(35.5)	–
Financial instruments, net					
Exposure to changes in segment interest rates	314.0	(170.3)	(162.9)	(9.5)	23.8
Accumulated segment exposure	**314.0**	**143.7**	**(19.2)**	**(28.7)**	**(4.9)**
Exposure included in interest rate changes					
Total assets	5,210.4	497.0	1,968.5	1,886.2	970.9
Derivative financial instruments (except options)	139.2	105.5	20.7	–	–
Total fair value	5,349.6	602.5	1,989.2	1,886.2	970.9
Total liabilities	(4,189.9)	(1,725.2)	(1,731.5)	(2,084.6)	(913.8)
Derivative financial instruments (except options)	(143.0)	(106.7)	(22.0)	–	(1.5)
Total fair value	(4,332.9)	(1,831.9)	(1,753.5)	(2,084.6)	(915.3)
Financial instruments, net					
Exposure to changes in segment interest rates	1,016.7	(1,229.4)	235.7	(198.4)	55.6
Accumulated segment exposure	**1,016.7**	**(212.7)**	**23.0**	**(175.4)**	**(119.8)**

Exposure of the Bank and its consolidated companies for changes in interest rates as of December 31 (continuation)

December 31								
2011							2010	
Over 5 years Up to 10 years	Over 10 years Up to 20 years	Over 20 years	without period Repayment (1)	Total	Rate Yield Internal	during life Average	Rate Yield Internal	during life Average
Millions of NIS					%	years	%	years
173.0	54.1		–	6,424.6	4.26	0.62	4.58	0.46
–	–	–	–	139.2		0.05		–
173.0	54.1	–	–	6,563.8		0.61		0.45
(14.7)	–	–	–	(5,951.4)	3.27	0.31	2.64	0.28
–	–	–	–	(127.8)		0.28		0.77
(14.7)	–	–	–	(6,079.2)		0.31		0.31
158.3	54.1	–	–	484.6	7.53	0.93	7.22	0.74
430.5	**484.6**	**484.6**	**484.6**	**484.6**				
540.4	174.7	5.3	–	3,565.0	3.68	3.16	3.45	3.25
–	–	–	–	105.5		0.22		0.77
540.4	174.7	5.3	–	3,670.5	3.68	3.08	3.45	3.00
(242.5)	(5.2)	–	–	(3,584.9)	2.75	2.33	1.58	2.72
–	–	–	–	–		–		–
(242.5)	(5.2)	–	–	(3,584.9)		2.33	1.58	2.72
297.9	169.5	5.3	–	85.6	0.93	0.83	1.87	0.53
(89.2)	**80.3**	**85.6**	**85.6**	**85.6**				
40.8	10.0	–	–	1,541.7	3.81	0.23	2.56	0.05
–	–	–	–	20.7	–	–	–	–
40.8	10.0	–	–	1,562.4	3.81	0.23	2.56	0.05
(0.3)	(0.9)	–	–	(1,372.3)	1.33	0.23	1.00	0.27
–	–	–	–	(145.4)		0.23		–
(0.3)	(0.9)	–	–	(1,517.7)	1.33	0.23	1.00	0.24
40.5	9.1	–	–	44.7	2.48	–	1.56	(0.22)
35.6	**44.7**	**44.7**	**44.7**	**44.7**				
754.2	238.8	5.3	–	11,531.3	**3.83**	1.35	3.67	1.31
–	–	–	–	265.4		0.11		0.63
754.2	238.8	5.3	–	11,796.7		1.33		1.28
(257.5)	(6.1)	–	–	(10,908.6)	**2.81**	0.96	1.69	1.22
–	–	–	–	(273.2)		0.25		0.57
(257.5)	(6.1)	–	–	(11,181.8)	**2.81**	0.94	1.69	1.20
496.7	232.7	5.3	–	614.9	**1.02**	0.38	1.98	0.08
376.9	**609.6**	**614.9**	**614.9**	**614.9**				

Exposure of the Bank and its consolidated companies for changes in interest rates as of December 31 (remarks)

(1) The balance sheet balances are presented in the column "without repayment period."

(2) Local activity, including Israeli currency linked to foreign currency.

Remarks

A. Additional details of exposure to changes in the interest rate in each segment, according to various balance sheet paragraphs, will be provided upon request.

B. In this table, the data are by periods, presenting the current value of the future flows when they are capitalized according to the interest rate that is deducted from them to the included fair value for the financial instrument in note 21 of the Financial Statement, following the discounts according to which the fair value of the financial instrument is calculated. For additional details concerning discounts

C. The internal rate of return, that is, the interest rate deducted from the expected cash flows of the financial instrument to the fair value included for it, in note 21 of the Financial Statement.

D. The average effective life time of financial instruments group approximates the percent of change in fair value that will be caused as result of a small change in the internal return rate of each of the financial instruments.

Total credit risk for the public according to market branches – consolidated

Reported amounts

Appendix E

	December 31, 2011								
	Credit risk for the public (5)						Credit Losses(3)		
	Balance sheet credit risk	Debentures	Off–balance–sheet credit risk (1)	Total credit risk	Problematic credit risk (2)	Defective credit to the public	Expenses for Credit Losses	Write offs Net write offs	Balance of provision for credit losses
	Millions of NIS								
Agriculture	7.0		0.7	7.7	0.2		(0.2)	–	0.2
Industry	25.3		3.3	28.6	0.5		(0.3)	–	0.1
Construction and real estate (6)	1,349.8	4.3	596.3	1,950.4	92.8	20.0	–	1.7	7.2
Electricity and water	0.9		–	0.9	–		–	–	
Commerce	29.4		2.6	32.0	1.4		(2.0)	0.1	0.3
Hotels, food and accommodation services	14.8		0.5	15.3	–		0.6	0.3	0.4
Transport and storage	66.8		1.4	68.2	2.0		0.5	0.5	0.5
Communications and computer services	1.6	11.0	0.2	12.8	–		0.1	0.1	–
Financial services	44.3	95.8	19.1	159.2	–		–	–	–
Business services and others	47.7	21.4	5.9	75.0	1.3		–	–	0.1
Public and community services	22.9	1.2	19.3	43.4	0.2		–	0.1	0.1
Individuals – housing loans	6,627.9	–	359.5	6,987.4	253.5		1.2	8.3	69.9
Individuals – other	910.4	–	202.1	1,112.5	86.1	15.6	15.2	8.2	13.9
Total exposure to the public	**9,148.8**	**133.7**	**1,210.9**	**10,493.4**	**438.0**	**35.6**	**15.1**	**19.3**	**92.7**
Credit risk that is included in various market branches:									
Local authorities(4)	**0.4**	**1.2**	**–**	**1.6**	**–**	**–**	**–**	**–**	**–**

Included credit risk for the public according to market branches – consolidated (continuation)

Reported amounts

Appendix E (continuation)

	December 31, 2010							
	Credit risk for the public						Credit Losses[3]	
	Credit	Debentures	derivatives	Balance sheet credit risk included	Credit risk off–balance–sheets[1]	Total credit risk	The expenses for specific provision for doubtful debts	Balance of problematic debts
	Millions of NIS							
Agriculture	10.3	–	–	10.3	1.1	11.4	0.1	–
Industry	47.1	0.8	–	47.9	3.8	51.7	–	–
Construction and real estate [3]	1,005.3	15.4	–	1,021.2	636.4	1,657.6	(3.0)	103.1
Electricity and water	0.9	0.8	–	1.7	–	1.7	–	–
Commerce	46.4	0.4	–	46.8	1.3	48.1	0.2	1.5
Hotels, food and accommodation services	8.4	–	–	8.4	0.4	8.8	0.1	–
Transport and storage	71.1	–	–	71.1	0.5	71.6	0.2	–
Communications and computer services	5.1	1.5	–	6.6	0.1	6.7	–	1.0
Financial services	65.1	14.4	–	79.5	13.8	93.3	–	–
Business services and others	127.0	4.4	–	131.4	8.5	139.9	(0.5)	–
Public and community services	42.0	1.5	–	43.5	18.9	62.4	–	0.3
Individuals – housing loans	6,125.1	–	–	6,125.1	494.9	6,620.0	(0.2)	198.5
Individuals – other	604.6	–	–	604.6	202.1	806.7	1.6	41.7
Total exposure to the public	8,158.4	39.2	–	8,198.1	1,381.8	9,579.9	(1.5)	346.1
Exposure to Central Bank	405.9	–	–	405.9	–	405.9	–	–
Exposure to banking corporations	240.8	88.6	18.1	347.5	–	347.5	–	–
Exposure to sovereignties	–	1187.1	–	1187.1	–	1187.1	–	–
Other exposures	103.2	–	5.8	109.0	–	109.0	–	–
Total exposure	8,908.3	1,314.9	23.9	10,247.6	1,381.8	11,629.4	(1.5)	346.1

Included credit risk for the public according to market branches – consolidated (continuation)

Reported amounts

Appendix E (continuation)

	Average for the year 2011				
	Credit	Debentures	Balance sheet credit risk included	Off–balance–sheet credit risk (1)	Total credit risk
	Millions of NIS				
Agriculture	8.4	–	8.4	0.7	9.1
Industry	38.6	0.5	39.1	2.6	41.7
Construction and real estate	1,175.3	7.4	1,182.7	481.2	1,663.9
Electricity and water	0.8	0.6	1.4	–	1.4
Commerce	37.5	0.1	37.6	1.7	39.3
Hotels, food and accommodation services	9.2	–	9.2	0.4	9.6
Transport and storage	68.8	–	68.8	0.9	69.7
Communications and computer services	4.2	10.0	14.2	0.1	14.3
Financial services	59.6	41.4	101.0	10.9	111.9
Business services and others	104.4	8.8	113.2	5.5	118.7
Public and community services	43.0	1.1	44.1	14.2	58.3
Individuals – housing loans	6,372.8	–	6,372.8	367.7	6,740.5
Individuals – other	737.1	–	737.1	168.4	905.5
Total exposure to the public	**8,659.7**	**69.9**	**8,729.6**	**1,054.3**	**9,783.9**

(1) Credit risk in off-balance-sheet financial instrument as calculated for the purpose of borrower's liability limitation.

Included credit risk for the public according to market branches – consolidated (continuation)

Reported amounts

Appendix E (continuation)

	Average for the year 2010					
	Credit	Debentures	derivatives	Balance sheet credit risk included	Off–balance–sheet credit risk (1)	Total credit risk
	Millions of NIS					
Agriculture	10.0	–	–	10.0	1.0	11.0
Industry	48.9	6.8	–	55.7	3.1	58.8
Construction and real estate	966.3	52.9	–	1,019.2	654.0	1,673.2
Electricity and water	0.9	3.2	–	4.1	–	4.1
Commerce	45.0	1.8	–	46.8	13.8	60.6
Hotels, food and accommodation services	8.8	–	–	8.8	0.8	9.6
Transport and storage	72.7	5.1	–	77.8	1.5	79.3
Communications and computer services	5.7	9.3	–	15.0	0.1	15.1
Financial services	62.8	19.1	–	81.9	6.3	88.2
Business services and others	125.0	13.0	–	138.0	11.6	149.6
Public and community services	59.7	1.5	–	61.2	31.3	92.5
Individuals – housing loans	5,720.4	–	–	5,720.4	431.1	6,151.5
Individuals – other	557.8	–	–	557.8	165.2	723.0
Total exposure to the public	**7,684.0**	**112.7**	**–**	**7,796.7**	**1,319.8**	**9,116.5**
Exposure to Central Bank	325.1	–	–	325.1	–	325.1
Exposure of banking corporations	148.9	62.4	16.1	227.4	–	227.4
Exposure to sovereignties	–	1,099.1	–	1,099.1	–	1,099.1
Other exposures	93.8	–	3.9	97.7	–	97.7
Total exposure	**8,251.8**	**1,274.2**	**20.0**	**9,546.0**	**1,319.8**	**10,865.8**

Total credit risk for the public according to market branches – consolidated (remarks)

(1) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of borrower's liability limitations.

(2) The off-balance-sheet and balance sheet credit risk for the public that is not defective, inferior or under special supervision.

(3) Including off-balance-sheet credit instruments (presented in the balance sheet in paragraph on Other liabilities). On 1.1.2011, for the first time, the Bank adopted the instructions from the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses." The comparison numbers for the previous period have not been presented again. Therefore, the data for the period of three and nine months that ended on 30.9.2011, are comparable to the data of the previous period. For additional explanation concerning the affect of the instruction's first adoption, please see note 2(23) of the Financial Statements.

(4) Including corporations controlled by them

(5) Off-balance-sheet and balance-sheet credit risk, credit risk from problematic commerce, and defective credit to the public are presented according to the affect of the provision for credit losses.

(6) Including housing loans provided to certain acquisition groups that are in building process for a total of NIS 163.8 million, and the credit lines provided for these groups total NIS 206.4 million.

Consolidated balance sheet – multi quarter information for the end of each quarter for the years 2010 and 2011

Reported amounts

Appendix F

	2011				2010			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	Millions of NIS							
Assets								
Cash and deposits at the Bank	792.3	1,272.9	509.9	530.2	652.3	316.6	348.1	314.3
Securities	1,490.7	1,557.3	1,351.8	1,192.3	1,314.9	1,210.3	1,366.4	1,395.5
Credit for the public, net *	9,057.8	8,798.8	8,562.3	8,327.8	8,036.9	7,851.5	7,673.1	7,477.2
Buildings and equipment	79.7	68.0	62.7	63.2	56.7	52.5	54.0	54.2
Assets for derivative instruments	7.2	14.1	21.6	22.3	23.9 **	23.0 **	14.6 **	15.0 **
Other assets	54.9	57.6	60.3	53.4	41.0 **	38.0 **	34.6 **	36.9 **
Total assets	**11,482.6**	**11,768.7**	**10,568.6**	**10,189.2**	10,125.7	9,491.9	9,490.8	9,293.1
Liabilities and capital								
Public deposits	9,064.6	9,195.0	7,875.4	7,522.6	7,407.8	7,070.6	7,075.1	6,845.5
Deposits from banks	76.2	82.4	82.5	84.0	86.5	93.9	97.2	97.9
Government deposits	0.8	31.0	–	5.3	4.9	0.5	2.5	12.7
Liability certificates and deferred liability notes	1,611.9	1,752.8	1,917.5	1,885.3	1,921.1	1,613.7	1,606.8	1,636.5
Liabilities for derivative instruments	15.0	10.3	7.1	–	10.7 **	6.0 **	10.6 **	6.3 **
Other liabilities	69.5	66.1	62.6	90.5	61.5 **	73.5 **	69.8 **	71.0 **
Total liabilities	**10,838.0**	**11,137.6**	**9,945.1**	**9,587.7**	9,492.5	8,858.2	8,862.0	8,669.9
Equity	644.6	631.1	623.5	601.5	633.2	633.7	628.8	623.2
Total liabilities and capital	**11,482.6**	**11,768.7**	**10,568.6**	**10,189.2**	10,125.7	9,491.9	9,490.8	9,293.1

* On 1.1.2011, the Bank adopted for the first time the instructions from the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses". The comparison numbers from the previous period have been presented again. Therefore, the data for the period ending on 12.31.2011, are comparable to the data of the previous period. For additional explanations concerning the affect of the instruction's first adoption, see note 2(23) of the Financial Statements.

** Reclassified

Consolidated Profit and Loss reports – multiple quarter information for the years 2010 and 2011

Reported amounts

Appendix G

	2011				2010			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	Millions of NIS							
Profit from financing activity before expenses for credit losses	59.1	54.0	40.1	42.2	39.0	40.2	39.8	44.4
Expenses for Credit Losses *	6.9	4.3	1.4	0.8	(4.0)	0.7	0.6	0.1
Profit from financing activity after expenses for credit losses	**52.2**	**49.7**	**38.7**	**41.4**	43.0	39.5	39.2	44.3
Income from other operations								
Operating fees	19.3	18.6	19.1	20.4	20.9	20.5	20.8	22.1
Net profits (and losses) from investments in securities	–	–	–	–	0.2	0.3	(0.3)	0.1
Other revenues	0.1	–	–	–	–	0.1	–	0.5
Total operating revenue and others	**19.4**	**18.6**	**19.1**	**20.4**	21.1	20.9	20.5	22.7
Operational and other expenses:								
Salaries and accompanying expenses	37.5	33.3	32.3	31.0	30.9	28.2	30.8	30.8
Maintenance and depreciation of buildings and equipment	10.5	9.7	9.9	7.5	7.2	7.5	7.3	7.4
Other expenses	13.3	13.0	13.2	13.6	19.6	10.9	11.0	11.5
Total operating and other expenses	**61.3**	**56.0**	**55.4**	**52.1**	57.7	46.6	49.1	49.7
Profit from normal activity before tax	10.3	12.3	2.4	9.7	6.4	13.8	10.6	17.3
Provision for taxes on profit from regular activities	1.8	4.2	0.6	3.4	0.3	4.1	3.4	6.2
Profit from regular activities after tax	8.5	8.1	1.8	6.3	6.1	9.7	7.2	11.1
Profit from extraordinary operations after taxes	(0.1)	1.3	19.6	–	–	–	–	–
Net profit	**8.4**	**9.4**	**21.4**	**6.3**	6.1	9.7	7.2	11.1
Net profit per share (in NIS)								
Profit from regular activities	0.12	0.11	0.03	0.09	0.08	0.14	0.10	0.16
Profit from extraordinary operations	–	0.02	0.28	–	–	–	–	–
Total net profit per share (in NIS)	**0.12**	**0.13**	**0.31**	**0.09**	**0.08**	**0.14**	**0.10**	**0.16**

* On 1.1.2011, the Bank adopted for the first time the instructions from the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses". The comparison numbers from the previous period have been presented again. Therefore, the data for the period ending on 12.31.2011, are comparable to the data of the previous period. For additional explanation concerning the affect of the instruction's first adoption, please see note 2(23) of the Financial Statements.

Statement (Certification)

I, Uriel Paz, declare that:

1. I have reviewed the annual report of the Bank of Jerusalem (hereinafter: "the Bank") for the year 2011 (hereinafter: "the Report").

2. Based on my knowledge, the report does not include any incorrect presentation of material facts and does not lack presentation of material facts required for the presentation therein. In view of the circumstances in which the same presentation have been included, they will not be misleading in relation to the period covered by the report.

3. Based on my knowledge, the Financial Statements and the other financial information included in the report reflect in a proper manner, from any material aspect, the financial status, financial performance, changes in equity, and cash flow of the bank for the day and periods presented in the report.

4. I and others at the bank declaring this statement are responsible for their determination and compliance of controls and procedures concerning the disclosure and internal auditing of the Bank on financial reporting. And also:

   A. We determined these controls and procedures, or caused their determination under our supervision of these controls and procedures, designated to ensure that the material information referring to the Bank, including its consolidated corporations, is brought to our attention by others at the Bank and in those corporations, particularly during the preparation period of the report;

   B. We determined internal auditing of these financial reporting, or caused its determination under our supervision of the internal auditing for such a financial report, designated to provide a reasonable level of security concerning the reliability of the financial report and that the Financial Statements for external purposes are edited according to accepted accounting regulations and the instructions of the Supervisor of Banks and his guidelines;

   C. We assessed the effectiveness of the controls and procedures concerning the the Bank's disclosure and we presented our conclusions in the report concerning the effectiveness of the controls and procedures concerning disclosure, for the end of the period covered in the report based on our assessment; and also

D. We did not discover in the report any change in internal auditing of the Bank on the Financial Statement that materially affected, or that could reasonably affect significantly, on the Bank's internal auditing of the Financial Statements; and also

5. I and others at the Bank declaring this statement disclosed to the auditing accountant, the Board of Directors and the Audit Committee of the Board of Directors of the Bank, based on our most updated assessment concerning the internal audit of the financial report:

A. All the material deficiencies and essential weaknesses determined in the operating of the internal auditing of the financial report, that may reasonably be expected to damage the capability of the Bank to record, work, summarize, and report the financial information; as well as

B. Each fraud, whether material or not, in which the management is involved or other employees are involved having a significant function in the Bank's internal auditing of the financial report.

The aforesaid shall not detract from my or anyone else's responsibility, by law.

Uriel Paz

Chief Executive Officer

February 28, 2012

Statement (Certification)

I, Arnon Zait, hereby declare that:

1. I have reviewed the annual report of the Bank of Jerusalem (hereinafter: "the Bank") for the year 2011 (hereinafter: "the Report").

2. Based on my knowledge, the report does not include any incorrect presentation of material facts and does not lack presentation of material facts required for the presentation therein. In view of the circumstances in which the same presentation have been included, they will not be misleading in relation to the period covered by the report.

3. Based on my knowledge, the Financial Statements and the other financial information included in the report reflect in a proper manner, from any material aspect, the financial status, financial performance, changes in equity, and cash flow of the bank for the day and periods presented in the report.

4. I and others at the bank declaring this statement are responsible for their determination and compliance of controls and procedures concerning the disclosure and internal auditing of the Bank on financial reporting. And also:

   A. We determined these controls and procedures, or caused their determination under our supervision of these controls and procedures, designated to ensure that the material information referring to the Bank, including its consolidated corporations, is brought to our attention by others at the Bank and in those corporations, particularly during the preparation period of the report;

   B. We determined internal auditing on this financial report, or caused its determination under our supervision of internal auditing on such financial reporting, designated to provide reasonable level of security concerning the reliability of the financial report and that the Financial Statements for external purposes are edited according to the accepted accounting regulations and instructions from the Supervisor of Banks and his guidelines;

   C. We assessed the effectiveness of the controls and procedures concerning the Bank's disclosure, and we presented our conclusions in the report concerning the effectiveness of the controls and procedures concerning disclosure, for the end of the period covered by the report based on our assessment; and also

D. We did not discover in the report any change in internal auditing of the Bank on the Financial Statement that materially affected, or that could reasonably affect significantly, on the Bank's internal auditing of the Financial Statements; and also

5. I and others at the Bank declaring this statement disclosed to the auditing accountant, the Board of Directors and the Audit Committee of the Board of Directors of the Bank, based on our most updated assessment concerning the internal auditing of the financial reporting:

A. All the material deficiencies and essential weaknesses determined in the operating of the internal auditing of the financial report, that may reasonably be expected to damage the capability of the Bank to record, work, summarize, and report the financial information; as well as

B. any fraud, whether material or not, in which the management is involved or other employees are involved having a significant function in the internal auditing of the Bank of the financial reports.

The aforesaid shall not detract from my or anyone else's responsibility, by law.

Arnon Zait

Vice CEO, Manager of Finance Department
and Chief Accountant

February 28, 2012

Report of the Board of Directors and the management concerning the internal audit of the financial report

The Board of Directors and the management of the Bank of Jerusalem Ltd. (hereinafter – the Bank) are responsible for the establishment and existence of proper internal audit of the financial report (as defined in the instructions for reporting to the public concerning "Report of the Board of Directors"). The internal auditing system of the Bank is programmed in order to provide reasonable level of security to the Board of Directors and the management of the Bank concerning the proper preparation and presentation of the published Financial Statements according to accepted accounting regulations and instructions of the Supervisor of Banks and his guidelines. Independent of their program's quality level, all the internal control systems have understandable limitations. Therefore, even if it was determined that these systems are ineffective, they can provide only a reasonable level of security in relation to editing and presenting the financial report.

The management, under supervision of the Board of Directors, maintains comprehensive control systems designated to ensure that transactions are performed according to management's authority; the assets are protected, and accounting registration is reliable. In addition, the management, under supervision of the Board of Directors, take steps in order to ensure that the information and communications channels are effective and (monitored), including implementing of internal control procedures.

The management of the bank, under the supervision of the Board of Directors, evaluates the effectiveness of the bank's internal auditing of the financial reports as of December 31, 2011, based on the criteria that has been determined in the internal auditing model by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the management believes that as of December 31, 2011, the Bank's internal auditing of financial reports was effective.

The effectiveness of the bank's internal auditing of financial reports as of December 31, 2011, has been audited by the bank's auditor: "Kost Forer Gabbay & Kasierer," as has been stated in their report on page 157, in which an unqualified opinion was included on the issue of effectiveness of the internal auditing by the bank of its financial reports as of December 31, 2011.

Zeev Gutman	**Uriel Paz**	**Arnon Zait**
Chairman of the Board of Directors	Chief Executive Officer	Vice CEO, Manager of Finance Department and Chief Accountant

February 28, 2012

Financial Statements

Financial Statement for 2011

Bank of Jerusalem Ltd. and its consolidated companies

Financial Statements – contents

Kost Forer Gabbay & Kasierer
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Report of Auditing Accountant to Shareholders of Bank of Jerusalem Ltd.
According to the Instructions from the Supervisor of Banks concerning Internal Auditing of the Financial Reports

We audited the bank's internal auditing of the financial reports of the Bank of Jerusalem Ltd. and its subsidiaries (hereinafter together: the Bank) as of December 31, 2011, based on the criteria that has been determined as part of the integrated internal auditing model by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: COSO). The Bank's Board of Directors and the management are responsible for the effective internal financial report. For assessing the effectiveness of the internal audit of the financial report, included in the Board of Directors and the management's attached report concerning internal audit of the financial report. Our responsibility is to give our opinion on the Bank's internal audit of the financial report based on our audit.

We arranged our audit according to the standards of the American Public Company Accounting Oversight Board (PCAOB) concerning auditing of internal audit of a financial report as adopted by the Association of Accountants in Israel. According to these standards, we are required to plan the audit and implement it with the goal to reach a reasonable measure of surety if fulfilled, from every essential aspect, an effective internal audit of a financial report. Our audit included reaching an understanding of the internal audit of a financial report, assessing the risk that there exists a material weakness, as well as examining and assessing the effectiveness of the planning and operation of the internal audit, based upon the assessed risk. Our audit also included the implementation of other procedures which we deemed as needed according to the circumstances. We are of the opinion that our audit provides a suitable basis for our opinion.

The Bank's internal auditing of these financial reporting, is a process designated to provide a reasonable level of security concerning the reliability of the financial report and that the Financial Statements for external purposes are edited according to accepted accounting regulations in Israel (Israeli GAAP) and the instructions of the Supervisor of Banks and his guidelines. Internal audit of a bank's financial report includes those policies and procedures that: (1) Relate to entries that, with reasonable detail, exactly and reflect in a suitable manner the Bank's transactions and transfers of its assets; (2) Provide a suitable measure of surety that the entered transactions were posted as required in order to enable preparation of financial reports according to the accepted accounting regulations accepted in Israel (Israeli GAAP), and according to the instructions of the Supervisor of Banks and his guidelines, and that receipt and outlays of the Bank's monies were made only according to the permits of the Bank's Board of Directors and management; and (3)Provide a reasonable measure of surety for the prevention or disclosure at the time of acquisition, use of or transfer (including **removal from authority**) of the Bank's assets by unauthorized parties who could have significant influence on the financial statements.

Because of its understandable limitations, internal audits of the financial statement may not prevent or uncover a false presentation. Moreover, reaching conclusions concerning the future based on any present effective assessment is exposed to risk that audits may become unsuitable due to changes in circumstances or the measure of fulfilling the policy or procedures changed for the worse.

In our opinion, the Bank fulfilled in all essential aspects of effective internal auditing of the financial reports as of December 31, 2011, based on the criteria that has been determined as part of the integrated internal auditing as published by COSO.

We also audited; according to the accepted accounting regulations accepted in Israel, and some auditing standards whose application in auditing of banking corporations was set according to the instructions of the Supervisor of Banks and his guidelines, the financial statements – of the Bank and its consolidated companies – for the dates of December 31, 2010 and 2011 and for every one of the years of the three-year period that ended on December 31, 2011, and our report from February 28, 2012, included an unqualified opinion of those financial statements.

Kost Forer Gabbay &
Kasierer.
Accountants

Tel Aviv, February 28, 2012

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Report of Auditing Accountant to Shareholders of Bank of Jerusalem Ltd.
Annual Financial Statements

We audited Bank of Jersalem, Ltd. (hereinafter: the "Bank") consolidated balance sheets for the date of December 31, 2010 and 2011, as well as the Profit and Loss reports, the reports on equity changes, and the reports on cash flows – of the Bank and its consolidated companies – for each one of the three-year period that ended on December 31, 2011. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to give our opinion on these financial statements based upon our audits.

We arranged our audit according to the standards of the accepted accounting regulations accepted in Israel, including standards as set by the regulations of accountants (The Manner of an Accountant's Operation), 5733-1973, and auditing standards of banking corporations whose application was determined by the instructions of the Supervisor of Banks and his guidelines. According to these standards, we are required to plan the audit and implement it with the goal to reach a reasonable measure of surety that financial reports do not present an material false presentation. The audit includes sampling of proofs that support the sums and information within the financial reports. The audit includes examining the accounting rules applied and the significant estimates made by the Bank's Board of Directors and management, as well as a suitable assessment of the presentations in the financial reports in general. We are of the opinion that our audit provides a suitable basis for our opinion.

In our opinion, the aforesaid financial statements suitably reflect from every essential aspect the financial situation of the Bank and its consolidated companies for December 31, 2010 and 2011, along with the financial performance, changes in the Bank and its consolidated companies' equity and cash flows for each of the years of the three-year period, according to accepted accounting regulations in Israel (Israeli GAAP). Moreover, in our opinion, the aforesaid Financial Statements are arranged according to the instructions of the Supervisor of Banks and his guidelines.

We also audited according to the standards of the American (PCAOB) Public Company Accounting Oversight Board concerning auditing of an internal audit of a Financial Statement as adopted by the Association of Accountants, the internal audit of the Bank's financial report as of December 31, 2011, based on the criteria that has been determined as part of the integrated internal auditing model by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: COSO), and our report included an unqualified opinion of the effectiveness of the internal audit of the Bank's Financial Statement.

Tel Aviv,	Kost Forer Gabbay & Kasierer. **Accountants**	February 28, 2012

Balance sheets

Reported amounts

		Consolidated		The Bank	
		December 31			
		2011	2010	2011	2010
	note	Millions of NIS			
Assets					
Cash and deposits at the Bank	3	**792.3**	652.3	**791.8**	651.9
Securities (from this: 354.0, 186.8, 354.0, 186.8, respectively consolidated and at the Bank, mortgaged to lenders) *	4	**1,490.7**	1,314.9	**1,573.0**	1,260.3
Credit to the public *	5	**9,148.8**	8,158.4	**9,148.8**	8,158.4
Provision for credit losses **		**(91.0)**	(121.5)	**(91.0)**	(121.5)
Net credit for the public		**9,057.8**	8,036.9	**9,057.8**	8,036.9
Credit for the government	6	**-**	–	**-**	–
Investment in consolidated companies	7	**-**	–	**343.2**	307.4
Buildings and equipment	8	**79.7**	56.7	**21.8**	23.0
Assets for derivative instruments		**7.2**	23.9 ***	**7.2**	23.9 ***
Other assets	9	**54.9**	41.0 ***	**43.2**	28.6 ***
Total assets		**11,482.6**	10,125.7	**11,838.0**	10,332.0
Liabilities and capital					
Public deposits	10	**9,064.6**	7,407.8	**10,517.0**	9,087.4
Deposits from banks	11	**76.2**	86.5	**76.2**	86.5
Government deposits		**0.8**	4.9	**0.8**	4.9
Liability certificates and deferred liability notes	12	**1,611.9**	1,921.1	**517.8**	450.4
Liabilities for derivative instruments		**15.0**	10.7 ***	**15.0**	10.7 ***
Other liabilities (from this: provision for off–balance–sheets credit losses of credit instruments for a total of NIS 1.3, 1.7, 1.3, 1.7 million)	13	**69.5**	61.5 ***	**66.6**	58.9 ***
Total liabilities		**10,838.0**	9,492.5	**11,193.4**	9,698.8
Equity	16A	**644.6**	633.2	**644.6**	633.2
Total liabilities and capital		**11,482.6**	10,125.7	**11,838.0**	10,332.0

Zeev Gutman
Chairman of the Board of Directors

Uriel Paz
Chief Executive Officer

Arnon Zait
Vice CEO, Manager of Finance Department and Chief Accountant

Approval date of the Financial Statements: February 28, 2012

* For details concerning Securities measured in fair value, see note 4.

** On 1.1.2011, the Bank adopted for the first time, the instructions of the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses". The comparison numbers from the previous period have been presented again. Therefore, the data for the period ending on 31.12.2011, are comparable to the data of the previous period. For additional explanations concerning the affect of the first adoption of the instruction, see note 2(23).

*** Reclassified.

The notes of the Financial Statements are an integral part of them.

Profit and Loss Reports

Reported amounts

		Consolidated			The Bank		
		For the year ending on December 31					
		2011	**2010**	**2009**	**2011**	**2010**	**2009**
	note	Millions of NIS					
Profit from financing activity before expenses for credit losses	23	**195.4**	163.4	180.5	**187.6**	154.0	160.8
Expenses for Credit Losses *	5	**13.4**	(2.6)	(1.3)	**13.4**	(2.6)	(1.3)
Profit from financing activity after expenses for credit losses		**182.0**	166.0	181.8	**174.2**	156.6	162.1
Income from other operations							
Operating fees	24	**77.4**	84.3	84.0	**67.4**	72.1	71.4
Gains from investments in shares, net		**-**	0.3	–	**-**	0.3	–
Other revenues		**0.1**	0.6	0.1	**0.1**	0.6	0.1
Total operating revenue and others		**77.5**	85.2	84.1	**67.5**	73.0	71.5
Operational and other expenses:							
Salaries and accompanying expenses	25	**134.1**	120.7	105.8	**122.6**	110.9	97.1
Maintenance and depreciation of buildings and equipment		**37.6**	29.4	27.9	**27.4**	22.3	21.4
Other expenses	26	**53.1**	53.0	39.9	**69.5**	66.7	53.0
Total operating and other expenses		**224.8**	203.1	173.6	**219.5**	199.9	171.5
Profit from normal activity before tax		**34.7**	48.1	92.3	**22.2**	29.7	62.1
Provision for taxes on profit from regular activities	27	**10.0**	14.0	33.6	**8.0**	10.4	26.4
Profit from regular activities after tax		**24.7**	34.1	58.7	**14.2**	19.3	35.7
Profit from extraordinary operations after taxes	28	**20.8**	–	–	**-**	–	–
The Bank's portion of profit from regular operations of other consolidated companies after tax affect	7	**-**	–	–	**31.3**	14.8	23.0
Net profit		**45.5**	34.1	58.7	**45.5**	34.1	58.7
Net profit per share (in NIS)							
Profit from regular activities		**0.35**	0.48	0.83	**0.65**	0.48	0.83
Profit from extraordinary operations		**0.30**	–	–	**-**	–	–
Total net profit per share (in NIS)		**0.65**	0.48	0.83	**0.65**	0.48	0.83

* On 1.1.2011, the Bank adopted for the first time the instructions from the Supervisor of Banks concerning "Measurement and disclosure of defective debts, credit risk and provision for credit losses". The comparison numbers from the previous period have been presented again. Therefore, the data for the period ending on 12.31.2011, are comparable to the data of the previous period. For additional explanations concerning the affect of the first adoption of the instruction, see note 2(23).

The notes on the Financial Statements are an integral part of them.

Reports on Equity Changes

Reported amounts

	Capital funds				Profit (loss) including after accumulation			
	Capital Securities Paid	From premium	From benefit because transactions payment based on Securities	Total Capital Securities Paid and capital funds	reconciliations for presentation Available securities for sale according to value fair	Gains (Losses) for hedging flow Cash	surplus	Total Capital Equity
	Millions of NIS							
Balances as of January 1, 2009	127.3	95.3	–	222.6	(28.0)	(1.4)	326.7	519.9
Net profit	–	–	–	–	–	–	58.7	58.7
Reconciliation for securities Available for sales at fair value	–	–	–	–	77.9	–	–	77.9
Reconciliations for presentation of securities available for sales that have been reclassified for the Profit and Loss report	–	–	–	–	(36.3)	–	–	(36.3)
Affect of referring tax	–	–	–	–	(15.7)	–	–	(15.7)
Net losses for hedging cash flows	–	–	–	–	–	1.4	–	1.4
Balance as of January 1, 2010	127.3	95.3	–	222.6	(2.1)	–	385.4	605.9
Net profit	–	–	–	–	–	–	34.1	34.1
Reconciliation for securities Available for sales at fair value	–	–	–	–	7.0	–	–	7.0
Reconciliations for presentation of securities available for sales that have been reclassified for the Profit and Loss report	–	–	–	–	(17.6)	–	–	(17.6)
Affect of referring tax	–	–	–	–	3.8	–	–	3.8
Balance as of January 1, 2011	**127.3**	**95.3**	**–**	**222.6**	**(8.9)**	**–**	**419.5**	**633.2**
Accumulated net affect for tax for the first implementation as of 1.1.2011, of the instruction concerning measurement of defective debts and provision for credit losses *	–	–	–	–	–	–	(9.5)	(9.5)
Net profit	–	–	–	–	–	–	45.5	45.5
Paid dividend	–	–	–	–	–	–	(25.0)	(25.0)
Benefit because of paid transactions based on shares	–	–	3.1	3.1	–	–	–	3.1
Reconciliation for securities Available for sales at fair value	–	–	–	–	(6.2)	–	–	(6.2)
Reconciliations for presentation of securities available for sales that have been reclassified for the Profit and Loss report	–	–	–	–	1.9	–	–	1.9
Affect of referring tax	–	–	–	–	1.6	–	–	1.6
Balance as of December 31, 2011	**127.3**	**95.3**	**3.1**	**225.7**	**(11.6)**	**–**	**430.5**	**644.6**

* See note 5 – instruction on the issue of "credit for the public and credit loss provision".

The notes on the Financial Statements are an integral part of them.

Reports on cash flows

Reported amounts

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
	Millions of NIS					
Cash flow from current activity						
Net profit	**45.5**	34.1	58.7	**45.5**	34.1	58.7
Reconciliations required in order to present the cash flow from activities:						
The part of the Bank in profits of the consolidated companies, with deduction of received dividend, net	**–**	–	–	**(31.3)**	(14.8)	(23.0)
Depreciation of buildings and equipment	**13.0**	10.3	9.7	**2.4**	2.7	2.8
Expenses for Credit Losses	**13.4**	(2.6)	(1.3)	**13.4**	(2.6)	(1.3)
Capital gain from sales of buildings	**(20.8)**	–	–	**–**	–	–
Profit from debentures available for sales	**(36.8)**	(24.9)	(16.6)	**(46.3)**	(23.7)	(42.6)
(Profit) Loss from negotiable securities	**(7.7)**	(3.3)	(5.9)	**(7.8)**	(3.2)	0.6
Deferred taxes, net	**2.3**	1.6	(7.1)	**1.9**	0.5	(5.1)
Decrease (increase) in future surplus on designation for retirement compensation	**5.0**	(6.3)	(2.7)	**5.0**	(6.3)	(3.6)
In advance income and expenses to be paid	**1.3**	7.9	4.2	**1.3**	7.9	1.4
Reconciliation reconciliation included in investment and finance activity	**(146.7)**	70.8	(18.0)	**(112.8)**	19.6	(71.1)
Cash net derived from current activity (realized for activity)	**(131.5)**	87.6	21.0	**(128.7)**	14.2	(83.2)
Cash flow from activity in assets						
Acquisition of debentures available for sales	**(1,260.3)**	(1,585.7)	(2,063.2)	**(1,372.3)**	(1,288.2)	(2,018.1)
Compensation from sales debentures available for sales	**1,190.3**	1,265.9	2,248.8	**1,148.0**	1,043.3	2,061.1
Compensation from redemption of debentures available for sales	**116.3**	122.8	33.9	**144.1**	130.9	38.9
Negotiable securities, net	**(181.9)**	(17.1)	53.1	**(184.1)**	(20.6)	49.2
Deposits at banks, net	**–**	0.9	1.2	**–**	0.9	1.2
Providing credit to the public – housing	**(1,402.0)**	(1,805.4)	(1,069.2)	**(1,402.0)**	(1,805.4)	(1,069.2)
Collection within credit for the public – housing	**1,052.3**	1,073.9	986.4	**1,052.3**	1,073.9	986.4
Credit for the public – commerce, net	**(465.5)**	63.1	362.4	**(465.5)**	69.6	364.1
Acquisition buildings and equipment	**(45.3)**	(14.6)	(10.3)	**(1.2)**	(0.4)	(1.8)
Sales of buildings	**34.7**	–	–	**–**	–	–
Other assets, net	**16.7**	(8.6)	(10.6)	**16.7**	(4.5)	(14.3)
Cash net derived from activity (realized for activity) in assets	**(944.7)**	**(904.8)**	**532.5**	**(1,064.0)**	**(800.5)**	**397.5**

The notes on the Financial Statements are an integral part of them.

Reports on cash flows (continuation)

Reported amounts

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	2010	2009	2011	2010	2009
	Millions of NIS					
Cash flow from activity in liabilities and capital						
Public deposits, net	**1,656.8**	292.1	(163.6)	**1,429.6**	741.9	204.6
Deposits from banks, net	**(10.3)**	(17.4)	(35.6)	**(10.3)**	(17.4)	(35.6)
Deposits from government, net	**(4.1)**	(0.5)	1.7	**(4.1)**	(0.5)	1.7
Securities that have been loaned or sold as part of the return purchasing agreement	**-**	–	(50.0)	**-**	–	(50.0)
Issuance of liabilities certificates and deferred liabilities notes, net	**104.3**	667.0	349.4	**-**	–	–
Redemption of debentures, liabilities certificates and deferred liabilities notes	**(510.6)**	(227.7)	(246.7)	**(62.7)**	(41.0)	(31.0)
Other liabilities, net	**5.1**	(8.2)	6.9	**5.1**	(8.8)	11.5
Dividend paid to shareholders	**(25.0)**	–	–	**(25.0)**	–	–
Cash net derived from activity (realized for activity) in liabilities and capital	**1,216.2**	705.3	(137.9)	**1,332.6**	674.2	101.2
Increase (decrease) in cash and deposits at banks	**140.0**	(111.9)	415.6	**139.9**	(112.1)	415.5
Balance from cash and deposits at banks for the beginning of the year	**652.3**	764.2	348.6	**651.9**	764.0	348.5
Balance from cash and deposits at banks at the end of the year	**792.3**	652.3	764.2	**791.8**	651.9	764.0
Reports of cash flows not included information of activity according to collection level (1) :						
Providing housing credit	**0.9**	3.9	12.9	**0.9**	3.9	12.9
Providing standing loans and grants	**2.6**	5.3	3.7	**2.6**	5.3	3.7
Collection from housing credit	**364.8**	419.0	405.1	**364.8**	419.0	405.1

(1) For additional details concerning activity collection level, see note 19b.

The notes on the Financial Statements are an integral part of them.

Notes on Financial Statements

Financial Statement for 2011

Bank of Jerusalem Ltd. and its consolidated companies

Notes on Financial Statements

Note 1 – General

Bank of Jerusalem was founded in 1963, as a public company, in accordance with the definition in the Companies Ordinance, New Version, 5743 – 1983, in the name of Bank of Jerusalem for Development and Mortgages Ltd. Bank issued its shares to the public for the first time in 1992, thereby becoming a company whose shares are traded on the Tel Aviv Stock Exchange. During 1996, the Bank's name was changed to its present one, Bank of Jerusalem Ltd. (hereinafter: "**the Bank**").

The Bank is a banking corporation, with a banking license according to the Banking Law (permit), 5741 – 1981, and operates as a commercial bank as of 1998. The Bank relies on a broad customer base of households, Israeli residents, and foreign residents. It operates in the area of mortgages, consumer credit, savings and deposits, financing of residential construction, financing credit for vehicle purchasing, and commercial credit after capital market activity

The Bank's management is located at Airport City. Currently, the Bank operates 16 branches throughout Israel.

The Bank is a subsidiary of "Ytzu" Investment Company Ltd. (hereinafter - "Ytzu") and its shared are registered on the Tel Aviv Stock Exchange.

The Bank's Financial Statements are prepared according to generally accepted accounting principles in Israel (Israeli GAAP), and according to the instructions by the Supervisor of Banks and his guidelines concerning preparing a bank's annual Financial Statement.

Note 2 – Accounting policy

The principle accounting policy, that is implemented for editing the Financial Statements in a consistent manner, and compatible to the instructions of the Supervisor of Banks and his guidelines, which are:

A. Reporting base of Financial Statements

1. In the past, the Bank edited its Financial Statements on basis of historical increase adjusted to the CPI. The adjusted amounts, as aforementioned that are included in the Financial Statements as of December 31, 2003, were used as a starting point for nominal financial reporting effective from January 1, 2004. Additions implemented after the transition date are included in nominal values. According to Accountants Standard number 12 concerning "termination of reconciliation of Financial Statements," the reconciliations of the Financial Statements for inflation was discontinued as of December 31, 2003, and effective from the same date as the Bank started to publish reported amounts. The non-banking financial asset

amounts do not necessarily represent the realization value or updated economic value, but only the reported amounts on the same assets.

In the Financial Statements, the meaning of "cost" is cost in reported amounts.

Summary of data of the Bank in historical nominal values for the purpose of tax are provided in note 30.

2. General consolidation

The Bank's consolidated Financial Statements include the reports from the companies over which the Bank has control. The advantages and mutual transactions between the Bank and its subsidiaries was canceled in the consolidated Financial Statements. In the Bank's separate reports, investments in consolidated companies are presented according to the equity method.

3. Functional currency and presentation currency

The Functional and presentation currency of the Bank and of its subsidiaries is the New Israel Shekel (NIS).

B. The new hierarchy in implementing the new American accounting standards

On July 1, 2009, the American Financial Accounting Standards Board (FASB) implemented a change in the organization of accounting standards. The change was determined in the framework of the American Accounting Standard No. 168, on the subject of "the codification of the accounting standards of financial Accounting Standards in the U.S. and the hierarchy of Generally Accepted Accounting Principles" (GAAP – currently 105ASC – Accepted Accounting Standard) that has been published by the FASB.

The standard determined (FASB Accounting Standards Codification) – ASC as sole source of accepted accounting standards in the US, that will be applied by reporting corporations that are not government entities, except for the guidelines of the Securities and Exchange Commission in the USA (SEC); therefore, all the regulations that have not been adopted as aforementioned, as well as the regulations not originating from the guidelines of the Securities and Exchange Commission in the USA are not included in the codification and became non-mandatory regulations. Following the codification, the American Financial Accounting Standards Board (FASB) will no longer publish in a standards form, position papers or clarifications and guidelines on specific subjects, these will be published in Accounting Standards Updates – ASU, that will update the codification.

As of January 1, 2010, and according to the guidelines of the Supervisor of Banks, the Bank adopted the new hierarchy. In addition to this, according to the determination by the Supervisor of Banks, notwithstanding the hierarchy determined in the American standard number 168, all positions transferred to the public by the Supervision of Banks Authorities in the USA or by the team of supervising authorities of Banks in the US concerning the manner of implementing the US accepted accounting regulations is the accounting rule accepted by American Banks and will require the banking corporations and the credit card companies concerning implementing US accounting regulations that have been adopted or will be adopted in the future as part of reporting instructions to the public by bank supervisory authorities.

The implementation of the codification has no affect on the accounting regulations applicable to banks, but only on the manner the banks relate to accepted accounting regulations for banks in the United States.

C. Foreign currency and linkage

Assets and liabilities in foreign currency or linked to them, and those linked to the CPI, are included in the Financial Statements as follows:

1. Those linked to the CPI are presented according to the known index as of the balance sheet date.

2. Those in foreign currency or linked to it are presented according to the representative exchange rate published by the Bank of Israel on the date of the balance sheet, except for cases in which the terms of agreement are determined differently.

Below are details on the CPI and representative exchange rates of the US Dollar and their rates of increase (decrease):

	As of December 31			Increase (decrease) rate in the year		
	2011	2010	2009	2011	2010	2009
					In percent	
Exchange rate for US dollar (in NIS)	3.821	3.549	3.775	7.7	(6.0)	(0.7)
CPI–basis 1993 (points):						
Month of November	216.3	210.9	206.2	2.5	2.3	3.8
Month of December	216.3	211.7	206.2	2.2	2.7	3.9

D. Credit to the government – deposits according to collection level

Designated deposit amounts whose maturity to the depositor is subject to the collection level from credit, are offset from credit provided by these deposits and therefore are not given expression in the balance sheet. The revenue deriving from activity according to the aforementioned collection level, is presented as operating fees.

E. Securities

1. Debentures held for maturity are presented according to their reduced cost as of the reporting day.

2. Securities available for sales are presented in the balance sheet according to fair value. The fair value is based on the quoted prices for securities that have quoted prices or revaluation data received from external sources regarding non- banking negotiable debentures. The profit or loss concerning them with deduction of the reserve suitable for tax is presented in a separate paragraph as part of equity, called: "Reconciliations for presentation for sales of available securities according to fair value".

3. Negotiable securities are presented in the balance sheet according to fair value.

4. Periodically the bank examines the need to record a provision for an impairment of securities that is not of a temporary nature. The bank has defined criteria for tracking securities and the aforementioned examination. These criteria are based, among others, on the following factors:

    - Change in classification of securities by classification agencies.

    - The length of time during which the security is traded at high yield.

    - Exceptional cases such as irregular impairment.

    Moreover, the Bank determined criteria according to which the immediate provision for impairment is implemented. These criteria are based, among others, on the following factors:

    - The current classification of the securities by the classification agencies.

    - The current exceptional yield at which the securities were traded.

    - The length of time during which the securities were traded at exceptional yield.

    - Significant negative indications within the Financial Statements.

These criteria are being discussed in the Board of Directors' Credit Committee and are approved by them.

F. Transfer and service of financial assets and clearance of liabilities

The Bank implements the measuring and disclosure regulations as determined by the American accounting standards (ASC 860-10) FAS 140, the transfer and service of financial assets and clearance of liabilities, as amended by FAS 166, transfer and service of financial assets (ASC 860-10), for the purpose of handling transfers of financial assets and clearance of liabilities. According to these regulations, the financial assets will be accounted as sales, if and only if, all of the following conditions exist: (1) the financial asset that has been transferred isolated from the transferring factor, also in a bankruptcy situation or other receivership; (2) each receiver (or, if the received is an entity whose sole designation is to deal in secruritization or in limited financing activity it received, each third party holding rights of the beneficiary) may mortgage or exchange the assets (or the beneficiary rights) it received, and there are no conditions that also limit the receiver (or third party that holds the benefit rights) from exploiting the right to mortgage or replace, and also grant the transferrer a larger benefit than a trivial benefit; (3) the transferrer, or consolidated companies included in the Financial Statements, or its agents, do not preserve active control in the financial assets or the beneficiary rights referring to these transferred assets.

In addition, in order that the transfer of part of the financial assets be considered a sale, the transferred part must comply with the definition of participating rights. Participating rights must comply with the following criteria: the right must present proportional rights in relation to the full financial asset; all the cash flow received from the assets are divided between the participating rights in a manner proportional to their part in ownership; the rights are not inferior rights (subordinated) in relation to other rights; there is no return right to the transferrer of others holding the participating rights (except in case of violation of presentation of liabilities, current contractual liabilities for service at the financial asset in whole and management of contact in transfer and contractual liabilities for dividing of offset of any benefit that has been received by any holder of participating rights); and the transferrer and the holder of participating rights have no right to mortgage or replace the financial asset as whole, except if all the holders of participating rights agree to mortgage or replace the financial asses in whole.

In case the transaction complies with the conditions for handling the transaction as a sale, the financial assets are being transferred are deducted from the Bank's balance sheet. In case not all the sales conditions exist, the transfer is considered as secured debt. The sale of part of the financial assets that has no participating rights is handled as secured debt, that is, the transferred assets continue to be registered in the Bank's balance sheet and the exchange from sale will be recognized as the Bank's liability.

Note 2 – Accounting policy (continuation)

In view of the aforementioned, securities that have been sold under returning acquisition terms, or that have been purchased under returning sale terms, loaned securities or will be loaned, and also other financial instruments that have been transferred or have been received by the Bank, in which the Bank did not lose control over the transferred asset or did not purchase control in the received asset are handed as a secured debt. Financial instruments that have been transferred in the aforementioned transaction, are measured according to the same measuring principles implemented prior their transfer.

Securities that have been sold are not deducted from the balance sheets and are presented in paragraph "Securities," and against them the deposit for securing restoration and mortgage those securities presented in paragraph "Securities that have been loaned or sold as part of return purchasing agreements."

Purchase securities are recorded according the value on the implementation day of the transaction in paragraph "Securities that have been loaned of purchased as part of return sales agreements.

The Bank monitors the fair value of securities that have been loaned or will be loaned, as well as securities that have been transferred in return purchase and sales agreements on daily base and security requirements implemented in suitable cases. Interest received or paid for the aforementioned securities is reported as income or expenses, respectively.

According to instructions of the Supervisor, securities loan transactions are performed as "regular" credit transactions in which the bank loans securities against a collateral portfolio and the lender does not transfer to the banking corporation security margin specifically referring to the securities loan transaction, presented as credit to the public according to market value and attaches to the loaned debts. The changes in value of the aforementioned accrual based securities are in the Profit and Loss report in paragraph "Revenue from credit for the public," and reconciliation for market value is imputed for negotiable securities for sale at a fair value.

The Bank deducts liability if and only if the liability is cleared, meaning there exists one of the following conditions: (a) the Bank paid the lender and is released from its obligation because of the liability, or (b) the Bank legally was released through legal proceedings or in agreement with the lender from being the main debtor because of the liabilities.

G. Provision for credit losses for housing loans

As of January 1, 2006, the Bank implements the guidelines from the Supervisor of Banks for implementing Proper Banking Management instructions on the issue of "provisions for doubtful debts for housing loans" (hereinafter – "Supervisor's guidelines"). The Supervisor's guidelines refer to the number of principle types of topics in relation to the manner of calculating provisions for doubtful debs for housing loans, including the general calculation for individuals for determining the minimum provision for housing loans, while the depths arrear in them increases over six months (the provision is calculated at a rate between 8% to 80% from the passed-due debt balance, according to depths arrears). That were implemented by the Bank in the past, except for those listed below:

Provision for loans in new arrangements and reorganization:

A. Loans in arrangements – the loan where an arrangement is implemented without change in the clearance timetable for the loan balance. Calculation of depths arrears is performed while considering the arrears balance and before the original monthly charge. Cancellation of provision will be implemented if the loan still meets the loan repayments during the period of two years as of the arrangement date or if half of the remaining period of the loan has passed during which arrears have been created, whatever comes first.

B. Loan in reorganization – a loan whose clearance table has changed. For these losses, the provision has frozen according to the depths arrears and an idealistic arrears balance will be recorded comparing the arrears balance and all by the arrangement date. Freezing of the provision and the balance of the idealistic arrears will be for a period of half a year while at its end the Bank will be entitled to reduce the idealistic arrears balance during two years to a straight line.

For additional information about the first implementation of the Bank accounting policy on the issue of provision for credit losses (see paragraph 23 below)

H. Buildings and equipment

- **Recognition and measurement**

  Buildings and equipment are presented according to cost, with deduction of accumulated depreciation and losses from impairment. The cost includes directly attributable costs of fixed assets and the assignment location and condition necessary for its operation.

  While material parts of the fixed assets have different duration, they are handled as separate items of fixed assets. Buildings for sale, are presented by cost or their realizable value, whatever is lower.

- **Subsequent costs**

  Cost for replacing part of the fixed asset item is recognized as part of the value on the books for the same item if it is expected that the future embedded economic benefits in the

Note 2 – Accounting policy (continuation)

replaced part will flow to the Bank and if their costs can be measured in a reliable manner. The value of the replaced part in the books – deducted. The current maintenance costs for fixed asset items are reflected in Profit and Loss with their occurrence.

- **Software costs**

Purchased software is measured according to cost, deducting the accumulated depreciation and losses from impairment.

Costs in relation to development of computer programs for personal use are capitalized only if the depreciation cost can be measured in a reliable manner; the program will be applicable from the technical aspect; future economic benefit is expected and the Bank intends and has sufficient sources in order to complete the development and to use the program. Capitalized costs including direct costs and overhead expenses that may relate directly to preparing the program for its designated use. These costs are measured according to cost, with deductions of accumulated depreciation and losses from impairment. Other costs of fixed asset items are reflected in Profit and Loss with their occurrence.

Subsequent costs because software are recognized as assets only if they increase the embedded future economic benefits of the assets for which they have been expended. Other costs are reflected in Profit and Loss with their occurrence.

- **Depreciation**

The depreciation is calculated from the cost, according to the estimated usage period, according to straight-line method applied from the date the asset was ready for use in relation to original costs. Improvements in the rented are depreciated for the duration of the lease contract including the option that it reasonably will be realized, or along their useful duration according to the shortest period. The estimates concerning the duration of usage and remaining value are reexamined from time to time.

- **Derecognition**

The book value of fixed assets subtracted during realization or when no realization of future economic benefits were expected or realized. The difference between the net compensation from realization, if there is, between the book value of the subtracted asset is reflected in the Profit and Loss report at paragraph "Profit from irregular activities, after tax".

For detailed reference on the subject, see note 8 below.

Note 2 – Accounting policy (continuation)

I. Impairment of Assets

The Bank examines, at each reporting date, the need for recording s provision for impairment of non-financial assets (such as: buildings and equipment and non-tangible assets including goodwill) when there are still signs, as result of events or circumstantial changes, indicating that its assets in the balance sheets are presented in amounts greater than their recoverable amount.

The recoverable amount of the asset or unit generating cash is higher between the net sales price and the usage value. The usage value is the current value of the future cash flow estimate, capitalized at the interest rate before tax, expected to generate from use of the asset and its realization. For the purpose of an impairment examination, the assets that cannot be examined individually are grouped together into the smallest assets group that generates cash flow from continuous use, while independent in principle from assets and from other groups ("generating cash unit"). When the book value of the assets increases above the recoverable amount, the Bank recognizes the impairment at the gap height between the book value of the asset and the recoverable value. The aforementioned recognized loss will be canceled only if changes are applied to the estimates used for recoverable amount of the asset from the date of recognition of last loss of impairment, except for impairment loss of goodwill that is not insignificant.

J. Segment reporting

The activity segment is a business line in a banking corporation that deals in activity from which it may produce incomes and has expenses. Its activity results are examined in the regular manner by the management and the Board of Directors for the purpose of decision-making concerning the allocation of resources and to assess their implementation and also to maintain separate financial information on it. The reporting formula on the Bank's activity segments is determined in the instructions from the Supervisor of Banks for reporting to the public.

For detailed reference on the subject, see note 29 below.

K. Issuance expenses

Issuance expenses of debentures and transaction costs that can be referred directly, liability notes and deferred liability notes are depreciated relative to the principal's balance on annual turnover according to effective interest rate method.

L. Deferred expenses

Issuance and distribution expenses of debentures and expenses for recruitment of deposits are presented based on the cost and are depreciated during the maturity period of the liabilities by the effective interest method.

M. Taxes on income

Taxes on income in the Profit and Loss report include current and deferred taxes. Current and deferred taxes are reflected in the Profit and Loss report, but only if the tax derives for transaction or event that is directly recognized in equity. In these events, taxes expenses on assets are reflected in equity. The current tax is the amount of tax expected to be paid (or receive) on taxable income per annum, that is calculated according to tax rate applicable under the enacted law or in fact is being enacted on the balance sheet date, including changes in tax payments relating to previous years.

The provision for taxes on the Bank's income and its consolidated companies that are financial institutions for the purpose of VAT, including profit tax imposed on the income according to the VAT Act. VAT imposed on the salary in financial institutions is included in the Profit and Loss report in paragraph "Salaries and accompanying expenses."

Deferred taxes are calculated for provisions for timing including income and expenses between the financial reporting and recognition for the purpose of tax income, as well as for reconciliation of non-financial assets (except for buildings) for gaps between the adjusted value and between the highest value for deduction purposes of tax income. The deferred taxes are calculated according to expected tax rates applied during future exploitation or realization of tax benefit, based upon the tax law that is valid at the date of the balance sheet.

In the calculation of the deferred tax, the tax that would have been applied in case of realization of investments in the consolidated companies is not considered so long as there are assumptions of continuous holding of these investments. In general, the dividend distribution policy in the consolidated companies will not cause an additional tax charge at the Bank.

For detailed reference on the subject, see note 27 below.

N. Derivative financial instruments

According to the instructions of the Supervisor of Banks, the banking corporation should recognize all the derivative instruments, including certain derivative instruments embedded in other agreements, as assets or liabilities in balance sheets and measure them according to fair value. The change in fair value of derivative instrument is reported in the Profit and Loss report according to the manner the derivative instrument is designated. Changes in fair value of derivatives, that determine the exposure to change in fair value of asset, liability or firm agreement, will be recognized in a current manner in the Profit and Loss report, as well as changes in fair value of a defined item, that may be relate to the defined risk.

The accounting process for changes of fair value of a derivative, determines the exposure to changes of cash flow from an asset, form liabilities or from contractual tangible contracts in effectiveness of hedging ratio.

The effective part of the change in fair value of the derivative, designated for hedging cash flow is reported at the beginning in equity and after that, when the contractual transaction affects the Profit and Loss report it is reclassified in the Profit and Loss report.

The non-effective part of the change in fair value of the designated derivative as aforementioned, is immediately recognized in the Profit and Loss report.

The Bank enters into contracts which do not entirely meet the definition of a derivative instrument – these contracts may include embedded derivative instruments. Embedded derivative instrument will be separated from the hosting contract and handled as a derivative instrument if the following three conditions exist – accumulated: the economical characteristics of the embedded derivative is not clearly related and close to those of the hosting contact; the involved instrument is not remeasured according to fair value conform according to accepted accounting regulations, while reporting on changes in fair value in the Profit and Loss report during their creation, and the separate instrument with the same failure conditions as an embedded instrument would maintain the definition of the derivative instrument. Being identified as the embedded derivative, it is separated from the hosting contract and handled as a derivative on its own. An embedded derivative that has been separated, is presented in balance sheets together with the hosting contract. The separated embedded derivatives at the Bank derive from providing credit linked to foreign currency including a floor for linkage basis and recruitment of saving programs with identical characteristics.

Profit or loss from segments that are not designated as hedging instrument is currently recognized in the Profit and Loss report. The transactions in derivative instruments are part of the Bank's management system of assets and liabilities. The fair value of derivative instruments is presented in the balance sheets as other assets or as other liabilities, per topic, and the transaction results in derivative instruments deriving from their recording, based on fair value, are included in the Profit and Loss report as part of profit from financing activity.

O. Recognition base in income and expenses

Income and expenses are recognized on an accrual basis, including income for off-balance-sheet financial instruments.

Completion of interest arriving at the Bank from the government because of certain housing loans, is reflected in the Profit and Loss report according the effective interest embedded in cash flows deriving from the loan agreement and from the interest completion agreement.

Commissions from early repayment in housing loans are reflected in the Profit and Loss report at equal rates for three years, except for the part related to the financial capital that is reflected in the Profit and Loss report upon its receipt.

Commission fees due to loans that have been sold are reflected in the Profit and Loss report over the remainder of the loan and repayment period relative to their balance. Interest arrears for housing loans are reflected in the Profit and Loss report only with their collection.

Income from dividend are reflected in the Profit and Loss report at the eligibility date for their receipt.

P. Employees rights

1. Because of all the liabilities of employer-employee relations there are appropriate reserves by law, agreement, customs and expectations of management. The reserve liabilities for jubilee grants are calculated by an actuarial expert in evaluating methods of accumulated benefits and considering the probabilities based on past experience, while the salary increase rate is based on past experience and varies according to the age of the employee.

2. The reserve for severance pay is calculated on basis of their last salary and the employee's work period, as well as according to law, the conditions of the employee agreement, and customs and expectations of management. The amount for severance pay included in the balance sheet including accumulated gains.

Q. Contingent liabilities

According to the guidelines of the Supervisor of Banks, the American Accounting Standard SFAS 5 has been adopted with the accompanying instructions of these on the issue of the accounting process of outstanding legal claims; except for rare cases, such as class claims in which there is no possibility to assess their results by the Bank and its legal advisers. To the assessment of the Bank's management, relying on the legal advisers in relation to the probability of realization of exposure to risks from claims, is determined on basis of three probability areas, as follows:

1. Expected risk - the probability of realization of the exposure to risk is more than 70%. Because of claims included in this risk group, suitable provisions are included in the Financial Statements.

2. Probable risk – the probability of realization of the exposure to risk is between 20% - 70%.

Because of claims included in this risk group, no provisions are included in the Financial Statements but only disclosure is given.

3. Weak risk – the probability of realization of the exposure to risk is smaller or equal to 20%. Because of claims included in this risk group no provisions are included in the Financial Statements and no disclosure is given.

In case in which the realization exposure is expected provision in the Financial Statements is for the full exposure amount, as estimated by the Bank's management. In case of probable exposure, provision is not included in the Financial Statements but disclosure is given for the amount of exposure. In case of weak exposure there is no need for implementing provision and/or providing disclosure. Due to claims for which the exposure to them is weak but the liability or maximum possible loss might place the continuing activity of the Bank in doubt, disclosure is provided.

R. Share-based payment transactions

The Bank recognizes share-based payment transactions according to International Financing Report Standard IFRS2 as adopted by the Supervisor of Banks. Benefit due to share-based payment transactions cleared in capitalized instruments, are measured on the date the benefit (grant day) is of provided, relying on the acceptable options pricing model. The value of the benefit is reflected in a current manner for expenses against capital fund, over the maturity period.

Cost of the cleared transaction in cash is measured according to fair value on the grant date through use of the acceptable options pricing model. See additional details in note 22. Fair value is recognized as expense over the maturity period and simultaneously, is recognized as liability . Liabilities are measured again each reporting period according to the fair value until clearance, while changes in fair value are reflected in Profit and Loss.

When the company performs changes in the conditions of the grant cleared in capitalized instruments, the additional expense is recognized beyond the original expense that has been calculated because of every change increasing the included fair value of the granted benefit or that it benefits with the employer/the other service provided according to fair value at the time of the change.

When changes are being implemented in programs for payment based on shares, the banking corporation recognized the influence of the change that increase the included fair value of the program during the remaining maturity period, and in addition to the affects on changes that change the characteristic of the liabilities plan, to capital and visa versa.

S. Use of estimates in preparing the Financial Statements

Preparation of the Financial Statements, according to the accepted accounting regulations in Israel and the instructions of the Supervisor of Banks and his guidelines; requires use of estimates, assessments and discretion by the management, which affect the reporting amounts of the assets and liabilities, on disclosure referring to the tangible assets and tangible liabilities and also on income and expenses amounts for the reporting period. It should be clarified that the actual results may be different from these estimations.

During the implementation of the accounting estimates used in the preparation of the Financial Statements of the Bank, the Bank's management is required to make assumptions for such circumstances and events involving significant uncertainty. Discretion in determining the estimates, the Bank's management is based on past experience, various facts, external factors and on reasonable assumptions according to the suitable circumstances for each estimation.

The estimations and assumptions that are based on ongoing reviews. Changes in the accounting estimates are recognized in the period in which the estimates are amended and in future periods that are affected.

T. Profit per share

The profit per share is calculated by division of the net profit attributable to shareholders of the company in a number of regular shares weighted in existence during the period.

Included in the basic profit per share, on the shares that actual exist during the period.

Regular potential shares (convertible securities as example of convertible debentures, option notes and options for employees) are only included in the diluted profit calculation per share in case their influence dilutes the profit per share so that the conversion reduces the profit per share or increases the loss per share of ongoing activities. In addition, regular potential shares that have been converted during the period are included in diluted profit only for the conversion date, and from that moment are included in the basic profit per share.

U. Comparison numbers

A number of comparison numbers that have been reclassified are mentioned in the Financial Statements.

V. Reports on cash flows

The report is edited according to the instructions of the Supervisor of Banks and audit statement 51 of the Association of Accountants in Israel cash flow report. Cash flows from income and liabilities are presented net, except for housing credit activity, non-monetary items in motion, non-negotiable securities and debentures and deferred liability notes. Cash also includes deposits at banks whose original period from their deposit date is up to three months.

W. First-time application of accounting standards

According to the circular of the Supervisor of Banks as of March 29, 2011, a banking corporation is required to adopt certain international standards of financial reporting. The circular publishes the transition instructions for the year 2011 in view of the adoption of the international standards for financial reporting. The regulations determine disclosure requirements that have been determined as of January 1, 2011 and so on, according to the transition instructions determined in these standards. In general, according those transition instructions it is required to implement:

1. Instructions of the Supervisor of Banks on the subject or measurement and disclosure of defective debts, credit risk and provision for credit losses and amendment of the instructions on the subject of handling of problematic debts including updated accountant standard ASU 2011-02, determining lender concerning the reorganization of problematic debts.

2. Certain International Financial Reporting Standards (IFRS) and interpretations of International Financial Reporting Interpretations Committee (IFRIC) referring to the implementation of these standards.

3. Measurement of fair value – the American Accounting Standard (FAS 157 ASC 820-10) and alternative fair value in American Accountant Standard FAS 159 (ASC 825-10).

4. Instructions from the Supervisor of Banks concerning strengthening of internal auditing on financial reporting on the subject of employee rights.

Following the first application of certain accounting standards and instructions from the Supervisor of Banks, certain paragraphs in part of the Financial Statements and the comparison numbers were reclassified in order to adjust the paragraph titles and reporting requirements in the current period.

1. Measurements and disclosure of damage debts, credit risk, provision for credit losses, and handling of problematic debts

According to the new instruction from the Supervisor of Banks on the subject of measurement and disclosure of defective debts, credit risk and provision for credit losses the Bank implements, as of January 1, 2011, the American Accounting Standards on the subject (ASC 310) and the positions of the bank supervisory authorities in the US and the American SEC (Securities and Exchange Commission), as adopted in the Public Reporting Instructions.

The main changes in the accounting policies following the instruction are:

A banking corporation is required to maintain provision for credit loss at the suitable level in order to cover the expected credit loss relating to its credit portfolio, including for off-balance-sheet credit risk. Provisions for credit losses will include:

- The individual provision for credit losses - The provision in implemented relying on measurement of decrease in value of the debt based on current value of expected future cash-flows, discounted by the debt's effective interest rate, or when the debt is contingent upon collateral, or when the Bank determines that seizure of the asset is probable according to the fair value of the mortgaged collateral in order to ensure that credit (after deducting sales cost). The need for individual provision is examined of each debt whose contractual balance (without deduction: write-offs that are not involved in a legal waiver, unrecognized interest, provisions for credit losses and collaterals) is NIS 1 million or more and for any other debt that has been recognized for the purpose of individual examination by the banking corporation.

- The group provision for credit losses – applied for provisions for a decrease in value of the large groups of small and homogeneous debts, as well as for debts that have been individually examined and have been found defective. Measuring credit losses, because of credit balance sheets and off-balance-sheet credit instruments, is implemented on the basis of the estimation of past credit loss rates for each of the homogeneous groups of debts with similar risk characteristics. The assessed provision on a group basis for off-balance-sheet credit instruments is based on provision rates that have been determined for balance-sheet credit, while considering the realization rate of the expected credit of off-balance-sheet credit risk. The realization rate for credit is calculated by the Bank based on conversion factors for credit as specified in the Proper Banking Management instructions number 203, Measurement and capital adequacy – credit risk – the standard approach, with certain adjustments in cases in which the Bank has prior experience indicating the credit realization rate.

New types of problematic debts have been determined, of which:

- Impaired debt – credit which the banking corporation expects that it may not collect all the amounts, according to contractual conditions of the debt agreement, and the provision for credit losses for which they are measured in the individual provision track. The aforementioned classification should be applied, also on credit found in arrears for over 90 days except if it is well secured and is in collection stages, and on problematic debts that have been reorganized which as part of the reorganization the Bank granted the debtor waiver (Concession), while in other conditions it would not have considered to grant it. Debt that is classified as defective debt will be extended on an item by item basis for the purpose of implementing credit loss provisions or write offs. In view of the fact that the debt for which re-organisation of the problematic debt has been implemented, will not be repaid according to the original contractual condition; the debt will continue to be classified as defective debt even after the debtor returns to the repayment track according to the new conditions.

- Inferior credit risk – is defined as insufficiently protected credit by current based value and the payment capability of the debtor or of the guaranteed collateral; and is so characterized as there is a clear possibility that the bank corporation will absorb a certain loss if the deficiencies will not be amended.

For the defective debts no interest revenue is to be recorded (not including index linked and foreign exchange rates differences at principal). Concerning debts that are examined and excreted on group basis while in arrears for 90 days or more, the Bank continues to accumulate income from interest.

The instructions for write offs of problematic debts became more stringent. Among others, it was determined by this instruction that:

- Write offs should be made for all debts that are considered impossible to collect or debts for which management of collection efforts of the Bank are long-term.

- Write offs should be done immediately against credit loss provision of each part of surplus debt on collateral value that has been recognized as non-collectable.

- Write offs of debt that has been assessed for individual provision of credit loss should not be deferred. Generally, write offs should be done after two years.

- Problematic debts for which the provision is measured based on group provision for credit loss should be written off when the arrears period is more than 150 days.

- At the first time of application the Bank was, among others, required to:

- Write off each debt which at this date had met write off conditions.

- To classify by classification for special supervision, inferior, or defective; each debt which meets the aforementioned classification conditions.

Note 2 – Accounting policy (continuation)

- To cancel all interest income accumulated at the implementation date of the instruction and not yet actually collected for each debt which at this date meet the referred conditions.

- The differences accumulated at date of first application of the new guidelines, between the balance of the provision for credit losses, according to the existing guidelines, and their calculated balance according to the new guidelines, are reflected in paragraph "Surplus in equity."

- Application of the temporary order for the years 2011-2012 (hereinafter: "Transition period"), containing a more simple model for calculating the provision for group-based credit loss .According to the temporary order, the provision rate for group-based credit loss, will be determined during the transfer period based on the range of rate change of historical provisions for doubtful debts during the years 2008-2010 in segmentation according to market branches. And also on net write offs rates actually recorded as of January 1, 2011.

- The additional provision is only used as a marker concerning the group provision so that in case the total group provision is lower than the additional and general provision, provision should be implemented according to the highest of the two calculations.

The additional provision rate applied on all different types of problematic debts will be as follows:

- Credit risk "under special supervision" – 1%.

- Credit risk "inferior" – 2%.

- "Defective" Credit risk – 4%.

In addition, according to to the Supervisor of Banks' guidelines, the group provision for credit losses is calculated for housing loans provided, as of the beginning of 2009 and onwards, and while the ratio between debt and the mortgaged asset value at the time of setting up loan, providing (Loan To Value Ratio LTV) is higher than 60%.

Note 2 – Accounting policy (continuation)

Below is the accumulated affect of the first time application as of 1.1.2011 of the instruction on the subject of measurement of defective debts and provision for credit losses:

	January 1
	2011
	Millions of NIS
A. Influencing Amounts on Surplus	
Retained Earnings Balance Included in Financial Statements	419.5
Net accumulative affect from tax from first time application of new instructions	5.1
From this:	
Change in credit loss provision	9.1
Affect of referring tax	(4.0)
The accumulated net affect from tax implemented on group provision for credit loss in housing loans	4.4
From this:	
Change in credit loss provision	7.0
Affect of referring tax	(2.6)
Retained earnings balance according to the new instructions	410.0

B. The affect on credit for the public (prior deduction of provision for credit loss)	
The balance of credit for the public (prior deduction of provision for credit loss) that are included int he Financial Statements	8,158.4
Accumulative affect from tax from first time application of the new instructions	
Net recognized write offs	42.0
Other changes in the balance of the credit for the public	–
Balance of credit for the public (prior deduction of provision for credit loss) before the new instructions	8,116.4

Note 2 – Accounting policy (continuation)

C. The affect on credit loss provision due to debts and because of off–balance–sheets credit instruments as of 1.1.2011

	Provision for Credit Losses			
		On group basis **		
	On individual basis	According arrears depth	Other	Total
	Millions of NIS			
Balance of credit loss provision that are included in the Financial Statements	47.0	69.2	6.6	122.8
Net recognized write offs	(34.6)	(7.4)	–	(42.0)
Other changes in credit loss provision (reflected in equity)	(4.1)	6.6	13.6	16.1
Balance of credit loss provision before the new instructions	**8.3**	**68.4**	**20.2**	**96.9**

* The data are presented again compared to the proforma data that have been published in the annual report as of December 31, 2010 for a total of NIS 4.3 million.

** Including the group-based provision for debts that have been individually examined and are not found defective.

Additional information on measurements and disclosure of defective debts, credit risk and provision for credit losses, are presented in note 5 of the Financial Statements.

2. The accounting standard number 29 – "Adoption of International Financial Reporting Standards IFRS"

During July 2006, the Israeli Accounting Standards Bureau published the Accounting Standard number 29 - "Adoption of International Financial Reporting Standards IFRS" (hereinafter – "the Standard"). The standard determined that entities subject to the Securities Law, 5728 - 1968, and are obligated to report according to the standards of this law, will edit their Financial Statements according to the IFRS standard for the period starting January 1, 2008. The aforementioned does not yet apply to banking corporations and credit card companies that edit their Financial Statements according to the instructions of the Supervisor of Banks and his guidelines.

During June 2009, the Supervisor of Banks published a circular on the subject of "Reporting of banking corporations and credit card companies in Israel according to International Financial Reporting Standards (IFRS)" that determine the manner of expected adoption of the International Financial Reporting Standards (IFRS) by banking corporations and credit card companies.

Note 2 – Accounting policy (continuation)

According to the circular, the designated date for reporting of banking corporations and credit card companies according to the IFRS standards is:

2.1. On subjects that are not at the core of the banking business – as of January 1, 2011. From this date onwards, banking corporations and credit card companies are required to update the accounting process on these issues in a current manner, according to the transition instructions for the new international standards that will be published on these subjects, and according to the clarifications to be transferred by the Supervisor of Banks.

Thus, as of January 1, 2011, the Bank implemented the following IFRS standards, subject to the instructions of the Supervisor concerning the manner of implementation:

The Subject	Reporting Standard
Share–based Payment	IFRS 2
Business Combinations	IFRS 3
Non–current Assets Held for Sale and Discontinued Operations	IFRS 5
Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
Events After the Balance Sheet Date	IAS 10
Property, Plant and Equipment	IAS 16
Leases	IAS 17
Accounting for Government Grants and Disclosure of Government Assistance	IAS 20
The Effects of Changes in Foreign Exchange Rates	IAS 21
Consolidated and Separate Financial Statements	IAS 27
Investments in Associates	IAS 28
Financial Reporting in Hyperinflationary Economies	IAS 29
Interests in Joint Ventures	IAS 31
Earnings per Share	IAS 33
Financial Reporting for Interim Periods	IAS 34
Impairment of Assets	IAS 36
Intangible Assets	IAS 38
Investment Property	IAS 40

Note 2 – Accounting policy (continuation)

2.2. On core banking business subjects – as of January 1, 2013, while the Supervisor of Banks has the decision to make a final decision on this subject in the future. The final decision will determine in consideration with the timetables determined in the U.S. and in progress of the convergence process between international standard entities and the American's.

It was clarified in the circular that after the completion of the adjustment process of the international standards instruction, the supervising authorities of banks will remain in control for determining obligatory clarifications concerning the manner of implementation of the international standards requirements, as well as to determine additional instructions in cases in which it is obligated by the requirements of the supervising authorities in the world's developed countries or on subjects for which there is no reference in the international standards. In addition, the Supervisor of Banks will maintain his authority for determining requirements for disclosure and reporting.

2.3 The international Financing Reporting Standards as specified above, will be adopted according to the following principles (except if otherwise determined by the Supervisor of Banks):

- In cases in which there is no specific reference in the standards or in the interpretation of material subjects or there are a number of alternative handling on the material subject, banking corporation will operate according to the specific implementation guidance that has been determined by the Supervisor;

- In cases in which the material issue is raised while not receiving response in the international standards or in the implementation instructions of the Supervisor, the banking corporation will handle the issue according to accepted accounting regulations at banks in the U.S. that specifically apply to these issues;

- In places in which there is a reference in the international standard to another international standard that has been adopted in the Public Reporting Standards, the banking corporation will operate according to the international standard instructions;

- In places in which there is a reference in the international standard to another international standard that has not been adopted in the Public Reporting Standards, the banking corporation will operate according to the reporting instructions and according to the accepted accounting regulations in Israel;

- In places in which the international standards refers to definition of defined term in the Public Reporting Instructions, the reference of the term in the standards will replace the original reference.

Note 2 – Accounting policy (continuation)

Banking corporations will implement the International Financing Reporting Instructions and the interpretations referring to the specified above, as of January 1, 2011 and henceforth. The first time implementation of the International Financing Reporting Standards (IFRS) that is adopted in this circular, is implemented according to the transfer instructions as determined in the International Financing Reporting Standards, including amendment for retrospectively comparison of numbers if required according to the specific standard.

As of January 1, 2011 and henceforth, the Bank updates continuously the accounting process on the subjects dealt with in the circular according to the new International Financial Reporting Standards that have been published on these issues and according to the principles adopted and the clarifications of the Supervisor of Banks.

3. Fair value and alternative for fair value

On April 28, 2011 the Supervisor of Banks published a circular on the subject of measurements and fair value and alternative fair value. The circular adopts among others:

3.1. Measurement of fair value – the American Accounting Standard (FAS 157 ASC 820-10) hereinafter FAS "157".

FAS 157 defines fair value and determines in the consistent work framework the measurement of fair value by defining the techniques for fair value appraisal concerning assets and liabilities and determining the level of fair value and specified implementation guidance.

The circular distinguishes between two types of data constantly used at fair value:

Observable inputs presenting information available at the market obtained from independent resources and date for unobservable inputs reflecting on the assumptions of the banking corporation. These types of data create hierarchy of fair value as specified below:

Data level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Data level 2: quoted prices for similar assets and liabilities in active markets; quoted prices for similar or identical assets or liabilities in non-active markets; prices derived assessment models while all the data is material (significant inputs) in which are observable in the market or are supported by observable market data.

Data level 3: non-observable data for assets of liabilities derived from assessment models while one or more material data (significant inputs) in them are not observed.

Note 2 – Accounting policy (continuation)

Moreover, FAS 157 expands the requirement for disclosure and measurement of fair value. Implementation of the determined regulations in FAS 157 requires ceasing the usage of the Blockage Factor in the calculation of the fair value and replaces the forbidden guidelines for the recognition in day one profits and the obligation to determine the fair value of the derivative instruments that are not negotiable on the active market according to the transaction price. In addition, FAS 157 requires the banking corporations to reflect the Bank's credit risk and other risks in fair value measurements of debt, including derivatives, that are issued by it and measured according to fair value.

FAS 157 became valid as of January 1, 2011 and henceforth, except for a number of financial instruments concerning them the implementation is by the limited formula of Retrospective application on the date of the first implementation date.The difference between the balance-sheet balance, among others, of certain financial instruments to fair value value of the same instruments is recognized a accumulative influence for opening balance of surplus as of January 1, 2011, that is presented separately.

The banking corporation is required to reexamine the implemented assessment method by it for the measurement of fair value in consideration of the relevant circumstances for different transactions, including the latest transaction prices on the market, indicative prices for evaluations of services, and results of backwards examination (back-testing) of types of similar transactions.

In January 2010, the FASB published an update of the accounting standard on the subject of improving disclosure for measurement and fair value.

According to the update, amounts of material transfers from measurement in fair value according to level 2, for measurement according to level 1, and visa versa; require disclosure, as well as including explanations for these transfers. Require to provide disclosure concerning the gross amounts of changes in measurement of fair value according to level 3 that derives from acquisition activity, sales, issuance and repayment.

The affect of the First-time Application upon the Bank is not significant.

3.2 Alternative fair value for financial assets and financial liabilities – American accounting standard ASC 8251)0) hereinafter "FAS 159.".

The purpose of FAS 159 is to enable reducing the volatility in reported revenue that derives from measurements of assets and liabilities that ave been defined and defined derivative instruments according to various measurement bases.

FAS 159 enables the banking corporation to select defined dates, for measuring fair value of financial instruments and certain other items (valid items), that according to the Public Reporting Instructions do not require measurement in their fair value. The gains and losses that have not yet been realized for changes in fair value of items for which alternative fair value is chosen, are reported in Profit and Loss report at each consecutive reporting date. Moreover, costs and advanced fees related to items for which alternative fair value is chosen are recognized in Profit and Loss at the time of their formation and are not deferred. The choice for implementation of alternative fair value as aforementioned is implemented separately for each instrument (instrument-by-instrument) and cannot be canceled. In addition, FAS 159 determines the requirement of presentation and disclosure designated to assisting comparison between banking corporations choosing various measurement bases for similar types of assets and liabilities.

Notwithstanding the aforementioned, it should be clarified by the supervision of banks that, banking corporation will not chose an alternative to fair value, except if the banking corporation developed knowledge in advance, systems, procedures and controls at a high level that enables it to measure the items at a high level of reliability. Therefore, a banking corporation will not chose an alternative to fair value concerning any asset suitable for classification level 2 or level 3 in hierarchy of fair value, or regarding any liability, except if it received advanced approval from the Supervisor of Banks.

The standard is effective as of January 1, 2011 and henceforth. Retrospective implementation of adoption or adoption in early prohibited implementation. Moreover, transfer instructions have been determined referring to implementation for valid items existing on the starting date, as well as available securities for sale and securities held for maturity.

The influence of the First-time Application on the Bank is insignificant.

4. Instructions and clarifications of the Supervisor of Banks concerning strengthening of internal auditing on financial reporting on the subject of employee rights

On March 27, 2011, guidelines fromthe Supervisor of Banks were published concerning strengthening of internal auditing on financial reporting on the subject of employee rights. The guideline determined a number of clarifications concerning the assessment of liability for employee rights and guidelines concerning internal auditing on financial reporting process on the subject of employee rights while requiring the collaboration of a certified actuary, identification and screening of liabilities for employee rights, existence of internal auditing for the purpose of relying on the actuary's assessment and validation and also a requirement of certain disclosures. On May 23, 2011, the Supervisor of Banks published a clarification according to which the first time application of the above mentioned guideline was postponed to April 1, 2011.

Note 2 – Accounting policy (continuation)

The guideline determines, among others, that a banking corporation that expects that is will pay its employees, upon their leaving, benefits for contractual conditions, will take into consideration the number of expected employees that will leave and the benefits the Banks expects that it will be required to pay for the benefits beyond the contractual conditions, for early retirement of employees.

The return implications on measuring liabilities and on the internal auditing process on the subject of employees rights are not material.

X. Intangible Assets

In the framework of International Financial Reporting Standards (IFRS) adoption by the Bank (see expanded in paragraph 24 above, the Bank adopted the International Accounting Standard 38 (IAS 38) discussing the methods of accounting process and required disclosure of intangible assets.

IAS 38, Intangible Assets

Software Costs

Software that has been purchased by the Bank measures according to cost with deduction of accumulated depreciation and impairment losses.

Costs in relation to development of computer programs or adjustments for the purpose for personal use are capitalized only if: the depreciation cost can be measured in a reliable manner; the program will be implemented from technical and commercial aspect; future economic benefits is expected; the Bank intends and has sufficient sources in order to complete the development and to use the program. Costs recognized as intangible assets include direct cost of materials and services and work wages direct for the employees. These costs are measured according to cost, with deductions of accumulated depreciation and losses from impairment. Overhead cost that could not be attributed in a direct manner for the development of software and cost incurred during the research stage will be recognized as an incurred expense.

Amortization

Amortization is reflected in the Profit and Loss report according to straight-line method over the useful life estimate of intangible assets, including program assets, applied from the date on which assets are available for use.

Intangible assets that are created at the Bank (such as: software in development progress) are not amortized systematically as long as they are not available for use according to management's decision. Therefore, impairment for these intangible assets are examined at least once a year, until the date they become available for use according to management's decision.

Subsequent costs

Subsequent costs are recognized as intangible assets only if they increase the embedded future economic benefits of the asset for which they have been expended. Other costs including those related to goodwill or independently developed brands, are reflected in Profit and Loss at their formation.

The first time implementation had no significant influence.

Y. New accounting standards and instructions of the Supervisor of Banks prior to their implementation

1. Adoption of international standards and change in the reporting formula of Profit and Loss report:

As aforementioned, on subjects that are not the core of the banking business, the International Accounting Reporting Standards will be applied as of January 1, 2011.

Nevertheless, during November 2011, the Supervisor of Banks published a circular concerning "Adoption certain International Financial Reporting Standards (IFRS), in which was determined that as of January 1, 2012, a banking corporation will implement the following IFRS standards:

– International Accounting Standard 7 (IAS) reports on cash flows

– International Accounting Standard 12 (IAS) Income Taxes

– International Accounting Standard 23 (IAS) Credit costs

– International Accounting Standard 24 (IAS) Disclosure in connection to related party

– Guidelines have been determined concerning accounting process in transactions with controlling shareholder

Moreover, on December 29, 2011 the Supervisor of Banks published a circular including new planned implementation for Profit and Loss report of banking corporation and adoption of American standards on the subject of measuring interest income.

The first time application of these standards, as determined by the Supervisor of Banks, is according to the transition instructions that have been determined by the standards, including the manner of retrospective application and adjustment of comparison numbers, as much as required.

Below are additional details concerning standards that have been adopted and their possible affect:

1.1 IAS 7, Cash Flow Statements;

The standard provides information through cash flow statements on changes that have been applied in the cash flow statement period and in cash value classified as cash flows during the period from current activities, from investment activities and financing activities. The cash flow statement will be made while using the indirect method, and based on profit after tax. Nevertheless, a banking corporation may present the cash flow from current activities according to the direct method.

1.2 IAS 12, Income Tax;

The standard, in the adoption formula, is similar in its instructions to the Israeli Accounting Standard 19 concerning income tax that had been implemented until now by the Bank. Nevertheless, alongside the adoption of the international standard, the specific instructions that have been determined by the Supervisor of Banks, have been changed.

In general, deferred tax assets will be recognized in the books for transferred losses, tax credits and available provisions granted for credits while it is expected that in the future the income will be taxable, against which it may be exploited. According to the guideline of the Supervisor of Banks the definition of the term "expected" (probable) will be applied in a consistent manner for the term "More likely than not" as part of accounting regulations accepted at banks in the U.S.

1.3 IAS 23, Credit costs;

The standard determines that a company is to discount credit costs that refers directly for purchasing and establishing or creation of qualifying asset. Qualifying asset is an asset that required a significant period of time for its preparation for designated usage or it sales, nevertheless, it should be emphasized that for the banking corporation it will not constitute a borrowing cost, without determining policies, procedures and clear controls concerning the recognition criteria in assets as qualifying assets and as far as capitalized credit costs.

Note 2 – Accounting policy (continuation)

1.4 IAS 24, Disclosure in connection to a related party

The amendment to IAS 24 (hereinafter: the "amendment") clarifies the definition of a related party in order to simplify the recognition of connections with a related party and to prevent lack of consistency at implementing this definition. In addition, as part of the amendment, companies connected to the government, are provided partial relief in providing disclosure concerning transactions with government and with other companies as aforementioned. The amendment is retrospectively applied as of the Financial Statements for annual periods starting January 1, 2011.

On this issue, a banking corporation is required to implement the accepted accounting regulations of banks in the U.S. In case, as aforementioned, no reference is found, the banking corporation is required to implement the regulations that have been set in standard 23, and in particular for transactions providing loans or recruitment of deposits between companies within the banking group.

1.5 In December 2006, the Israeli Institute published accounting Standard number 23 concerning "accounting process in transactions between an entity and a controlling shareholder" (hereinafter. "standard 23"). According to Standard 23, assets and liabilities for which a transaction is performed between the entity and the controlling shareholder will be measured on the transaction date according to the transaction's fair value, while the provision between fair value and the compensation will be imputed to equity. The difference in debit is in fact the dividend and therefore it will be recognized as a reduction in the surplus balance. The difference in credit is in fact the investment of owners and therefore it will be presented in a paragraph separate from equity, called capital fund from a transaction between an entity and a controlling shareholder.

On this issue, a banking corporation is required to implement the accepted accounting regulations of banks in the U.S. In case, as aforementioned, no reference is found, the banking corporation is required to implement the regulations that have been set in standard 23, and in particular for transactions providing loans or recruitment of deposits between companies within the banking group.

As such, the treatment instructions are canceled, as determined in Public Reporting Instructions on the issue of transactions with controlling shareholders or with a company controlled by a banking corporation. Nevertheless, the guideline concerning continuous agreement with exchange was left intact.

The Bank examines he expected affect of the first time application.

1.6 Change in formula for Profit and Loss report:

The objective of the instruction is to adjust the measuring and reporting regulations of banking corporations in Israel to banks worldwide.

a) As result of the adoption, the new formula for the Profit and Loss report, paragraph "Revenue from financing activity" will be replaced in three paragraphs: "Interest income", "Interest expenses" and "Income from financing that are not interest". Moreover, paragraph "Profit from extraordinary operations after tax" will be canceled.

The instructions related to the manner of presentation in the Profit and Loss report will be retrospectively applied as of the report to the public during the first quarter of 2012 and henceforth.

On the issue of implementing the instruction on the subject of "measurement and disclosure of defective debts, credit risk and the provision for credit loss," the banking corporation is required to cancel the index-linked differences that have been accumulated on the principal of defective debt and not yet been paid, for debts that have been classified as defective as of 1.1.2012 and henceforth only.

An affect on the Bank's results as result of this adoption is not expected.

b) Adoption of ASC 310-20 concerning "fees that cannot be returned and other increases":

The banking corporation will have to consider the net amount of fees and costs formed for the purpose of calculating the effective interest rate.

The amendments related to adoption of the issue of measuring interest incomes will be implemented as of 1.1.2013 and henceforth. In view of the significant preparation required from the banking corporations for the purpose of properly determining cost formed by the banking corporation, the Supervisor of Banks has the intention to give guidance on this issue and the adoption process.

The Bank examines the possible affect of these updates on the Financial Statements, but at this stage it can not evaluate the affect if it exists, on the Financial Statements.

Note 2 – Accounting policy (continuation)

2. New International Financial Reporting Standards and amendments to International Financial Report.

2.1 In May 2011 the IASB published three new standards:

- IFRS 10 Consolidated financial reports
- IFRS 11 Mutual settlements
- IFRS 12 Disclosure concerning rights in other entities

The new amendments will be retrospectively applied as of the Financial Statements for annual periods starting January 1, 2013 or later. Early adoption is possible. However, if the Bank choses to implement, it should adopt the new standards as a totality (except for disclosure requirements according to IFRS 12 which can be adopted separately).The standards included transition instructions with certain reliefs during first time application.

Below are the principles of the aforementioned standards:

IFRS 10 – Consolidated financial statements

IFRS 10 (hereinafter - standard 10) replaces the IAS 27 concerning the accounting process in consolidated financial statements, and also includes the accounting process in structured entities that in the past were handled in SIC 12 Consolidation – Special Purpose Entities.

Standard 10 does not include changes in consolidation management,but changes the definition of the existence of control and includes a single model for the purpose of consolidation. According to standard 10, in order to establish control, the existence of power is required and exposure or rights for variable returns from the invested bank. Power cannot influence and direct the activities of the invested bank, that affect in a significant manner on the investor's yield.

Standard 10 determines that during the examination of the existence of control, potential voting rights should only be considered if they are feasible, compared to IAS 27prior the amendment that determined that potential voting rights will be considered only if they may be realized immediately while the intentions of the management and the financial capabilities for the realization of these rights should be ignored.

In addition, standard 10 determines that the investor can control even if he holds less than the majority of the voting rights held in the Bank (effective control), and this in contradiction with the existing IAS 27 that enabled choosing between two consolidated models – the effective control model and the legal control model.

Standard 10 will be applied retrospectively beginning from the Financial Statements for annual periods from January 1, 2013 or later.

IFRS 11 – Mutual settlements

IFRS 11 (hereinafter - standard 11) replaces IAS 31 concerning the accounting process of rights in mutual transactions and SIC 13 regarding interpretation of accounting process in "non-financial" investments by entities in joint control.

Standard 11 defines mutual settlements as contractual settlements according to which two parties or more have joint control.

Standard 11 divides the mutual settlements in two types:

– Joint transactions (joint ventures), in which the settlement parties have joint control of the rights in net assets of the joint transaction. Standard 11 requires that joint transactions are handled according to equity method and this in contradiction with instructions of IAS 31 that determined that the Bank may chose whether to implement the relative consolidation method or equity method as accounting policies concerning entities in joint control.

– Joint activities (joint operations), in which the settlement parties have joint control of the rights in net assets of the joint activity and joint commitment for liabilities of the joint activity. Standard 11 requires that the holding bank recognizes the assets, liabilities, income and expenses of the joint activity according to the relative part in this activity as determined in the joint settlement, similar to the current existing accounting process.

Standard 11 will be applied retrospectively beginning with the Financial Statements for annual periods from January 1, 2013 or later.

IFRS 12 Disclosure concerning rights in other entities

IFRS 12 (hereinafter - Standard 12) determines the disclosure requirement concerning the Bank's holding entities, including subsidiaries, joint settlements, consolidated companies and structured entities. Standard 12 expands the disclosure requirement concerning considerations and guidelines used by the management in determining the existence of control, joint control or significant influence in holding entities, and also in determining the type of joint settlement. Standard 12 also included disclosure requirement concerning material holding entities.

The suitable disclosures will be included in the Financial Statements of the Bank with the standard's first time adoption.

By the Bank's assessment, the adaption of the new International Accounting Reporting Standard will probably not have significant influence on the Financial Statements.

2.2 In May 2011 the IASB published an amendment to two existing standards:

- IAS 27R (amended 2011) – Separate financial statements
- IAS 28R (amended 2011) – Investments in Associates and joint transactions.

IAS 27R – Separate financial statements

IAS 27R replaces IAS 27 and deals only in separate financial statements.

The existing guideline concerning separate financial statements remained without changes as part of of the amended standard 27.

IAS 28R – Investments in Associates and joint transactions

IAS 28R (hereinafter - amended standard 28) replaces IAS 28. The main changes included in it, compared to IAS 28, refer to accounting process according to the equity method in investments of joint transactions, as a result IFRS 11 was published and the transition from implementation of relative consolidation method to equity method in these investments. The amended Standard 28 also determined that in case of realization of investment in the consolidated company or joint transaction, included part of it, instructions IFRS 5 should be implemented on those same parts responding to the classification conditions as held for sale, and concerning the remaining part, the equity method needs to be continued until the actual realization date. In addition, in case of investment in a consolidated company that turns into an investment in a joint transaction (joint venture) and vise versa, the equity method should be continued and no remeasurement should be applied to the remaining investment.

Standard 28 will be applied retrospectively beginning from the Financial Statements for annual periods from January 1, 2013 or afterwards. Early adoption is possible. However, if the company chooses to implement, it has to adopt IFRS 10, IFRS 11, IFRS 12, and IAS 27R (amended 2011) as a totality.

By the Bank's assessment, Standard 28 will probably not have significant influence on the Financial Statements.

3. Updating of the American Accounting Standard:

3.1 American Accounting Standard 166 on the subject of transfers and servicing of financial assets, and American Accounting Standard 167 on the subject of consolidated entities with joint rights. According to the circular from the Supervisor of Banks from September 2009, a banking corporation will be required to implement the regulations determined in FAS 166 – transfers and servicing of financial assets, and FAS 167 consolidated entities with joint rights, including disclosure requirements that have been determined as of January 2010 and henceforth according to the transition instructions that have been set in these standards. In general, according to these transition instructions it is required that:

1. Application of requirements for recognition and measurement in standards concerning transfer of financial assets implemented as of January 1, 2010 and afterwards.

2. As of January 1, 2010 and afterwards, to examine whether consolidation is required, according to FAS 167, of entities that have been defined according to the old regulations as qualified special-purpose entities.

Moreover, a banking corporation is entitled not to disclose comparison numbers for 2009, concerning disclosure requirements that have been added for the first time in the circular from the Supervisor of Banks.

3.2 ASU 2011-03 – The existing conditions of effective control in return purchasing agreements (hereinafter: "the Amendment"):

In April 2011 the FASB published an amendment whose objective is to improve and simplify the accounting process in returning purchasing transactions from repo type and similar transactions. The change applies transversely to financial assets that have been transferred as part of repo transactions and for other agreements that also provide and require the transferor to purchasing anew or redeeming the financial assets before the contractual maturity date.

According to the update, it is required to change the manner in which existing effective control is assessed effectively by the transferor of return purchasing transactions. Assessment of existence of effective control will focus on the transferor's contractual rights and contractual liabilities, and therefore (1) criterion that requires that the transferor will have the ability to purchase papers that have been transferred, as well as in case of failure by the transferor, will not be considered; and also, (2) guidelines on the subject of security requirements in relation to this criterion. Additional criteria for examining the existence of effective control have not been changed by the ASU.

The amendment will be applied from January 1, 2012, on transfer of assets that are valid after that, or on existing transactions in which a change was applied after the starting date.

3.3 ASU 2011-04 – Measuring fair value (hereinafter: 'the Amendment"):

In May 2011, the FASB published an amendment concerning the ASC 820 measurement and disclosure of fair value. The new disclosure does not change the existing requirements considerably, but clarifies them.

The amendment presents a number of changes, and among them, concerning using a factor for the holding size that prohibits to operate it will be applied not only upon negotiable instruments classified as level 1 fair value, as currently determined, but also concerning the remaining instruments in levels 2 and 3.

The amendment provides guidelines for measuring fair value in portfolios of financial instruments. Moreover, the amendment presents disclosure requirements that according to them, among others, requires provision of disclosure for all transfers from level 1 to level 2.

The amendment will become effective as of January 1, 2012.

3.4 In March 2010, the FASB published an update on the accounting standard ASU 2010-11. This update is exclusive from the application of the American Accounting Standard FAS 133'(ASC 815-15) separation of certain embedded credit derivatives, and determines guidelines for examining whether certain characteristics of the embedded credit derivatives in financial instruments, require an accounting process of separation of embedded derivatives.

The update provides criteria for examining whether the existing embedded credit is derived from the criteria in a "clearly and closely related manner", as set by FAS 133, that in its existence can not be separated from embedded derivative of the contract host.

The update clarifies that the actual existence of credit risk deriving from inferior rights of one financial instrument compared to another will not be considered as an embedded derivative. The guidelines that have been determined in the update are applicable from the quarterly period starting after June 15, 2010. The affect of first time application of ASU 2010-11 is insignificant.

3.5 Update accounting standard ASU 2011-02 on the subject of decision by credit provider whether re-organization of debt is a re-organization of problematic debt:

Note 2 – Accounting policy (continuation)

During April 2011, FASB published an accounting standard update ASU 2011-02, on the subject of a decision by the credit provider whether re-organization of debt is a re-organization of problematic debt. According to the American standard on this subject (ASC 310), debt re-organized as problematic debt is a debt that was formally transferred to re-organization, as part of: economic or legal circumstances related to financial difficulties of the debt. The update provides additional guidelines to the Bank, granting a concession to the borrower, clarifying when the re-organized debt will be considered as re-organization of problematic debt as part of the concession that was granted by the credit provider. In particular, clarifications have been included relating to the implementation manner for examining the concession in effective interest. Moreover, guidelines have been included for determining whether a concession has been granted in re-organization of a debt as part of the contractual interest is higher according to the new conditions of the original contractual interest, but still lower compared to the market interest for loans with similar risk characteristics and in consideration of the total conditions determined as part of the re-organization. Moreover, it is clarified that in situations in which the debtor has no capability to recruit debt with similar risk characteristics in market conditions, the Bank will be required to examine the total of other conditions of the re-organization to determine whether to grant the concession. In addition, according to the existing standard, an insignificant postponement of payments will not be a concession. The ASU provides a list of characteristics that may indicate that the delay is not significant, such as: the amount of the payment that has been re-organized is insignificant in relation to the balance of the debt that has not been paid, or in relation to the security value and also the postponement is not significant in relation to the payment frequency (monthly, quarterly, and so forth), the original contractual repayment date and the original expected duration of the debt. According to ASU, the credit provider is required to consider the accumulative affect of the debt re-organization has been implemented in the past during implementation of an assessment whether the postponement is significant.

Moreover, the ASU determines a list of disclosure requirements concerning re-organization activity of problematic debt.

The regulations determined in ASU will become effective from the periods after June 15, 2011 (meaning as of July 1, 2011). Possible early implementation. Changes in the manner of measurement of credit loss provision will be implemented prospectively (meaning, measurement of debt balance that has been defined as defective debts following the first time application of the ASU). According to the guidelines of the Supervisor of Banks, this update will be implemented by banking corporations as of the effective date, except for disclosure requirement that does not apply at this stage.

The Bank examines the possible affect of these updates on the Financial Statements, but at this stage it can not evaluate the affect if it exists, on the Financial Statements.

Note 3 – Cash and bank deposits

Reported amounts in millions of Shekels

	Consolidated		The Bank	
	December 31			
	2011	**2010**	**2011**	**2010**
Cash and deposits at the Bank of Israel	**206.0**	411.1	**206.0**	411.1
Cash and deposits at commercial banks	**586.3**	241.2	**585.8**	240.8
	792.3	652.3	**791.8**	651.9
From this: cash, deposits at banks and deposits at the Bank of Israel				
For the period up to 3 months	**792.3**	652.3	**791.8**	651.9

Note 4 – Securities – consolidated

Reported amounts in millions of Shekels

	December 31, 2011				
	value Balance Sheet	**Amortized cost (in shares – cost)**	**Gains not yet realized from fair value reconciliations**	**Losses not yet realized from fair value reconciliations**	**Fair value(1)**
Securities available for sale –					
Debentures					
of the Israeli government	1,011.8	1,023.7	3.3	15.2	1,011.8
From financial institutions in Israel	115.1	115.3	0.5	0.7	115.1
Asset–backed (ABS) in Israel	13.7	17.7	–	4.0	13.7
From others in Israel	78.6	79.9	0.2	1.5	78.6
Total debentures	1,219.2	1,236.6	4.0	21.4	1,219.2
Securities	1.1	1.1	–	–	1.1
Total securities available for sale	**1,220.3**	**1,237.7**	**4.0** (3)	**21.4** (3)	**1,220.3** (2)
Negotiable securities –					
of the Israeli government	232.5	229.1	3.4	–	232.5
From financial institutions in Israel	5.0	5.0	–	–	5.0
From others in Israel	7.5	7.9	–	0.4	7.5
From other foreigners	25.4	26.6	–	1.2	25.4
Total debentures	270.4	268.6	3.4	1.6	270.4
Total negotiable securities	270.4	268.6	3.4 (4)	1.6 (4)	270.4
Total securities	**1,490.7**	**1,506.3**			**1,490.7**

(1) Fair value data is generally based on stock exchange rates that are not necessarily reflected in the prices obtained from sale of securities on a large scale.

(2) Including shares for which fair value is not available, presented according to cost, for a total of NIS 0.1 million.

(3) Included in equity in paragraph "Reconciliations for presentation for sale of available securities according to fair value".

(4) Reflected in Profit and Loss report.

Details of activity results in debentures investments – see note 23.

Note 4 – Securities (continuation) – consolidated

Reported amounts in millions of Shekels

	December 31, 2010				
	value Balance Sheet	Amortized cost (in shares – cost)	Gains not yet realized from fair value reconciliations	Losses not yet realized from fair value reconciliations	Fair value[1]
Securities available for sale –					
Debentures					
of the Israeli government	1,115.2	1,126.9	0.2	11.9	1,115.2
From financial institutions in Israel	88.7	87.9	0.8	–	88.7
Asset–backed (ABS) in Israel	11.6	14.7	–	3.1	11.6
From others in Israel	17.5	16.5	1.1	0.1	17.5
Total debentures	1,233.0	1,246.0	2.1	15.1	1,233.0
Securities	1.1	1.1	–	–	1.1
Total securities available for sale	**1,234.1**	**1,247.1**	**2.1** (3)	**15.1** (3)	**1,234.1** (2)
Negotiable securities –					
of the Israeli government	71.9	71.8	0.5	0.4	71.9
From financial institutions in Israel	–	–	–	–	–
From others in Israel	8.9	8.5	0.6	0.2	8.9
Total debentures	80.8	80.3	1.1	0.6	80.8
Total negotiable securities	80.8	80.3	1.1 (4)	0.6 (4)	80.8
Total securities	**1,314.9**	**1,327.4**			**1,314.9**

(1) Fair value data is generally based on stock exchange rates that are not necessarily reflected in the prices obtained from sale of securities on a large scale.

(2) Including shares for which fair value is not available, presented according to cost, for a total of NIS 0.1 million.

(3) Included in equity in paragraph "Reconciliations for presentation for sale of available securities according to fair value".

(4) Reflected in Profit and Loss report.

Details of activity results in debentures investments – see note 23.

Note 4 – Securities (continuation) – the Bank

Reported amounts in millions of Shekels

	December 31, 2011				
	value Balance Sheet	Amortized cost (in shares – cost)	Gains not yet realized from fair value reconciliations	Losses not yet realized from fair value reconciliations	Fair value[1]
Securities available for sale –					
Debentures					
of the Israeli government	865.6	876.2	3.3	13.9	865.6
From financial institutions in Israel [5]	347.2	347.7	0.3	0.8	347.2
Asset–backed (ABS) in Israel	13.7	17.7	–	4.0	13.7
From others in Israel	78.5	79.8	0.2	1.5	78.5
Total debentures	1,305.0	1,321.4	3.8	20.2	1,305.0
Securities	1.1	1.1	–	–	1.1
Total securities available for sale	**1,306.1**	**1,322.5**	**3.8** [3]	**20.2** [3]	**1,306.1** [2]
Negotiable securities –					
of the Israeli government	229.0	225.6	3.4	–	229.0
From financial institutions in Israel	5.0	5.0	–	–	5.0
From others in Israel	7.5	7.9	–	0.4	7.5
From other foreigners	25.4	26.6	–	1.2	25.4
Total debentures	266.9	265.1	3.4	1.6	266.9
Total negotiable securities	266.9	265.1	3.4 [4]	1.6 [4]	266.9
Total securities	**1,573.0**	**1,587.6**			**1,573.0**

(1) Fair value data is generally based on stock exchange rates that are not necessarily reflected in the prices obtained from sale of securities on a large scale.

(2) Including shares for which fair value is not available, presented according to cost, for a total of NIS 0.1 million.

(3) Included in equity in paragraph "Reconciliations for presentation of securities available for sale according to fair value."

(4) Reflected in Profit and Loss report.

(5) From this balance sheet value for the total of NIS 260.7 million (NSS 144.1 million in 2010) for debentures of consolidated companies, associated companies, and parent companies, or companies in their control, respectively.

Details of activity results in debentures investments, see note 23.

Note 4 – Securities (continuation) – the Bank

Reported amounts in millions of Shekels

	December 31, 2010				
	value Balance Sheet	Amortized cost (in shares – cost)	Gains not yet realized from fair value reconciliations	Losses not yet realized from fair value reconciliations	Fair value(1)
Securities available for sale –					
Debentures					
of the Israeli government	922.4	931.8	0.2	9.6	922.4
From financial institutions in Israel (5)	232.2	231.4	0.8	–	232.2
Asset–backed (ABS) in Israel	11.6	14.6	–	3.0	11.6
From others in Israel	18.0	17.1	1.1	0.2	18.0
Total debentures	1,184.2	1,194.9	2.1	12.8	1,184.2
Securities	1.1	1.1	–	–	1.1
Total securities available for sale	**1,185.3**	**1,196.0**	**2.1** (3)	**12.8** (3)	**1,185.3** (2)
Negotiable securities –					
of the Israeli government	69.6	69.5	0.5	0.4	69.6
From financial institutions in Israel	–	–	–	–	–
From others in Israel	5.4	5.1	0.3	–	5.4
Total debentures	75.0	74.6	0.8	0.4	75.0
Total negotiable securities	75.0	74.6	0.8 (4)	0.4 (4)	75.0
Total securities	**1,260.3**	**1,270.6**			**1,260.3**

(1) Fair value data is generally based on stock exchange rates that are not necessarily reflected in the prices obtained from sale of securities on a large scale.

(2) Including shares for which fair value is not available, presented according to cost, for a total of NIS 0.1 million.

(3) Included in equity in paragraph "Reconciliations for presentation for sale of available securities according to fair value".

(4) Reflected in Profit and Loss report.

(5) From this balance sheet value for the total of NIS 144.1 million (NIS 148.1 million in 2009) for debt of consolidated companies, associated companies, and parent companies or companies controlled by them, respectively.

Details of activity results in debentures investments – see note 23.

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (1)

Reported amounts in millions of Shekels

As of January 1, 2011, the Bank implements the new instruction from the Supervisor of Banks on the subject of "Measurement and disclosure of defective debts, credit risk, and credit risk provision". Included in these Financial Statements is disclosure according to the new formula adjusted to reporting requirements according to the aforementioned instruction. In view of the fact that the new instruction is implemented in a prospective manner without representation of comparison numbers, for the purpose of disclosure comparison, below will be presented the data of the current period with suitable balances for December 31, 2010 (proforma data), as if the instruction would have been implemented for the first time in 2010. Following examinations performed by the Bank during the period, a number of changes have been implemented in the proforma data.

a. Credit for the public

	December 31, 2011			December 31, 2010 (proforma data)		
	Balance Recorded debt	Provision for Credit Losses	Balance Net debt	Balance Recorded debt	Provision for Credit Losses	Balance Net debt
Credit for the public examined on individual basis*	1,633.3	7.3	1,626.0	1,346.9	12.6	1,334.3
Credit for the public examined on a group basis**	7,515.5	83.7	7,431.8	6,770.9	84.3	6,686.6
Total credit to the public	**9,148.8**	**91.0**	**9,057.8**	**8,117.8**	**96.9**	**8,020.9**

* Including credit that has been examined on an individual basis and was found to be not defective. The provision for credit loss due to this credit being calculated on group basis. For additional details concerning credit that has been examined on an individual basis, see table in paragraph B.

** Credit for which the provision of credit loss has been assessed on a group basis in depth arrears method according to Appendix of Proper Banking Management Instructions № 314, and other credit that has not been examined individually, while the credit loss provision for it has been calculated on a group basis. For additional details see table in paragraph C.

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

b. Credit for the public that is examined on an item by item basis

	December 31, 2011			December 31, 2010 (proforma data)		
	Balance Recorded debt	Provision for Credit Losses	Balance Net debt	Balance Recorded debt	Provision for Credit Losses	Balance Net debt
Credit for the public that has been examined on an individual basis including						
Impaired credit for the public*	**35.6**	**3.7**	**31.9**	**29.9**	**8.3**	**21.6**
Credit for the public that is not defective, in arrears of 90 days or more**	40.3	0.8	39.5	6.8	0.9	5.9
Credit for the public that is not defective, in arrears from 30 days up to 89 days**	16.5	0.3	16.2	2.4	0.1	2.3
Other credit for the public that is not defective**	1,540.9	2.5	1,538.4	1,307.8	3.3	1,304.5
Total credit for the public that is not defective**	**1,597.7**	**3.6**	**1,594.1**	**1,317.0**	**4.3**	**1,312.7**
Total credit for the public that is examined on individual basis	**1,633.3**	**7.3**	**1,626.0**	**1,346.9**	**12.6**	**1,334.3**

* Impair credit does not accumulate interest income, except for certain credit in reorganization as mentioned below in this paragraph.

** Credit that is examined on individual basis and found not defective. The provision for credit loss due to this credit being calculated on group basis.

(1) For additional details concerning the accumulating affect of first time application as of 1.1.2011, of the instruction on the subject of "Measurement of defective debts and credit loss provision," see note 2(23).

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

	December 31	
	2011	**2010 (proforma data)**
Additional information on defective credit for the public that is examined on an item by item basis		
Defective credit for the public for which there exists a credit loss provision on an item by item basis	3.7	17.2
Defective credit for the public for which there is no credit loss provision on an item by item basis	31.9	12.7
Total defective credit for the public	**35.6**	29.9
Defective credit for the public that is measured according to present value of cash flows	28.8	25.3
Defective credit for the public that is measured according to security value	6.8	4.6
Total defective credit for the public	**35.6**	29.9

	December 31, 2011			December 31, 2010 (proforma data)		
	Balance Recorded debt	**Provision for Credit Losses**	**Balance Net debt**	**Balance Recorded debt**	**Provision for Credit Losses**	**Balance Net debt**
Problematic credit in re–organization as part of changes in credit conditions were implemented						
that does not accumulate income interest	35.6	3.7	31.9	21.1	4.1	17.0
Accumulated interest income	–	–	–	8.8	4.2	4.6
Total (included in defective credit for the public)	**35.6**	**3.7**	**31.9**	**29.9**	**8.3**	**21.6**

The Bank has no liabilities for providing additional credit for debtors for whom re-organization of problematic credit has been implemented as part of changes in credit conditions that were implemented.

	For the year ending on December 31, 2011
Recorded debt balance from average of defective credit for the public in reporting periods	30.8
Total income from interest that has been recorded in the reporting period for this credit in the time period in which it was classified was defective*	0.7
Total income from interest that has been recorded in the reporting period for which this credit accumulates interest according to the original conditions	1.8
*From this: income from interest that has been recorded according to the cash basis accounting method	0.7

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

c. Credit for the public that is examines on group basis including

housing loans for which minimum credit loss provision has been made according to depth areas according to the formula of Proper Banking Management Instruction 314 as of December 31, 2011:

	Depth arrears							
	In arrears from 30 days and up to 90 days	In arrears of more than 90 days						
	Two months Up to 3 months	Over 3 months Up to 6 months	Over 6 months Up to 15 months	Over 15 months Up to 33 months	Over 33 months	Total over 3 months	Balances for passed due loans that have been returned***	Total
	December 31, 2011							
Arrears amount	3.5	4.0	4.1	2.6	54.0	64.7	–	68.2
From this: Provision balance for interest*	–	–	0.2	0.1	22.0	22.3	–	22.3
Balance recorded debt	60.1	89.5	56.7	19.5	60.4	226.1	27.2	313.4
Balance of provision for credit loss**	–	–	8.6	9.0	41.0	58.6	3.2	61.8
Net debt balance	60.1	89.5	48.1	10.5	19.4	167.5	24.0	251.6
	December 31, 2010 (proforma data)							
Arrears amount	3.0	4.4	5.2	6.1	64.2	79.9	–	82.9
From this: Provision balance for interest*	–	–	0.1	0.1	24.6	24.8	–	24.8
Balance recorded debt	57.4	81.6	58.5	28.3	61.0	229.4	25.4	312.2
Balance of provision for credit loss**	–	–	7.4	11.9	45.6	64.9	3.5	68.4
Net debt balance	57.4	81.6	51.1	16.4	15.4	164.5	21.9	243.8

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

Other credit that is not examined item by item, while the credit loss provision for it is calculated on a group basis

	December 31, 2011			December 31, 2010 (proforma data)		
	Balance Recorded debt	Provision for Credit Losses	Balance Net debt	Balance Recorded debt	Provision for Credit Losses	Balance Net debt
Defective credit to the public	–	–	–	–	–	–
Credit for the public that is not defective, in arrears of 90 days or more	13.5	1.5	12.0	10.3	1.2	9.1
Credit for the public that is not defective, in arrears of 30 days up to 89 days	25.3	0.9	24.4	6.4	0.1	6.3
Other credit for the public that is not defective	684.9	11.3	673.6	534.1	5.8	528.3
Total	**723.7**	**13.7**	**710.0**	**550.8**	**7.1**	**543.7**

* For interest of amounts in arrears.

** Provision balance for interest is not included

*** Loans for which a settlement was signed for the return of arrears from the borrower, when a change in clearance schedule is made for the remaining loan that has not yet reached maturity.

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

d. Credit loss provision due to debts and because of off-balance-sheets credit instruments

	Provision for Credit Losses			
		on group basis *		
	On individual basis	According arrears depth	Other	Total
Provision balance for beginning of period	47.0	69.2	6.6	122.8
Recognized net write offs as of January 1, 2011	(34.6)	(7.4)	–	(42.0)
Other changes in credit loss provision as of January 1, 2011 (reflected in equity)	(4.1)	6.6	13.6	16.1
Balance as of January 1, 2011	8.3	68.4	20.2	96.9
The year 2011				
Expenses for Credit Losses	(1.8)	1.8	13.4	13.4
Write offs	(3.0)	(9.2)	(11.1)	(23.3)
Collection of write off debts in previous years	0.2	0.8	3.0	4.0
Net write offs	(2.8)	(8.4)	(8.1)	(19.3)
Balance credit losses provision as of the day of the 31st of December 2011	3.7	61.8	25.5	91.0

	Provision for Credit Losses			
		on group basis *		
	On individual basis	According arrears depth	Other	Total
Composition of provision balance as of December 31, 2011				
For credit for the public	3.7	61.8	25.5	91.0
For off–balance–sheets credit instruments (included in paragraph Other liabilities)	–	–	1.7	1.7
Composition of provision balance as of December 31, 2010 (proforma data)				
For credit for the public	8.3	68.4	20.2	96.9
For off–balance–sheets credit instruments (included in paragraph Other liabilities)	–	–	1.3	1.3

* Included provision on a group basis for debts that are examined item by item and found not defective.

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

E. Additional details on housing loans and the manner of calculating the credit loss provision

December 31, 2011							
	Housing Loans	Defective housing loans or in arrears of more than 90 days(1)		Balance of provision for credit losses			
					Others		
	Balance recorded debt(5)	Arrears amount(3)	Balance recorded debt	According to depth arrears(4)	on group basis	On individual basis	Total
Housing loans for which the credit loss provision is required to be calculated according to depth of arrears(2)	6,516.3	64.7	226.1	61.8	8.2	–	70.0
Other housing loans	275.5	0.1	6.6	–	–	–	–
Total	**6,791.8**	**64.8**	**232.7**	**61.8**	**8.2**	**-**	**70.0**

Composition of provision balance as of December 31, 2010 (proforma data)							
	Housing Loans	Defective housing loans or in arrears of more than 90 days(1)		Balance of provision for credit losses			
					Others		
	Balance recorded debt(5)	Arrears amount(3)	Balance recorded debt	According to depth arrears(4)	on group basis	On individual basis	Total
Housing loans for which the credit loss provision is required to be calculated according to depth of arrears(2)	6,026.3	79.9	229.4	68.4	–	–	68.4
Other housing loans	193.8	0.6	2.2	–	8.8	–	8.8
Total	**6,220.1**	**80.5**	**231.6**	**68.4**	**8.8**	**-**	**77.2**

(1) Impaired housing loans and housing loans in arrears of more than 3 months.

(2) From this: Loans for all purposes in residential mortgages for a total of NIS 1,483.7 million (in 2010 - NIS 1,249.1 million).

(3) Including interest on arrears amount.

(4) From this: Housing loans with variable interest for a total of NIS 5,520.8 million (in 2010 - NIS 4,724.5 million).

Note 5 – Credit for the public and credit loss provision (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

1. Credit for the public and off-balance-sheets risk credit according to credit size of borrower

Credit ceiling in thousands of Shekels		December 31, 2011			December 31, 2010		
		Number of borrowers (1)	**Credit** (2)	**Credit risk** (2) (3)	Number of borrowers (1)	**Credit** (2)	**Credit risk** (2) (3)
			Millions of NIS			Millions of NIS	
	Up to 10	**3,120**	**14.0**	**3.7**	2,964	16.1	2.9
over – 10	Up to 20	**4,325**	**57.4**	**11.5**	2,260	32.7	6.3
over – 20	Up to 40	**7,882**	**228.3**	**21.0**	4,425	135.4	15.1
over – 40	Up to 80	**7,829**	**408.8**	**32.0**	6,676	392.6	25.0
over – 80	until 150	**5,497**	**578.7**	**32.0**	6,248	695.4	30.3
over – 150	until 300	**5,433**	**1,128.2**	**49.9**	5,777	1,207.7	60.4
over – 300	until 600	**4,327**	**1,738.9**	**99.1**	4,140	1,616.3	139.9
over – 600	until 1,200	**2,101**	**1,617.4**	**121.8**	1,950	1,435.3	175.0
over – 1,200	until 2,000	**635**	**889.2**	**77.5**	555	735.6	109.7
over – 2,000	until 4,000	**324**	**798.8**	**88.6**	280	648.4	107.4
over – 4,000	until 8,000	**114**	**500.6**	**106.0**	103	438.8	130.5
over – 8,000	until 20,000	**71**	**643.7**	**204.6**	55	450.4	193.1
over – 20,000	until 40,000	**26**	**461.1**	**239.5**	16	191.6	279.6
over – 40,000	until 60,000	**4**	**83.7**	**123.7**	6	162.1	107.2
		41,688	**9,148.8**	**1,210.9**	35,455	8,158.4	1,382.4

(1) The number of borrowers according to the total of all the credit and off-balance sheets credit.

(2) Balance sheet and off-balance-sheet credit risk are presented according before the affect from provision of credit losses and before allowed collateral affects for deduction for the purpose of the borrower's obligation, and for groups of borrowers.

(3) Credit risk in off-balance-sheet financial instruments as calculated for the purpose of the sole borrower's liability limitation.

Note 6 – Credit for the government (in consolidation and at the Bank)

Reported amounts in millions of Shekels

	December 31	
	2011	**2010**
Credit as part of the interest completion settlement for eligibles of the Ministry of Construction and Housing(1)	**1.9**	2.7
Deduction – in advance interest completion from the government	**(1.9)**	(2.7)
Total credit for the government	**–**	–

(1) According to the agreement between the government of Israel and the Bank, the government undertook to complete to the bank, due to certain housing loans that have been provided to eligibles for support according to the guidelines of the Ministry of Construction and Housing, the interest gap between the average low interest rate that was custom as the mortgage banks, according to an agreed formula, and between the actual interest rate on aforementioned loans. Completion of interest as mentioned in advance for the whole loan period capitalized according to the annual interest rate of 2%, as a deposit in favor of the Bank with the Accountant General, carrying interest at an identical rate.

Note 7 – Investment in associated companies

Reported amounts in millions of Shekels

a – Investment composition

	Consolidated		The Bank	
	December 31			
	2011	2010	2011	2010
Consolidated companies				
Investment in shares according to equity method	–	–	**343.2**	307.4
From this: Profits accumulated from acquisition date	–	–	**31.3**	14.8
Paragraphs in which equity has accumulated from the acquisition date				
Reconciliations for presentation of for securities available for sale according to fair value, net	–	–	**(0.8)**	(1.7)

b – Part of the Bank in revenue or losses at associated companies

	Consolidated			The Bank		
	2011	2010	2009	2011	2010	2009
The Bank portion of the profit from regular activities at associated companies	–	–	–	**12.6**	18.8	30.2
Provision for taxes						
Current taxes	–	–	–	**2.1**	4.8	6.5
Deferred Taxes	–	–	–	**(0.1)**	(0.8)	0.7
Total provision for taxes	–	–	–	**2.0**	4.0	7.2
The Bank's portion of profit from regular operations of other consolidated companies after tax affect	–	–	–	**10.6**	14.8	23.0
The Bank's portion of profit from regular operations of other consolidated companies after tax affect	–	–	–	**20.8**	–	–
the Bank's Total portion of the profit after tax affect from regular activities of associated companies	–	–	–	**31.3**	14.8	23.0

Note 7 – Investment in Associated Companies (continuation)

Reported amounts in millions of Shekels

c – Details on Associated Companies

Company name	Details on Company	Part in capital entitling receiving profit and voting rights %	Investment in shares according to Balance sheet value As of December 31		Contribution for net profit from regular activities December 31	
			2011	2010	2011	2010
			Millions of NIS			
Tomer Jerusalem Ltd.	(1)	100	**150.8**	129.3	**21.5**	2.6
Ir Shalem Insurance Agencies (1996) Ltd.	(2)	100	**139.5**	130.2	**8.3**	10.1
Jerusalem Investment Portfolio Management Ltd.	(3)	100	**34.8**	34.3	**0.5**	1.3
Jerusalem Capital Markets Funds Management (1980) Ltd.	(4)	100	**1.5**	1.5	**-**	–
Jerusalem Underwriting and Issuances Ltd.	(5)	100	**6.5**	6.5	**-**	0.4
The Trust company of Bank of Jerusalem Ltd.	(6)	100	**0.4**	0.4	**-**	–
Jerusalem Financing and Issuances (2005) Ltd.	(7)	100	**9.7**	5.2	**1.0**	0.4
Jerusalem Financial Operations (2005) Ltd.	(8)	100	**-**	–	**-**	–

(1) The principle activity of Tomer Jerusalem Ltd. (hereinafter: "Tomer") is to serve as the Bank's asset company and to grant computer services to the Bank. For details concerning the profit from extraordinary activities, see note 8.

(2) Ir Shalem Insurance Agency (1996) Ltd. operates as an insurance agent providing service in relation to asset insurance and life insurance of loan receivers of the Bank.

(3) Jerusalem Investment Portfolio Management Ltd. deals with providing consultant services and management of investment portfolios.

(4) Jerusalem Capital Markets Funds Management (1980) Ltd., in trust fund transactions. In 2006, the activity in trust funds was sold.

(5) Jerusalem Underwriting and Issuances Ltd., deals in the area of underwriting and issuances, the company decided to cease its activity as underwriter, and transferred from underwriting registry to the status of "Not active".

(6) The Trust Company of Bank of Jerusalem Ltd., handles the trust accounts and financial assets of foreign residents and others.

(7) Jerusalem Finance and Issuances (2005) Ltd. (a subsidiary fully owned and controlled by the Bank), operates to recruit means by way of issuing liability certificates and deferred liability notes for the public. In 2011, the company recruited NIS 100 million by issuing debentures and in 2010 – NIS 650 million. For details see note 12b.

(8) Jerusalem Financial Operations (2005) Ltd., serves as an agent for performing activities in the average bonds series for the public by Jerusalem Financing and Issuances (2005) Ltd. As of 2007 the company is not active. After the balance sheet date, the Bank started the company's liquidation process.

Note 7 – Investment in Associated Companies (continuation)

d – Purchasing of liability certificates issued by the subsidiary (Jerusalem Financing and Issuances (2005) Ltd.)

As of the balance sheet date, the Bank holds liability certificates of the company Jerusalem Financing and Issuances (2005) Ltd., in nominal value for the total amount of NIS 244.627 million (from series A, B, D, F, G, and H). Concerning series A and B – The Bank is entitled to receive interest according to the certificates, but may waive its right. Concerning series D, F, G and H the Banks not entitled to receive interest.

In November 2011, the final date of redemption of series E arrived and thus the balance of the fund for a total of NIS 83.3 million nominal value at redemption date. The Bank held NIS 9.8 million nominal value.

Note 8 – Buildings and equipment

Reported amounts in millions of Shekels

	Consolidated				Bank		
	Buildings and land[(1)(3)]	Equipment, furniture and vehicles	Software costs[(4)(5)]	Total	Buildings and land[(1)]	Equipment, furniture and vehicles	Total
Cost of assets [(2) (4)]							
Balance as of December 31, 2009	67.3	40.0	46.7	154.0	45.2	28.5	73.7
Additions	2.6	4.8	7.2	14.6	0.1	0.3	0.4
Balance as of December 31, 2010	**69.9**	**44.8**	**53.9**	**168.6**	**45.3**	**28.8**	**74.1**
Additions	11.4	8.1	25.8	45.3	0.3	0.9	1.2
Deterioration	19.7	5.2	5.1	30.0	–	–	–
Balance as of December 31, 2011	**61.6**	**47.7**	**74.6**	**183.9**	**45.6**	**29.7**	**75.3**
Depreciation and losses from impairment							
Balance as of December 31, 2009	37.5	25.3	38.8	101.6	26.5	21.9	48.4
Depreciation per year	1.9	3.3	5.1	10.3	1.5	1.2	2.7
Balance as of December 31, 2010	**39.4**	**28.6**	**43.9**	**111.9**	**28.0**	**23.1**	**51.1**
Depreciation per year	2.6	3.7	6.7	13.0	1.3	1.1	2.4
Deterioration	10.4	5.2	5.1	20.7	–	–	–
Balance as of December 31, 2011	**31.6**	**27.1**	**45.5**	**104.2**	**29.3**	**24.2**	**53.5**
Amortization balance							
As of the Balance Sheet Date	**30.0**	**20.6**	**29.1**	**79.7**	**16.3**	**5.5**	**21.8**
At the beginning of the reporting year	30.5	16.2	10.0	56.7	17.3	5.7	23.0
Book value							
As of December 31, 2009	29.8	14.7	7.9	52.4	18.7	6.6	25.3
As of December 31, 2010	30.5	16.2	10.0	56.7	17.3	5.7	23.0
For December 31, 2011	**30.0**	**20.6**	**29.1**	**79.7**	**16.3**	**5.5**	**21.8**
Average weighted depreciation rate in % as of December 31, 2010	4.58	16.01	25.00		6.12	8.71	
Average weighted depreciation rate in % as of December 31, 2011	7.70	15.05	26.04		5.87	8.61	

Note 8 – Buildings and equipment (continuation)

(1) Including improvements on rented asset.

(2) Bank and subsidiaries owned property that cost NIS 66.5 million consolidated, and NIS 34.9 million at the Bank (2010 – NIS 74.8 million, and NIS 32.2 million respectively) fully amortized and is still in use.

(3) On April 14, 2011, Tomer Jerusalem Ltd. (the Bank's fully owned and controlled subsidiary, hereinafter: "Tomer"), signed the sale agreement of the Bank's management building at 2 Herbert Samuel Street, Jerusalem for the exchange of a total of NIS 35 million with addition of VAT. The profit for the building's sale is NIS 20.8 million. For details see note 28 As part of the sale, the subsidiary committed to rent from the purchasers part of the area of the sold asset and to rent out the balance of the asset to third parties, according to a rental lease signed with the purchaser, in such a manner ensuring the purchaser fixed consideration for the asset at an agreed rate for a period of 10 years.

The appraiser's assessment of January 4, 2011 has been added to this report, assessing the value of the sold asset at NIS 35 million. According the Bank's assessment there was no material change in the asset's value from the assessment date until the sales date and this despite the passage of 90 days between these dates.

For additional details, please see the immediate reports published in the Electronic Disclosure System concerning the approval and completion of the sale of the Bank's management office building on April 17, 2011, and on June 30, 2011; reference numbers 2011-01-124077 and 2011-01-197571.

On April 7, 2011, the management offices of the Bank moved from Jerusalem to Airport City.

(4) Including capitalized expenses for work wages and outsourcing for a total of NIS 7.4 million.

(5) Including costs for consumer materials and services related to software development.

Note 9 – Other assets

Reported amounts in millions of Shekels

	Consolidated		Bank	
	December 31			
	2011	2010	2011	2010
Deferred taxes for receivables, net (see note 27d)	**16.9**	11.1	**18.7**	12.1
Balance of issuances expenses for debentures and recruitment of long–term deposits for depreciation	**6.7**	7.8	**0.1**	0.2
In advance expenses	**4.4**	3.6	**4.1**	3.5
Surplus of advancements that are paid to income tax on current reserves	**21.5**	12.0	**17.3**	10.1
Income from receivables	**0.9**	0.9	**0.2**	–
Other debtors and debt balances	**4.5**	5.6	**2.8**	2.7
Total other assets	**54.9**	41.0 *	**43.2**	28.6 *

* Reclassification.

Note 10 – Public deposits

Reported amounts in millions of Shekels

	Consolidated		Bank	
	December 31			
	2011	2010	2011	2010
Deposits according to requirement (including deposit return predictor)	**682.5**	728.3	**731.1**	754.0
Deposits for a fixed term (1)	**8,342.9**	6,569.5	**9,746.7**	8,223.4
Deposits in saving programs (1)	**39.2**	110.0	**39.2**	110.0
Total public deposits	**9,064.6**	7,407.8	**10,517.0**	9,087.4

(1) After screening the short term saving and deposits programs in 2011 for a total of NIS 2,250 billion (2010 - NIS 2,043 billion).

Note 11 – Banking deposits

Reported amounts in millions of Shekels

	Consolidated		The Bank	
	December 31			
	2011	2010	2011	2010
Deposits for fixed terms from commercial banks	**76.2**	86.5	**76.2**	86.5

Note 12 – Liability certificates and deferred liability notes

Reported amounts

a - Composition

	duration of average(2)	Rate Yield Internal(2)	Consolidated		Bank	
			December 31			
			2011	2010	2011	2010
	years	%	Millions of Shekels			
Liability certificates and deferred liability notes						
Debentures and deferred liability notes that cannot be converted into shares:						
in non–linked Israeli currency	3.76	4.30%	**937.3**	1,075.1	126.7	26.2
in Israeli currency CPI linked	2.78	2.61%	**669.7**	840.6	386.2	418.8
in Israeli currency US Dollar linked	0.72	2.98%	**4.9**	5.4	4.9	5.4
Total liability certificates and deferred liability notes			**1,611.9**	1,921.1	517.8	450.4
From this: deferred liability notes			**517.8**	450.4	**517.8**	450.4

b - Additional details

(1) A. On March 24, 2010, the company "Jerusalem Financing and Issuances (2005) Ltd." (hereinafter, "Jerusalem Financing and Issuances") issued debentures (series G) in nominal value according to the shelf proposal reports as of March 23, 2010, that has been published according to the shelf forecast as of June 17, 2009, total amount of NIS 250 million. On April 7, 2010, the issuance company performed a private issuance for a classified investor of debentures (series G) in nominal value for a total amount of NIS 40 million.

B. On November 2, 2010, Jerusalem Financing and Issuances issued debentures (series H) in nominal value according to the shelf proposal report as of October 31, 2010, that has been published on June 17, 2009, total amount of NIS 360 million.

C. On May 4, 2011, the Jerusalem Financing and Issuances company issued, according to the shelf offering report as of May 1, 2011, that has been published according to the shelf prospect as of June 17, 2009, debentures (series D) in nominal value for a total of NIS 100 million in exchange of NIS 100 million.

D. On August 30, 2011, Jerusalem Financing and Issuances published shelf forecast for issuance of debentures and deferred liability notes.

Jerusalem Financing has an agreement with the Bank according to which it was determined that the exchange for the issuance of deposit certificates according to the forecast have been deposited at the bank carrying interest that will be with repayment terms identical to those of deposit certificates and interest terms that identical to terms or preferable than

Note 12 – Liability certificates and deferred liability notes (continuation)

those, as agreed from time to time with the Bank. The deposit will be for the Bank's use, at its discretion, and with a repayment level equal to other deposits at the Bank.

On October 7, 2010, Standard & Poor's Maalot, ratified the issued rating for the Bank at level ilA+. The rating forecast remained negative. On June 2, 2011, Maalot announced the entry of the ilA+ rating for the Bank to CreditWatch with negative implications (immediate report on above was published on June 2, 2011; reference 2011-01-175164. This reference constitutes a generality for referral). On August 28, 2011, Standard & Poor`s Maalot maintained the ilA+ rating of the Bank in-CreditWatch with negative implications, as entered on June 2, 2011 (immediate report on above was published on August 28, 2011, reference 2011-01-254850. This reference constitutes a generality for referral).

"It should be mentioned that, according to Standard & Poor's Maalot maintaining rating by CreditWatch with negative implications expresses their assessment concerning the merger implications between the Bank and Dexia Bank, if and when it will be implemented. The company draws the attention to the Bank's reference on the aforementioned in the Bank's immediate report as of June 2, 2011; (reference 2001-01-175221). On December 6, 20011, Standard & Poor`s Maalot informed the Bank that it performed an examination of the rating of seven banking groups, including the Bank. The examination was performed by applying the updated methodology of bank ratings from Standard & Poor's (as published on November 9, 2011). Maalot also announced that, it will reexamine all the ratings found in CreditWatch within 90 days (including the Bank's rating)".

This rating is also the rating for the debentures (except for the deferred liability notes as listed below) that have been issued by Jerusalem Financing and Issuance, that is ilA+. Deferred liability notes that have been issued by Financing and Issuance are rated at one rating level lower than the Bank's rating. Therefore, the rating is ilA (instead of ilA+).

(2) Internal rate of return, is the interest rate directing the expected payment flows on remaining balance sheets included in the financial report. The average life time, is the average weighted payment periods in discounted cash flows according to internal yield rates.

(3) Concerning the Bank's purchasing of liability certificates issued by Jerusalem Financing and Issuances (2005) Ltd. see note 7d. As part of the issuances for the public of liability certificates by Financing and Issuances, the Bank committed towards the company Jerusalem Financing and Issuances (2005) Ltd., and the trustee for those periods, to comply with all the terms of the liability certificates that were issued by it and that will be held by the public.

Note 13 – Other liabilities

Reported amounts in millions of Shekels

	Consolidated		The Bank	
	December 31			
	2011	2010	2011	2010
In advance income	**34.8**	33.5	**34.8**	33.5
Salaries and accompanying expenses to be paid	**15.4**	13.8	**14.5**	12.7
Reserve surplus for severance pay for purpose (see note 14a)	**6.9**	1.9	**6.9**	1.9
Expenses to be paid	**7.2**	8.6	**5.6**	7.2
Other payables and credit balances	**3.5**	2.4	**3.1**	2.3
Credit loss provision for off–balance–sheets paragraphs (see note 19a)	**1.7**	1.3	**1.7**	1.3
Total Other liabilities	**69.5**	61.5 *	**66.6**	58.9 *

* Reclassification.

Note 14 – Employee rights

Reported amounts in millions of Shekels

a – Severance pay

The reserve for severance pay included in the balance sheet, together with payments for insurances policies, covers the liabilities for severance pay payment to employees based on their last salary and the work period at the Bank and its subsidiaries. The amounts issued by the Bank and its subsidiaries in insurance companies as part of personal program for senior employee insurance are not included in the balance sheet, since they are not controlled by the Bank. Withdrawal of designated funds is subject to the fulfilling the Severance Pay Law. Below are designated reserve amounts:

	Consolidated		The Bank	
	December 31			
	2011	2010	2011	2010
Reserve amount	**59.3**	53.5	**56.6**	50.1
Designated amount	**52.4**	51.6	**49.7**	48.2
Surplus reserve for severance pay for the purpose (included in paragraph "Other liabilities")	**6.9**	1.9	**6.9**	1.9

b - Reserve for jubilee grants

The employees of the Bank and its subsidiaries are entitled, when reaching a certain seniority, to a special grant ("Jubilee Grant"). According to instructions from the Supervisor of Banks, the calculated reserve for this liability is effective since 2007 on an actuarial basis and is presented in current value. The capitalization rate that has been determined by the Supervisor of Banks is 4%, in consideration of increased rates of future salaries. Provisions for the jubilee grants are included in the Financial Statements and their balance is: consolidated NIS 2.1 million (2010 – NIS 2.4 million), at the Bank NIS 1.9 million (2010 – NIS 2.2 million), in paragraph, "Salaries and accompanying expenses to be paid" as part of "Other liabilities".

c - Vacations

Employees of the Bank and its subsidiaries are entitled, by law and employment agreements, to annual vacation days. The provision for vacation is calculated based on the last salary of the employees and the vacation days accumulated in their favor with addition of accompanying obligatory expenses. Balance of vacation provision as of the balance sheet date amounted to about NIS 6.0 million consolidated, at the Bank NIS 5.5 million (2010 - NIS 5.6 million consolidated and NIS 5.1 million at the Bank), and is included in the Financial Statements in paragraph "Salaries and accompanying expenses to be paid" as part of "Other liabilities."

Note 14 – Employee rights

d – Description of compensation programs for employees

During 2010, the Bank of Jerusalem has integrated a benefit plan for the employees of the bank based on the document published by the Supervisor of Banks on this issue with the purpose of fixing a clear and known in advance formula connecting between the bank's yield and the height of the yearly distributed grant and this while long-term examination of the bank's goals and in consideration of the existing risk level in reaching for this yield. Distribution of the grant between the employees of the bank will be differential and will be based on quantitative and qualitative performance indicators and other parameters.

Note 15 – Liens and restricted terms

a – According to the bylaws of Maof Clearing House Ltd. (hereinafter: the "Maof Clearing House"), as member of the Maof Clearing House, the Bank is required to deposit liquid collaterals for full exposure for activity in derivatives and for its part in the risk fund. For this purpose, the Bank mortgaged in favor of the Maof Clearing House the rights to the following accounts:

1. The account opened at the Stock Exchange Clearing House in name of Maof Clearing House in which the government debentures are deposited at full value to meet the collateral requirement from the Bank's customers and for the Bank's part in risk fund (hereinafter:"Securities Account"). The value of the deposited debentures as of December 31, 2011, totaled NIS 49.0 million.

2. The account opened at Bank Leumi of Israel Ltd. under the name of the Moaf Clearing House where cash is deposited for a value of at least 25% from the Bank's part in the risk fund, and also deposited in this account is cash that will be paid as profit from securities that have been deposited in the securities account at the Bank. As of December 31, 2011, the Bank deposited NIS 1.3 million in this account.

The accounts specified above are mortgaged in a floating pledge in favor of the Maof Clearing House. The aforementioned accounts in paragraphs 1 and 2 above are also mortgaged in fixed pledge in favor of the Maof Clearing House.

b – As a member of the Stock Exchange, the Bank is required to deposit liquid collateral for securing the existence of the Bank's customer liabilities towards the Stock Exchange for transactions performed in the Stock Exchange Clearing House and for securing its part of the Stock Exchange Clearing House risk fund. For this purpose, the Bank mortgaged in favor of the Maof Clearing House, in fixed pledge at first level, the rights to the following accounts:

1. The account opened at the Stock Exchange Clearing House in its name and managed for the Bank in which government debentures are deposited at full value to meet collateral requirement for the Bank's customers and for the Bank's part in the risk fund. The value of the deposited debentures, as of December 31, 2011, amounts to NIS 3.9 million.

2. The account opened at Bank Leumi of Israel Ltd. under the Stock Exchange Clearing House where cash is deposited for a value of at least 25% of the Bank part in the risk fund. Also deposited in this account is cash that will be paid as profit from securities that have been deposited at the Bank's securities. As of December 31, 2011, the Bank deposited NIS 1.6 million in this account.

c – For the purpose of securing credit provided or will be provided by the Bank of Israel to the Bank as part of the Bank's activity in the RTGS System, the Bank will mortgage in favor of the Bank of Israel, according to debentures as of July 23, 2007, debentures the Bank holds and that are deposited or will be deposited at the designated account managed by the Stock Exchange under the name of the Bank of Israel. The mortgage has no limited amount. The value of the deposited debentures as of December 31, 2011, amounts to NIS 354.0 million.

Details of securities that have been mortgaged for borrowers

	Consolidated and at the Bank	
	2011	**2010**
	Millions of NIS	
Securities available for sale	**406.9**	290.5

Note 16a – Equity

a – The Bank's recorded share capital as of December 31, 2011 is composed of 100,250,000 regular shares at NIS 1 (as of December 31, 2010 – identical). The issued and repaid capital as of December 31, 2011 – 70,517,741 shares recorded for trade at the Tel Aviv Stock Exchange (as of December 2010 – identical).

b – during 2009 and 2010, there was no distribution of dividend.

c – On March 31, 2011, the Bank's Board of Directors decided to distribute a dividend for a total of NIS 25 million. This dividend was distributed on April 27, 2011.

Distribution of the dividend is performed according to instructions under the Companies Law 5759- 1999, and the instructions from the Supervisor of Banks.

Note 16b – Equity – Capital adequacy according to instructions from the Supervisor of Banks

Reported amounts in millions of Shekels

Calculated according to the Proper Banking Management Instructions number 201-211 concerning "Measurement and capital adequacy".

A. In consolidated data

a – Capital for the purpose of calculation of capital ratio

	December 31	
	2011	**2010**
Capital Tier 1, after deductions	644.6	633.2
Capital Tier 2, after deductions	318.6	271.5
Total of all capital	963.2	904.7

b – Weighted balance of risk assets

Credit risk	6,395.8	5,457.8
Market risks	171.6	18.3
Operating Risk	491.1	480.1
Total average balance from risk assets	7,058.5	5,956.2

c – Capital ratio for risk components

	In percent	
Capital ratio Tier 1 for risk components	9.1	10.6
Total capital ratio for risk components	13.7	15.2
Minimum required total capital ratio required by the Supervisor of Banks	13.0	13.0

Note 16b – Equity – Capital adequacy according to instructions from the Supervisor of Banks

B. Capital components for the purpose of capital ratio calculation

a – Capital Tier 1

	December 31	
	2011	**2010**
Equity	**644.6**	633.2
Total Tier 1 capital	**644.6**	633.2

b – Tier 2 capital		
b – Upper Tier 2 capital:		
General provision for doubtful debts	**-**	0.7
Bottom Tier 2 capital:		
Deferred liability notes	**318.6**	270.8
Total Tier 2 capital	**318.6**	271.5

Note 17 – Assets and liabilities according to index linked basis – consolidated

Reported amounts in millions of Shekels

	December 31, 2011					
	Israeli currency		Foreign currency[1]			
	Un–linked	linked to Index prices	Dollar of U.S.	Other	Items that are not monetary	Total
Assets						
Cash and deposits at the Bank	562.2	–	179.9	50.2	–	792.3
Securities	970.8	413.0	41.8	–	65.1	1,490.7
Net credit for the public	4,705.0	3,086.3	1,104.3	162.2	–	9,057.8
Buildings and equipment	–	–	–	–	79.7	79.7
Assets for derivative instruments	4.3	0.4	2.0	0.5	–	7.2
Other assets	48.7	1.3	–	–	4.9	54.9
Total assets	**6,291.0**	**3,501.0**	**1,328.0**	**212.9**	**149.7**	**11,482.6**
Liabilities						
Public deposits	4,960.6	2,764.3	1,004.7	335.0	–	9,064.6
Deposits from banks	–	58.6	17.6	–	–	76.2
Government deposits	0.4	0.4	–	–	–	0.8
Liability certificates and deferred liability notes	937.3	669.7	4.9	–	–	1,611.9
Liabilities for derivative instruments	5.0	–	10.0	–	–	15.0
Other liabilities	34.7	–	–	–	34.8	69.5
Total liabilities	**5,938.0**	**3,493.0**	**1,037.2**	**335.0**	**34.8**	**10,838.0**
Difference	353.0	8.0	290.8	(122.1)	114.9	644.6
Derivative instruments that do not define						
Derivative instruments (except for options)	12.1	105.1	(243.7)	126.5	–	–
General total	**365.1**	**113.1**	**47.1**	**4.4**	**114.9**	**644.6**

(1) Including linkage to foreign currency

Note 17 – Assets and liabilities according to index linked basis (continuation) – consolidated

Reported amounts in millions of Shekels

	December 31, 2010					
	Israeli currency		Foreign currency(1)			
	Un–linked	linked to Index prices	Dollar of U.S.	Other	Items that are not monetary	Total
Assets						
Cash and deposits at the Bank	547.5	–	83.6	21.2	–	652.3
Securities	1,009.7	287.9	14.8	–	2.5	1,314.9
Net credit for the public	4,050.5	2,874.7	950.2	161.5	–	8,036.9
Buildings and equipment	–	–	–	–	56.7	56.7
Assets for derivative instruments *	10.7	10.4	1.5	1.3	–	23.9
Other assets *	29.2	–	–	–	11.8	41.0
Total assets	**5,647.6**	**3,173.0**	**1,050.1**	**184.0**	**71.0**	**10,125.7**
Liabilities						
Public deposits	3,711.7	2,671.4	757.7	267.0	–	7,407.8
Deposits from banks	–	64.3	22.2	–	–	86.5
Government deposits	4.4	0.5	–	–	–	4.9
Liability certificates and deferred liability notes	1,075.1	840.6	5.4	–	–	1,921.1
Liabilities for derivative instruments *	4.7	–	4.0	2.0	–	10.7
Other liabilities *	28.0	–	–	–	33.5	61.5
Total liabilities	**4,823.9**	**3,576.8**	**789.3**	**269.0**	**33.5**	**9,492.5**
Difference	823.7	(403.8)	260.8	(85.0)	37.5	633.2
Derivative instruments that do not define						
Derivative instruments (except for options)	(247.4)	355.6	(200.8)	92.6	–	–
General total	**576.3**	**(48.2)**	**60.0**	**7.6**	**37.5**	**633.2**

(1) Including linkage to foreign currency

* Reclassification.

Note 17 – Assets and liabilities according to index linked basis (continuation) – the Bank

Reported amounts in millions of Shekels

	December 31, 2011					
	Israeli currency		Foreign currency[1]			
	Un–linked	linked to Index prices	Dollar of U.S.	Other	Items that are not monetary	Total
Assets						
Cash and deposits at the Bank	561.7	–	179.9	50.2	–	791.8
Securities	1,108.9	357.2	41.8	–	65.1	1,573.0
Net credit for the public	4,705.1	3,086.3	1,104.3	162.1	–	9,057.8
Investment in consolidated companies	–	9.3	–	–	333.9	343.2
Buildings and equipment	–	–	–	–	21.8	21.8
Assets for derivative instruments	4.3	0.4	2.0	0.5	–	7.2
Other assets	38.6	–	–	–	4.6	43.2
Total assets	**6,418.6**	**3,453.2**	**1,328.0**	**212.8**	**425.4**	**11,838.0**
Liabilities						
Public deposits	5,992.0	3,185.4	1,004.7	334.9	–	10,517.0
Deposits from banks	–	58.6	17.6	–	–	76.2
Government deposits	0.4	0.4	–	–	–	0.8
Liability certificates and deferred liability notes	126.7	386.2	4.9	–	–	517.8
Liabilities for derivative instruments	5.0	–	10.0		–	15.0
Other liabilities	31.8	–	–	–	34.8	66.6
Total liabilities	**6,155.9**	**3,630.6**	**1,037.2**	**334.9**	**34.8**	**11,193.4**
Difference	262.7	(177.4)	290.8	(122.1)	390.6	644.6
Derivative instruments that do not define						
Derivative instruments (except for options)	12.1	105.1	(243.7)	126.5	–	–
General total	**274.8**	**(72.3)**	**47.1**	**4.4**	**390.6**	**644.6**

(1) Including linkage to foreign currency

Note 17 – Assets and liabilities according to index linked basis (continuation) – the Bank

Reported amounts in millions of Shekels

	December 31, 2010					
	Israeli currency		Foreign currency(1)			
	Un–linked	linked to Index prices	Dollar of U.S.	Other	Items that are not monetary	Total
Assets						
Cash and deposits at the Bank	547.2	–	83.6	21.1	–	651.9
Securities	1,012.9	230.4	14.4	–	2.6	1,260.3
Net credit for the public	4,050.6	2,874.7	950.1	161.5	–	8,036.9
Investment in consolidated companies	–	4.4	–	–	303.0	307.4
Buildings and equipment	–	–	–	–	23.0	23.0
Assets for derivative instruments *	10.7	10.4	1.5	1.3	–	23.9
Other assets *	24.5	–	–	–	4.1	28.6
Total assets	**5,645.9**	**3,119.9**	**1,049.6**	**183.9**	**332.7**	**10,332.0**
Liabilities						
Public deposits	4,815.1	3,247.6	757.7	267.0	–	9,087.4
Deposits from banks	–	64.3	22.2	–	–	86.5
Government deposits	4.4	0.5	–	–	–	4.9
Liability certificates and deferred liability notes	26.2	418.8	5.4	–	–	450.4
Liabilities for derivative instruments *	4.7	–	4.0	2.0	–	10.7
Other liabilities *	25.4	–	–	–	33.5	58.9
Total liabilities	**4,875.8**	**3,731.2**	**789.3**	**269.0**	**33.5**	**9,698.8**
Difference	770.1	(611.3)	260.3	(85.1)	299.2	633.2
Derivative instruments that do not define						
Derivative instruments (except for options)	(247.4)	355.6	(200.8)	92.6	–	–
General total	**522.7**	**(255.7)**	**59.5**	**7.5**	**299.2**	**633.2**

(1) Including linkage to foreign currency

* Reclassification.

Note 18 – Assets and liabilities according to index linked basis and according to repayment period – consolidated(1)

Reported amounts in millions of Shekels

	with Requirement up to month	Over month up to 3 months	Over 3 months up to year	Over year up to two years	Over two years up to 3 years
For December 31, 2011					
Israeli currency not linked					
Assets	873.1	224.9	1,098.9	1,383.8	584.3
Liabilities	2,085.0	967.7	1,465.1	804.2	336.9
Difference	(1,211.9)	(742.8)	(366.2)	579.6	247.4
derivatives	139.2	(104.8)	–	–	–
Israeli currency index – linked					
Assets	46.5	72.3	295.5	411.4	467.3
Liabilities	13.2	84.3	375.9	983.5	615.0
Difference	33.3	(12.0)	(80.4)	(572.1)	(147.7)
derivatives	–	105.9	–	–	–
Foreign currency – local activity (2)					
Assets	213.4	8.9	128.8	126.7	124.9
Liabilities	826.6	219.6	282.8	31.3	4.9
Difference	(613.2)	(210.7)	(154.0)	95.4	120.0
derivatives	(143.0)	(2.4)	20.7	–	–
Non–financial items					
Assets	–	–	–	–	–
Liabilities	–	–	–	–	–
Difference	–	–	–	–	–
Total					
Assets	**1,133.0**	**306.1**	**1,523.2**	**1,921.9**	**1,176.5**
Liabilities	**2,924.8**	**1,271.6**	**2,123.8**	**1,819.0**	**956.8**
Difference	**(1,791.8)**	**(965.5)**	**(600.6)**	**102.9**	**219.7**
As of December 31, 2010					
Total					
Assets	977.2	410.9	1,252.5	1,102.6	1,033.7
Liabilities	2,368.8	536.4	1,901.4	720.3	1,455.9
Difference	(1,391.6)	(125.5)	(648.9)	382.3	(422.2)

(1) In this note are presented contractual expected future cash flows for the assets and liabilities paragraphs according to linkage basis, according to period remaining for the contractual repayment date of these flows. The data is presented after the affect of deduction of write offs and of credit loss provision.

(2) Including linkage to foreign currency.

(3) As included in note 17, assets and liabilities according to index linked basis, including off-balance-sheets amounts for derivatives.

(4) The contractual yield rate is the low interest rate at future contractual and expected cash flows presented in this note as for monetary item at its balance sheet balance.

Note 18 – Assets and liabilities according to index linked basis and according to repayment period – consolidated[1]

Reported amounts in millions of Shekels

Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 year	Over 20 year	Total flows Cash	Balance sheets balance [3] without period Repayment	Balance sheets balance [3] Total	Contractual rate yield [4]
404.4	372.0	1,386.9	1,432.6	144.4	7,905.3	–	6,291.0	5.32
245.6	204.8	364.0	–	–	6,473.3	–	5,938.0	3.59
158.8	167.2	1,022.9	1,432.6	144.4	1,432.0	–	353.0	1.73
(0.7)	(0.8)	–	–	–	32.9	–	12.1	
272.9	297.4	1,319.5	1,059.0	155.0	4,396.8	–	3,501.0	3.89
497.1	490.8	468.6	334.9	–	3,863.3	–	3,493.0	2.79
(224.2)	(193.4)	850.9	724.1	155.0	533.5	–	8.0	1.10
–	–	–	–	–	105.9	–	105.1	
120.9	118.1	507.8	413.1	3.1	1,765.7	–	1,540.9	3.19
–	11.3	0.3	1.3	–	1,378.1	–	1,372.2	1.85
120.9	106.8	507.5	411.8	3.1	387.6	–	168.7	1.34
–	–	–	–	–	(124.7)	–	(117.2)	
–	–	–	–	–	–	210.8	149.7	
–	–	–	–	–	–	34.8	34.8	
–	–	–	–	–	–	176.0	114.9	
798.2	**787.5**	**3,214.2**	**2,904.7**	**302.5**	**14,067.8**	**210.8**	**11,482.6**	**4.45**
742.7	**706.9**	**832.9**	**336.2**	**–**	**11,714.7**	**34.8**	**10,838.0**	**2.92**
55.5	**80.6**	**2,381.3**	**2,568.5**	**302.5**	**2,353.1**	**176.0**	**644.6**	**1.53**
791.7	828.9	3,512.2	2,393.7	196.3	12,499.7	–	10,125.7	
925.0	722.2	1,033.0	407.0	–	10,070.0	–	9,492.5	
(133.3)	106.7	2,479.2	1,986.7	196.3	2,429.7	–	633.2	

Note 18 – Assets and liabilities according to index linked basis and according to repayment period – (continuation) Bank[(1)]

Reported amounts in millions of Shekels

	with Requirement up to month	Over month up to 3 months	Over 3 months up to year	Over year up to two years	Over two years up to 3 years
For December 31, 2011					
Israeli currency not linked					
Assets	903.9	235.3	1,120.7	1,401.3	601.9
Liabilities	2,131.2	841.5	1,438.9	814.3	337.1
Difference	(1,227.3)	(606.2)	(318.2)	587.0	264.8
derivatives	139.2	(104.8)	–	–	–
Israeli currency index – linked					
Assets	1.0	72.0	304.1	403.6	458.0
Liabilities	22.1	108.8	377.2	1,008.2	638.9
Difference	(21.1)	(36.8)	(73.1)	(604.6)	(180.9)
derivatives	–	105.9	–	–	–
Foreign currency – local activity (2)					
Assets	213.4	8.9	128.8	126.7	124.8
Liabilities	836.5	219.6	282.8	31.3	4.9
Difference	(623.1)	(210.7)	(154.0)	95.4	119.9
derivatives	(143.0)	(2.4)	20.7	–	–
Non–financial items					
Assets	–	–	–	–	–
Liabilities	–	–	–	–	–
Difference	–	–	–	–	–
Total					
Assets	**1,118.3**	**316.2**	**1,553.6**	**1,931.6**	**1,184.7**
Liabilities	**2,989.8**	**1,169.9**	**2,098.9**	**1,853.8**	**980.9**
Difference	**(1,871.5)**	**(853.7)**	**(545.3)**	**77.8**	**203.8**
As of December 31, 2010					
Total					
Assets	988.4	426.1	1,242.3	1,109.0	1,034.1
Liabilities	2,387.5	573.9	1,953.0	782.0	1,485.1
Difference	(1,399.1)	(147.8)	(710.7)	327.0	(451.0)

(1) In this note are presented contractual expected future cash flows for the assets and liabilities paragraphs according to linkage basis, according to period remaining for the contractual repayment date of these flows. The data is presented after the affect of deduction of write offs and of credit loss provision.

(2) Including linkage to foreign currency.

(3) As included in note 17, assets and liabilities according to index linked basis, including off-balance-sheets amounts for derivatives.

(4) The contractual yield rate is the low interest rate at future contractual and expected cash flows presented in this note as for monetary item at its balance sheet balance.

Note 18 – Assets and liabilities according to index linked basis and according to repayment period – (continuation) Bank[1]

Reported amounts

Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 year	Over 20 year	Total flows Cash	Balance sheets balance [3] without period Repayment	Balance sheets balance [3] Total	Contractual rate yield [4]
439.2	405.5	1,430.0	1,432.6	144.4	8,114.8	–	6,418.6	5.47
245.8	205.1	363.3	–	–	6,377.2	–	6,155.9	4.09
193.4	200.4	1,066.7	1,432.6	144.4	1,737.6	–	262.7	1.38
(0.7)	(0.8)	–	–	–	32.9	–	12.1	
266.9	291.4	1,298.3	1,058.5	155.0	4,308.7	–	3,453.2	4.00
519.9	521.7	488.5	334.9	–	4,020.2	–	3,630.6	2.83
(253.0)	(230.3)	809.8	723.6	155.0	288.5	–	(177.4)	1.17
–	–	–	–	–	105.9	–	105.1	
120.9	118.1	507.8	413.1	3.1	1,765.6	–	1,540.8	3.19
–	–	0.3	1.3	–	1,376.6	–	1,372.1	1.85
120.9	118.1	507.5	411.8	3.1	389.0	–	168.7	1.34
–	–	–	–	–	(124.7)	–	117.2	
–	–	–	–	–	–	427.6	425.4	
–	–	–	–	–	–	34.8	34.8	
–	–	–	–	–	–	392.8	390.6	
827.1	**815.0**	**3,236.1**	**2,904.2**	**302.5**	**14,189.1**	**427.6**	**11,838.0**	**4.74**
765.7	**726.8**	**852.1**	**336.2**	**–**	**11,774.0**	**34.8**	**11,193.4**	**3.41**
61.4	**88.2**	**2,384.0**	**2,568.0**	**302.5**	**2,415.1**	**392.8**	**644.6**	**1.33**
790.0	735.7	3,456.7	2,390.5	196.3	12,369.1	–	10,332.0	
955.8	745.0	1,087.1	342.9	–	10,312.3	–	9,698.8	
(165.8)	(9.3)	2,369.6	2,047.6	196.3	2,056.8	–	633.2	

Note 19 – Contingent liabilities and special agreements

Reported amounts in millions of Shekels

a – Off–balance–sheets financial instruments (consolidated and at the Bank)

(contractual balances or their face amounts for the end of the year)

	Balance contracts (1)		Balance of provision for credit losses	
	As of December 31			
	2011	2010	2011	2010
Transactions in which the balance represents credit risk:				
Non–returnable liabilities that have been approved but still not given	**821.8**	870.0	**0.3**	–
guarantees for purchasers of housing	**178.4**	249.6	**0.8**	–
guarantees for ensuring credit	**76.8**	80.7	**0.2**	–
Other guarantees	**84.1**	75.9	**0.2**	–
Credit facilities of credit cards that are unexploited	**133.7**	112.9	**0.2**	–
as part of the revolving credit account and as part of other credit at accounts according to unexploited requirements	**76.7**	87.4	–	–
Credit certificates	**-**	9.4	**-**	–
Others	**-**	–	**-**	1.3
Total	**1,371.5**	1,485.9	**1.7**	1.3

(1) Contractual balance or their face amounts for the end of the year, before affect of credit loss provision.

b – Off–balance–sheet agreements for activity according to collection level(2) for the end of the year (consolidated and at the Bank)
Balance of credit and deposits according to collection level(3)

	As of December 31	
	2011	2010
Israeli currency not linked	**61.1**	63.3
Israeli currency index – linked	**2,242.8**	2,546.8
Foreign currency	**3.8**	7.0
Total	**2,307.7**	2,617.1

Information on providing loans during the year

	For the year ending on December 31	
	2011	2010
Loans deposits according to collection level	**0.9**	3.9
Standing loans	**2.6**	5.3

(2) Credits from deposits which return to depositor is subject to credit collection, with margin or with collection fees (instead of margin).
(3) Standing loans and government deposits provided for them, for a total of NIS 390.7 million (2010 - NIS 490.0 million), are not included in this note.

Note 19 – Contingent liabilities and special agreements (continuation)

Reported amounts in millions of Shekels

b - Off-balance-sheet agreements for activity according to collection level(1) for the end of the year (continuation)

Flows for collection fees and from interest margins for the activity in collection level(2)

	December 31							
	2011							2010
	until year	Over a year until 3 years	Over 3 until 5 years	Over 5 Up to 10 years	Over 10 Up to 20 years	Over 20 years	Total	Total
Future contractual flows	**16.7**	**31.4**	**29.8**	**52.6**	**31.6**	**-**	**162.1**	187.6
Expected capitalized flows(4)	**16.2**	**29.0**	**25.8**	**41.1**	**20.8**	**-**	**132.9**	163.8

(1) Credits from deposits which return to depositor is subject to credit collection (or deposits), with margin or with collection fees (instead of margin).

(2) Including foreign currency derivative and not linked NIS derivative that does not exceed 10% from the total deposits according to collection level.

(3) Capitalization is performed according to a rate of 3.26% (2010 – 2.18%).

(4) Remarks: Assessment of early repayments are not considered in the data.

c – Claims

1. General

During regular course of business, various lawsuits were filed against the Bank. According to the Bank's management, based on the opinion of the legal advisers concerning risks from claims, including requests for approval of class action suits, are included in proper provisions at the Financial Statements according to acceptable accounting regulations, for expected loss resulting from these pending claims against the Bank.

2. Pending motions for class action suits against the Bank are as detailed below.

Below are details of these claims:

a. In July 1997, a claim has been filed against the Bank and against four other mortgages banks at the Tel Aviv District Court for the overall amount of more than NIS 1 billion, as well as a request that was filed for recognition of this claim as a class action suit. In the claim and request it was claimed, among others, that the aforementioned banks collected from the borrowers illegal life insurance and property insurance fees, and that the borrowers are entitled to the return of these fee amounts. The claim and the request did not include the manner of return of the aforementioned amount, and did not specify which part is attributed to the Bank.

In November 1997 the District Court decided to reject the claim in the form of class claim according to the Banking Law (customer service) 5741 - 1981 and the Antitrust Law, 5748 - 1988. Nevertheless, the Court rules that this claim is to be discussed as petition only for declaratory relief and not monetary as part of of Standard 29 of the Rules of Civil Procedure. In December 1997, the Bank filed a request at the Supreme Court for approval for appeal of the aforementioned decision and also it requested to delay the procedures for obtaining a ruling on this issue. The request for delaying implementation of the procedures has been accepted by the Supreme Court and this until the decision on this request of appeal. In February 2008, this claim was transferred for mediation before the Honorable Vice President (Ret.) Theodor Or. The parties signed a compromise agreement including compensation payment for public entities in need, that are approved by the mediator and was approved by the Court on December 5, 2011 (that instructed to publish the compromise agreement). According to the agreement, the bank will pay to the aforementioned entities a total of NIS 644,549 (the Bank's part – 3.185% of the comprehensive compromise amount of a total of NIS 20,237,000).Note 19 – Contingent liabilities and special agreements (continuation)

b. On January 3, 2010 a claim against the Bank was filed at the Jerusalem District Court, and also a request to recognize this claim as a class action suit. The plaintiffs did not mentioned an amount in the class action suit. The claim alleges that the Bank provided to its customers loans in dollars with a "floor", and that the determination of the floor of the loans is an unjust condition in the standard contracts that should be canceled.

On December 20, 2011 the Court gave validity to the judgment for the agreement between the Bank and the plaintiffs according to which the plaintiffs removed their request for approval of class action suit and the Bank will pay them a total of NIS 15 thousand ex gratia and without admitting any liability. Accordingly, the Court erased the request for approval of class action suit and rejected the personal claim of the plaintiffs, and thus this claim came to an end.

c. On July 12, 2010, a claim was filed against the Bank at the Jerusalem District Court, and also a request to recognize this claim as class action for the overall amount of NIS 10,692 for the entire represented group. The claim alleges that the Bank did not remove all records of liens listed in its name to secure loans already entirely cleared by the borrowers. Therefore, it demanded that the Bank remove these lists and will compensate customers that removed these listings on their own account. The case is transferred for mediation.

According to the Bank's management, relying on the opinion of the legal advisers, the chances that the Bank will be required to pay as part of this claim is slight.

Note 19 – Contingent liabilities and special agreements (continuation)

Reported amounts in millions of Shekels

d – Other contingent liabilities

1. In January 2012, the Bank's General Assembly of shareholders approved the decision, according to which the Bank will grant somebody serving from time to time as senior officer at the Bank and its subsidiaries, indemnification liability due to financial debts imposed on some one and for reasonable litigation expenses related to the list of events attached as an appendix to the liability letter. Provision of indemnifications depends on the existence of conditions specified in the liability letter and the maximum indemnification amount per senior officer of the Bank and its subsidiaries, as accumulated, and not exceeding 25% of the Bank's equity.

2. As part of establishment of the company, "Jerusalem Financing Issuances (2005) Ltd.", subsidiary fully controlled by the Bank (hereinafter: "Financing and Issuances"), the Bank committed to indemnify Financing and Issuances for all its liabilities, and this in order to comply with the requirement instructions of the Supervisor of Banks on the subject of minimum capital ratio (paragraph 4 of instruction 311 of the Proper Banking Management Instructions).

As part of the issuances for the public of liability certificates by Financing and Issuances, the Bank committed towards Financing and Issuances and the trustee for those periods, to comply with all the conditions of the liability certificates that were issued by it and that will be held by the public. As of the report date, the liability balance of the Bank is NIS 60 million nominal value. Deposit certificates (Series A), NIS 274 million nominal value Deposit certificates (Series B), NIS 150 million nominal value Deferred liability notes (Series C), NIS 32 million nominal value. Debentures (Series D), NIS 137 million nominal value Debentures (Series F), NIS 420 million nominal value Debentures (Series G), NIS 360 million nominal value Debentures (Series H), NIS 360 million nominal value Debentures (Series 14), that have been issued by Financing and Issuances In November 2011, the final date for redeeming liability certificates (series E) arrived and thus the balance of the principal was redeemed for a total of NIS 83 million nominal value. The aforementioned undertaking of the Bank cannot be canceled or changed since the rights of the deposit certificates depend on them.

3. The Bank pledges to enable the depositors and savers to receive loans for the purchasing of an apartment or for the purchasing of vehicle to the height of their deposits at a lower interest than the nominal interest that will be customary a the bank when providing the loan. This entitlement will be available to them at the end of the year from the start of the repayment period and on condition that they will comply with the conditions customary at the Bank concerning providing loans, and the funds are deposited at dates determined in the program terms.

Note 19 – Contingent liabilities and special agreements (continuation)

Reported amounts in millions of Shekels

Below are the composition of maximum liabilities:

	Amortization rate from interest Nominal	Maximum liabilities For providing loans As of December 31	
	%	**2011**	2010
Details of saving			
Saving programs with monthly deposits	0.4%	**895.9**	762.6
Saving programs with on time deposits	0.5%	**45.4**	50.8
Saving programs (monthly deposit or on time)	0.25%	**2,088.3**	1,963.9
Total		**3,029.6**	2,777.3

E – Agreements

1. The Bank and a consolidated company entered into a long term lease contract including an option for an extension. The payable rent for the coming years for the aforementioned agreement is as follows:

	Consolidated		The Bank	
	December 31			
	2011	**2010**	**2011**	**2010**
First year	**10.8**	8.7	**2.2**	3.0
Second year	**10.0**	8.1	**2.0**	2.2
Third year	**9.8**	7.3	**1.9**	2.0
Fourth year	**8.4**	6.7	**1.9**	1.3
Fifth year and henceforth	**86.8**	16.6	**6.3**	3.8
Total long term lease contract	**125.8**	47.4	**14.3**	12.3

2. During April 2011, Tomer entered an agreement with Teldor Computer Systems (1986) Ltd., according to which the Teldor company will establish and integrate a multi-channel computer infrastructure for managing the Bank's customer relations. Setting up the project is expected to end during the first half of 2012, and the planned investment volume is about NIS 20 million over a period of 6 years.

Note 20 – Activity in derivative instruments – scope, credit risks and repayment dates (consolidated and at the Bank)

a. Implementation of the instructions from the Supervisor concerning derivative instruments and hedging activity

The activity of the Bank as a financial intermediary exposes it to a variety of risks and because of that to market risks. Market risks include, among others, basic risks, interest risks, exchange rates volatility risks, and inflation rate risks. As part of the Bank's overall strategy for managing the exposure level to market risks, as mentioned above, the Bank implements, among others, transactions in derivative financial instruments for reducing its exposure to market risks. The Bank's activity in derivative financial instruments is as an intermediary, trader or end-user. The Bank has derivative financial instruments such as futures transactions for exchange between currencies (Swap), future contracts for protection of currency rates (Forward), Maof options and options on increase of the Consumer Price Index and increase of other exchange rates.

The transactions in derivative financial instruments is recorded according to fair value and changes in the fair value are recorded in a continuous manner in the Profit and Loss Report.

Moreover, the Bank enters into contracts that do not actually constitute derivative instruments but include integrated derivatives. Concerning each contract, the Bank evaluates whether the economic characteristics of embedded derivative clearly and closely related to those of the hosting contract and determines whether the separate instrument with the same failure conditions as an embedded instrument would maintain the definition of the derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely related to the hosting contract, and also that the separate instrument with the same conditions is qualified as a derivative instrument, the embedded instrument is separated from the hosting contract and handled as a derivative by itself. An embedded derivative that has been separated, is presented in balance sheets together with the hosting contract.

Reported amounts in millions of Shekels

b. Activity scope

Nominal amount of derivative instruments

	Interest contract		contractual currency Foreign	percentages for Securities	Total
	NIS – index	Other			
For December 31, 2011					
A. Derivatives ALM (1)(2)					
contractual Forward	–	–	624.1	–	624.1
Swaps	100.0	70.0	–	–	170.0
Total	**100.0**	**70.0**	**624.1**	**–**	**794.1**
B. Other derivatives (1)					
Option contracts traded at the Stock Exchange					
Written options	–	–	12.7	224.7	237.4
Purchased options	–	–	12.7	224.7	237.4
Total	**–**	**–**	**25.4**	**449.4**	**474.8**
C. Credit derivatives and foreign currency swaps SPOT.					
Foreign currency swaps SPOT.	–	–	15.5	–	15.5
Total nominal amount	**100.0**	**70.0**	**665.0**	**449.4**	**1,284.4**

(1) Except for credit derivatives and foreign currency swaps SPOT.

(2) The transactions in derivative instruments are part of the Bank's management system of assets and liabilities, that are not designated to hedging relations.

Note 20 – Activity in derivative instruments – scope, credit risks and repayment dates (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

as of December 31, 2010 – continuation

	Interest contract		contractual currency Foreign	percentages for Securities	Total
	NIS – index	Other			
as of December 31, 2010					
A. Derivatives ALM (1)(2)					
contractual Forward	–	–	432.0	–	432.0
Swaps	350.0	–	–	–	350.0
Total	350.0	–	432.0	–	782.0
B. Other derivatives (1)					
Option contracts traded at the Stock Exchange					
Written options	–	–	35.6	309.6	345.2
Purchased options	–	–	35.6	309.6	345.2
	–	–	71.2	619.2	690.4
C. Credit derivatives and foreign currency swaps SPOT.					
Foreign currency swaps SPOT.	–	–	66.0	–	66.0
Total nominal amount	350.0	–	569.2	619.2	1,538.4

(1) Except for credit derivatives and foreign currency swaps SPOT.
(2) The transactions in derivative instruments are part of the Bank's management system of assets and liabilities, that are not designated to hedging relations.

C. Credit risk for derivative instruments according to opposite party of the contract

	Stock Exchanges	Banks	Others	Total
For December 31, 2011				
Gross positive fair value of derivative instruments (1)	3.6	3.6	–	7.2
Balance–sheet–balance of assets derived from derivative instruments	3.6	3.6	–	7.2
Off–balance–sheet credit risk for the public for derivative instruments	3.4	80.9	–	84.3
Total credit risk for derivative instruments	**7.0**	**84.5**	**–**	**91.5**
as of December 31, 2010 –				
Gross positive fair value of instruments (1)	5.8	18.1	–	23.9
Balance–sheet–balance of assets derived from derivative instruments	5.8	18.1	–	23.9
Off–balance–sheet credit risk for the public for derivative instruments	–	84.8	–	84.8
Total credit risk for derivative instruments	5.8	102.9	–	108.7

(1) From this balance-sheet-balance of derivative instruments standing by themselves for a total of NIS 7.2 million (21.12.10 - NIS 23.9 million) included in paragraph Assets for derivative instruments.

Note 20 – Activity in derivative instruments – scope, credit risks and repayment dates (consolidated and at the Bank) (continuation)

Reported amounts in millions of Shekels

d. Gross fair value of derivative instruments

	Interest contract		contractual currency Foreign	percentages for Securities	Total
	NIS – index	Other			
as of December 31, 2011 –					
Gross fair value of derivative instruments					
A. Derivatives ALM (1)(2)					
Gross positive fair value	**0.4**	**0.8**	**2.4**	**-**	**3.6**
Gross negative fair value	**-**	**1.5**	**9.9**	**-**	**11.4**
B. Other derivatives (1)					
Gross positive fair value	**-**	**-**	**0.1**	**3.5**	**3.6**
Gross negative fair value	**-**	**-**	**0.1**	**3.5**	**3.6**
as of December 31, 2010					
A. Derivatives ALM (1)(2)					
Gross positive fair value	10.4	–	7.7	–	18.1
Gross negative fair value	–	–	4.9	–	4.9
B. Other derivatives (1)					
Gross positive fair value	–	–	1.3	4.5	5.8
Gross negative fair value	–	–	1.3	4.5	5.8

e. Details of repayment dates (amounts in nominal value)

	until 3 months	Over 3 months up to one year	Over a year up to 5 years	Over 5 years	Total
For December 31, 2011					
Interest contract (NIS – index)	100.0	–	–	–	100.0
Interest contract (other)	25.0	–	45.0	–	70.0
Foreign currency contract	536.9	128.1	–	–	665.0
Securities contract	449.4	–	–	–	449.4
Total	**1,111.3**	**128.1**	**45.0**	**-**	**1,284.4**
as of December 31, 2010					
Interest contract (NIS – index)	100.0	150.0	100.0	–	350.0
Interest contract (other)	–	–	–	–	–
Foreign currency contract	561.0	8.2	–	–	569.2
Securities contract	619.2	–	–	–	619.2
Total	1,280.2	158.2	100.0	–	1,538.4

(1) Except for credit derivatives and foreign currency swaps SPOT .

(2) The transactions in derivative instruments are part of the Bank's management system of assets and liabilities, that are not designated to hedging relations.

Note 21 – Balance and estimates of fair value of financial instruments (consolidated)

a – Fair value of financial instruments

The information included in this note refers to the assessment of fair value of financial instruments

Most of the financial instruments at the bank cannot quote "market price" because an active market in which they trade does not exist. Therefore, the fair value is made through accepted models for pricing, such as present value of future cash flow capitalized by discount interest at a rate that reflects the embedded risk level in the financial instruments. Estimation of fair value through future cash flow evaluation and determining discounted interest rate is subjective. Therefore, for most of the financial instruments, the aforementioned evaluation of fair value is not necessarily an indication of the realization value of the financial instrument on the reporting day. Evaluation of the fair value was made according to the valid interest rates on the reporting date and does not take into account the fluctuation of the interest rates. Under the assumption of other interest rates, a fair value is obtained that may be significantly different. Mainly these concern the financial instruments at fixed interest or without interest. In addition, by determining the fair value, the commissions that will be obtained or paid for the business activity are not taken into account and also do not include tax affect.

It should be noted that it is plausible that the gap between the balance-sheet-balance and between the fair value balance will not be realized since in most cases the Bank may hold the financial instruments until repayment. For all these, it should be emphasized that the data included in this note do not indicate the value of a banking enterprise as a living business. Moreover, be careful during editing comparison of values of fair value between various banks because of multiple assessment techniques and the possible estimates and assessments for implementing a fair value assessment.

b – The method and principal directives for estimating the fair value of financial instruments

Deposits at banks, debentures and loans that are not traded and credit to the government - method of capitalization of future cash flows according to interest rates at which the bank made similar transactions at the time of reporting.

Negotiable securities - according to market value, non-negotiable securities according to data concerning valuation obtained from external sources.

Credit for the public – The fair value from the credit balance for the public is according to the method of present value of future cash flows discounted by suitable discount rates. Credit balance is split into categories according to the main types of population by division according to linked sectors and credit in fixed and variable interest rates. Cash flows (principal and interest) reduce the interest rates equally to the average interest rates according to which similar transactions are being made at the bank on

Note 21 – Balance and estimates of fair value of financial instruments (consolidated)

b – The method and principal directives for estimating the fair value of financial instruments

the reporting date. The fair value at early credit payoff has not been taken into account during the calculation when their influence is not straightforward.

The fair value of the problematic debts is calculated using discount interest rates reflecting the high credit risk embedded in them. These discount rates are not reduced from the highest interest rate the bank uses for its transactions at reporting date. Future cash flows for problematic debts are calculated after deduction of specific provisions for credit loss. The group provision is not deducted from the credit balance for calculation of the flow at the fair value evaluation. The fair value at early credit payoff has not been taken into account during the calculation when their influence is not straightforward.

Deposits, debentures and deferred liability notes – in capitalization of future cash flow method according to interest rate in which the Bank recruits similar deposits, or by issuing similar debentures and deferred liability notes, by the Bank on report day, except for debentures registered for trade at the Stock Exchange presented according to market value.

The off-balance-sheet financial instruments at which the balance presents credit risk – the evaluated fair value according to the present evaluation of future cash flows is capitalized at the interest rate reflecting the interest level at which similar transaction has been performed at the reporting date.

Financial instruments for the original period for up to three months and at fluctuating market interest – the balance sheet balance constitutes an approximation to the fair value subject to changes in credit risk and in the bank's margin for transactions with fluctuating interest.

Note 21 – Balance and estimates of fair value of financial instruments (consolidated) (continuation)

Reported amounts in millions of Shekels

	December 31							
	2011				2010			
	Balance Sheet balance			value fair	Balance Sheet balance			value fair
	(1)	(2)	Total		(1)	(2)	Total	
Financial assets								
Cash and deposits at the Bank	792.3	–	792.3	792.3	652.3	–	652.3	652.3
Securities	1,425.6	–	1,425.6	1,425.6	1,314.9	–	1,314.9	1,314.9
Net credit for the public	–	9,057.8	9,057.8	9,263.4	–	8,036.9	8,036.9	8,147.2
Assets for derivative instruments	7.2	–	7.2	7.2	23.9	–	23.9	23.9
Other financial assets	–	50.0	50.0	50.0	–	29.2	29.2	29.2
Total financial assets	**2,225.1**	**9,107.8**	**11,332.9**	**11,538.5**	1,991.1	8,066.1	10,057.2	10,167.5
Financial liabilities								
Public deposits	–	9,064.6	9,064.6	9,159.6	–	7,407.8	7,407.8	7,550.4
Deposits from banks	–	76.2	76.2	80.2	–	86.5	86.5	98.2
Government deposits	–	0.8	0.8	0.9	–	4.9	4.9	5.1
Liability certificates and deferred liability notes	–	1,611.9	1,611.9	1,633.2	–	1,921.1	1,921.1	1,945.6
Assets for derivative instruments	15.0	–	15.0	15.0	10.7	–	10.7	10.7
Other financial liabilities	–	34.7	34.7	34.7	–	38.7	38.7	38.7
Total financial liabilities	**15.0**	**10,788.2**	**10,803.2**	**10,923.6**	10.7	9,459.0	9,469.7	9,648.7

(1) Financial instruments in which the balance-sheet-balance reflects the fair value estimates – instruments presented in the balance sheet according to market value.

(2) Other financial instruments in which the balance is not reflected in the fair value estimates.

Note 21a – Items measured in fair value on recurring basis (consolidated)

Reported amounts in millions of Shekels

	December 31, 2011			
	Measurement of fair value used in			
	quoted prices in active markets (level 1)	Other material observed data (level 2)	Non-observed material data (level 3)	Balance of balance sheet
	Millions of Shekels			
Assets				
Securities available for sales:				
Israeli government debentures	1,011.8	–	–	1,011.8
Other corporate debentures	191.5	2.2	–	193.7
Asset–backed debentures	13.7	–	–	13.7
Securities available for sale	–	–	1.1	1.1
Total securities available for sales	**1,217.0**	**2.2**	**1.1**	**1,220.3**
Securities for sale:				
Debentures for trade	270.4	–	–	270.4
Total securities for sale	**270.4**	**–**	**–**	**270.4**
Assets for derivative instruments:				
Interest contract	–	1.2	–	1 .2
Foreign currency contract	–	2.4	–	2 .4
Securities contract	3.6	–	–	3.6
Total assets for derivative instruments:	**3.6**	**3.6**	**–**	**7.2**
Total financial assets	**1,491.0**	**5.8**	**1.1**	**1,497.9**
Liabilities				
Liabilities for derivative instruments:				
Interest contract	–	1.5	–	1 .5
Foreign currency contract	–	9.9	–	9 .9
Securities contract	3.6		–	3 .6
Total Liabilities for derivative instruments:	**3.6**	**11.4**	**–**	**15.0**

Note 22 – Stakeholders and related parties [1] (consolidated)

Reported amounts in millions of Shekels

a – Balances

	Parent company		Key management personnel		Others [4]	
	(2)	(3)	(2)	(3)	(2)	(3)
as of December 31, 2011						
Assets:						
Credit for the public	**–**	**–**	**0.4**	**0.6**	**–**	**–**
Liabilities and capital:						
Public deposits	**0.1**	**0.9**	**8.6**	**9.0**	**–**	**–**
Liability certificates and deferred liability notes	**–**	**–**	**–**	**–**	**–**	**1.2**
Other liabilities	**–**	**–**	**3.4**	**3.4**	**–**	**–**
Shares (included in equity)	**556.6**	**556.6**	**0.1**	**0.1**	**32.3**	**32.3**
as of December 31, 2010:						
Assets:						
Credit for the public	–	–	0.6	0.8	–	–
Liabilities and capital:						
Public deposits	0.9	0.9	8.2	12.3	–	–
Liability certificates and deferred liability notes	–	–	–	–	1.2	2.3
Other liabilities	–	–	3.8	5.3	–	–
Shares (included in equity)	546.0	546.0	0.1	0.1	33.8	33.8

(1) Stakeholders and related parties as defined in the securities standards.

Related party - related party that is no stakeholder as defined in Opinion Disclosure (29) of the Chamber of Auditors.

(2) Balance as of the balance sheet date.

(3) The highest balance during the year – and this based on balances at the end of each month.

(4) Stakeholders holding shares at the bank.

Note 22 – stakeholders and related parties (consolidated) [(1)] (continuation)

Reported amounts in millions of Shekels

b - Summary of business results

	Key management personnel	Others	Total
For the year ending December 31, 2011			
Operation expenses and others (c)	**(6.9)**	**-**	**(6.9)**
For the year ending on December 31, 2010			
Operation expenses and others (c)	(9.5)	–	(9.5)

Remark: Transactions with stakeholders is done under the same conditions that existed if these transactions would have been done with a non-stakeholder.

c – Benefits

	For the year ending on December 31			
	2011		**2010**	
	Total benefits	number receivers benefits	Total benefits	number receivers benefits
Stakeholders employed at corporation	**5.2***	**4**	*7.6	3
Directors that are not employed at corporation	**1.7**	**15**	1.9	15

* Of this: Post-employment benefits: NIS 1.1 million (for 2010 – NIS 0.7 million); Share-based Payment NIS 0.8 million (in 2010 – NIS 2.3 million).

D - Employment terms of the CEO

On April 13th, 2010 Mr. Uri Paz (hereinafter: "the CEO") started his tenure as CEO of the bank after receiving the approval of the Bank of Israel for his appointment. Detailed immediate report of the Bank in relation to the employment terms of the CEO has been given on March 15, 2010. The employment terms of the CEO, as detailed below, has been approved by the Audit Committee and the Board of Directors of the Bank on March 14, 2010, as required in relation to extraordinary employment with senior officer.

Below the principles of the agreement for providing management services between the Bank and Uriel Paz Consultancy Ltd. company owned and fully controlled by the CEO (hereinafter: "Management Company"), as of October 10, 2010 (hereinafter: "Management Agreement") (this agreement replaced the work agreement that has been signed with the CEO on April 8, 2010), as follows:

Note 22 – stakeholders and related parties (consolidated) [1] (continuation)

1. The Managing Company is entitled to a compensation for a total of NIS 120,000 gross per month ("monthly payment") during the management agreement period linked to the CPI as published on February 25, 2010 for January 2010.

2. The agreement period according to the management agreement is for the period of 4 years, but each of the parties may terminate the agreement period through advance announcement, in advance and in writing, of six months. In addition, the Bank will be entitled to bring the agreement to an end, immediately, without compensation, and this in each of the following events: (a) the CEO was convicted on a flagrant offense related to providing services to the bank or other offense of criminal type; (c) the court ruled that the CEO caused a grave betrayal of Bank's trust , or embezzlement of Bank funds or intentionally hurt the Bank or any of its employees in causing significant damage to the Bank and/or any of its employees; (c) under these circumstances it is possible to deprive the CEO of severance pay, in whole or partly, if he was employed as a Bank employee.

3. Following the approval of the above employment terms of the CEO, as of March 14, 2010, and the management agreement, the Board of Directors decided on February 27, 2011, after receiving the approval of the Audit Committee of the Bank on February 21, 2011, to adopt the options program for allocation of option units for the Management Company at a volume and conditions as determined by the program. According to the options program, 2,115,530 units of type A and 1,410,355 units of type B are allocated in the name of the Management Company. For additional details concerning the options program see immediate report of the Bank as of March 7, 2011 (reference number: 2011-01-071295). Note 22a of the Financial Statements.

4. One time grants

   The programs determines the right of the Management Company of two one time grants, for a maximum amount of NIS 240 thousand each, and this depending on; for one of the grants, in the performance formula of the Bank's shares at the Stock Exchange in the period from the approval of the program until April 13, 2011, and in relation to the other one-time grant, dependent upon a capital issuance by the Bank at a price reflecting certain premium rate on the equity, as determined in the one-time grant formula. It should be mentioned that, until April 13, 2011, there were no conditions for the aforementioned and therefore, the Management Company is not entitled to grants specified in this paragraph.

5. Yearly bonus

The Managing Company will be entitled to a yearly bonus, according to the yearly bonus programs that is are integral part of the management agreement ("Yearly Bonus Program").

According to the yearly bonus program, the Managing Companies will be entitled to a yearly bonus derived from the "calculated yield" as defined below and limited to the height of 24 monthly payments gross (that is, NIS 2.88 million) (hereinafter: "Yearly Bonus"). The yearly bonus will start at the height of three monthly gross payments (that is, NIS 360 thousand) (in calculated yield of 9%) and until the height of 24 monthly payments as the aforementioned gross (calculated yield of 15%).

It should be mentioned that, the nominal bonus in the program as multiple monthly payment paid to the Management Company Derived from this, since the monthly amounts are index-linked as specified above, so also minimum and maximum amounts of the bonus are linked to the index.

The bonus will be paid in stages over three years (50% per eligible year and 25% for two and three years after the eligible date), while the payment of each part of the annual bonus is contingent upon continuous compliance with the objectives during the year determined for payment. The actual payment of the annual bonus depends therefore on the year in which the payment should be implemented, that there will be no regulatory limitation and/or capital adequacy limit on dividend distribution at a rate of at least 33% of the net profit in the payment year for the Bank's shareholders. As far as the aforementioned limitation is applied on dividend distribution, the bonus payment will be deferred, in whole or in part, to a date on which the aforementioned limitation is removed. In the event of partial payment capability of dividend, the dividend will be paid pro-rata to the shareholders and the bonus, for the aforementioned limitation rate, and the payment of the bonus balance will be deferred to a date on which the regulatory and/or capital adequacy limitation is removed. It should be mentioned that the Bank of Israel expressed its reservations in relation to the aforementioned paragraph expressing the relation between inability to pay dividend because of regulatory limitations and/or capital adequacy and bonus payments. The Chairman of the Board of Directors in his letter to the Bank of Israel from August 11, 2010, notified the Bank of Israel that the aforementioned reservations were noted, and that the Board of Directors of the Bank will operate according to the position of the Bank of Israel on this issue, and if necessary will contact them. It is clarified that as aforementioned change was not made to the agreement.

"Considered yield" meaning "reported yield" as per definition below, neutralizing the influence of the aforementioned project hereinafter.

"Reported yield" means the average between the annual yield (net) on equity as reported in the Bank's annual audited Financial Statements and between the growth rate in the Bank's equity as reported in the Bank's annual audited Financial Statements. A dividend announced and paid during the year and capital issuances if there were any, will be neutralized for the purpose of growth calculation in equity (meaning, it will not be taken into account for the purpose of calculating the equity growth rate).

One-time gains (defined as financial profits such as nostro will not be considered one-time), as well as capital earnings.

An Project has been defined in the plan for establishing and operating new retail banking for the Bank ("the Project") and a period has been determined for approving the project by the Board of Directors and until the date when the activity of the project will be profitable from the accounting aspect, the project implications will be neutralized from the bonus formula components (the captive project capital will be neutralized from the denominator of yield formula for capital; the income and expenses related to the project, such as the tax shield created by it, will be neutralized from the numerator in capital yield calculation for the purpose of determining the bonus amount). The implementation of the formula will be controlled and examined by independent factors.

E - Employment terms of the Chairman of the Board of Directors

On October 3, 2011, the general assembly approved the appointment of Mr. Zeev Gutman (hereinafter: "Mr. Gutman" or the "Chairman") as director at the Bank and also the employment terms as the designated Chairman of the Board of Directors of the Bank, after receiving approval in relation to the agreement's terms, approval of the Audit Committee in their meeting of June 20, 2011, and later from the Board of Directors in their meeting on July 17, 2010.

On October 27, 2011 the Board of Directors of the Bank decided to appoint Mr. Gutman as Chairman of the Bank's Board of Director. An immediate report in relation to the agreement terms with the Chairman of the Board of Directors was given as part of the immediate report from the summons of the General Assembly as of September 4, 2011, and its amendment as of September 26, 2011.

Below are the principle terms of the agreement:

1. The services will be provided to the Bank in a standard agreement between the ordering party and the independent contractor and this through the company controlled by the Chairman. Based on this formula the compensation is determined for those services to the Bank. There is

no employer-employee relationship between the Chairman and the Bank.

In the event in which instructions will be given on this issue by the Bank of Israel and/or other authorized authority, prohibiting providing services by management companies, the terms on this agreement will be terminated and at the same time the Chairman will be employed for all purposes as a Bank employee. In this event, the employment terms will be adjusted so that the economic situation of the Chairman will not change positively or negatively following this change. So far as there will not be an agreement on this issue, the employment terms of the Bank employee will be determined by an accountant agreed upon by the parties.

2. The compensation for the services will be as follows: a fixed monthly amount of NIS 108,340 (hundred and eight thousand and three hundred and forty NIS), with addition of VAT by law (hereinafter: "the Monthly Compensation"). The monthly compensation will be updated monthly according to the change in the CPI, as specified in the agreement terms.

   Should it be that for a given fiscal year annual the Bank's net profit according to its annual audited statements, will exceed NIS 61 million, the monthly compensation will increase by 10%. It is clarified that if after the above mentioned update in any tax year, the net annual profit of the Bank will be less than NIS 61 million – the monthly compensation will be reduced by 10%. The increase of decrease of the monthly compensation will be implemented one month after the publication of the audited annual Financial Statements of the Bank, and will be applied from that moment and afterwards, without retroactive application. In any case, the monthly compensation will not be reduced from the fixed monthly compensation in the above paragraph and will not increase 10% from the updated monthly compensation (for the purpose of clarification – if during two consecutive years the annual net profit of the Bank according to its annual audited statements, will exceed NIS 61 million, the monthly compensation will increase with 10% only once). This update mechanism will be applied starting from the publication of the bank's audited reports for 2012.

3. Vacation with a scope of up to 30 days for the full calendar year and also absences due to illness of a scope of up to 30 days during a full calendar year, will not bring a decrease of the monthly compensation.

4. The Bank will bare all the current expenses involved in granting services, and against the presentation of receipts (where they do not come directly to the Bank), including vehicle and telephone.

5. The Chairman will be entitled to be included in the compensation program of Management Members, which determines measurements and thresholds for receiving the yearly bonus, that is approved by the Bank's Board of Directors on November 25, 2010 (hereinafter: "the Program").

According to the agreement terms, all the instructions of the program will be applied subject to measurements and designated levels that are determined by the Chairman, as specified below.

Should the Bank comply with the threshold for bonus payments, as set in the program, the Chairman will be eligible for annual bonus payments according to rating, as follows:

"Calculated yield" *	Bonus sum for employees (in NIS)
up to 9% (not included)	–
9% up to 10%	100,000
Over 10% and up to 11% included	120,000
Over 11% and up to 12% included	140,000
Over 12% and up to 13% included	170,000

* As defined above in paragraph D

Should the Bank comply with the threshold for bonus payments, as determined in the program, the Chairman will be eligible for annual bonus payments on condition to the calculated minimum yield of 9%. The yearly bonus is applied at a height of NIS 100,000 + VAT (in calculated yield of 9% and higher) and until a total of NIS 530,000 + VAT per calendar year, and this also the event that according to the Bank's business results, the Chairman will be entitled to payment of a higher bonus.

The bonus will be paid on dates and in conditions determined in the plan. It should be mentioned that, according to the plan, the bonus for management members will be paid in stages over three years from the eligible date (60% per eligible year and 20% for one and two years after the eligible date), while the payment of each part of the annual bonus is contingent upon continuous compliance with the objectives during the year determined for payment.

The actual payment of the annual bonus depends therefore on the year in which the payment should be implemented, that there will be no regulatory limitation and/or capital adequacy limit on dividend distribution at a rate of at least 33% of the net profit in the payment year for the Bank's shareholders. As far as the aforementioned limitation is applied on dividend distribution, the bonus payment will be deferred, in whole or in part, to a date on which the aforementioned limitation is removed. In the event of partial payment capability of dividend, the dividend will be paid pro-rata to the shareholders and the bonus, for the aforementioned limitation rate, and the payment of the bonus balance will be deferred to a date on which the regulatory and/or capital adequacy limitation is removed.

At this stage, and according to the plan, the instruction of the above paragraph will not be implemented due to objections by the Bank of Israel to the paragraph expressing the relation between incapability to paying a dividend because of regulatory and/or capital adequacy limitation and between paying a bonus given in relation to the terms of employment of the Bank's CEO (see details on the aforementioned objections and the letter from the Chairman of the Board of Directors of August 11, 2010 to the Bank of Israel on August 11, in describing the CEO's employment terms).

6. The Chairman will also be entitled to a special bonus - in addition to the yearly bonus as said in paragraph (E) above, and with derogating from it, if according to the annual audited statements of the Bank the annual yield (net) of the Bank on equity will be at least 9% – then according an subject to the required approvals according to the juridical instructions, the Chairman will be paid a special bonus and this in consideration of his special contribution to the Bank's profitability. The scope of the special bonus is at the sole discretion of the Bank's Board of Directors, and the approval of the General Assembly, and will be paid on the date of the yearly bonus payment.

7. Each party may terminate the agreement at any time, with a written announcement 3 months in advance. At the end of the agreement period, various limitations will be applied to the Chairman for the periods and terms as specified in the terms of the agreement. An announcement of agreement termination is given before passing of 12 months from the beginning of the agreement period, after two months from the ending of the period of the early announcement, the Chairman will not be employed by an other bank in Israel, and this on condition that during this period the Bank will continue to pay full payments due to the Managing Company according to the agreement between the parties.

Note 22a – Share-based payment transactions

1. CEO

A. The CEO is entitled to two types of options – units from type A and units from type B. The quantity of options units from type A will change according to the yield of the Bank's shares as specified below: starting from 70,518 units for each portion, in case that the yield of the Bank's share from the employment starting date until the option units exercise date, reflect annual yield at a rate of up to and including 6.5% above the basic share price of NIS 8.6 per share, and up to 423,106 units per portion; in the event that the yield of the Bank's shares from the employment starting date until the exercise date of the options units reflect an annual yield at a rate above 9% above the basic share price of NIS 8.6 per share. The quantity of option units from type B will be 282,071 units per portion.

B. The options will mature and will can be exercised in 5 yearly portions while the first one will mature at the employment starting date of the CEO at the Bank and the fifth will mature 4 years after the employment starting date of the CEO at the Bank. The options may be exercised for a period of 72 months from the maturity date of each share, subject to instructions of the agreement.

C. Addition to the exercise of each option unit of type A is in the range between NIS 8.6 for the first portion up to NIS 10.8 for the fifth portion, bearing compound interest at annual rate of 4% from the maturity date and until the fifth date; and additional exercise for each option unit of type B will be in the range between NIS 10.3 for the first portion up to NIS 12.5 for the fifth portion, bearing compound interest at an annual rate of 3% from the maturity date and up to the fifth date, everything subject according to the specified in the agreement.

D. Each option unit provides the CEO the right to receive, after exercise, consideration reflecting the difference between the average price of the Bank's shares during the 30 business days prior to the exercise date and between the exercise addition.

E. In the event of ceasing of employer-employee relation between the Bank and the CEO, the matured options may be exercised within 180 days from the termination date of the employer-employee relation, if not otherwise expired.

F. In the Financial Statements of the Bank as of December 31, 2011, receipts for options of the Bank's CEO were recorded for a total of NIS 0.9 million. The estimated economic value of the options that are calculated by the external assessor while using the binomial model, is assessed to about

Note 22a – Share-based payment transactions (continuation)

NIS 4.2 million. At the bonus date, and until February 27, 2011, the Bank's Board of Directors did not yet decide on the manner for granting the options to the Bank's CEO, whether as part of clearance plan in capital instruments with replacing the clearance in cash and whether as part of cash clearance plan. As a result thereof, and lacking the capability of the Board of Directors of the company to determine that clearance of the options will be made through capital instruments, the company handled the aforementioned granting as bonus cleared in cash as defined in the International Financial Reporting Standards number 2. As a result, the company measured in each reporting period the fair value of the liabilities while the changes were reflected in the Profit and Loss Report and this in consideration of the maturity period. On February 27, the Bank's Board of Directors decided that the options granted to the CEO of the Bank will be cleared in capital instruments. Therefore, on the same day the company classified the liabilities for the options of the CEO as capital and this according to the fair value of the same day.

The calculation of the estimation of the economic value for the aforementioned date is based on the following main parameters:

Standard deviation of annual yield: between 27% to 30%.

Interest rate lacking risk: between 4.5% to 5.1%.

Share price: NIS 6.56.

2. Senior managers

A. Senior officers of the Bank for whom, on November 29, 2011, are approved by the board of Directors of the Bank, an allocation of phantom units (hereinafter: the "Managers") will be entitled to phantom units of two kinds – units of type A and units of type B. The quantity of options units from type A will change according to the yield of the Bank's shares as specified below: starting from 58,765 units for each share, in case the yield of the Bank's share from the employment starting date until the exercise date of the option units reflects annual yield at a rate of up to and including 6.5% above the basic share price of NIS 8.84 per share, and up to 352,589 units per portion, in the event that the yield of the Bank's shares from the employment starting date until the exercise date of the options units reflect a annual yield at a rate above 9% above the basic share price of NIS 8.84 per portion. Quantity of option units from type B will be 176,294 units per portion.

B. The phantom units will mature and can be exercised in 4 yearly portions while the first one will mature at on November 29, 2012 and the fourth will mature 3 years after this date. The phantom options may be exercised for a period of 48 months from the maturity date of each share, subject to instructions of the agreement.

Note 22a – Share-based payment transactions (continuation)

C. Addition to the exercise of each phantom unit of type A is in the range between NIS 9.37 for the first portion up to NIS 11.16 for the fourth portion, baring compound interest at annual rate of 4% from the maturity date and until additional exercise date for each phantom unit of type B will be in the range between NIS 11.14 for the first portion up to NIS 12.9 for the fourth portion, baring compound interest at an annual rate of 3% from the maturity date and up to the exercise date, everything subject according to the specified in the agreement.

D. The units are granted without exchange.

E. The units may not be transferred, except in case of death or in case of legal incapability.

F. The options program provides protection instruction for the exercise period, in case of distribution of benefit shares, distribution of securities through rights, changes in organizational structure of the Bank, and also at any time in which dividend is announced.

G. Each phantom unit provides the managers the right to receive, after exercise, consideration reflecting the difference between the average price of the Bank's shares during the 30 business days prior to the exercise date and between the exercise addition.

H. In the event of termination of employer-employee relation between the Bank and the managers, the matured options may be exercised within 30 days from the ceasing date of the employer-employee relation, if not expire otherwise.

I. In the Financial Statements of the Bank as of December 31, 2011, expenses for options of the Bank's CEO were recorded for a total of NIS 26 million. The estimated economic value of the options that are calculated by the external assessor while using the binomial model, is assessed to about NIS 0.6 million.

The calculation of the estimation of the economic value is based on the following main parameters:

Standard deviation of annual yield: between 27% to 28%.

Interest rate lacking risk: between 3.5% to 4.2%.

Share price: NIS 4.51.

Note 23 – Profit from financing activity (before expenses for credit loss)

Reported amounts in millions of Shekels

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
A. For assets						
from credit for the public	**564.6**	308.4	405.0	**564.6**	308.4	405.0
from deposits at banks	**12.7**	(3.0)	4.1	**13.1**	(2.7)	4.2
From deposits at the Bank of Israel and from cash	**9.8**	2.3	2.0	**9.8**	2.3	2.0
from debentures	**48.7**	36.7	59.9	**42.4**	30.5	57.2
from other assets	**1.0**	0.3	(0.5)	**0.9**	–	(0.7)
	636.8	344.7	470.5	**630.8**	338.5	467.7
B. For liabilities						
on public deposits *	**(338.5)**	(130.3)	(260.8)	**(422.1)**	(197.7)	(332.4)
On deposits from banks	**(6.1)**	(3.7)	(8.5)	**(6.1)**	(3.7)	(8.5)
On government deposits	**(0.1)**	(0.1)	(0.1)	**(0.1)**	(0.1)	(0.1)
On securities that have been loaned or sold as part of the return purchasing agreement	**-**	–	(0.3)	**-**	–	(0.3)
On debentures and deferred liability notes	**(117.2)**	(97.5)	(106.8)	**(36.0)**	(31.7)	(37.7)
	(461.9)	(231.6)	(376.5)	**(464.3)**	(233.2)	(379.0)
C. for derivative financial instruments						
Income (expenses) net, due to derivative instruments ALM *	**(15.6)**	(3.0)	24.4	**(15.6)**	(3.0)	24.4
Income (expenses) net due to other derivative instruments	**1.4**	1.0	(1.9)	**1.4**	1.0	(1.9)
	(14.2)	(2.0)	22.5	**(14.2)**	(2.0)	22.5
D. Others						
Commissions for financing business	**3.5**	4.4	5.0	**3.5**	4.4	5.0
Other Financing Income (2)	**31.2**	47.9	59.0	**31.8**	46.3	44.6
	34.7	52.3	64.0	**35.3**	50.7	49.6
Total profit from financing activity before expenses for credit losses(1)	**195.4**	163.4	180.5	**187.6**	154.0	160.8
(1) From this: exchange differences, net	**3.7**	2.5	0.3	**3.7**	2.5	0.3
(2) From this: income from interest collected from problematic debts	**3.3**	3.3	4.8	**3.3**	3.3	4.8
E. Details of activity results in debentures investments						
Financing income on accrual basis from debentures:						
Available for sale	**43.8**	35.4	56.4	**37.5**	29.2	56.4
For trade	**4.9**	1.3	3.5	**4.9**	1.3	0.8
Total included in profit from financing activity for assets	**48.7**	36.7	59.9	**42.4**	30.5	57.2
Profits from sales of debentures available for sale	**4.5**	22.0	48.9	**4.5**	19.7	34.5
Losses from sales of debentures available for sales **	**(6.4)**	(4.4)	(12.6)	**(5.7)**	(3.6)	(12.6)
Profits realized from fair value reconciliations for fair value of negotiable debentures, net	**2.3**	4.5	3.2	**2.3**	4.5	3.2
Total included in other financing income	**0.4**	22.1	39.5	**1.1**	20.6	25.1
Total from investment in debentures	**49.1**	58.8	99.4	**43.5**	51.1	82.3
Details of the net affect of derivative instruments defining the profit from finance activities						
Financing income for liabilities	**-**	–	2.0	**-**	–	2.0

* Reclassification.

** Including provision for depreciation in value in 2010 for a total of NIS 1.2 million. In 2010 no provision for depreciation in value was implemented.

Note 24 – Operating fees

Reported amounts in millions of Shekels

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Net income from credit portfolio service	**18.4**	19.9	21.7	**18.4**	19.9	21.7
Credit processing	**19.4**	21.1	20.9	**19.4**	21.1	20.9
Activity in securities and certain derivative instruments	**10.0**	15.4	15.0	**8.2**	11.7	11.2
Commission from life insurance	**11.1**	11.8	12.4	**7.4**	8.5	9.7
Commissions from property insurance	**4.5**	5.2	5.9	**–**	–	–
Conversion differences	**2.0**	2.1	2.1	**2.0**	2.1	2.1
Fees for distribution of financial products	**1.3**	1.1	0.6	**1.3**	1.1	0.6
Credit cards	**0.9**	0.6	0.5	**0.9**	0.6	0.5
Account management	**0.3**	0.3	0.4	**0.3**	0.3	0.3
Foreign trade activity	**0.1**	0.1	0.1	**0.1**	0.1	0.1
Others	**9.4**	6.7	4.4	**9.4**	6.7	4.3
Total operating fees	**77.4**	84.3	84.0	**67.4**	72.1	71.4

Note 25 – Salaries and accompanying expenses

Reported amounts in millions of Shekels

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Salaries	**90.9**	79.6	76.0	**83.8**	73.3	69.5
Expenses derived from share–based payment transactions *	**0.8**	2.3	–	**0.8**	2.3	–
Social security and payroll tax	**19.4**	19.6	16.2	**18.6**	19.0	15.7
Severance pay, benefits, education funds and vacation	**21.0**	17.1	12.5	**18.8**	16.0	11.6
Other accompanying expenses	**2.0**	2.1	1.1	**0.6**	0.3	0.3
Total salaries and accompanied expenses	**134.1**	120.7	105.8	**122.6**	110.9	97.1

* From this: NIS 0.8 million in 2011 (2010 – NIS 2.3 million); expense deriving from transactions handled as share-based payment cleared in capital instruments.

Note 26 – Other expenses

Reported amounts in millions of Shekels

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	2010	2009	**2011**	2010	2009
Computer	**14.4**	12.8	13.2	**34.8**	32.0	28.1
Professional services	**8.2**	9.7	6.2	**7.2**	7.6	5.3
Professional consultancy	**8.4**	8.2	4.8	**4.8**	6.2	4.1
Marketing and Publication	**5.9**	3.5	2.9	**5.8**	3.4	2.9
Communications	**3.1**	3.2	2.6	**3.0**	3.1	2.6
Training and training courses	**3.0**	2.5	1.8	**3.0**	2.5	1.8
Insurance	**1.5**	1.6	1.7	**1.4**	1.6	1.6
Offices	**1.6**	1.6	1.5	**1.6**	1.6	1.4
Salary of members of the Board of Directors that are not employed at the Bank	**1.7**	1.8	1.1	**1.6**	1.6	1.0
Fees	**0.6**	0.6	0.6	**1.6**	1.8	1.8
Others	**4.7**	7.5	3.5	**4.7**	5.3	2.4
Total other expenses	**53.1**	53.0	39.9	**69.5**	66.7	53.0

Note 27 – Provision for taxes on profit from regular activities

Reported amounts in millions of Shekels

a – Composition provision for taxes on profit from regular activities

	Consolidated			The Bank		
	For the year ending on December 31					
	2010	2009	2008	**2010**	2009	2008
Current taxes:						
For book year	**7.6**	11.0	50.9	**4.7**	7.6	43.4
For previous years	**–**	(1.9)	6.8	**–**	(1.9)	6.8
Total current taxes	**7.6**	9.1	57.7	**4.7**	5.7	50.2
Deferred Taxes – (deduction) / addition:						
Deferred taxes for book year	**2.4**	4.9	(19.0)	**3.3**	4.7	(18.7)
Deferred taxes for previous years	**–**	–	(5.1)	**–**	–	(5.1)
Total deferred taxes	2.4	4.9	(24.1)	**3.3**	4.7	(23.8)
Provision for taxes on profit from regular activities	**10.0**	14.0	33.6	**8.0**	10.4	26.4

Note 27 – Provision for taxes on profit from regular activities (continuation)

Reported amounts in millions of Shekels

b - Reconciliation between the theoretical tax amount on which regular profit from activities was applied, was charged with tax according to the statutory tax rate applied in Israel on the Bank and between the tax provision on regular profits from activities as reflected in the Profit and Loss Report.

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Profit before tax	**34.7**	48.1	92.3	**22.2**	29.7	62.1
Statutory tax rate applied on the Bank of Israel	**34.48%**	35.34%	36.21%	**34.48%**	35.34%	36.21%
Tax amount based on statutory tax rate	**12.0**	17.0	33.4	**7.7**	10.5	22.5
Tax (tax savings) for:						
General provision and additions for credit loss	**(0.5)**	(0.4)	(0.3)	**(0.4)**	(0.4)	(0.3)
Other unrecognized expenses	**0.7**	1.3	1.8	**0.7**	1.3	1.8
Exempt income and with limited tax rate	**(0.5)**	(0.9)	–	**–**	(0.1)	–
Taxes for previous years	**–**	(1.9)	0.6	**–**	(1.9)	0.6
Changes in deferred tax balance following change in tax rate	**(1.5)**	(0.1)	1.1	**(1.6)**	(0.1)	1.1
Income subsidiaries in Israel	**(1.1)**	(1.7)	(2.8)	**–**	–	–
Others provisions	**0.9**	0.7	(0.2)	**1.6**	1.1	0.7
Provision for income taxes	**10.0**	14.0	33.6	**8.0**	10.4	26.4

c – Assessments

The bank issued final assessments until and including the year 2007. For its two subsidiaries, final tax assessments have been issued until and including the fiscal year 2005. The tax assessments until and including the year 2007 are considered final.

The current and deferred taxes are calculated according to the new tax rates.

d – Deferred receivable tax balance and reserve for deferred taxes

	Consolidated				The Bank			
	December 31							
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	Millions of NIS		Average tax rate		Millions of NIS		Average tax rate	
Receivable deferred taxes:								
for timing difference:								
Provision for vacation and jubilee grant	**2.8**	2.2	**34.6%**	33.0%	**2.5**	2.0	**35.2%**	33.7%
Surplus reserve for severance pay on designation	**2.5**	0.7	**35.3%**	34.5%	**2.4**	0.7	**35.3%**	34.5%
Securities	**2.9**	5.1	**35.4%**	33.0%	**3.0**	5.1	**35.1%**	33.0%
Liability certificates and deferred liability notes	**(1.7)**	(0.8)	**35.1%**	33.0%	**–**	–		
From Provision for Credit Losses	**6.0**	1.5	**35.1%**	31.4%	**6.0**	1.5	**35.1%**	31.4%
from interest that is not reflected in this year income	**–**	1.0	**35.1%**	32.4%	**–**	1.0	**35.1%**	32.4%
For reconciliation of Non–financial assets and others	**4.4**	1.4	**35.1%**	34.5%	**4.8**	1.8	**35.1%**	34.5%
Total receivable deferred taxes	**16.9**	11.1	**35.3%**	33.0%	**18.7**	12.1	**35.1%**	33.1%

Note 27 – Provision for taxes on profit from regular activities (continuation)

e – Tax rate applied on the Bank and its subsidiaries

The bank is defined as a "financial institute" for purposes of the Value Added Tax Law - 1975, and as such is subject to payroll tax and profit tax on its activities according to the rates determined in the VAT Act. In June 2005, the Knesset approved amendment of the Israel Income Tax Ordinance (number 147), 5765 – 2005 determining, among others, that the corporate tax rate will be gradually decreased to the following tax rates: 2008 – 27%, 2009 - 26%, 2010 and afterwards – 25%.

In July 2009 the Knesset approved the Economic Efficiency Act (Legislative Amendments for Implementation of the Economic Plan for 2009 and 2010), 5769 - 2009, which reduces the rates of tax gradually from 24% in 2011 to 18% in 2016 and henceforth.

According to the VAT orders (the tax rate on Non-Profit Organizations and financial institutes) (temporary order), 5769 - 2009 that is approved by the Knesset in July and December 2009 and December 2010 the Income Tax Rate applied on the financial institutes will be as follows:

16.5% – Effective as of July 1, 2009 and until December 31, 2009.

16.0% – in the years 2010-2012.

15.5% – as of January 1, 2013.

On December 5, 2011 the Knesset enacted a change in the law of the tax burden (Legislative), 5771 - 2011 (hereinafter: the Law). As of 2012, as part of the law, among others, the outlining of the decrease in corporate tax rate is canceled. As part of the law the corporate tax is also increased to a rate of 25% as of 2012. In view of the increase of corporate tax to 25% as aforementioned, the tax rate of real capital gain and the real credit tax are also gradually increased.

In view of this, the statuary tax rate applicable for the Bank and its subsidiaries as set for "financial institutions" for the purpose of VAT, will be as follows:

year	Tax rate Companies	Tax rate Profit	Tax rate Total
2009	26%	16.0% *	36.21%
2010	25%	16.0%	35.34%
2011	24%	16.0%	34.48%
2012	25%	16.0%	35.34%
2013 and henceforth	25%	15.5%	35.06%

* Weighted rate

The affect of the mentioned changes on the deferred tax balance, brought an increase in deferred tax balance to a total of NIS 1.6 million. Updating of the deferred tax balance, brought an increase in net profit in 2011 for a total of about NIS 1.5 million and decrease in total profit after 2011 for a total of about NIS 0.1 million.

Note 28 – Profit from extraordinary operations after taxes

Reported amounts in millions of Shekels

a - Composition

	Consolidated			The Bank		
	For the year ending on December 31					
	2011	2010	2009	2011	2010	2009
Capital gain from sales of buildings	25.4	–	–	–	–	–
Profit before tax	25.4	–	–	–	–	–
Provision for taxes on profit from extraordinary activities:	4.6	–	–	–	–	–
From this current taxes	4.6	–	–	–	–	–
Profit from extraordinary operations, after taxes	20.8	–	–	–	–	–

For details concerning sales of structure, see note 8.

Note 29 – Activity Segments (consolidated)

a. General

The Bank of Jerusalem Group operates through the Bank's headquarters, its branches and subsidiaries. The Bank's activity segments are classified according to the guide lines from the Supervisor of Banks according to the type of customers included in each of these segments and do not necessarily match the Bank's organizational structure.

The Bank operates and provides various banking services in four main activity segments. Below are details on the reported activity segments:

Household Segment

The household segment are household customers and small businesses with characteristics similar to that of households.

Private Banking Segment

This segment includes customers with a medium to high level of financial wealth, and services are provided through a branch specializing in private banking, mainly for foreign residents (mostly from North America, England and France).

Business Segment

Customers in this segment are construction and real estate companies, business customers, corporations, and associations.

Financial Management Segment

This segment includes the Bank's available financial capital and positions, management of the Bank's nostro portfolio, activity vis-a-vis banks in Israel and abroad, and implementation of transactions in derivative financial instruments. This activity is characterized as a business activity not implemented with the customer.

Non-allocated amounts and reconciliations

Including investment in trust funds and capital gain from sales of Property, Plant and Equipment, if there was any. Moreover, the segment includes impairment provision for Property, Plant and Equipment, is there was any. In 2011 capital gain from sales of structure was recorded for the total of NIS 20.8 million.

b. The principle regulations implemented in distribution of activity results between the different segments:

Profit from financing activity before expenses for credit losses

From the margin obtained from the provision between the credit interest provided to the segment's customers and the price of cash (economic transfer price adjusted to the linked segment and the average credit duration).

This profit includes financial expenses between the segments – debt of the segment providing the loan and credit of the segment raising the deposit at the set transfer prices.

Income from Operations

Income from operations were directly attributed to the segment in which the customers' activity is classified.

Note 29 – Activity Segments (consolidated) (continuation)

Expenses for Credit Losses

These expenses are attributed to the activity segment in which the customer activity is classified for which provision has been implemented. In a similar way, collection from implemented provision or reduction is also attributed to the segment for which the customer's activity is classified.

Operational and other expenses:

Direct identifiable expenses are specifically attributed to the activity segment. Indirect expenses, or direct expenses that are not accurately identifiable, are attributed according to model according to which these expenses are attributed according to the relative part from the direct service position in the sector from the Bank's total service, to each of the activity sectors.

Income Tax

Taxes are calculated according to the effective tax rate and attributed accordingly to each segment.

Yield on Capital

The allocated capital for the yield calculation to capital in each of the activity segments is based on the average risk assets in each segment. Calculation of the yield for each segment was made according to the equity, as aforementioned, that is attributed to the segment.

Note 29 – Activity Segments (consolidated) (continuation)

Reported amounts in millions of Shekels

	For the year ending December 31, 2011					
	Households	Private Banking	Business	Financial Management	Non–allocated amounts and reconciliations	Total
	Millions of NIS					
Profit from financing activity before expenses for credit loss:						
From externals	159.7	23.3	49.0	(36.6)	–	195.4
Inter–segmental	(19.9)	(3.0)	(8.3)	31.2	–	–
Income from other operations:						
From externals	59.3	4.2	14.0	–	–	77.5
Total Income	**199.1**	**24.5**	**54.7**	**(5.4)**	**–**	**272.9**
Expenses for Credit Losses	(20.4)	2.7	4.3	–	–	(13.4)
Expenses from operating and other external, including depreciation and amortization	(164.0)	(19.8)	(37.2)	(3.8)	–	(224.8)
Profit before tax from normal activity	**14.7**	**7.4**	**21.8**	**(9.2)**	**–**	**34.7**
Provision for taxes on profit from regular activities	(4.2)	(2.2)	(6.3)	2.7	–	(10.0)
Profit from regular activities after tax	**10.5**	**5.2**	**15.5**	**(6.5)**	**–**	**24.7**
Profit from extraordinary operations after taxes	**–**	**–**	**–**	**–**	**20.8**	**20.8**
Net profit	**10.5**	**5.2**	**15.5**	**(6.5)**	**20.8**	**45.5**
Capital yield (net profit rate from equity)	**3.0%**	**9.7%**	**8.1%**	**–27.6%**	**–**	**7.3%**
Average balance of assets	6,398.9	977.3	1,373.9	2,023.1	–	10,773.2
Average balance of liabilities	5,488.0	846.9	3,764.0	51.9	–	10,150.8
Average balance from risk assets (Basel II)	3,545.2	555.5	1,974.9	306.8	–	6,382.4
Average balance of securities	1,454.2	211.3	289.3	–	–	1,954.8
Average balance of other assets under management	2,601.5	–	125.9	–	–	2,727.4
From margin from activity of providing credit	97.2	9.1	24.8	(30.5)	–	100.6
From margin from activity of receiving deposits	17.4	5.2	9.0	–	–	31.6
Other	25.2	6.0	6.9	25.1	–	63.2
Profit from financing activity before provision for credit losses	**139.8**	**20.3**	**40.7**	**(5.4)**	**–**	**195.4**

Note 29 – Activity Segments (consolidated) (continuation)

Reported amounts in millions of Shekels

	For the year ending on December 31, 2010 *					
	Households	Private Banking	Business	Financial Management	Non–allocated amounts and reconciliations	Total
	Millions of NIS					
Profit from financing activity before expenses for credit loss:						
From externals	117.6	19.7	45.8	(19.7)	–	163.4
Inter–segmental	(18.9)	(2.8)	(8.1)	29.8	–	–
Income from other operations:						–
From externals	65.8	5.1	14.0	(0.2)	0.5	85.2
Total Income	**164.5**	**22.0**	**51.7**	**9.9**	**0.5**	**248.6**
Expenses for Credit Losses	(1.4)	–	4.0	–	–	2.6
Expenses from operating and other external, including depreciation and amortization	(144.3)	(19.4)	(35.2)	(4.2)	–	(203.1)
Profit before tax from normal activity	**18.8**	**2.6**	**20.5**	**5.7**	**0.5**	**48.1**
Provision for taxes on profit from regular activities	(5.4)	(0.7)	(6.0)	(1.7)	(0.2)	(14.0)
Net profit	**13.4**	**1.9**	**14.5**	**4.0**	**0.3**	**34.1**
Capital yield (net profit rate from equity)	**4.0%**	**2.8%**	**7.3%**	**15.2%**	**-**	**5.5%**
Average balance of assets	5,755.4	852.9	1,262.8	1,589.0	–	9,460.1
Average balance of liabilities	4,802.7	729.1	3,279.1	86.0	–	8,896.9
Average balance from risk assets (Basel II)	3,040.8	579.7	1,836.5	244.1	–	5,701.1
Average balance of securities	1,545.0	207.6	265.7	–	–	2,018.3
Average balance of other assets under management	2,862.8	–	252.2	–	–	3,115.0
From margin from activity of providing credit	62.7	8.0	22.7	(22.5)	–	70.9
From margin from activity of receiving deposits	15.2	3.4	3.9	–	–	22.5
Other	20.8	5.5	11.1	32.6	–	70.0
Profit from financing activity before provision for credit losses	**98.7**	**16.9**	**37.7**	**10.1**	**-**	**163.4**

* Reclassification.

Note 29 – Activity Segments (consolidated) (continuation)

Reported amounts in millions of Shekels

	For the year ending on the 31st of December 2009 *					
	Households	Private Banking	Business	Financial Management	Non–allocated amounts and reconciliations	Total
	Millions of NIS					
Profit from financing activity before expenses for credit loss:						
From externals	95.5	20.2	40.3	24.5	–	180.5
Inter–segmental	(12.7)	(1.7)	(6.1)	20.5	–	–
Income from other operations:						–
From externals	66.8	4.9	12.4		–	84.1
Total Income	**149.6**	**23.4**	**46.6**	**45.0**	**-**	**264.6**
Expenses for Credit Losses	(2.8)	0.3	3.8	–	–	1.3
Expenses from operating and other external, including depreciation and amortization	(118.4)	(19.3)	(30.1)	(5.8)	–	(173.6)
Profit before tax from normal activity	**28.4**	**4.4**	**20.3**	**39.2**	**-**	**92.3**
Provision for taxes on profit from regular activities	(10.4)	(1.6)	(7.3)	(14.3)	–	(33.6)
Net profit	**18.0**	**2.8**	**13.0**	**24.9**	**-**	**58.7**
Capital yield (net profit rate from equity)	**5.5%**	**5.2%**	**7.8%**	**83.2%**	**-**	**10.2%**
Average balance of assets	5,365.0	757.5	1,417.0	1,858.0	–	9,397.5
Average balance of liabilities	4,728.3	662.4	**3,288.9**	145.1	–	8,824.7
Average balance from risk assets (Basel II)	3,967.3	645.8	**2,012.1**	363.5	–	6,988.7
Average balance of securities	1,171.7	143.3	167.4	–	–	1,482.4
Average balance of other assets under management	3,366.1	–	242.5	–	–	3,608.6
From margin from activity of providing credit	48.4	8.3	26.3	(9.0)	–	74.0
From margin from activity of receiving deposits	18.3	2.6	1.9	–	–	22.8
Other	16.1	7.6	6.0	54.0	–	83.7
Profit from financing activity before provision for credit losses	**82.8**	**18.5**	**34.2**	**45.0**	**-**	**180.5**

* Reclassification.

Note 30 – Information based on nominal data of the Bank

Reported amounts in millions of Shekels

	December 31	
	2011	**2010**
Total assets	**11,836.6**	10,330.5
Total liabilities	**11,193.5**	9,698.9
Equity	**643.1**	631.6

	For the year ending on December 31	
	December 31	
	2011	**2010**
Net profit	**45.5**	34.1

Note 31 – Significant events during the Report Period

On May 30, 2011, the Bank published an immediate report concerning an invitation for the Board of Directors of the Israel Dexia Bank Ltd. (hereinafter: "Dexia Bank") for entering into negotiations for the full acquisition of the Dexia Bank shares by the Bank. For details, please see the immediate reports as of May 30, 2011, reference number 2011-01-167346. On August 31, 2011, the Bank published an immediate report following an immediate report from Dexia Bank concerning non-response from the Board of Directors of Dexia Bank to the Bank's application. (reference 2011-01-259083). On September 11, 2011, the Bank published an immediate report concerning the response on Dexia Bank, following the immediate report that Dexia Bank published about the decision to defer the Bank's offer. (reference 2011-01-270219).

Periodic Report

Financial Statement for 2011

Bank of Jerusalem Ltd. and its consolidated companies

Name of the company: Bank of Jerusalem Ltd.
Company number at the registrar of associations: 520025636
Address: Herbert Samuel 2, Jerusalem 91022
Telephone: 076-8096601; Fax: 076-8096019; 076-8096019; e-mail: carmelf@bankjerusalem.co.il

Periodic report for the year 2011

According to the Securities Standard (Immediate Periodical Reports), 5730 - 1970 the periodical report of the Bank for 2011 is hereby presented.

Date of the Financial Statements – 31.12.2011
Report date – 02.28.2012

Standard 9 – Financial Statements

To this Periodical Report is attached as an integral part the Financial Statements of the Bank and the opinion of the Accountant of the Bank as of 02.28.2012.

Standard number 10C – Use in compensation from issuance of securities

During the period of the report there was no issuance of securities by the bank, according to prospectus.

Standard 11, 23, 13 – Investment in subsidiaries and associated companies as of December 31, 2011, changes in the investment in consolidated companies during the report period, revenue of subsidiaries and related companies and the Bank's income from them.

Company name	Tomer Jerusalem Ltd.	Ir Shalem Insurance Agency (1996) Ltd.	Jerusalem Investment Portfolio Management Ltd.	The Trust company of Bank of Jerusalem Ltd.	Jerusalem Capital Markets Funds Management (1980) Ltd. (1)	Jerusalem Underwriting and Issuances Ltd. (2)	Jerusalem Financing and Issuances (2005) Ltd.	Jerusalem Financial Operations (2005) Ltd. (3)
number of shares	970,000	10,000	5,726,000	31,300	1,050,000	2,350,000	100	100
type of share and nominal value	regular shares, NIS 0.001	regular shares, NIS 1	regular shares, NIS 1	regular shares, NIS 1	regular shares, NIS 1	regular shares, NIS 1	regular shares, NIS 1	regular shares, NIS 1
Total nominal value in NIS	970	10,000	5,726,000	31,300	1,050,000	2,350,000	100	100
Their reconciliation costs (thousands of NIS)	45,562	12	19,592	–	1,382	3,640	–	–
Their value balance sheet (thousands of NIS)	150,900	139,500	34,800	500	1,500	6,400	7,400	–
Investment in liability notes (thousands of NIS) (4)	–	–	–	–	–	–	260,652	–
Changes in investment in liability notes during the report year (thousands of NIS)	–	–	–	–	–	–	116,575	–
Loan balance (in thousands of Shekels)	–	–	–	–	–	–	2,703	–
Changes in loans during the report year (thousands of NIS)	(5,478)	–	–	–	–	–	(4,122)	–

The securities of the subsidiaries are not negotiable at the stock exchange. The bank holds 100% of the capital, the voting rights and the authority of appointing directors in the subsidiaries, except for 27 shares with NIS 0.001 nominal value each. From Tomer Jerusalem Ltd, held by Zalman Shoval (the husband of Hannah Shoval and director at the Bank. Details in standard 21a below). During 2011 there were no changes in investment in shares.

Notes:

(1) The company ceased its business in management of Investment Mutual Trust Funds.

(2) The company ceased its business in underwriting and consultancy for issuances.

(3) The company is not active and is in process of liquidation .

(4) Conditions of liability notes by the the Bank as of the Financial Statements date:

	Share number	Interest	Fixed/variable Interest	Rate Stock Exchange	Index linked	Basic Index	Repayment years
Series A.	1093186	4.1%	Fixed capital	123.11	Index	April 2005	2006 until 2015
Series B.	1096510	4.8%	Fixed capital	128.37	Index	January 2006	2011 until 2017
Series D.	1105659	4.1%	Variable	102.70	Un–linked	–	2010 until 2012
Series F.	1114610	4.4%	Variable	101.23	Un–linked	–	2011 until 2013
Series G.	1115039	3.7%	Variable	98.84	Un–linked	–	2013 until 2016
Series H.	1121201	4.0%	Variable	96.67	Un–linked	–	2015 until 2019

Standard 13 – Revenue of subsidiaries and related companies and the Bank's income from them in 2011:

Company name	Tomer Jerusalem Ltd.	Ir Shalem Insurance Agency (1996) Ltd.	Jerusalem Investment Portfolio Management Ltd.*	The Trust company of Bank of Jerusalem Ltd.	Jerusalem Capital Markets Funds Management (1980) Ltd.	Jerusalem Underwriting and Issuances Ltd.	Jerusalem Financing and Issuances (2005) (2005) Ltd. (*)
Profit before tax from normal activities	773	11,693	679	25	42	4	609
Provision for taxes	70	2,469	243	6	6	1	176
Profit from regular activities after tax	703	9,224	436	19	36	3	433
Profit from extraordinary operations	20,833	–	–	–	–	–	–
Net profit	**21,536**	**9,224**	**436**	**19**	**36**	**3**	**433**
Additional data:							
Management fees to Bank received for 2011	**-**	**25**	**27**	**-**	**-**	**10**	**25**
Interest the Bank received/entitled to for 2011	**155** (*)	**-**	**-**	**-**	**-**	**-**	**6,274** (**)

(*) Debt interest for short-term credit.

(**) For liability notes that are paid on the following dates: 1/3, 31/5, 30/11.

The interest the Bank is entitled to for the period after the date of the Financial Statements and until the report date is a total of about NIS 600 thousand.

Regulation number 14 – Loan list

Composition of the balance of loans, see Note 5 of the Financial Statements.

Loan list at the responsibility of the bank, see Note 5 of the Financial Statements.

Standard number 20 – Trading on stock market – securities registered for trading, dates and circumstances for ceasing trading

During the reporting period no securities of the Bank have been registered for trading and there was no stop in trade at the stock market in the securities of the Bank.

Standard number 21 – Compensation for stakeholders and senior officers

a. For details concerning compensation for stakeholders and senior offices in 2011, see Appendix A of the Board of Directors Report.

b. Payments paid to each of the members of the Board of Directors of the Bank (except for the Chairman of the Bank's Board of Directors) and which do not deviate from the customary amounted in 2011 to the total of NIS 1.609 thousand. For the salary of the Chairman of the Board of Directors terminating his tenure during the report year and the Chairman of the Board of Directors starting this position during the report year, see Appendix A of the Board of Directors Report.

Regulation 21a – Control in the corporation

Yitzu Investments Ltd. is a public company whose shares are registered at the Tel Aviv stock market, holds about 86.2253% of the capital securities issued and paid by the Bank.

Mrs. Kena Shoval is a controlling shareholder of the Bank conforming to the control permit from the Bank of Israel. Mrs. Kena Shoval holds 74.30% of the issued and outstanding capital securities from Yitzu Investments Ltd. which is a public company whose shares are registered at the Tel Aviv stock exchange (hereinafter: "Yitzu") and holds 86.23% of the capital shares issued and outstanding of the Bank. In addition, Mrs. Shoval holds 0.33% of the Bank's issued and outstanding capital securities through the private companies owned and controlled as specified below: C. Shoval Holdings Ltd.; I.C.C. Israel Capital Corporation Ltd.; Financial Trust Corporation Ltd. According to the legal opinion presented to the Bank, Mr. Zalman Shoval, the spouse of Mrs. Kena Shoval and director at the Bank, may also be considered a controlling shareholder of the Bank.

Standard number 22 – Transactions with a Controlling Shareholder

For specification of the payments and transactions with "stakeholders and connected parties," see Note 22 in the financial reports.

For specification of transactions with controlling owners see chapter "Transactions with controlling owners" in the report of the Board of Directors.

Regulation number 24 – Holdings of stakeholders and senior officers

See attached Appendix A.

Regulation 24a – Registered capital, issued capital and changeable securities

The registered capital of the bank is NIS 100,250,000 nominal value.

Issued capital of the bank is NIS 70,517,741 nominal value.

All the securities of the bank are regular shares, registered in name, of 1 NIS nominal value each.

Convertible securities (non-negotiable) up to 3,525,885 option units of type A and B that may be exercised up to 3,525,885 shares with a nominal value of NIS 1 of the Bank that have been issued on 3.5.2011 for Uriel Paz Consultancy Ltd. (company owned and fully controlled by Mr. Uriel Paz, CEO of the Bank) according to the options program approved by the Board of Directors of the Bank as of 27.2.2011.

Standard 24b - Register of shareholders

See attached appendix B.

Standard number 25a – Registered address

The registered address, email address, telephone and fax, as specified on the fist page on this periodic reports above.

Standard number 26 – List of Directors according to date of the report

See attached appendix C.

Standard 26a – List of Senior Officers according to date of report

See attached appendix D.

Standard 26b – Independent Authorized Signature

-none-

Standard 27 – the Bank's Auditing accountant

Kost Forer Gabbay & Kasierer.

Address: 3 Aminadav Street, Tel Aviv.

Standard number 28 – Changes in memorandum and statutes

During the report year there were no changes in circulars or standards of the Bank corporation.

Nevertheless, for the record, it should be mentioned that on January 29, 2012, the General Assembly of shareholders of the Bank approved amendment of the protocol of the Bank designated mainly to two objectives: (a) amendment of protocol, among others, following Corporate Law (amendment № 16), 5771-2011. (b) Amendment of the protocol of the Bank on the issue of instructions concerning insurance and indemnification and according to which a possibility is added for indemnification according to the Corporate Law 5759-1999, and also as result of the enactment of law for efficient enforcement at Securities Authority (legislative amendments) 5761-2001, and enactment for Increasing Enforcement in the Capital Market Law (legislative amendment), 5771-2011. It should be mentioned that until the aforementioned amendment, the protocol of the Bank did not included instructions concerning possible indemnification for senior officers.

Standard number 29 – Recommendations of the Board of Directors and decisions by the General Assembly

(a) Recommendation of the managers before the general assembly and their decisions that do not require approval from the General Assembly on subject specified in standard 29 (a), as follows:

- On March 31, 2011, the Bank's Board of Directors decided to distribute an interim cash dividend for a total of NIS 25 million.

- On December 29, 2011 the Board of Directors of the Bank approved summoning a Special General Assembly of shareholders of the Bank, and on the daily agenda, amendment of the Bank corporation protocol as specified in standard 28 above.

(b) -none-

(c) Decisions of Special General Assembly:

At the annual and Special General Assembly, as of October 3, 2011, the following decisions were obtained:

- The appointment of Mr. Zeev Gutman as director of the Bank and his employment terms as Chairman of the Bank of Directors of the Bank, as specified in the immediate report of general assembly summon.

- To approve distribution of interim dividend for a total of NIS 25 million that is paid on 27.4.2011 to the shareholders of the Bank, holding shares of the Bank as of 12.4.2011, according to the decision of the Board of Directors of the Bank as of 31.3.2011, as final dividend for the Bank's profit accumulated until 2003.

Standard number 29a – Details of the decisions of the company

Below, the Bank's decision on subjects specified in this standard, as follows:

- On September 21, 2011, the Bank's the Board of Directors approved (after approval of the Audit Committee as of September 18, 2011), in continuation and according to the decision of the General Assembly of the Bank's shareholders on September 7, 2010, the Bank's agreement with its directors and senior officers (including subsidiaries), as may be from time to time, in regards to the life insurance policies of senior officers (D&O), as specified below:

(a) The limitation of liability and period of policy: US$22 million per event and period and this for the period of 12 months starting on 10.01.11 and until 09.30.12.

(b) The yearly premium the Bank will pay for the purchasing of a senior officer policy according to this decision (including the compensation for the insurer's front services) will not exceed the total amount of US $100,000.The amount of deductible of the senior officer insurance policy will not exceed the total amount of US $25,000 for the Bank.

The audit committee and the Board of Directors also approved insuring senior officers through administrator insurance policies, as follows:

(a) The annual premium as aforementioned will be as per market conditions;

(b) The contract of the Bank in the senior officer insurance policy will also apply to senior officers who are related to the controlling shareholders serving at the Bank at the time of this decision, and that the contract terms with them will be identical to the contract terms of other senior officers at the Bank, as per market conditions, and this will not materially affect the profitability of the Bank, its assets and its liabilities.

(c) Transaction agreements of the Bank with the directors and its senior officers (including the subsidiaries), from time to time, per issue, whenever the senior officers insurance (O&D) does not damage the Bank's best interest.

- On January 29, 2012, the General Assembly of the Bank's shareholders approved providing liability letters for reimbursement of senior officers in the formula as attached to appendix C of the immediate report on invitation of the General Assembly from December 22, 2011, as has been amended in the immediate report of January 19, 2012 [reference № 2012-01-020319] (hereinafter: "Immediate Report") and this:

    (a) For the senior officers of the Bank serving and/or have served at the bank from time to time and for the senior officers in another company, as defined in the immediate report serving and/or have served from time to time as per request of the Bank, as senior officer at another company, except for senior officers who as controlling shareholders, may be considered party of personal interest in providing these liabilities letters for reimbursement.

    (b) For senior officers whose controlling shareholders may be considered a third party with personal interest in providing them liability letters for reimbursement, serving and/or will serve at the Bank from time to time, and also for senior officers as aforementioned that serve or will serve from time to time per request of the Bank, as senior officers at another company. For details concerning reimbursements, please see the immediate report of the Bank of January 19, 2012, above.

Appendix A

Periodic Report for the Year 2011

Shares and other securities held by stakeholders and senior officers

According to the Bank's best knowledge, and according to the reports we have received, below are details of the securities being held by the stakeholders and senior offices in the bank and consolidated corporation, whose operations are essential for the bank, at the date close to the date of this periodic report:

Name	ID. number	Type of security	Share number of stock market	Number of shares	Rate Maintenance	Number of Securities with discount of options exercise	Maintenance rate with full dilution (1)
Ytzu Investments Company Ltd. (2)	52002515	Regular share NIS 1 nominal value	726018	60,804,120	86.2253	60,804,120	82.1193
C. Shoval, through C. Shoval Holdings Ltd. and Capital for Israel Corporation Ltd.	8187841	Regular share NIS 1 nominal value	726018	79,551	0.1128	79,551	0.1074
Zalman Shoval	31077605	Regular share NIS 1 nominal value	726018	1	0.0000	1	0.0000
The Financial Trust Corporation Ltd. 3	510192785	Regular share NIS 1 nominal value	726018	155,481	0.2205	155,481	0.2100
Foreign Mutual Inc. 3	510141989	Regular share NIS 1 nominal value	726018	1	0.0000	1	0.0000
Gideon Shoval	058239864	Regular share NIS 1 nominal value	726018	1,667	0.0024	1,667	0.0023
Moshe Bauer	00756091	Regular share NIS 1 nominal value	726018	5,000	0.0071	5,000	0.0068
Oved Ben Ozair	04937091	Regular share NIS 1 nominal value	726018	1	0.0000	1	0.0000
Ytzhak Sela through A.I.L. Sela Ltd.	511549164	Regular share NIS 1 nominal value	726018	3,529,887	5.0057	3,529,887	4.7673
Haim Beiser	3629599	Regular share NIS 1 nominal value	726018	1	0.0000	1	0.0000
Uriel Paz (through Uriel Paz Consultancy Ltd. 1	024496952	Options units (non–negotiable) of type A and B	–	until 3,525,885	0.0000	until 3,525,885	4.7619
Efrat Tolkowsky	059275826	Debentures (Series G.) Jerusalem Finance and Issuances Ltd.	1115039	NIS 170,993 nominal value (Series G.)	0.04%	–	–

(1) According to the option program according to which on 3.5.2011 option units have been allocated of the type A and B for Uriel Paz Consultancy Ltd. (company owned and fully controlled by Mr. Uriel Paz, CEO of the Bank) ("the holder"), providing the holder during exercise of shares only for the benefit component. Moreover, according to the opinion of the Board of Directors, and subject to the argumentation of the decision, the Bank may decide that in exchange for the exercise of each option unit it will provide the Holder the right to receive consideration in cash. Therefore, the maximum possible quantity of shares for exercise for aforesaid option units is only theoretical, and the holdings of the Holder, if the option units will be exercised by him, may be lower than the rate specified above.

(2) Public company. For description of the control in this company see standard 21a above.

(3) The company is controlled by Kena Shoval

(4) Holding rate within the relevant debentures series.

Appendix B

of the Periodic Report for the Year 2011

Registry of shareholders of the bank

Below the registry of the regular shareholders of the bank [with nominal value of 1 NIS each]:

	Name	ID. number	Address	Total regular shares [NIS 1 nominal value each]
1	Ytzu Investments Company Ltd.	52–002515–6	9 Ehad Ha'Am Street, Shalom Tower, Tel Aviv	32,486,430
2	Nominee Company of Bank Leumi of Israel Ltd.	51–009806–4	Ehad Ha'Am street 9, 12th floor, West side, Shalom Tower, Tel Aviv	38,031,295
3	The Financial Trust Corporation Ltd.	51–019287–5	9 Ehad Ha'Am Street, Shalom Tower, Tel Aviv	1
4	Foreign Mutual Inc.	51–014198–9	9 Ehad Ha'Am Street, Shalom Tower, Tel Aviv	1
5	Zalman Shoval	31077605	78 Sharet St., Tel Aviv	1
6	Haim Beiser	3629599	2 Tsofar St., Ramat Efal, 52960	1
7	Oved Ben Ozair	049370919	Gluskin 1, Tel Aviv	1
8	Yehuda Bar–Lev	064837123	3a Tolkowsky St., Tel Aviv	10
9	Moshe Kremer	059761759	5 Eliezer Damascus Street, Bnei–Brak	1
			Total of regular shares [with nominal value of NIS 1 each]	**70,517,741**

Appendix C

of the Periodic Report for the Year 2011

Names of the members of the Board of Directors and their occupation

	Name of Director and his details	Name of Director and his details
Name:	Zeev Gutman – Chairman	Dr. Zalman Shoval
ID. number:	50467513	031077605
Date of Birth:	1951	1930
Address for legal documents:	37 Danovitch Street, Petah Tikwah	78 Moshe Sharet Street, Tel Aviv
Nationality:	Israeli	Israeli
Member of the Board of Directors:	Chairman of the Risks Management Committee; member of the Capital Planning and Strategy Committee.	Chairman of the Compensation Committee
If he is an external director or independent director as defined by law and having financial accounting expertise or professional adequacy or specialized external director:	Is not an external director or independent director.	Is not an external director or independent director.
Is he an employee of the corporation, its subsidiary, its consolidated corporation or stakeholder:	No	No
Education:	Accounting Studies, College of Management (non–degree), MBA, Herriot – Watt Adnivoro.	Education: BA in International Relations from the University of California, Berkeley; M.A. in international relations, economics and political science from the University of Geneva; and a Ph.D in International Relations and Political Science from Pacific University.
The date on which the tenure as director of the corporation starts:	10.18.11; appointed as Chairman of the Board of Directors as of 10.27.11	23.3.64
Main occupation during the last five years:	Currently – Chairman of the Board of Directors of the Bank. Served in various management positions at the BenLeumi HaRishon Bank Ltd., member of management, Vice CEO, as follows: Chief Group Risk Manager (CRO), head of Risk Management Division [from October 2010 until August 18, 2011)] Chief Financial Risk Manager, head of Division of Financial Management and Risk Management. [From March 2007 to October 2010]; Department head of Capital Market and Foreign Exchange [from 2000 until March 2007]. Served in Board of Directors of the BenLeumi Bank Group [see details in Board of Directors Report].	Chairman of the Board of Directors of Ytzu Investments Corporation Ltd.; shared Chairman of the Faire Foundation.

	Name of Director and his details	Name of Director and his details
Director at the following corporations:	Member of the following organizations: Board of Directors Friends of the Rabin Center, and a member of Friends of Tel–Aviv University. Served in Board of Directors of the BenLeumi Bank Group [see details in Board of Directors Report].	Chairman or director of the Board of Directors of the following corporations: Ytzu Investments Company Ltd.; C. F. C. Comprehensive Financial Corporation Ltd.; I.C.C.– Capital for Israel Corporation Ltd. Shared Chairman of the Board of Directors at Shuval Grofman Real Estate Ltd. and Shuval Grofman Real Estate Holdings Ltd. 2007, Tara Firma Ltd., Kena Shoval Holdings Ltd., the Hadassah Hospital. Served as Chairman of the Board of Directors of the bank from 12/89 until 9/90 and also from 3/93 until 6/98. During the period from 10/90 until 03/93 and between 06/98 until 01/00, during his service as Israeli ambassador in Washington, there was a break in his membership from the Board of Directors.
Is he, to the best knowledge of the corporation family of another stakeholder of the corporation:	No	Spouse of Mrs. Kena Shoval, having permit control at the Bank [see details in standard 21a above]; father of Mr. Gideon Shoval, director at the Bank.
Is he an accounting and financial expert in order to meet the minimum number prescribed by the Board of Directors according to paragraph 92 (a) of the Company Law –	Yes	Yes

	Name of Director and his details	Name of Director and his details	Name of Director and his details
Name:	Shmuel Eshel	Moshe Bauer	Oved Ben Ozair
ID. number:	52352424	007560915	049370919
Date of Birth:	1954	1933	1929
Address for legal documents:	3 Absalom Haviv, Tel Aviv	33 Shalom Aleichem Street, Tel Aviv	1 Gluskin Street, Tel Aviv
Nationality:	Israeli	Israeli	Israeli
Member of the Board of Directors:	Chairman of the Audit Committee, the Board of Directors' Credit Committee, and Compensation Committee.	Chairman of the Board of Directors' Credit Committee.	Member of the Audit committee, Board of Directors credit committee and compensation committee.
If he is an external director or independent director as defined by law and having financial accounting expertise or professional adequacy or specialized external director:	External director. Has accounting and financial expertise.	Is not an external director or independent director.	Is not an external director or independent director.
Is he an employee of the corporation, its subsidiary, its consolidated corporation or stakeholder:	No	No	No
Education:	B.A. in Political Science and Labor Studies, Tel–Aviv University.	High school	B.A. and M.A.in political science from Paddington School of Political Science.
The date on which the tenure as director of the corporation starts:	4.12.09	1.10.72	1972

	Name of Director and his details	Name of Director and his details	Name of Director and his details
Main occupation during the last five years:	Business consulting; Vice CEO of Union Bank in the area of mortgages until 2009. Until June 2009 served as director at Liblov Agencies and Insurance and at Carmel – Union Mortgages and Investments Ltd.	CEO and director of C.F.C. Comprehensive Financing Corporation Ltd.	Company manager.
Director at the following corporations:	Director and controlling shareholder of Shmuel Eshel Business Consultancy Corporation Ltd.	Deputy Chairman of the Board of Directors of Ytzu Investments Corporation Ltd. Member of the Board of Directors of the following corporations: Terra Firma Ltd, I.C.C. Capital for Israel Ltd., Mercator Management Corporation Ltd. (in liquidation), Foreign Mutal Inc., Financial Trust Corporation Ltd, and Eitanim Insurance Ltd. (non–active company).	Director at Ytzu Investments Corporation Ltd., Foreign Art Ltd., Financial Trust Company Ltd. and at Shalom Meir Tower Ltd. Serves as a member of the Board of Governors at the Jewish Agency and a member of the Committees of Funds and Assets and Liabilities at the Jewish Agency. Until 2010 served as director at Jerusalem Investment Portfolios Ltd.
Is he, to the best knowledge of the corporation family of another stakeholder of the corporation:	No	No	No
Is he an accounting and financial expert in order to meet the minimum number prescribed by the Board of Directors	Yes	Yes	Yes

	Name of Director and his details	Name of Director and his details	Name of Director and his details
Name:	Prof. Shalom–Yosef Hochman	Pinchas Volovelsky	Dr. Efrat Tolkowsky
ID. number:	042067348	004262481	059275826
Date of Birth:	1947	1935	1965
Address for legal documents:	3 Rav–Ashi street, Tel Aviv	5 Gilad street, Ramat–Chen	4 Recanati Street, Tel Aviv
Nationality:	Israeli	Israeli	Israeli
Member of the Board of Directors:	Member of the Risks Management Committee, Audit Committee; Board of Directors' Credit Committee and Capital Planning and Strategy Committee.	Member of the Board of Directors credit committee	Member of the Audit committee, Credit Risk committee, Compensation committee
If he is an external director or independent director as defined by law and having financial accounting expertise or professional adequacy or specialized external director:	External director. Has accounting and financial expertise.	Is not an external director or independent director.	External director. Has accounting and financial expertise.
Is he an employee of the corporation, its subsidiary, its consolidated corporation or stakeholder:	No	No	No

	Name of Director and his details	Name of Director and his details	Name of Director and his details
Education:	B.A. in Economics from the Hebrew University in Jerusalem, M.B.A. funding from the Hebrew University, Ph.D in finance from the University of Toronto.	B.A. in Economics and International Relations from the Hebrew University in Jerusalem, M.A. M.Jur from the Hebrew University, Jerusalem.	Education: BA (B.A) in Electronic Engineering from Tel – Aviv MA (M.A.) Finance and Accounting from Tel – Aviv, Dr. (Ph.D.) in Finance and Accounting from Tel – Aviv.
The date on which the tenure as director of the corporation starts:	26.7.07	31.10.90	4.12.06
Main occupation during the last five years:	Financial lecturer; consultant and member of the Board of Directors, CEO of Bank Mercantile Discount (until the month of July 2006)	Lawyer.	University lecturer, academic manager at the Chaim Katzman Gazit Globe Real Estate Academy
Director at the following corporations:	Member of the following Boards of Directors: Migdal Trust Funds (external director); member of the investment committee at Clal Funds (not a director); director and controlling shareholder of the Hochman Financing company Ltd.	Member of the following Board of Directors: C.F.C Comprehensive Financing Corporation Ltd., Ytzu Investment Corporation Ltd, A.C.C. Israeli Capital Corporation Ltd., Arwel Holdings Ltd., Ofer Dor Trustee Corporation Ltd., Oh Trust Corporation Ltd., Comprehensive Holding Corporation SA and CHC Finance. Director and controlling shareholder at Pinchas Volovelsky Ltd.	Member at the following Board of Directors: Babylon Ltd. (external director); Eco City Ltd.; Echo City S.L.. Entrepreneurship and Construction Ltd..
Is he, to the best knowledge of the corporation family of another stakeholder of the corporation:	No	No	No
Is he a financial accounting expert for the purpose of complying with the minimum number the Board of Directors determined:	Yes	Yes	Yes

	Name of Director and his details	Name of Director and his details	Name of Director and his details
Name:	Jonathan Irroni	Dr. Nurit Krausz	Gideon Shoval
ID. number:	04878906	023691751	058239864
Date of Birth:	1949	1968	1963
Address for legal documents:	18 Ashahal St., Zahala, Tel Aviv	8/8 Chiratzky, Tel Aviv	10 Haremon, Tel Aviv
Nationality:	Israeli	Israeli	Israeli
Member of the Board of Directors:	Member of the Risk Management Committee and Capital Planning and Strategy Committee;	Member of the Capital Planning and Strategy Committee	Chairman of the Committee for Capital Planning and Strategy.; member of the Compensation Committee.
If he is an external director or independent director as defined by law and having financial accounting expertise or professional adequacy or specialized external director:	Is not an external director or independent director.	External director according to instruction 301 of the Proper Banking Management Instructions amendment and an independent director. Has accounting and financial expertise.	Is not an external director or independent director.
Is he an employee of the corporation, its subsidiary, its consolidated corporation or stakeholder:	No	No	No
Education:	Education: B.A. in Economics from the Hebrew University, Jerusalem.	Education: B.A. B.Sc, Aerospace Engineering, Technion, Haifa; degree M.Sc., Physics, Technion, Haifa; degree D.Sc., Physics, Technion, Haifa.	Education: B.A. L.L.B. Law, University of Buckingham; M.A. L.L.M. in Law, Columbia University; M.A. M.B.A. Business Management, School for Business Management IMD.
The date on which the tenure as director of the corporation starts:	30.3.06	29.1.12	26.10.00
Main occupation during the last five years:	Financial consultant; financial consultant at Gandir company; served as Chairman of the Board of Directors of the Bank until 27.10.11.	CEO and founder of Redstart Modeling Services and Counseling Ltd.; Head of validated models and head of Risk Branch including Bank BenLeumi (2006–2011)	CEO and Deputy Chairman of the Board of Directors Ytzu Investment Corporation Ltd.

	Name of Director and his details	Name of Director and his details	Name of Director and his details
Director at the following corporations:	Member of the following Board of Directors: Shagrir Car Systems Ltd., N.R. Spantec Industries Ltd., I.P. M. Automatic Solutions Ltd., Edgar Investments and Development Ltd., A.A. Assets Ltd. (non–active company); Director and controlling shareholder in Jonathan Irroni Holdings Ltd. Chairman of the Credit Committee of Institutional Entities at Migdal Insurance Group (external representative who is not a director).	–	Deputy Chairman of the Board of Directors of Ytzu Investments Corporation Ltd.; director at Mercator Investment Managements Company Ltd.
Is he, to the best knowledge of the corporation family of another stakeholder of the corporation:	No	No	Son of Mrs. Kena Shoval, having control permit at the Bank, and Mr. Zalman Shoval, director at the Bank and may be considered as a controlling shareholder at the Bank (see specifications in standard 21a above).
Is he a financial accounting expert for the purpose of complying with the minimum number the Board of Directors determined:	Yes	Yes	Yes

Appendix D

of the Periodic Report for the Year 2011

Senior officers of the bank as of 31.12.2011 are the (5):

	Name of senior officer and his details	Name of senior officer and his details
Name:	Uriel Paz	Asher Ben David
ID. number:	024496952	069787208
Date of Birth:	29.07.1969	20.04.1967
Date beginning of tenure:	13.04.2010	11.25.2010 [serves as a senior officer at the bank since 28.5.10 as specified below in work experience].
The functions he held at the subsidiaries in the corporation, its associated companies or stakeholders:	Chief Executive Officer Chairman of the Board of Directors of subsidiaries: Ir Shalem Agencies for Insurance (1996) Ltd., Tomer Jerusalem Ltd., Trust Corporation of the Bank of Jerusalem.	Vice CEO, Management Member, Manager of Retail Division.
Is he a stakeholder at the corporation or family of another senior officer or of stakeholder at the corporation:	No	No
Education:	BA in Economics, Tel Aviv University; MA in Business Management, Tel Aviv University	Academic courses in marketing and economics, The Open University; MEI Business manager, Swinburne University Australia Israel.
Work experience during the last five years:	Various positions at Bank HaPoaliem Ltd.: Management Member, Vice CEO and Deputy of Division for Retail Banking (2007–2009); Manager of HaSharon District (2005–2007);	Senior Vice CEO, Manager Strategic and Business Development Department, Bank of Jerusalem Ltd. (05–11/2011); consultant Retail Division, Bank of Jerusalem Ltd., (2008–2010); Chief consultant on marketing and strategy and sales organization, Bank of Jerusalem Ltd. (1996–2006)

(5) Ceased to serve in the report period: Mr. Nachman Nitzan in his function as Manager of the Finance Division as of 06.30.2011; Mrs, Arela Meridor, RIP, in the function of Manager of Resource Division as of 08.02.2011; Mr. Bentzi Adirir in the function as Manager of Business Department as of 12.22.2011.

	Name of senior officer and his details	Name of senior officer and his details
Name:	Michael Tayer (6)	Nissan Levy (7)
ID. number:	051705234	059857946
Date of Birth:	10.01.1953	5.05.1967
Date beginning of tenure:	15.09.2011	1.7.2011 [served as a senior officer at the bank since 1.04.2009 as specified below in work experience].
The functions he held at the subsidiaries in the corporation, its associated companies or stakeholders:	Vice CEO, Management Member, Manager of Resource Division. CEO of Tomer Jerusalem Ltd. (subsidiary)	Vice CEO, Management Member, Manager of Financing Division. Chairman or Director at the following companies: Tomer Jerusalem Ltd.; Ir Shalem Insurances Agencies (1996) Ltd.; Jerusalem Underwriting and Issuances Ltd.; Jerusalem Financing and Issuances (2005) Ltd., Jerusalem Capital Markets – fund management (1980) Ltd.
Is he a stakeholder at the corporation or family of another senior officer or of stakeholder at the corporation:	No	No
Education:	BA, Computer Science.	BA in Economics and Accounting, Hebrew University; MA Business Management, Hebrew University
Work experience during the last five years:	CEO Elad Systems Ltd. (2011–2008); VP at Financial ServicesDivision at Amdocs (2005–2008).	Management Member, Manager Risk Division and Chief Risk Manager CRO, Bank of Jerusalem Ltd. (until 1/7/11), Manager Risk Management Control Division and Chief Risk Director CRO, Bank of Jerusalem Ltd. (04/09–11/10); Manager of the Economic Department and Risk Management, Bank of Jerusalem Ltd, (2000–2009).

(6) Mr. Michael Tayer served in this position as of September 15, 2011.

(7) Mr. Nissan Levy serves in this position as of July 1, 2011.

	Name of senior officer and his details	Name of senior officer and his details	Name of senior officer and his details
Name:	Arnon Zait	Michael Ben Yishay (8)	Sarit Weistuch
ID. number:	028420768	067374793	023069115
Date of Birth:	02.03.1971	09.13.1950	10.14.1967
Date beginning of tenure:	11.25.2010 [serves as a senior officer at the bank since 07.01.07.08 as specified below in work experience].	08.01.2011 [serves as a senior officer at the bank since 03.01.07 as specified below in work experience].	11.25.2010 [serves as a senior officer at the bank since 1.08.05 as specified below in work experience].
The functions he held at the subsidiaries in the corporation, its associated companies or stakeholders:	Vice CEO, management member, legal consultant Director at subsidiaries: Jerusalem Capital Markets Management Funds (1980) Ltd.; Tomer Jerusalem Ltd.; Ir Shalem Insurances Agencies (1996) Ltd.; Jerusalem Underwriting and Issuances Ltd.; Jerusalem Financing and Issuances (2005) Ltd., Jerusalem Capital Markets – fund management (2005) Ltd.	Vice CEO, Management Member, Manager Risk Management (CRO); Director at subsidiary: Jerusalem Capital Markets Funds Management (1980) Ltd.	Vice CEO, Management Member, Legal Consultant.
Is he a stakeholder at the corporation or family of another senior officer or of stakeholder at the corporation:	No	No	No
Education:	(2008–11/10); manager account department, Bank of Jerusalem Ltd. Authorized Accountant	BA in Economics, Bar–Ilan University; MA in Business Management, Bar–Ilan University	Degree in Law (LLB), University of Bar–Ilan
Work experience during the last five years:	Vice CEO, Management Member, Manager of Finance Department and Chief Account (from 11/10 till today); Management Member, accountant, Chief accountant, Bank of Jerusalem Ltd., (2008–11/10); Manager Accounting Department, Bank of Jerusalem Ltd. (2005–2008)	Vice CEO, Management Member, Manager of Retail Credit Department, Bank of Jerusalem Ltd. (11/10–7/11); Management Member, Manager of Retail Credit Department of Bank of Jerusalem (03/07 – 11/10); Manager Retail Credit headquarters and households activity and Deputy Manager of the Retail Department, Bank of Jerusalem (2005–2006).	Vice CEO, Management Member, Legal Consultant (from 11/10 till today); Legal Consultant (08/05 – 11/10);

(8) Mr. Michael Ben Yishay serves in this position as of 1.8.2011.

	Name of senior officer and his details	Name of senior officer and his details	Name of senior officer and his details
Name:	Eric Zuili	Dina Frumovich	Daniel Nachum
ID. number:	321254583	022294045	053356028
S. Date of Birth:	07.06.1962	22.02.1966	17.10.1955
Date beginning of tenure:	11.25.2010	11.25.2010 [serves as a senior officer at the bank since 07.01.08 as specified below in work experience].	17.7.2011
The functions he held at the subsidiaries in the corporation, its associated companies or stakeholders:	Vice CEO, Management Member, Manager of Cooperation Channels.	Vice CEO, Management Member, Manager Branches Department. Director at subsidiaries: Ir Shalom Insurance Agency (1996) Ltd.	Manager of Information Technology; Manager of Information Systems Department.
Is stakeholder at the corporation or family of another senior officer or of stakeholder at the corporation –	No	No	No
Education:	BA in Economics, Tel Aviv University; MA in Business Management, Tel Aviv University	BA in Industrial Engineering and Management, Shenkar; MA in Public Management, Tel Aviv University, MA in Business Management, College of Management.	BA, Computer Science and Philosophy, Bar–Ilan University.
Work experience during the last five years:	Manager Product Development and Manager Consumer Credit Department, Visa–Cal Credit Card Israel Ltd. (2000–2010)	Various functions at the Bank of Jerusalem: Management Member, Manager Retail Banking Department and Spokesperson of the Bank (07/09–11/10); Spokesperson of the Bank (as of 01/05); Manager Marketing System (as of 01/04), Manager Human Resources (as of 08/00)	Manager Information Technology, Manager Information Systems Department (from 02/11 until today); Manager Infrastructure Unit, Methodology, Subsidiaries and Quality Assurance, Bank Discount Israel Ltd. (2009–2011); Manager Ofek Project Development, Bank Discount Israel – Ness Company (2004–2009).

	Name of senior officer and his details	Name of senior officer and his details	Name of senior officer and his details
Name:	Motti Gedali (9)	Ron Sagi (10)	Carmel Florentz
ID. number:	067155341	052189859	013230628
S. Date of Birth:	09.04.1946	10.30.1953	12.25.1965
Date beginning of tenure:	12.05.2010	12.05.2010	07.15.2010
The functions he held at the subsidiaries in the corporation, its associated companies or stakeholders:	Secretary of the bank and its subsidiaries	Vice CEO, candidate for Management Member, Vice and Replacement of Internal Auditor.	Internal auditor of the Bank and its subsidiaries.
Is stakeholder at the corporation or family of another senior officer or of stakeholder at the corporation –	No	No	No
Education:	MA in Business Management, Hebrew University; BA in Economics and Political Science, Bar–Ilan University	BA in Economics., Hebrew University.	Degree in Law (LLB) Tel Aviv University
Work experience during the last five years:	Auditor, Manager Regulatory Department, Bank of Jerusalem Ltd. (1976–2005) Manager, Director, Gnuman Investment Ltd, (as of 2005);	Vice CEO, Management Member, Manager Operating and Banking Infrastructure Department at Bank of Jerusalem (2003–2010).	Manager Regulatory Department, Bank of Jerusalem Ltd. (12/09–07/10), lawyer, Legal department, Bank of Jerusalem Ltd. (05/03–11/09).

(9) Mr. M. Gedali will terminate his position as Internal Auditor of the Bank during the coming period with completion of his tenure as determined according to the agreement with him in advance for a set period, see immediate report as of February 23, 2012 (reference: 2012-01-049944).

(10) As of February 22, 2012 the Board of Directors of the Bank approved the appointment of Mr. R. Sagy as Internal Auditor of the Bank, subject to the approval of the Bank of Israel; see immediate report of February 23, 2012 (reference: 2012-01-049959).

Bank Branches and subsidiaries

Central Management
2 HaNegev Street, Airport City
Postal address: 2 Herbert Samuel Street, Jerusalem 91022

Business Department
HaNegev Street, Airport City

Private banking branch
18 Keren HaYesod Street , Jerusalem 992149

Jerusalem branch
2 Herbert Samuel Street, Jerusalem 91022

Geula branch
10 Yacov Meir Street, Jerusalem 95513

Tel Aviv branch
21 Ehad Ha'Am Street, Tel Aviv 65251

Be'er Sheva branch
90 Hadassah Street, Be'er Sheva 84221

Haifa branch
9 Pal-Yam Street (Zim House), Haifa 33095

Bnei Barak branch
2 Hazon Ish Street, Bnei Barak 51512

Ashkelon branch
5 Herzl Street, Ashkelon 78601

Ashdod branch
118 Shavi Zion Street, Ashdod 77273

Rishon LeZion branch
63 Herzl Street, Rishon LeZion 75267

Holon branch
28 Sokolov Street, Holon 58256

Petah Tikwah branch
10 HaHaganah Street, Petah Tikwah 49591

Netanya branch
45 Herzl Street, Netanya 42401

Mode'in Elite branch
18 Avnei Nezer, Mode'in Elite

Kir'On branch
195 Dereh Akko, Kiryat Bialik 27000

Nazareth branch
6092/50 El Riad Center, Nazareth 16000

The Trust company of Bank of Jerusalem Ltd.
18 Keren HaYesod Street, Jerusalem 91079

Jerusalem Investment Portfolio Management Ltd.
21 Ehad Ha'Am Street, Tel Aviv 65251

Jerusalem Underwriting and Issuances Ltd.
2 Herbert Samuel Street, Jerusalem 91022

Jerusalem Financing and Issuances (2005) Ltd.
2 Herbert Samuel Street, Jerusalem 91022

בנק ירושלים

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