Annual Report 2010
BANK OF JERUSALEM Ltd

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Board of Directors

Jonathan Irony
Chairman of the Board of Directors

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Shmuel Eshel

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Pinchas Volovelsky

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Gideon Shoval

Consolidated financial reports

For the day of the 31st of December 2010

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Report of the Board of Directors for the general assembly of shareholders

www.bankjerusalem.co.il

The complete financial report can be found at the web site of the bank:

Report of the Board of Directors for the general assembly of shareholders

At the meeting of the Board of Directors held on February 24, 2011, 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 2010 (hereinafter "the book year"). The financial statements were prepared in conformity with the instructions of the Supervisor of Banks. The data contained therein are expressed in reported amounts

First part - Description of general development of the business of banking corporation

❖ Facing the future

Part of the information included in the Board of Directors' Report, which do not relate to facing the future, constitute estimates as defined in the Securities Law, 1968.

The bank's actual results may differ actually from those included, if included, in the framework of such facing the future as a result of numerous factors including, among others, as a result of special events, e.g. radical changes in interest rates, currency devaluation/revaluation and inflation, and unexpected political/security-related events that may alter the public's behavior, from the standpoint of taking out credit/loans, early payoff, recycling or difficulties in current payoff in all sectors of activity in the bank, and the ability to mobilize financing sources. Also, regulatory or legislative changes, instructions issued by supervisory authorities and behavior of competitors may affect the bank's activity.

Facing the future is characterized by expressions including: "in the bank's estimate", "the bank intends …", "is expected to …", "may …", "might possibly …", "estimates that …", etc.

Such facing the future expressions include risks and uncertainties since they are based on management's evaluations regarding future events that include, among others:

- Mergers and acquisitions in the banking system and their influence on competition structure in the sector
- Influence of changes in regulatory instructions on customer preferences and/or on the scope of activity in the banking system and the competition structure therein and/or on 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 sector estimates and macro-economic estimates in accordance with preliminary estimates of the bank.
- Possible results of legal procedures.
- Changes in consumer preferences and/or in consumer behavior.

The following information is based, among others, on professional evaluations of the bank, on macro-economic estimates concerning the status of the economy and the business environment, publications and estimates of factors active in the sector and statistical data prepared by the bank concerning behavior of its customers.

The bank does not commit to publish updated evaluations of the information included in this report, including for the effect of circumstances or events taking place after publication of the report on the mentioned information.

❖ Activity of the banking corporation and description of the business developments

The bank

Bank of Jerusalem was founded on December 12, 1963 as a public company, in accordance with the definition in the Companies Ordinance, New Version, 1983, in the name of Bank of Jerusalem for Development and Mortgages Ltd. In 1992 the bank issued its shares to the public for the first time, thereby becoming a company whose shares are traded on the Tel Aviv Stock Exchange. On June 11, 1996 the bank’s name was changed to its present name, Bank of Jerusalem Ltd.

The Bank operates as a commercial bank since 1998 and its activity is based on an extensive homeowner customer base, Israeli residents and foreign residents, and specializes in provision of mortgages, consumer credit, savings and deposits, financing of constructions for residential purposes, financing vehicle purchasing, other commercial credit and capital market activity. The combination of this activity including commercial banking and mortgage banking enables the bank to offer its customers a variety of services while maintaining its level of profitability and spreading of risk.

Management of the bank is located in Jerusalem and the bank operates through 16 branches throughout Israel.

The bank's activity during the year 2010

The bank operated in 2010 in a challenging environment against the background of the recovery of the market after the financial global crisis that broke out in 2008.

Net income for the report year amounted to 34.1 million NIS , compared to 58.7 million NIS in the previous year, an decrease of 42%. The rate of net return on average equity was 5.5% compared to 10.2% in the previous year.

The principal reduction of net income results from the reduction of the profits of the securities realization, that were about 31 million NIS higher in the year 2009 compared to 2010 and above these the operating and other expenses. Salary expenses with one time characteristics of 6 million NIS (gross) are included at the net income and also additional housing provision for a total of 1.8 million NIS (gross), that is performed according the the general instructions of the Supervisor on the Banks, from the day of the 11th of July, 2010 for loans with a high financing rate from 60%.

In addition, the bank operates at an initial capital adequacy ratio significantly higher than the five largest banks. Assuming that capital adequacy is similar to the system and with deduction of expenses with one time characteristics as described above, net return for 2010 was 8.0%.

The income from financing activity during the book year has been summed up to 163.4 million NIS, in comparison to 180.5 million NIS in the year 2009. The main reduction results from the decrease on income from materialization of securities available for sale and income fro negotiable securities for a total of 31.1 million NIS, at the other side, there was an increase in income from income of capital financing for a total of 7.0 million NIS mainly because of the increase in interest and grow from income positions for a total of 6.8 million NIS.

In the paragraph provision for doubtful debts a negative provision (income) was recorded in the book year for a total of 2.6 million NIS, compared to negative provision of 1.3 million NIS in the year 2009. The main income results from decrease in provision for doubtful debts concerning contractors and others, as a result of collecting debts which have been provided for previously.

Operating and other costs in the book year, summed up to a total of 203.1 million NIS, compared to 173.6 million NIS in the year 2009 - increase of 17%. The increase mainly resulted from one time expenses for a total of 6 million NIS, from increase of salary expenses and professional consulting and increase in computing expenses. In addition, in the year 2010 expenses concerning the agreement with the Tax Authorities for a total of 4 million NIS were recorded that did not influence on the net income of the bank due to offset against tax expenses and other paragraphs.

The balance of cash, deposits at banks and securities increased in the year 2010 with 6% and summed up to 1,967.2 million NIS for the day of the 31st of December 2010. The balance of cash and deposits at banks decreased in the year 2010 with 112.8 million NIS and the balance of securities increased with 231.7 million NIS.

Below the composition of the securities:

	Balance for the day of the 31st of December	
	2010	2009
	in millions of NIS	
Government debentures	1,187.1	872.1
Bank debentures	88.6	52
Corporate and other debentures	39.2	1,59.1
Total securities	**1,314.9**	**1,083.2**

The balance of the credit for the public increased in the year 2010 with 9% and summed up to a total of 8,037 million NIS for the day of the 31st of December 2010.

Below the composition of the balance of credit for the public:

Balance for the day of the 31st of December		
	2010	**2009**
	in millions of NIS	
Housing credit	6,155.1	5.406.9
Credit for purchasing of vehicle	582.4	615.6
Credit for contractors and other customers	1,299.4	1,326.8
Total credit for the public	**8,036.9**	**7,349.3**

Below composition of credit performance for housing and vehicle:

	2010	2009	Change in percentages %
	in millions of NIS		
Performance housing credit (*)	**1,805**	1,069	69
Recycling housing loans	**191**	110	74
Total housing credit (including recycling)	**1,996**	1,179	69
Performance vehicle purchasing credit	**353**	285	24
Total housing and vehicle purchasing credit (including recycling)	**2,349**	1,464	60
(*) From this for foreign residents	482	247	95

Balance of public deposits for the day of the 31st of December 2010 summed up to 7,408 million NIS - increase of 4% compared to the year 2009.

Balance for liabilities certificates and deferred liability notes for the day of the 31st of December 2010 summed up to 1,921 million NIS - compared to 1,392 million NIS for the year 2009, increase of 38% resulting mainly from recruitment through the company “Jerusalem Financing and Issuance (2005) Ltd” as detailed below in the chapter "Events during the balance sheet year".

Events in the balance sheet year

During the meeting of the Board of Directors on the 1st of March 2010 the Board of Directors of the bank decided on termination of the employment of the CEO of the bank, Mr.Avi Bzoura and appointment of Mr. Uri Paz, in the function of CEO of the bank. On April 13th, 2010 Mr. Uri Paz (hereinafter: "the CEO") started his tenure as CEO of the bank. For details on the employment conditions of the CEO, please see Note 23d in the financial reports.

During the year 2010 the bank raised the amount of 649.9 million NIS through issuance of debentures of the company "Jerusalem Financing and Issuance (2005) Ltd.” (subsidiary of the bank).

In the month of October 2010 the bank sold all its holdings in debentures of series G of the company “Jerusalem Financing and Issuance (2005) Ltd.” at nominal value for a total of million 34.6 NIS.

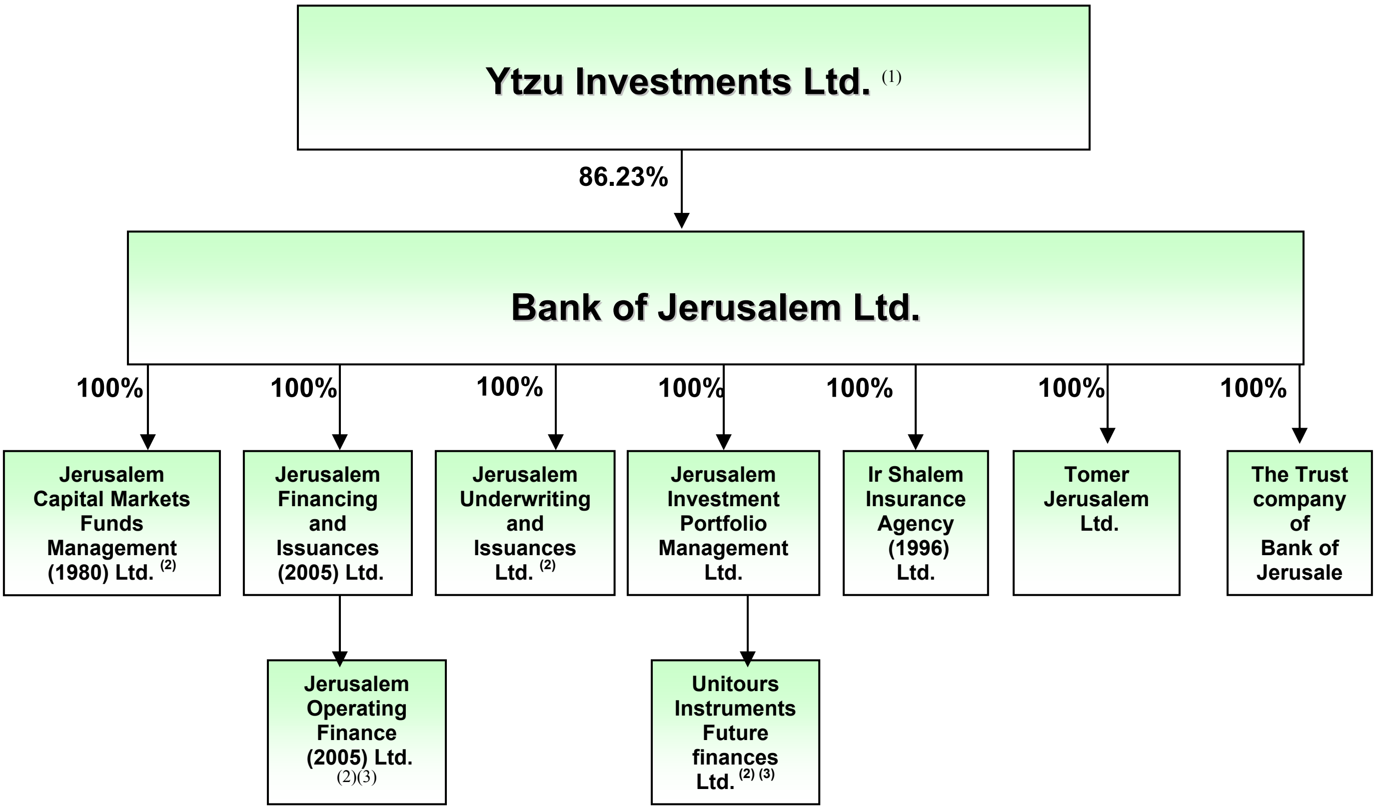
On the 15th of July 2010 the Board of Directors of the Bank obtained the principal decision of selling the management office building of the bank at the address Herbert Samuel 2 in Jerusalem and prepared to move to alternative management offices at the Airport City Quarter.

Principal data from the consolidated financial reports

Main data from the annual report of the bank are attached in appendix A to the report of the Board of Directors.

Structural Diagram of the bank's Holdings

Following is a structural diagram of the bank's holdings in subsidiaries and in associated companies as of December 31, 2010. Regarding details of the sectors of activity of the subsidiaries and associated companies see Note 8C.



(1) To the best knowledge of the bank, the leading stockholder at the company Ytzu Investment Corp. Ltd. is Mrs. Hannah Shuval

(2) not active

(3) The bank acts in order to close the company.

❖ Summarized description of the activity sectors

The Bank of Jerusalem Group centralizes its activity through the bank headquarters, its branches and subsidiaries. The activity sectors of the bank area classified according to the guide line of the Supervisor of the Banks according to the kind of customers included in each of the sectors and do not necessarily match the organizational structure of the bank.

The group operates and provides various banking services in four main activity sectors. Below details on the reported activity sectors:

- Household sector - The sector includes activities that are performed versus households. The sector includes activities that are performed versus households. Small business activity with characteristics similar to the activity of households is also included in this sector.
- Private banking sector - The sector includes activity that is performed versus customers with a medium to high level of financial wealth, through a branch specializing in private banking, mainly for foreign residents (mainly from North America, England and France).
- Business sector - The sector includes activity that is performed versus construction companies and real estate, business customers, corporations and associations.
- Financial management sector - The sector includes vacant financial management of the bank and positions, management of the bank's nostro portfolio, activity relative to banks in Israel and abroad, and implementation of transactions in derivative financial instruments.

The income and expenses attribution of the activity sectors at the bank will be done as follows:

Income from financing activity before provision for doubtful debts

From the profit obtained from the provision between the credit interest provided to the customers of the sector and the price of the sources.

This income includes financial expenses between the sectors - debt of the sector provides the loan and credit of the sector raises the deposit in the transfer prices (accordingly the income will be increase in the sector that raises the deposits and at the other hand, it decreases the income at the sector that are making use of the credit).

Provision for doubtful debts

Is reflected to the activity sector in which the customer activity is classified for which provision has been performed. In a similar way, collection from performed provision or reduction is also attributed to the sector in which the activity of the customer is classified.

Income from operations

The income from operations is directly reflected to the sector in which the activity of the customers is classified.

Expenses from other activities

Direct identifiable expenses are specifically reflected to the activity sector. Indirect expenses, or direct expenses that are not accurately identifiable, are attributed according to model according to which these expenses are attributed in compliance to the relative part from the direct service in the sector from the total service of the bank, to each of the activity sectors.

Taxes on income

The taxes are calculated according to the effective tax rate and attributed accordingly to each sector.

Return to capital

The allocated capital for the return calculation to capital in each of the activity sectors is based on the average risk assets in each sector. Calculation of the return in each sector is done according to the equity that is attributed to the mentioned sector.

❖ Investment in the capital of the banking corporation and transactions of its shares

Equity

As of December 31, 2010, the shareholders' equity of the bank amounted to 633.2 million NIS, compared to 605.9 million NIS as of the end of 2009, an increase of 5%. This increase is mainly a result of the bank's earnings in the year under review in the amount of 34.1 million NIS, and from growth in the capital reserve item due to the adjustment of securities available for sale according to fair value, amounting to 6.8 million NIS (net after the effect of tax).

Concerning the capital objectives under the instructions of Basel II, see the chapter "Discussion of risk factors" below.

The ratio between capital for the risk components according to the standard approach for course 1 according to instructions of Basel II was 15.2% at the end of 2010.

Periodically the bank examines its capital needs and regularly mobilizes deferred deposits according to its needs. The business plan of the bank takes possible mobilization of deferred deposits being used as secondary capital (regular or superior) into account for the calculation of the minimal capital ratio and/or complex primary capital (hybrid capital) subject to the restrictions on capital defined by the Supervisor.

Following are data regarding impairment of debentures available for sale (government and corporate) recorded to capital reserve by period of time, and the rate of impairment:

Impairment rate at the date of the financial report financial	Impairment amounts (in millions of NIS)					
	Period of time in which fair value of asset was less than its cost				Total impairment for the day of the 31st of December	
	up to 6 months	6-9 months	9-12 months	Over 12 months	2010	2009
until 20%	6.3	5.6	---	0.1	**12.0**	**13.4**
20%-40%	---	---	---	3.1	**3.1**	**2.1**
Over 40%	---	---	---	---	**---**	**---**
	6.3	**5.6**	---	**3.2**	**15.1**	**15.5**

Note: It should be emphasized that the rate of impairment and the period of time of the impairment relates to different periods – the period of time is measured from the date on which the fair value of the asset was materially lower while the rate of impairment is stated as of a specific point in time, December 31, 2010.

❖ Dividend distribution

Periodically, the Bank distributes part of its profits as dividends to the shareholders. Distribution of the dividends is implemented subject to instructions in the Corporate Law - 1999, and to instructions of the Supervisor of Banks.

The bank does not have a defined dividend distribution policy. However, the bank remains the right to determine, periodically, the amount of the dividend to be actually distributed to the shareholders, if any. It is hereby clarified that such dividend distribution does not represent any presentation or commitment of the bank to distribute dividends in the future.

In the years 2009 and 2010 the bank did not distribute dividend. In the year 2008 the bank distributed dividend in cash for a total amount of 7,249 thousand NIS.

Second part - Other information

❖ Financial information concerning the activity sectors of the banking corporation

Details of the banks activity according to the sectors presented in note 29 in the financial reports. Developments in sectors of activity are presented below in the description part of the corporation's business by areas of activity. In the activity sectors of the bank activity expenses and others related to the activity sector resulting from transactions between sectors, are not recorded.

❖ Significant developments

The business of the bank is influenced by the level of economic activities in the industry and from additional economic indicators e.g. interest rate in the different linking sectors. Accordingly, a positive or negative change of the activity in the industry may influence the business of the bank. The bank follows closely after the developments presented in this chapter and arranges to reduce their negative influence on the activity. For details regarding the bank's arrangements, see "Discussion of risk factors: below.

Main developments in the industry

During the year 2010 the Israeli economy continued to grow as has been started in the second half of the year 2009. According to the estimates of the Central Bureau of Statistics the expected grow of the economy for the year 2010 will be 5.2%. The combined index of the Bank of Israel for examining the economic situation recorded and yearly increased of 5%, in comparison to the increase of 0.5% during the parallel previous period. The export component of goods in the combined index costs about 5.5% and export services cost about 10%. The import index costs totally 23%.

Additional indicators for the grow of the economy can be found in the Companies Survey of the Bank of Israel as conclusion for the year 2010. According to the data of the survey, the extension of the economic activity encompassed the economy branches, and apparently is also expected to continue over the next year. Companies of the industry reported on increase in the number of employees and also on significant and continuous increase in exploitation of the machines and equipment. The reports of the commercial companies are similar, they even reported on increase in the number of employees and increase of sales.

The unemployment rate was 6.8% at the end of the month of November. During the second quarter of the yea,r the unemployment rate decreased to the lowest rate in 2010 - 6.5%. The unemployment rate in Israel, compared to the United States and many countries in the euro block, is defined as low rating. The unemployment rate in the United States for the month of December was 9.4% and the unemployment rate in 16 countries of the euro block remained 10% in the month December.

Recent macro data in general and the United States and China in particular, indicate a consolidation of the global economic recovery process and the economic crisis. However, high unemployment rates and low growth rates in the developed countries continue to cloud the optimism. European debt crisis have decreased slightly in light of several successful public offerings of some of the PIIGS countries (Spain, Portugal, Ireland, Italy and Greece). However, the large recruitment needs of some of these countries in the coming year and lack of the certainty existing in European markets, are expected to keep the situation in Europe in the center of attention in the global economy in the near future. The inflation level in the United States remains restricted and the inflation rate in the euro block started slowly to rise. In view of this, the expectations of a rise of interest in Europe have been slightly moved forward. In emerging economies, inflationary pressures continue to arise due to the steep rise in commodity prices, especially food prices in general. These increases raise the fear of accelerating the tightening, steps that could hurt global growth.

The positive trend also characterized the capital markets. Tel Aviv 25 index raised in the year 2010 with a rate of 15.8% and Tel Aviv 10 index increased at a similar rate. Stock index "Hayeter" increased with a relevant sharp rate of 32%. At the debentures market the Tel Bond 60 index recorded an increase of 10.8% and the government debentures index recorded an increase of 6.3%. Positive accumulation of 16 billion NIS was recorded in the Mutual Funds.

The increase of the Consumer Price Index summed in the year 2010 up to 2.7% in the inflation objective area determined by the Bank of Israel. Main contribution to the increase of the Consumer Price Index came from the housing paragraph (increase of 4.9%) and from the fruit and vegetables paragraph (increase of 16%).

Increase of housing prices determined by the Bank of Israel and the Ministry of Finance as a subject requires specific handling. As part of measures to slow the rising cost of housing the Ministry of Finance introduced several measures in taxation. The Bank of Israel raised the interest rates of the economy in measured rates and stated that one of the central considerations of increasing the interest is the continuing rise in housing price.

During the survey period a revaluation in the rate of the NIS compared to the dollar rate of 6% is recorded. The rate of the euro weakened during the year 2010 at a rate of 12.9%. The weakness of the euro results from the fear about the strength of the euro zone's deficit and influence of several key EU countries.

The total deficit amounted to a total of 30.2 billion NIS which is 3.7% of the Gross Domestic Product, compared to the original planning for a deficit at the rate of 5.5%. This deficit rate is a result of the higher income than planned and of slightly lower expenses than originally planned.

The fiscal and monetary policy

The Bank of Israel raised the interest during the year 2010 from a level of 1.25% of the level of 2%. After the balance sheet date the interest was raised to the level of 2.5%. The raise in interest was according to the statements of the Bank of Israel in relation to returning the interest to the "normal" level. The need of increasing the interest rate is a result of, among others, the wish to calm the housing market, on the other hand, there were concerns for the strengthening of the NIS and damage to the export as a delaying factor for further interest rate rises.

In the framework of the confrontation of the Bank of Israel with the strengthening of the NIS towards to dollar, the Bank of Israel continued to intervene frequently in the foreign exchange market. This move was consistent with the policy of the central bank and activated at times during which the Bank of Israel identified unusual activity in trading of foreign currency. Foreign exchange balance of the Bank of Israel increased during the year, from 59 billion to a level of about $ 70 billion. After the date of the report, the Bank of Israel and the Ministry of Finance took additional measures in the framework of dealing with the strengthening of the NIS, in which obligatory of fluidity on futuristic deals in foreign currency and also cancellation of tax exemption on profits of foreign investors holding short term loans.

The economic growth rate and the positive trend in the capital market resulted in a lower deficit rate than expected. The total deficit without providing net credit in the year 2010 amounted to a total of 30.2 billion NIS of which about - 3.73% from the Gross Domestic Product, compared to the original planning in the State budget of a deficit of 5.5% from the Gross Domestic Product. The explanation for the low deficit compared to the budget planning mainly provides the income side, and in addition, under-performance in interest expenses and GDP higher than envisaged in the original budget. The year 2010 marks a turning point in the development of the deficit: after two years of an increase in budget deficit from zero deficit in 2007 to 2.2% of GDP by 2008 and - 5.2% of GDP by 2009, deficit in the year 2010 declined to 3.7% of GDP .

Total tax revenue amounted according to the Treasury estimates about - 195.4 billion NIS, about 12.3 billion NIS more than the original budget planning that was 183.1 billion NIS, a nominal increase of about 10.0% compared to last year. Collection of direct taxes was higher than the planning of about - 8 billion NIS, in indirect taxes about - 3.7 billion NIS and revenues from fees was about - 0.6 billion NIS.

Inflation and exchange rates

The Consumer Price Index rose during the 2010 with 2.7%, that after the raise of 3.9%in the year 2009. During the last five years (December 2010 compared to December 2005) a raise of 14.4% in the index was recorded. In four main consumer sections; vegetable and fruit, housing, clothing and footwear and miscellaneous a price raise was recorded beyond the average raise. The section of vegetables and fruit rose in the year 2010 with 16% following an increase of 8.4% in the year 2009, The housing section that increased in the year 2009 with 5.6%, continued to rise an additional 4.9%. Transport and Communications Section, which rose by 6.5% in 2009 and increased in 2010 by 2.0% more. Oppositely decreases were recorded in paragraphs Housing Maintenance and Furniture at a rate of 1.2% and 2.8% in adjustment.

In a summary of the year 2010, the NIS strengthened towards the dollar at a rate of 6% and towards the euro at a rate of 12.9%. Towards the currencies of Israel's trading partners (nominal effective exchange rate), the NIS strengthened during this period, at a rate of 7%. Strengthening of the NIS and its negative effect on the profitability of exports were in the senior Bank of Israel and served as an factor to .delay to raise interest rates. The interference of the Bank of Israel in the foreign currency market continued during the year 2010. The continuous purchasing of foreign currency resulted in an increase of the foreign currency balance up to a record of about 70 billion dollars, an increase od 10 billion dollars compared to December 2009. The main increase in the balance occurred during the second half of the year when the foreign currency balance during this period increased with 7.8 billion dollar.

The year 2010 is characterized by the high activity volume at the foreign currency market, specially during the last quarter of the year. The average monthly activity scope in the year 2010 was 109 billion dollars compared to 87 billion dollars during the year 2009 and 95.5 billion dollars during 2008. The main increase in the activities between the years 2009 and 2010 were a result from increase in swap transactions (monthly average of 63 billion dollars in the year 2010 compared to 39.6 billion dollars in the year 2009). In the contrary, the scope of the conversion transaction activity (SPOT transactions and FORWARD transactions) in the year 2010 were actually lower than the previous two years - monthly average of 34 billion dollars, compared to 36.8 billion dollars in the year 2009 and 41.5 billion dollars in the year 2008.

The relative portion of the foreign residents in the overall commercial volume (conversion transactions, transactions in options and Swap transactions) increased in the year 2010 to a level of 62% compared to 54% during the years 2009 and 2008, and that mainly as a result from the increase in the scope of the Swap transactions activities. In the conversion transactions the relative portion of the foreign residents remained around the same level (37%) as in previous years (34% IN 2009 and 36% in 2008).

Capital and Monetary Markets

The year 2010 similar to the previous ones, is characterized by the level of high uncertainty in the capital markets, globally as well as in Israel, in view of the question marks in relation to the recovery of the markets from the global crisis that started in the summer of 2008. The sharp increases that characterized the year 2009 were blocked by great fluctuation. The share rates in Israel and globally, declined in the first half of the year, but recovered during the second half. The increase in the rates characterized most of the leading indexes. The index of Tel Aviv 100 increased with 15% and reached a record level at the end of October 2010, the Real Estate 15 index increased at a similar rate and the Tel Aviv 15 index and the Tel Aviv- banking index increased with merely 6%. It should be mentioned that these measures jumped by 90% - 130% in the previous year. Biomed Index, launched in March of this year, declined about - 16% until the end. An increase of about 32% was recorded in the "Yeter" index, following the sharp increase in securities linked to oil and gas search, included in the index.

Oil securities continued to stand out this year with a sharp increase of about 49%, after having leapt by more than 7.5 the previous year. The trading in the shares was characterized by high cycles from those of the previous year and came close to the record of the year 2007, in addition activity increase in the primary market was recorded, after a two year deceleration. This year 17 new companies raised about 3.2 - billion NIS for corporations and this year the oil and gas cooperation had a significant influence at the Stock Exchange: a quarter of the increase in main indexes is a result of the sharp increase in the included oil securities, and more than 40% from the increase in the securities trading cycle is a result from the 3-fold increase of the trading cycle in these securities.

At the debentures market a rate increase of up to 13% was recorded, after the sharp increase in the debentures rates of the previous business sector. Also this year alert capital raising was recorded in the primary debentures market by companies, among others, thanks to the low interest, and these amounted to a total amount of about 43 billion NIS, about 18% higher than the previous year. However, the issuances of government debentures decreased at a sharp rate.

The daily trading turnover in the year 2010 amounted to about 2 billion NIS, about 20% higher that the last year turnover and close to the record of the year 2007. The turnover was also characterized by many fluctuations, while in May, date of the upgrade by MSCI, the turnover leaped and amounted to about 3.3 billion NIS. During the third quarter of the year a low daily turnover was recorded, at a scope of about 1.5 billion NIS, and by the end of the year it was stabilized to an average level of about 2 billion NIS.

Construction sector

During the year 2010 the price increase trend at the Israeli housing market continued. Concern about the emergence of a price bubble and the implications derived from that urged the Bank of Israel to raise interest rates, despite the revaluation of the NIS. At the same time the government began a trend of different solutions to cool prices increase.

According to the data of the Bank of Israel, the housing prices in Israel increased during the first eleven months of the year 2010 with 17.3%. The Consumer Price Housing Index (rental contracts) increased during this period with a rate of 4.9%.

According to the data of the Central Bureau of Statistics (CBS) an increase of 3% was recorded in the demand for new housing compared to equivalent period last year. The increase in demand of new housing was mainly visible in the south district, Haifa and the center.

The declination trend of available new housing (from private construction) that remained for sale, also continues during the year 2010. By the end of the month November 2010 about ten thousand houses of this kind remained.

The number of construction beginnings during the first nine months of the year 2010 increase with 10% compared to the equivalent period last year. During this period the building of 27,780 houses was started. About 38% of the beginning of total housing construction were apartments in buildings with 1-2 floors, while most of the building was recorded in the center district.

❖ Accounting policies on critical issues

The bank's financial reports are prepared in accordance with generally accepted accounting principles as detailed in Note 2 to the financial reports. In preparation of the financial reports, the management of the bank utilizes assumptions, estimates and forecasts, which affect reported amounts of assets and liabilities (including contingent liabilities) and reported results. Utilization of estimates involves extensive uncertainties and changes, which may influence results reported in the financial reports. Estimates requiring complex subjective evaluation relating to important issues, for purposes of reporting the financial position, are deemed "critical issues". A possibility exists that future realization of estimates and forecasts will differ from their presentation in the financial reports.

Provision for doubtful debts

The provision for doubtful debts is determined specifically (except for housing loans in respect of which the provision is calculated according to a formula in accordance with depth of arrears) and includes a general provision and an additional provision according to an instruction of the Supervisor of Banks. The specific provision constitutes a function of the arrears in credit payoff and is based in part on estimates and considerations that involve extensive uncertainties. The additional provision for doubtful debts is based on the quality of the liabilities' portfolio of bank customers in accordance with risk components defined in instructions of the Supervisor of Banks. According to the instructions of the Supervisor of Banks, each risk component determines the rate of the required additional provision. Such risk components include credit to individuals related to the bank, lack of financial data regarding the borrower, credit to a borrower or to a group of borrowers not included in the limitations on liability of an "individual borrower".

Deferred taxes

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

The bank utilizes estimates and forecasts regarding the possibility of future realization of deferred taxes receivable.

Fair value of financial instruments

Part of the financial instruments utilized by the bank is presented in the financial reports according to fair value. The fair value is defined as the amount for which a liability may be levied or repaid. Market prices quoted in active markets (mark to market) constitute the best evidence of fair value. In the event that a market price is not quoted, estimated fair value is determined according to prices of similar assets or similar liabilities (Mark to model). The estimation method includes various parameters, e.g. interest curves, currency exchange rates and standard deviations. Estimates include utilization of assumptions regarding credit risk of the other party to a transaction and the liquidity of such parties.

Below are details concerning the fair value of financial instruments in the balance sheet:

	Balance to date	
	December 31, 2010	**December 31, 2009**
Assets whose fair value is determined according to:	**in millions of NIS**	
Prices quoted on an active market [1]	**1,303.3**	1,063.7
Other	**35.5**	43.4
Total assets	**1,338.8**	1,107.1
Liabilities whose fair value is determined according to:		
Other	**10.7**	11.0

1. Mainly securities traded on the Tel Aviv Stock Exchange, mostly debentures.

The bank examines estimates of fair value that are not determined according to prices quoted on an active market and ascertains, at a reasonable level of certainty, that the fair value of such instruments is determined in accordance with public reporting instructions. The fair value of such instruments is determined based on recognized models, e.g. capitalization cash flows, relying on quoted interest for similar instruments, or based on the Black & Scholtes model for determination of the value of options based on accepted parameters.

Impairment of securities that is not of temporary nature

Changes in fair value of securities available for sale are reflected to equity with deduction of the tax influence, unless a non-temporary decrease is evident. In such circumstances, the impairment is included in the income 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 mentioned 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 performed. 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 at which the securities were traded at exceptional yield.
- Significant negative indications within the financial reports.

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

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 from 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 that 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 proceeding and accumulated legal experience in various issues in Israel.

Estimates regarding chances of class actions involves more difficulty because of the minimum accumulated legal experience regarding realization of such claims in Israel. Also, chances of certain class actions cannot be estimated because of the stage of the proceedings.

It should be considered that results of legal processes may differ from the estimate determined because of uncertainties regarding evaluation of a certain legal sector.

Third part - Business description of the banking corporation according to activity sectors

Below principal data concerning average balance sheets broken down by sectors of activity:

Below summary of assets and liabilities divided according to activity sectors:

	Assets			Liabilities		
	2010	2009	Change	2010	2009	Change
Sectors	Millions of NIS		%	Millions of NIS		%
Households	5,631.2	5,365.0	5	4,776.5	4,728.3	1
Private banking	902.9	757.5	19	760.2	662.4	15
Business	1,354.9	1,417.0	(4)	3,064	3,288.9	(7)
Financial management	1,571.1	1,858.0	(15)	296.2	145.1	104
Total	**9,460.1**	**9,397.5**	**1**	**8,896.9**	**8,824.7**	**1**

Below are details of the net profit and the yield of net profit on capital by sectors of activity:

	Net profit		Yield on capital	
	2010	2009	2010	2009
Sectors	Millions of NIS		%	
Households	14.4	18.0	4.3	5.5
Private banking	2.5	2.8	4.0	5.2
Business	13.1	13.0	6.5	7.8
Financial management	3.8	24.9	14.4	83.2
Total	**33.8**	**58.7**	**5.5**	**10.2**

In most sectors, a decrease in net profit can be seen, resulting mainly from a drop in margins. The financial management sector recorded a higher drop in profits mainly because lower profits from realization of securities available for sale, compared to the year 2009.

Following is a comprehensive description of the activity sectors:

❖ Household sector

General

The information regarding the bank's intent as mentioned in this section constitutes an estimate 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 estimates concerning the ability to realize the bank's plans and programs, and may not be realized as a result of unexpected responses from factors active in the bank's business environment.

Banking activity in the household sector provides a range of financial services and products in the areas of mortgages, credit needs (loans to finance the purchase of vehicles, credit cards, and general purpose loans) deposits and savings, activity in securities and investment consultancy.

The bank's activity in the area of recruiting resources from the public is centralized in the financial division. Because of the fact that this activity concerns all activity centers of the bank and in this area the activity characteristics differ from other sectors, this activity will be concentrate described in chapter "Recruitment finance sources" and not in each sector separately.

Objectives and business strategy

The bank's strategic objectives in the households sector are:

- Consumer credit sales for the existing customers base and new customers in addition to expending the activity of providing credit through marketing of credit cards.
- Expending the activity of checking accounts and the consumer credit in branches, for all the customers.
- Development of special mortgages that meet consumer's tastes, and that allow a proper margin environment and moving the implementation of mortgages to linkages bases characterized by low levels of competition and high margins.
- Mobilizing customers who are active in the capital market through the branches and increasing the relative share of profitability from this activity.
- Recruiting deposits from households.
- Increased marketing and sales efforts by means of systematic and constant improvement of standards of customer service through upgrading staff skills and through measuring and controlling work processes.

Structure of the Activity Sector

The activity in this sector mainly consists of:

Mortgages:

- Providing loans for housing against a lien on the apartment for Israeli residents with various linkage basis and according to a variety of interest tracks.
- Providing related services linked to life insurance for borrowers and property insurance by way of a mortgage, implemented through the "Ir Shalem Insurance Agency (1996) Ltd", a wholly owned and controlled subsidiary of the bank (hereinafter: "Ir Shalem").

Banking and Finance:

- Providing credit for the purchase of vehicles.
- Providing credit for fixed time against collateral.
- Providing credit for solo consumers for fixed time for households.
- Issuance of credit cards for bank's costumers.
- Checking account activity.
- Mobilization of deposits and savings from households.

The capital market:

- Providing services for securities – performing purchase and sales and operating in securities transactions and in derivatives in Israel and abroad in branches of the bank.
- Investment consultancy - Providing securities consulting for customers in all of the bank’s branches.
- Managing of investment portfolios - management of financial assets for customers through Jerusalem Management Portfolios Ltd, a subsidiary of the Bank.

Legislative and Regulatory Restrictions and Special Constraints

The bank, and the household sector 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.

For deztails of legislation and proposed legislation on matters concerning the providing of banking services to households, see the section on "Legislative Updates", below.

Changes in Markets of the Activity Sector and in the Characteristics of its Customers

In the year 2010 there was intensified activity in the mortgages area. Also, the trend of recycling mortgages continued. The recycling activity has implications for the life span of loans in the bank, the margins, increasing market risks and aggravation of competition in the mortgage industry.

Number of delivered private vehicles in the branch in the year 2010 was 216 thousand vehicles, increase of about 25% compared to 2009. The accepted estimation is that half of the vehicles are destined for leasing companies and the remaining for acquisition, mainly by private customers.

In spite of the mentioned above, because of the competition in the vehicle branch, there was a significant reduction in the providing of credit for the purchase of vehicles in the year 2010 at the bank compared to the year 2009. In the year 2011 a decline is expected in the activity of the performance scope of providing credit for vehicle purchasing due to the low margin inherent in this activity. However, the activity in the area of credit for purchasing second hand vehicle will be intensified.

The information regarding the extent of credit stated in this section is "a view on the future" and may not be realized in whole or in part or that may be realized differently from expectations.

In 2010 the market for savings and deposits was characterized by the more moderate move of money to the capital market compared to the year 2009, and that, among others, due to the raise of the interest during the year. However, the slow raise in interest left the interest of the economy with a rather low level in which some households preferred investment in the Capital Market that produced them excess yield. At the same time and for the same reason, there was also a significant increase in mobilization from households expressed in increase of deposit portfolios of the public.

Critical Success Factors in the Sector of Activity

- Variety of mortgage products adapted to consumer needs, distribution network (branches) throughout Israel and ability for high level of credit underwriting, with an understanding of the relevant variables regarding the value of real estate provided as collateral.
- Reaching market crossroads at which vehicle sales are implemented and ability to formulate rapidly flexible financing programs that reconcile the importer’s requirements and costumer needs with its marketing program.
- Building a customer base is a potential for continuation of activity, providing professional, timely and quality service to customers. Ability to offer a competitive commission package and the ability for rapid response to market events and entry into new sectors of activity.
- Statistical model development by virtue of pricing credit, which is used as a tool for decision support and pricing for retailer credit.

The main entry and exit barriers of the sector of activity

Except for the requirement for a nation-wide distribution network, entry barriers in the sector do not differ significantly from the entry barriers into all of the bank's sectors of activity. 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.

Alternatives to Products and Services of the Sector of Activity

Mortgages – At present, no significant alternative products exist for mortgages.

Loans for purchase of vehicles – non-bank financing and leasing companies.

Consumer credit – credit card companies, food retail chains, and insurance companies.

Capital market – investment houses, insurance companies, trading platforms on the Internet.

Structure of Competition in the Sector of Activity

- In recent years, there has been aggressive competition between the banks regarding the mortgage market. The four large banks have a market share of over 85% of all mortgages granted in the industry. The other banks and insurance companies operating in this field share the remainder. In general, it may be specified that mortgage products offered by various banks are similar and therefore the competition is focused on the quality of the service, interest rate, loan prices and commissions paid by customers.
- Concerning related services for mortgages, there is additional competition for the banks from insurance companies that offer bank customers their life assurance and property insurance policies.
- In the sector of credit for purchasing of vehicles, most credit in previous years was granted by financing companies that are not banking entities. In recent years, concurrently with the increase in competition for households, banks have joined this financing activity.
- In the credit card sector, in addition to competition among the banks, accelerated effort of the credit card companies in cooperation with retail and other chains is evident to interest households in issuance of credit cards directly to the customer without bank intervention, including granting of 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 large banks play 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 sector's customers are Israeli resident individuals. The bank does not have significant dependency on any individual customer or limited number of customers but rather the activity in this sector is characterized by distribution of credit risk among a large number of customers. In addition, this sector has a great deal of weight in the bank's mobilization of sources in various channels.

Marketing and Distribution

The bank's activity in the housing household sector and is based on distribution chain of 16 branches throughout Israel. The bank markets itself through various means of communication, as a bank specifying in certain niche areas. The bank's distribution network is supported by software that assists in the construction of a financing package adapted to the customer's needs. Additional marketing channels include direct mailing and telemarketing.

In the area of financing credit for the purchase of vehicles, the bank also operates by means of cooperation with importers, auto agencies and leasing and rental companies, that have special campaigns to encourage customers to purchase vehicles with bank financing.

The bank's customers in the area of the capital market and securities currently work with all the Bank's nationally deployed branches. Consultants in the branches provide a service of buy and sell instructions for securities and investment consultancy services. Concerning portfolio management, customers in this sector can also obtain portfolio management services from the bank's subsidiary - "Jerusalem Investment Portfolio Management Ltd".

Competition

In the field of mortgages, competition has grown fiercer in recent years. Among other things, in NIS based loans and foreign currency based loans, where margins were usually higher, increased competition has led to an erosion of margins.

The regulations of Basel II create an advantage for retail activity due to the relief they embody in the field of allocation of capital. As a result, the changeover to the Basel II regime is driving the whole banking system to focus on the household sector. The large banks see housing loans as an anchor product for customers, and set growth in this area as one of their strategic objectives.

The struggle of the large banks to increase their share of the system creates an environment of aggressive competition, focusing mainly on price.

The area of finance for vehicles is also exposed to competition in view of the retail strategy of the large banks. Competition in the industry of financing for new vehicles has led to an erosion of margins and an increase in the rates of finance to customers.

The bank deals with competition in the area of mortgages by means of flexible financing tracks, mixes that create value and reduce risk, both from the customer's point of view and for the bank. In the area of finance for new vehicles large marketing efforts are made, particularly among importers

and vehicle agencies. In addition, the bank finances the purchase of used vehicles - an area where competition is still low and margins are higher.
Number of delivered private vehicles in the branch in the year 2010 was 216 thousand vehicles, increase of about 25% compared to 2009. The accepted estimation is that half of the vehicles are destined for leasing companies and the remaining for acquisition, mainly by private customers. No data exist regarding the rate of vehicles financed not through independent sources.

Human resources

In the year 2010 the average number of direct positions in the sector amounts to 150 direct positions. In the mortgage area 59 positions, in the banking and finance area 60 positions and in the capital market are 31 positions. In addition, head office and management personnel were attributed to the sector.

Following a summary of the operating results of the household sector:

	For the year ending on the 31st of December 2010				For the year ending on the 31st of December 2009*			
	Mortgages	Banking and Finance	Capital market	Total	Mortgages	Banking and Finance	Capital market	Total
	Millions of NIS							
Profit (loss) from finance activity:								
Externals	79.7	36.1	0.9	**116.7**	60.9	33.4	1.2	95.5
Between sectors	(8.5)	(9.1)	---	**(17.6)**	(6.0)	(6.7)	---	(12.7)
Income from other operating	47.5	4.9	13.1	**65.5**	50.8	4.5	11.5	66.8
Total income	118.7	31.9	14.0	**164.6**	105.7	31.2	12.7	149.6
Provision for doubtful debts	0.6	(2.0)	---	**(1.4)**	0.1	(2.9)	---	(2.8)
Expenses from operating and other:	(65.1)	(46.1)	(31.9)	**(143.1)**	(56.5)	(33.6)	(28.3)	(118.4)
Profit (loss) from regular operations prior tax	54.2	(16.2)	(17.9)	**20.1**	49.3	(5.3)	(15.6)	[illegible]
Provision for taxes	(15.6)	4.7	5.2	**(5.7)**	(18.0)	1.9	5.7	(10.4)
Net profit (loss)	**38.6**	**(11.5)**	**(12.7)**	**14.4**	**31.3**	**(3.4)**	**(9.9)**	**18.0**
Yield on capital	**13.8%**	**(21.5%)**	**---**	**4.3%**	**11.0%**	**(7.7%**	**---**	**5.5%**
Average balance from assets	5,013.9	617.3	---	**5,631.2**	4,765.0	600.0	---	5,365.0
Average balance from liabilities	---	4,776.5	---	**4,776.5**	---	4,728.3	---	4,728.3
Average balance from risk assets	2,554.0	487.1	---	**3,041.1**	3,444.6	522.7	---	3,967.3
Average balance from securities	---	---	1,545.0	**1,545.0**	---	---	1,171.7	1,171.7
Average balance from assets Others in management	2,736.3	---	126.5	**2,862.8**	3,091.5	---	274.6	3,366.1

* reclassified

** In 2009 according to Basel I and in 2010 according to Basel II.

Changes in the scope of activity and profitability in this sector

This year net profit amounted to 14.4 million NIS compared to NIS 18.0 million in 2009, a decrease of 20%. The main decrease resulted from losses in the banking and finance area and capital market.

In the area of mortgages, the profits from finance increased due to the raise in balances and due to the raise in profit of the non-indexed sector.

In the area of banking and financial profits the finance profits remained at the same level as for the year 2009. Through the increase in the non-indexed credit interval, the sector succeeded to moderate the influence that caused erosion to the passive margins. However, the increase in operating and other expenses due to the increase of the number of personnel resulted in losses in this area. In the area of capital market the net loss amounted to about 12.7 million NIS compared to the loss of a total of 9.9 million NIS.

❖ Private banking sector

General

Activity in the private banking sector provides banking services to customers with medium to high financial status through a branch specializing in private banking, mainly for foreign residents.

Objectives and business strategy

The bank's strategic objectives in the private banking sector are:
To maintain the status and reputation that the Bank has created among Jewish communities overseas.
- To expand activity in this sector while improving the financial margin and profitability of customers.
- To expand the range of financial services and products relevant to this market sector.

The information regarding the bank's intent as mentioned in this section constitutes an estimate 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 estimates concerning the ability to realize the bank's plans and programs, and may not be realized as a result of unexpected responses from factors active in the bank's business environment.

Structure of the Activity Sector

The activity in this sector mainly consists of:

Mortgages - Providing loans from bank funds to private customers, mainly foreign residents, with high financial status, to finance the purchase of apartments in Israel, as well as other credit for a lien on other collateral.
Banking and Financial - Provision of credit and activity in checking accounts, mobilization of foreign currency deposits, mainly from individual foreign residents.
The capital market - Providing securities services – buying and selling and operating transactions in securities and in derivatives in Israel and abroad; investment advice by consultants who specialize in areas of investment that are relevant for overseas residents, with special expertise in overseas markets. Management of investment portfolios for customers is performed through a subsidiary of the Bank of Jerusalem - Jerusalem Investment Portfolio Management Ltd.

Legislative and Regulatory Restrictions and Special Constraints

The bank, and the household sector 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.

The legislative restrictions in this sector are similar to those of all the activity areas of the bank, as specified in the paragraph "Legislative updating" below, and in addition, these services are subject to, according to the case, the specific restrictions of the laws applied in the countries of the various residents of the customers of this sector

As result of increased enforcement of the American Tax Authorities, it has been explained to the Israeli banking system that according to the American law, it is precluded from providing various securities services to customers who are American residents. Currently the bank examines the applicability of the regulations of the American law and accordingly updates the kind of services it offers to its American residence customers.

Critical Success Factors in the Sector of Activity

The special success factors in this sector of activity include: familiarity and relationships with Jewish communities abroad, travel abroad for current meetings and providing personal and professional service to sector customers in the field of private banking.

The main entry and exit barriers of the sector of activity

Entry barriers in the sector do not differ significantly from the entry barriers into all of the bank's sectors of activity. The exit from mortgages area falls within a range of years, because of the long life of the loans. In addition, there are entry barriers resulting from a lack of familiarity with sectors of the activity, regulation, and language difficulties.

Alternatives to Products and Services of the Sector of Activity

Mortgages – At present, no significant alternatives exist for mortgages.

Capital market – The principal alternative for capital market products are passive products, e.g. deposits and other investments.

Customers

The sector's customers are mainly foreign residents with medium to high level financial status who are prepared to pay for service and are characterized by a Jewish attachment to Israel. The bank does not have significant dependency on any individual customer and the activity in this sector is characterized by distribution of credit risk and widely distributed mobilization of sources.

Marketing and Distribution

Most marketing is implemented through personal contact with potential customers and other marketing channels such as lawyers, consultants and accountants.

Competition

Providing credit to foreign residents for purposes of financing acquisition of apartments in Israel is not similar to providing mortgages to Israeli residents. The bank acquired an excellent name in this sector and its estimated share in this activity is significantly higher than its part in the whole banking system.

Human resources

In the year 2010 the average number of direct positions in the sector amounts to 23 direct positions. In addition, head office and management personnel were attributed to the sector. The sector personnel include permanent employees trained to provide appropriate service to the sector's customers.

Following a summary of the operating results of the private banking sector:

	For the year ending on the 31st of December 2010				For the year ending on the 31st of December 2009 *			
	Mortgages	Banking and Finance	Capital market	Total	Mortgages	Banking and Finance	Capital market	Total
	Millions of NIS							
Profit (loss) from finance activity:								
Externals	9.9	10.6	0.7	**21.2**	10.5	9.0	0.7	20.2
Between sectors	(1.3)	(1.3)	---	**(2.6)**	(0.8)	(0.9)	---	(1.7)
Income from other operating	2.1	2.2	0.6	**4.9**	1.9	2.4	0.6	4.9
Total income	10.7	11.5	1.3	**23.5**	11.6	10.5	1.3	23.4
Provision for doubtful debts	---	---	---	**---**	0.3	---	---	0.3
Expenses from operating and other:	(8.0)	(9.5)	(2.4)	**(19.9)**	(7.3)	(10.6)	(1.4)	(19.3)
Profit (loss) from regular operations prior tax	2.7	2.0	(1.1)	**3.6**	4.6	(0.1)	(0.1)	4.4
Provision for taxes	(0.8)	(0.6)	0.3	**(1.1)**	(1.7)	---	0.1	(1.6)
Net profit (loss)	**1.9**	**1.4**	**(0.8)**	**2.5**	**2.9**	**(0.1)**	---	**2.8**
Yield on capital	**3.6%**	**13.7%**	**---**	**4.0%**	**6.5%**	**(0.9%)**	**---**	**5.2%**
Average balance from assets	851.8	51.1	---	**902.9**	743.8	13.7	---	757.5
Average balance from liabilities	---	760.2	---	**760.2**	---	662.4	---	662.4
Average balance from risk assets**	486.2	96.3	---	**582.5**	543.8	102.0	---	645.8
Average balance from securities	---	---	207.6	**207.6**	---	---	143.3	143.3

* reclassified
** In 2009 according to Basel I and in 2010 according to Basel II.

Changes in the scope of activity and profitability in this sector

The net profit of the year 2010 amounted to 2.5 million NIS compared to 2.8 million NIS in the year 2009.

The mortgage activity recorded a decrease in financing profits due to a decrease in profit from income cancellation. In the area of banking and finance there was an increase of 10.5 million NIS in the year 2009, to 11.5 million NIS in 2010. In the area of capital market a loss of a total of 0.8 million NIS was caused in 2010 following the increase in operating expenses and others.

❖ Business sector

General

Banking activity in the business sector provides banking services to business customers, corporations and associations in defined branches of the bank.

Objectives and business strategy

The bank's strategic objectives in the business sector are:

- To act selectively with respect to providing credit to construction and real estate firms, without increasing the existing level of risk. Cooperation with insurance companies and other institutes for providing project credit loans and issuing guarantees according the Sales Act (Apartments) and other guarantees, according to the Bank's policy.
- Decreasing the business credit for financing current activity of companies while shifting risk assets and the estimation for financing of transactions with project characteristics or financing of niche requiring as low as possible capital allocation.
- Expending the financing of transactions in the solar energy branch in the framework of a long term agreement with the Electricity Company.
- Financing of solar system groups and medium seized solar systems, aspiring of the bank to cooperate in financing of other financial institutes and to reduce the level of exposure of the borrower.
- Continuation of financing activity for the purchase of income yielding property and property for own use, such as: stores, gas stations or offices, and providing related services to businesses, such as guarantees, changing foreign currency and overseas trade.

The information regarding the bank's intent as mentioned in this section constitutes an estimate 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 estimates concerning the ability to realize the bank's plans and programs, and may not be realized as a result of unexpected responses from factors active in the bank's business environment.

Structure of the Activity Sector

The activity in this sector mainly consists of:

Construction and real estate – Most of the financing activity in the construction and real estate sector is implemented according to the rolling finance method. In the rolling finance method, the project is separated from other activity of the same customer. A special account is opened for the project, for purposes of that project only, into which proceeds are deposited. Shareholders' equity, buyers' funds and credit provided in the account are utilized for purposes of the project and are released according to the rate of construction. Also, additional project services are provided, e.g. construction guarantees and Sales Law guarantees to buyers, and the proceeds are in favor of the bank.

In the collateral and security method, the credit is provided to contractors against a specific lien.

Banking and Finance:

Credit for commercial activity – Financing of commercial activity including financing of income-producing assets and current activity, is generally implemented against material collateral. Income-producing assets are financed, among others, against liens on the asset and receipt of cash flows derived therefrom. Current activity of the companies is also financed against liens on the current assets. In addition, credit is given to customers of the sector to finance the purchase of vehicles

Credit for the solar energy branch - financing acquisition, installation and operating solar energy systems is performed against a contract with the Electricity Company for the period of 20 years at a defined electricity purchasing rate and fixed for the whole operating period. In addition, the bank mortgages the system equipment and the total arrangement of transaction contracts, as required, accumulating various reserve funds during the financing period.

Legislative and Regulatory Restrictions and Special Constraints

For details of the legislative provisions applying to this sector, see the chapter on "Legislative Updates" below.

Changes in Markets of the Activity Sector and in the Characteristics of its Customers

The real estate benefits of the price increase of the last two years and the large demand for housing on the side of lack of available land for building. Presently there is uncertainty in the branch concerning the continuation of the price increase of housing on one side, and at the other hand the lack of available land for building in the area of demand and decline in beginnings of building. Meanwhile, the changes of success of the marketing plan of the Ministry of Lands Housing and the Israel Lands Administration are still not clear and slowdown in the luxury housing market for destined public of foreign residents, continues.

Critical Success Factors in the Sector of Activity

In the real estate area:

Understanding of the relevant variables affecting the level of risk in real estate projects, e.g. areas of demand, construction in stages, land prepared for construction.

- Access to experienced entrepreneurs.
- High credit underwriting ability expressed in correct choice of accompanied project as a derivative of the location of the project and the possibilities for its marketing in accordance with market requirements.
- Defining a financing structure for the transaction in accordance with 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, including continuing supervision and control.
- Thorough comprehensive analysis of new transactions, including understanding of risks inherent in financing.
- Defining a structure of loans and adaptation of amount of financing to cash flows in respect of corporate transactions and activity.
- Reliable current estimate of existing collateral in the Bank and follow-up regarding current reporting by the company.
- Legal examination regarding 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 kind), examination if the financial model of the transaction, etc.

The main entry and exit barriers of the sector of activity

In the area of construction and real estate:

- Accumulated familiarity and experience in the rolling finance method, a unique financing method in the banking system.
- Familiarity with the players and comprehensive understanding of the real estate market.
- Contact with supervisors and assessors.

Banking and Finance:

- Accumulated knowledge and familiarity with the activity in the solar energy branch including contact with engineering advisers.

Alternatives to Products and Services of the Sector of Activity

An alternative product to bank credit is mobilization on the capital market, among others, through delegation of cash flows derived from leasing transactions and issuance of debentures in real estate companies, which may be backed by specific cash flows. Also, insurance companies operate in financing the business sector.

Customers

Construction and real estate area – The bank accompanies 125 projects with an average size of 60 residential units per project. More than half of the accompanied residential units are located in areas of high demand - greater Jerusalem area, the central and Sharon area.

The bank's credit portfolio is scattered 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, several joint projects exist with an insurance company also to provide financial credit for accompanied projects. As mentioned above, in the framework of the working plans for the year 2011, the bank intensified the cooperation with insurance companies and with additional institutes also providing financial credit in cooperation.

In the area of credit for commercial activity in the solar energy branch - the portfolio of the customers in scattered between a large number of customers. Current financing activity provided to a large number of customers acting in the areas and branches of the different and various markets. The real estate area provided overall financing for different kinds and includes gas stations, offices and commercial areas.

In the financing of the solar energy branch exists two kinds of customers: asset owners that install solar systems on roofs of owned by them and the second, entrepreneurs that hire roofs for installation of solar systems. In the area of this activity exists large scatter of borrowers and of power generating facilities as well as large geographical scatter.

Marketing and Distribution

The bank mobilizes customers and expands its activity in this sector, among others, by collection of data regarding tenders for acquisition of land intended for construction and analysis of the tenders. The bank utilizes its extensive familiarity and relationships in the market and initiates contact with franchise awardees, in addition to expansion of activity within the bank's existing customer base.

The bank initiates exposure to the target public through providing patronage for events organized by the organization of contractors and builders and by local contractors' organizations, through participation in various meetings, including speakers from the bank at these events.

In the commercial and services sector, the bank markets itself among potential customers through initiated contact, after collection of data and preliminary analysis of various companies.

In the solar energy sector the bank markets itself among installation companies and potential customers pointing to the bank for being active in this sector.

Competition

In the construction and real estate the competition among the banks to attract quality customers focuses on rates of equity invested in the project, structure of the transaction, size of commissions, interest on transactions and the level of customer service. The large scale of the projects, relationships built up over the years, and the bank's existing customer base constitute a lever for continuing activity with existing customers. Also, the bank sometimes utilizes excess sources in existing projects to leverage future activity in new projects implemented by its customers. The bank operates a mechanism to determine the amount of equity required for the project, derived form the rate of project implementation and sales. This mechanism constitutes an incentive for promotion of project sales and therefore reduces the level of risk in the projects

All commercial banks participate in financing the commercial and services sector and therefore the level of competition to finance the sector's activity is high. The bank's policy is mainly to serve as a secondary bank for the customer and focus on financing of specific niche products for its customers. Competition in financing of income-producing real estate is not focused only on the price of the transaction but also on the rate of the financing and the period of the loan.

In the financing of the solar energy sector participate most of the banks in the banking system.

Human resources

In the year 2010 the average number of direct positions in the sector amounts to 30 direct positions including personnel of branches. 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. In addition, head office and management personnel were attributed to the sector.

Following a summary of the operating results of the business sector:

	For the year ending on the 31st of December 2010				For the year ending on the 31st of December 2009 *			
	Construction and real estate	Banking and Finance	Market Capital	Total	Construction and real estate	Banking and Finance	Market Capital	Total
	Millions of NIS							
Profit (loss) from finance activity:								
Externals	22.5	19.3	0.6	**42.4**	22.1	17.7	0.5	40.3
Between sectors	(1.2)	(6.4)	---	**(7.6)**	(1.2)	(4.9)	---	(6.1)
Income from other operating	7.8	3.8	2.6	**14.2**	5.4	3.5	3.5	12.4
Total income	29.1	16.7	3.2	**49.0**	26.3	16.3	4.0	46.6
Provision for doubtful debts	3.4	0.6	---	**4.0**	2.2	1.6	---	3.8
Expenses from other activities	(15.3)	(16.7)	(2.5)	**(34.5)**	(13.9)	(13.6)	(2.6)	(30.1)
Profit (loss) from regular operations prior tax	17.2	0.6	0.7	**18.5**	14.6	4.3	1.4	20.3
Tax provisions	(5.0)	(0.2)	(0.2)	**(5.4)**	(5.3)	(1.5)	(0.5)	(7.3)
Net profit (loss)	**12.2**	**0.4**	**0.5**	**13.1**	**9.3**	**2.8**	**0.9**	**13.0**
Yield on capital	**10.7%**	**0.5%**	**---**	**6.5%**	**10.7%**	**3.4%**	**---**	7.8%
Average balance from assets	631.5	723.4	---	**1,354.9**	667.2	749.8	---	1,417.0
Average balance from liabilities	189.3	2,874.7	---	**3,064.0**	236.9	3,052.0	---	3,288.9
Average balance from risk assets**	1,039.2	794.6	---	**1,833.8**	1,056.0	956.1	---	2,012.1
Average balance from securities	---	---	265.7	**265.7**	---	---	167.4	167.4
Average balance from other assets under management	---	---	252.2	**252.2**	---	---	242.5	242.5

* reclassification

** In 2009 according to Basel and in 2010 according to Basel II.

Profitability data of the sector

Net income of this sector amounted to 13.1 million NIS, similar to the net income in the year 2009/ While also in this year a negative provision for doubtful debts has been recorded for a total of 4 million NIS that attributed to the profitability of the sector.

In the area of construction and real estate an increase of 2.8 million NIS in income was recorded in comparison with 2009, mainly due to increase in the income of project loans.

In the area of banking and finance there was an increase recorded in the operating expenses of a total of 13.6 million NIS during the year 2009 and a total of 16.7 million NIS during the year 2010. And this mainly due to the increase in salary expenses and others loaded on this area.

❖ Financial management sector

General

The sector covers the bank's financial management, including:

- 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 surplus liquidity while maintaining operating flexibility.

Structure of the Activity Sector

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

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

- Activity for commercial purposes characterized by short-term investments in government securities and concerns in the primary market and 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.
- Activity of investment in government debentures, mainly for purposes of obtaining yield in excess of the bank's liquidity balance.

- Activity of investment in non-government securities, mainly corporate debentures. According to the bank's policy in its considerations of the credit risk procedure and according to this policy.

The investment portfolio and the financial products are examined currently, taking into account macro economic forecasts on the issue 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.

Excess liquidity is deposited at the Bank of Israel and banks in Israel and abroad. The bank examines and invests in deposits in various channels, particularly for the short term. The purpose of this activity is to increase the yield on excess liquidity while maintaining operating flexibility. On the other hand, the bank has credit frameworks from banks in Israel, which it uses from time to time in accordance with its regular needs.

Legislative and Regulatory Restrictions and Special Constraints

The bank, and the financial management sector 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.

Human resources

In the year 2010 the number of direct positions in this sector amounted to three positions, similar to the year 2009.

Following a summary of the operating results of the financial management sector:

	For the year ending on the day December 31, 2010	For the year ending on the day December 31, 2009 *
	Millions of NIS	
Profit (loss) from finance activity		
Externals	**(16.9)**	24.5
Between sectors	**27.8**	20.5
Income from other operating	**0.1**	---
Total income	**11.0**	45.0
Provision for doubtful debts	**---**	---
Expenses from other operating	**(5.6)**	(5.8)
Income from regular operations before tax	**5.4**	39.2
Provision for taxes	**(1.6)**	(14.3)
Net income	**3.8**	**24.9**
Yield on capital	**14.4%**	**83.2%**
Average balance from assets	**1,571.1**	1,858.0
Average balance from liabilities	**296.2**	145.1
Average balance from risk assets**	**244.1**	363.5

* Reclassification.

** In 2009 according to Basel I and in 2010 according to Basel II.

- **Profitability data of the sector**

This year net profit amounted to 3.8 million NIS,compared to 24.9 million NIS in the year 2009.

The main decline in profit results from the decrease in excess income from negotiable securities and available for use for a total of 49 million NIS in the year 2009 and for a total of 21 million NIS in the year 2010.

Also, an increase in the income for financial capital has been recorded for a total of 5 million NIS compared to the previous year, mainly due to raise of interest by the Bank of Israel.

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

❖ Attracting financial resources

General information

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

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

The bank's activity in the sector of mobilization of financing sources from the public in shekels is managed in the risk management and financial management sector and in the capital market and foreign currency sector. Since this activity relates to all of the bank's operating sectors, and the activity includes characteristics that differ from the other sectors, this activity is described in general and not for each sector separately.

The balance of deposits of the bank's public as of December 31, 2010 amounted to 7,408 million NIS. Deposits of the public include savings and deposits of households and deposits mobilized from institutional entities and from companies. The decrease is due to the move of investors to the capital market because of low interest rates.

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

		Balance for the day of the 31st of December			
		2010	2009	Change	
		Millions of NIS			%
1.	Deposits in NIS and checking	3,712	3,232	480	15
2.	Saving plans and deposits linked to index	2,671	2,745	74	(3)
3.	Deposits in foreign currency	964	1,045	(81)	(8)
4.	Deposits linked to foreign currency	61	94	(33)	(35)
	Total deposits	**7,408**	**7,116**	**292**	**4**
5.	Liabilities certificates and notes of deferred	1,921	1,392	529	38
	Total financial	**9,329**	**8,508**	**821**	**10**

As a result of the structure of competition in the banking system, 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.

The average balance of liabilities in 2010 amounted to 8,667 million NIS, compared to 8,825 million NIS in 2009. This balance includes an average balance of liabilities to households for the amount of 4,776 million NIS (household sector), an average balance of liabilities to private banking entities of the amount of 760 million NIS, an average balance of liabilities to companies and institutional entities for the amount of 3,064 million NIS (business sector) and an average balance of liabilities to banks for the amount of 66 million NIS (nostro sector).

The bank acts to mobilize sources also through the capital market by issuance of marketable deposit certificates. The issuance is performed by a wholly owned subsidiary - "Jerusalem Financing and Issuances (2005) Ltd".

Customers

During recent years the bank places emphasis on expansion of the base of depositors and increase in deposits from households, in order to reduce the reliance on large depositors. The bank's deposits portfolio is scattered 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 of the public.

The number of creditworthy customers at the bank has increased continuously in recent years.

Marketing and Distribution

Mobilization from households is performed through 16 branches of the bank scattered throughout Israel and mobilization from institutional customers is performed directly by the savings and deposits department, although, some institutional customers are also mobilized by the branches.

The bank operates a transaction room in NIS in the savings and deposits department, which provides institutional customers and branch customers with daily interest quotes and develops unique flexible financial instruments adapted to the requirements of the customers. The bank also operates a foreign currency transaction room in the framework of the foreign currency and foreign trade department.

Competition

The bank's competitors in the area of mobilizing sources are 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 running trading rooms in NIS and foreign currency, providing products and quote interest rates to the bank's customers, initiating attractive campaigns for customers, and developing new products to vary the product basket.

Objectives and business strategy

The bank determined a long-term policy for itself to expand mobilization of sources, with an increase in the part of the sources from households out of total deposits of the public and maintenance of the ability to mobilize sources from institutional customers. Long-term deposits are mobilized in accordance with the volume of new long-term credit granted. Through the "Jerusalem Financing and Issuances (2005) Ltd" subsidiary, the bank mobilizes deferred liability notes from households and from institutional entities according to the bank's capital requirements.

Management of the bank determines specific objectives for the branches and for the head office in all sectors of activity and follows-up on fulfillment of these objectives on a current basis.

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 offers attractive campaigns to the depositor public and through the media and on-line for existing and potential customers. The bank offers closed circuit banking services that enable mobilization of funds from customers of all banks. The bank attributes importance to strengthening cooperation with institutional customers, including the new pension funds and monetary funds.

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

On the day of the 7th of October 2010 ratified Standard & Poor's Maalot the issuer rating of the bank at a level of ilA+, the forecast of the rating remained negative.

This rating is also the rating of the debentures (except for the deferred obligation notes as specified below) that have been issued by Jerusalem Financing and Issuance (2005) Ltd, subsidiary owned and fully controlled by the bank (hereinafter: Financing and Issuance"), meaning ilA+. Deferred liabilities notes that have been issued by Financing and Issuance are rated at one rating level lower than the bank rating. Therefore, the rating is ilA (instead of ilA+).

The Bank of Jerusalem committed to fulfill all the conditions of all issued debentures by Financing and Issuance.

❖ Permanent activa and installations

The impaired cost of the bank's activa and equipment amounted to 56.7 million NIS as of December 31, 2010, compared to 52.4 million NIS as of December 31, 2009.

Most of the activa and land owned by the bank are located in Jerusalem, including the head office building and 2 branches.

Other fixed activa are equipment, furniture and vehicles (mainly computer systems) that are utilized by the bank for its current activity.

On the issue concerning the decision of the Board of Directors on sales of the head office building see chapter Events during the Reporting Year.

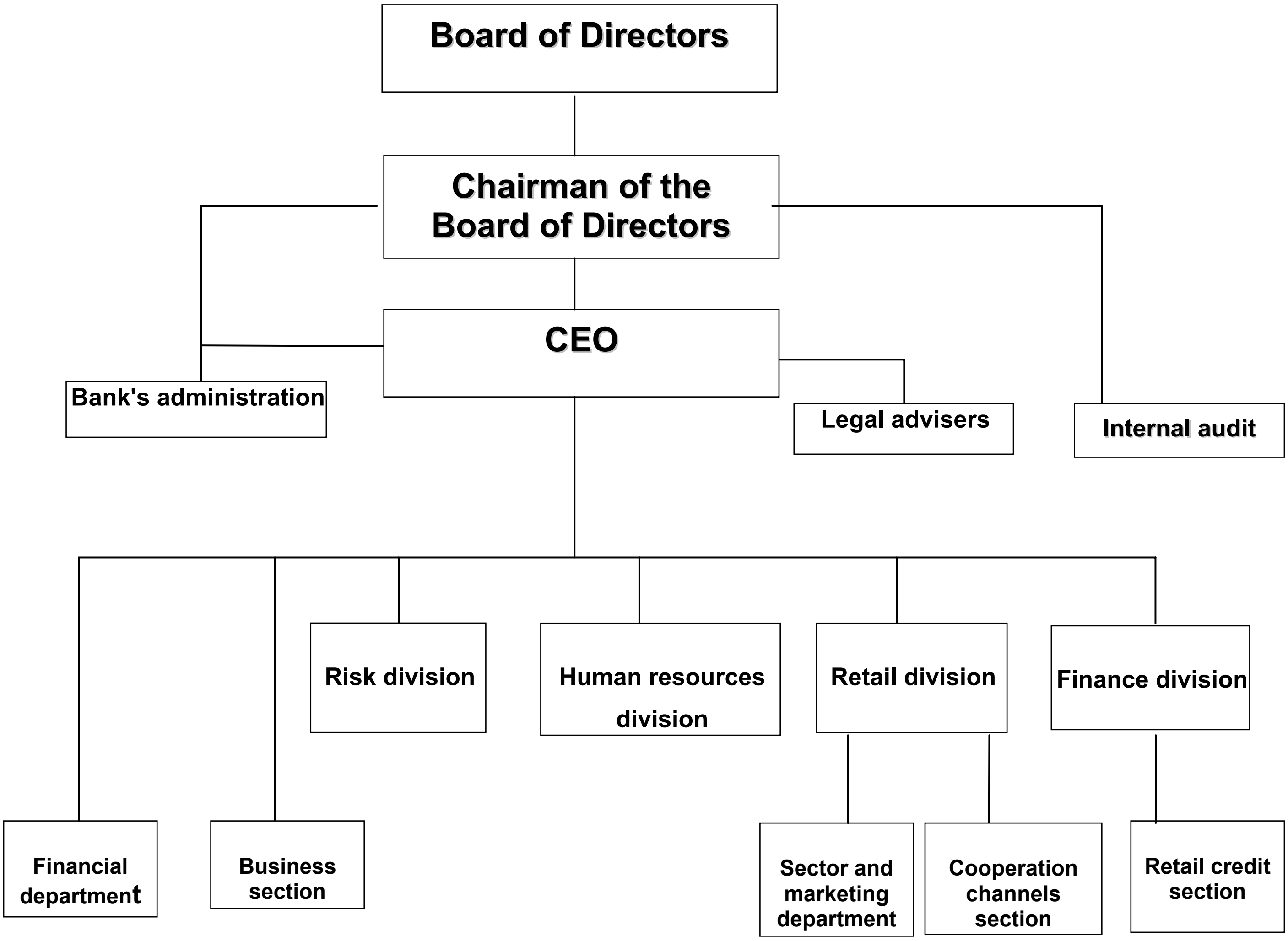
For additional information see Note 9 to the 2010 financial reports.

The bank has 16 branches, scattered throughout Israel. Two of the branches, in Tel Aviv and in Jerusalem, serve as commercial branches, for both business customers and households. Through the other branches, the bank offers a variety of banking services for households, mainly providing mortgages and other loans, savings plans and deposits, and a variety of capital market activity.

❖ Human resources

Diagram of Bank Departments

Following is a diagram of the bank's departments and other principal sections:



The organization structure has been approved by the Board of Directors of the bank on November 25, 2010.

Labor force

Following are details of the number of personnel in the bank and in its subsidiaries (including personnel outsourced through manpower agencies):

	As of year end		Annual average	
	2010	2009	2010	2009
Number of employees:	412	377	393	369
From this: from external source	27	19	23	16
Number of positions:				
At regularly hours	401	368	383	358
Overtime			13	11

For details regarding dividing of personnel by sectors of activity, see section on "Financial Data by Sectors of Activity" in this report.

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 2010 was characterized by professional strengthening of the existing system and training activity in the area of checking accounts, meanwhile accepting and training new employees.

In 2010 the bank training focused on training the branch arrangements, the call center and back-up system for the support in new business objectives the management of the bank issued. Among the professional training we note the checking account comprehensive training, training on automated underwriting system and training in credit cards area.

In addition to the mentioned above, core training has been forwarded in the area of investments and credit (course for manager on the issue of exposure and risk on Ma'of options, basic investment course, monthly forum investment consultants, credit for household course, real estate course, etc.) and also training in the risk management channel (money laundering, risk operating, arrears controls management), and training in the branch arrangement.

During the year 2010, the first class of the Administrative Reserve track finished successfully at the bank, The course combined workshops for developing personal skills, professional instructions and personal training by an external presenter and mentor from the Board of Directors.

During the year 2010 the bank transferred 1,735 training days at a cost of 420 thousand NIS compared to 1,308 training days at a cost of 503 thousand NIS in the year 2009.

Description of compensation programs for employees

During the year 2010 the Bank of Jerusalem has integrated a compensation plan for the employees of the bank based on the document published by the Supervisor of the Banks on this issue with the purpose of fixing a clear and known in advance formula connecting between the yield of the bank and the height of the yearly distributed grant and this while long term examination of the goals of the bank and with consideration of the existing risk level at reach 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.

Resembling, granting addition of salary will be examined according to the recommendations of the managers and achievements of the employee in a differential manner.

Description of employment agreements

The bank has a general employment agreement to which approximately 52% of the employees are subject,and that is updated annually in a written agreement between the employees' committee and management. This update includes salary increases in respect of the basic salary and related expenses. The bank also holds personal rating negotiations with the mentioned employees.

About 45% bank's employees are employed under personal salary contracts and their updating is examined one a year in a personal manner according to the differential contribution of the employee to the bank and according to the recommendations of his managers. 3% Of the employees of the bank are employed with hourly employment agreements, in the call center.

Development of human resources

The bank places emphasis on investment in the value of its personnel, concurrently with development of the employees and human resources.

In addition to specific internal 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 of industries and their areas of activity. Also, the bank sends its employees to courses, seminars and professional conferences that have been launched in to banking industry,

The bank also places emphasis on improvement of the organizational culture and the chain of service relative to the branches and the head office together with evaluation of in-house service and quality customer service.

The bank also encourages mutual guarantee between its employees and established in the year 2010 a mutual fund between the bank and its employees to support employees being in financial distress.

At present, the bank recruits mainly academic personnel and as of the end of 2010, 67% of the bank's employees possess an academic degree, of whom 21% have a master's degree and 7% are studying for a master's degree. A total of 85% of the bank's employees possess a high school education or higher and 5% are studying for a first degree.

❖ Financing

Restrictions applicable to the banking corporation providing credit:

Restrictions minimal capital

Against the credit risks are the equity sources (composed of primary and secondary capital). The main restrictions on the activity scope of the bank in all kinds of credit areas are embedded in de requirements of the Supervisor on the Banks for maintaining minimal capital ratio.

Limitations and Restrictions on a Borrower and on a Group of Borrowers

One of the sources of credit risks in banking institutions is the centralization of the credit portfolio – as a result of the level of centralization of the bank's credit risk, limitations and restrictions were fixed on the liability of a borrower and on a group of borrowers. The limitation on a single borrower in the bank is 15% of the total primary and secondary capital and amounts to 136 million NIS. At present, no borrower exists in the bank whose credit risk is close to the limitation on a single borrower.

The limitation on a group of borrowers constitutes 30% of the total primary and secondary capital and amounts to NIS 271 million. At present, no group of borrowers exists in the bank whose credit risk is close to the limitation on a group of borrowers.

An additional limitation is that total liabilities of the six largest borrowers and groups of borrowers will not exceed 135% of the total primary and secondary capital. The bank is far from this limitation.

For information regarding the bank's liability ranking by Maalot, see section Mobilization of Financing Sources.

❖ Taxation

General

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 in accordance with the rates determined in the VAT Act.

In June 2005, Amendment No. 147 was enacted to the Israel Income Tax Ordinance, 2005. The Amendment states, among others, that the corporate tax rates will be reduced gradually:
the year 2008 – 27%; the year 2009 – 26%; the year 2010 and so forth – 25%.

In July 2009 the Knesset approved the Economic Efficiency Act (Legislative Amendments for Implementation of the Economic Plan for 2009 and 2010), 2009, which reduces the rates of tax gradually from 24% in 2011 to 18% in 2016 and henceforth.

In December 2009 the Knesset approved, as a temporary provision, starting on January 1, 2010 and until December 31, 2010, a reduction in the rate of profit tax applying to financial institutions from 16.5% to 16%.

On December 14, 2010 an Value Added Tax ordinance was published that extended the validation of the tax rate of 16% for two additional years 2012 - 2011.

In view of this, the statuary tax rate applicable on the bank and it subsidiaries that have been determined as "financial institute" for the purpose of VAT, will be as follows:

Year	Corporate tax rate	Profit tax rate	Total tax rate
2010	25%	16.0%	35.34%
2011	24%	16.0%	34.48%
2012	23%	16.0%	33.62%
2013	22%	15.5%	32.47%
2014	21%	15.5%	31.60%
2015	20%	15.5%	30.74%
2016 and henceforth	18%	15.5%	29.00%

(*) Weighted rate.

Assessments

The bank issued final assessments until and including the year 2007. For two subsidiaries final tax assessments have been issued until and including the book year 2005. For the other subsidiaries tax assessments until and including the year 2006 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 has a banking license according to paragraph 10 of the Banking Law (Licensing), 1981. According to this license, the bank is subject to the following limitations: The bank may not control and may not be an interested party in entities of any kind, in Israel or abroad, except an investee entity, without approval of the Supervisor, to a certain entity or to a kind of entity. The above will not be applicable to entities held by the bank according to relevant legislation immediately prior to receipt of the license, and such holding is according to the determined conditions.

- The Supervisor will determine a special capital adequacy ratio for the bank. The Supervisor's notice of August 2009 determines that as of the end of 2009, banking corporations are required to maintain the capital targets defined for them, both according to the Basel I capital regime and according to Basel II.
- 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 banks are currently entitled to control investee entities subject to advance written approval from the Supervisor. Also, an individual may serve as a senior officer in a bank if an announcement was submitted to the Supervisor at least sixty days prior to the commencement of his tenure and the Supervisor agreed and did not state his opposition to such appointment.

In addition, 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.

In accordance with the announcements submitted by the Bank to the Bank of Israel, the Trust Corporation of Bank of Jerusalem Ltd, wholly owned subsidiary, performs the instructions of the customers without operating of opinion.

Bank commissions, including those of the Bank of Jerusalem, are supervised by the Bank of Israel. Also, according to the mentioned Amendment, the Bank of Israel determined tariffs that include a list of the services for which banks may charge commissions and the method of calculation of such commissions.

The bank is a commercial bank, a public company traded at the Stock Exchange, a member of the Tel Aviv Stock Exchange, a member of the Stock Exchange Clearance and the Maof Clearance, and accordingly is subject to all relevant legislation

Ir Shalem Insurance Agency (1996) Ltd, a wholly owned and controlled subsidiary of the bank (hereinafter "Ir Shalem") has an insurance agency license according to the Law for Supervision of Insurance Transactions, 1981. In accordance with relevant instructions of the Supervisor of Insurance and the Supervisor of Banks, the insurance agency 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 restriction does not apply to insurance made before 1.1.06.).

Specific legislation and proposed legislation in the reporting year that could or may affect the bank are detailed in the paragraph on 'Legislative Updates'.

❖ Significant agreements not in the process of regular business

Following is a summarized description of the significant agreements, not in the regular course of business of the bank, that were signed and/or that are in effect, in the reporting year.

Agreements with Government of Israel for Granting Loans

The bank has framework agreements with the Government of Israel to grant loans with government responsibility (including arrangement of implementation of the 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 mentioned 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.

In addition, in the month of May 2008 the bank signed an agreement with the Government of Israel regarding 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 at bank responsibility, and only a small part from Government funds and at Government responsibility. The Bank is entitled to receive a subsidy from the Government in for loans granted from bank funds, and commissions at various rates in for loans granted from bank 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.

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 above mentioned insurance agencies are entitled to payments from the insurance companies in accordance with their services. The bank is the owner of the policy and the beneficiary in accordance therewith.   The above mentioned agreements apply only to life insurance of borrowers made up to 31.12. 2005.

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 insurance 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 2010 and were extended until March 31, 2011. These agreements apply only to property insurance on account of loans given up to 31.12.2005.

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.

Agreements with stakeholders

The bank has an agreement for providing services with the Chairman of the Board of Directors, that obtained the approval of the authorized bank institute as required according the law, and has not significant extend. Until 1.5.2010 the bank paid to one of the members of the Board of Directors additional benefit payment, at no significant extend, for additional services.

For details see Note 23 of the financial reports for the year 2010 and Regulation 23 of the periodic report for the year 2010 attached to this report.

❖ Cooperation agreements

Following is a summarized description of the cooperation agreements, not in the regular course of business of the bank, that were signed and/or that are in effect, in the reporting year.

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

The bank has an agreement with credit card companies for issuance of credit cards as joint issuers and for receipt of services.

The bank has a cooperation agreement with Bank Leumi for all matters regarding clearance of checks. In this framework, Bank Leumi represents Bank of Jerusalem in the clearance.

❖ Legal procedures

For information on the issue of legal procedures see Note 20C of the financial reports.

❖ Objectives and business strategy

The information regarding the bank's intent as mentioned in this section constitutes an estimate 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 estimates concerning the ability to realize the bank's plans and programs, and may not be realized as a result of unexpected responses from factors active in the bank's business environment.

During the last period the bank undergoes a comprehensive process of strategic integration. In the process, that is being performed in stages, are taking part the bank management and many additional managers, and it is accompanied by the Committee of the Board of Directors for planning capital and strategy and is discussed in the meeting of the Board of Directors.

The objectives of the integrating plan are extensive organizational retail growth and reaching extensive volume of borrowing customers with differentiated value offers while developing the bank's retail expertise, and at the base systemic risk reduction of the bank based on extensive consumer credit and well dispersed, while creating high and continuous value for shareholders, bank employees and its customers.

Integration of the plan will be done while examining the various risks involved with the implementation.

In the framework of the plan, the bank examines upgrading of its computer systems. Cost of the investment may reach tens of millions of NIS. The upgrade includes strengthening of the core systems of the bank, upgrade of the internet web site and adding call center and CRM system.

The Board of Directors of the bank will discuss the strategic outline of the plan during the first quarter of 2011, and they are expected to decide on the implementation of the various components of the plan.

❖ Discussion of risk factors

The information detailed in this paragraph on the issue of risk factors to which the bank is exposed is "a view on the future" that may not be realized in whole or in part or may be realized differently from expectations. This information is based on estimates of bank management concerning future realization of industry forecasts and macro-economic forecasts in accordance with 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 activity and profitability of the bank are exposed to changes in the business environment and 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 sectors, in particular.

The following are the main changes in the characteristics of activity and in the business environment that could affect profits

- The development of the financial crisis 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 deterioration of the repayment ability, and on the bank's ability to raise capital and the margins of its activity.
- 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 problematic debts as well as credit provided to households against a lien on their housing. These changes may affect the credit available for projects accompanied by the bank.
- The crisis in global financial markets may influence 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.
- The slowdown in capital market may influence the bank's possibilities for raising sources for the bank by means of negotiable issuances.
- In addition, the slowdown in this market may influence the bank's activities in the area of the capital market. But since the bank's activity in the capital market is not a large part of its business, the bank's assessment is that the realization of this risk cannot significantly harm the bank.
- Future realization of the macro economic forecasts according to or different from the bank's assessments of these forecasts may influence the results in the financial management sector.

The principles of the second layer of the Basel II regime are intended to strengthen the link between the risk profile, the risk management systems and the bank's capital. Implementation of the guidelines published by the Basel Committee requires the bank, like other banking corporations, to act to upgrade corporate governance and its risk control and management system. Such an upgrade will be achieved, among others, by means of a deep understanding of the risks embedded in the bank's activity and by maintaining a suitable routine risk management culture. These are the main components of an effective risk management system and are an additional layer in assuring the bank's long term stability.

The activity of the bank as a financial intermediary exposes it to a variety of risks, including credit risks, market risks and liquidity risks. The bank has additional exposure resulting from operating risks and legal risks.

According to the instructions of the Supervisor on the Banks, the bank is required to regulate the existence of the undependable risk management functions that is lead by a Chief Risk Officer (CRO). The objectives for establishing this function is the strengthening ability for understanding the overall risks the bank is facing and securing the cautious management. The instructions define the operating principles of the Chief Risk Officer and of the risk management functions, and specifies their position, their function and areas of responsibility.

The Chief Risk Officer of the bank is Mr. N Levi, Vice CEO and manager of the Risk Division. The purpose of the function of the CRO is to create a wide view and organization crossing of the overall risks the bank activities demand, among others, through creating risk management culture influencing all the activities of the bank.

In the framework of the responsibility of the risk management functions and its leader, they will have to provide, directly and indirectly, to the Board of Directors and its senior managers all the relevant data for the proper supervision on the risks profile of the bank in such a manner that it assists directing the bank.

Retail credit risk is managed by Mr. M. Ben-Ischai, Viceo CEO and Manager of the Retail Credit Section. Business credit risk is managed by Mr. B. Adiri, the Vice CEO and Manager of the Business Section. Market and liquidity risks are managed by Mr. N.Nitzan, the CEO Assistant and Manager of Financial Risks, excluding the legal risks managed by Mr. A.Stein, Manager of Operational Risks and Compliance at the Risks division. The Legal Risks is managed by the laywer S.Wistoch, Vice CEO and legal advisor of the bank.

The bank has integrated a work framework for risk management and control, based on 3 "control cycles" and adjusts the policy of the bank for managing various risks to the principles appearing in the instructions of Basel II.

First cycle of control: this cycle includes the creator of risk, which is the business function making business decisions involving risks. The controls carried out as part of regular activity, by business factors, including various actions, including: compliance with policy and procedures, compliance with restrictions and reporting to senior management and the Board of Directors.

Second cycle of control: this cycle includes the review elements of management which are independent of the risk creators. The processes involved in this cycle 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 and for deviations from the bank's policy and procedures.

Third cycle of control: this cycle includes independent control factors, such as internal auditing and risk controllers. These elements control the suitability, quality, effectiveness and appropriateness of risk management procedures and the tools used in the processes, the validity of models and methods for assessing exposure to risk, compliance with restrictions, yield versus levels of risk, and periodic reporting to the Chairman of the Board of Directors.

At each meeting receives the Board of Directors of the bank a survey of significant developments concerning the exposure to market risks and quarterly it discusses the exposure document that summaries all data for credit risk, market and liquidity risks, for operating risks and legal risks. Also, the Board of Directors approves, at least once a year, the market and liquidity risk management policy and operating risk management policy. In the framework of discussions on policy, the Board of Directors determines exposure limitations for various risks. The management is responsible for the implementation of this policy.

Also, a committee of the Board of Directors is active regarding risk management, which supervises risk management policy on a current basis and approves introduction of new products. The committee discusses developments relating to exposure to market risk and receives reports on any exceptions or limitations to the policy determined by the Board of Directors. Additional forums, e.g. internal forum for risk management or committee for management of assets and liabilities that meets twice per week, discusses and acts currently on subjects affecting the bank's exposure to market and liquidity risks.

The authority for changing existing exposure, increase or decrease, is delegated to various factors in the bank (each factor according to approved levels of authority), all in compliance with the limitations determined by the Board of Directors. Also, the Risk Division centralizes the control on credit risks and market and liquidity risks.

The risk management policy, approved by the Board of Directors, is intended to assist management to attain its business objectives, with limitation of (accounting or economic) losses that may occur as a result of exposure to the above mentioned risks. The estimate of exposure to risks is based on current forecasts and estimates of expected developments in the economy and in financial and capital markets. The bank manages market risks, with consideration of the accounting exposure limitations resulted from these risks. However, the accounting exposure in most of the risks does not differ significantly from the economic exposure, and the risk policy and the determination of the limitations is also in consideration to the economic risk.

Basel II

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

The Basel II recommendations are divided into three segments:

First segment – Minimum capital requirements for credit risk, market risk and, for the first time also operating risk.
Second segment – The ICAAP process an supervising survey process.
Third segment - Market compliance.
The first segment 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 of the Supervisor on the Banks.

The second segment emphasizes integrated risk management. In this framework, 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 segment relates to the level of transparency and requirements for disclosure in reporting to the public by banking institutions, 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 regarding the bank's capital, as presented in the reports, the exposure to various risks and the evaluation processes.

The Supervisor of Banks issued an interim instruction on implementing the disclosure requirements of segment 3 of Basel II. These requirements are all described, as required by the instruction, in this chapter (Discussion of Risk Factors), except for the requirements that are not relevant to the bank (such as securitization) and excluding the requirements specified according to the following:

Requirement	Subject	Location
Table 2	Capital structure	Note 17a (Equity) Note 17b (Capital adequacy)
Table 4	Credit risk	Appendix E for Management review Note 19 for the financial reports.
Table 8	Credit risk of counter-party	Note 21c

Following are the balances of the bank's risk assets in accordance with the first segment (in thousands of NIS) [(1)]:

Credit risk	**Assets risk**
Quarterly exposure	- -
Exposure of the public sector	975
Exposure of banking corporations	150,478
Exposure of corporations	1,264,707
Exposure in collateral commercial real estate	60,579
Exposure of retail for individuals	634,594
Exposure of small businesses	280,818
Exposure for housing mortgages	2,967,670
Exposure for other assets	97,958
Market risk	**18,257**
Operating risk	480,125
Total	**5,956,161**

(1) According to the instructions of the Supervisor of Banks the column of capital requirement for risk asset balances is not shown.

Following is the composition of exposure (according to conversion to credit of off-balance sheet exposure) by the weight of risks according to the first segment (thousands of NIS):

Weight risk	Exposure prior decrease of credit risk	Exposure after decrease of credit risk
0%	1,473,945	1,473,945
20%	193,556	193,556
35%	4,086,657	4,084,567
50%	230,548	230,548
75%	3,395,474	3,330,312
100%	2,075,136	2,035,859
150%	72,738	72,670
Total	**11,528,054**	**11,421,457**

Following are the exposure balances covered by collateral and guarantees according to the first segment (thousands of NIS):

Kind of exposure	Exposure balance covered by proper financial collateral	Exposure balance covered by guarantees
Exposure of the public sector	- -	- -
Exposure of banking corporations	- -	- -
Exposure of corporations	39,204	17,943
Exposure in collateral commercial real estate	- -	- -
Exposure of retail for individuals	53,646	- -
Exposure of small businesses	10,881	- -
Exposure for housing mortgages	2,867	- -
Exposure for other assets	- -	- -
Total	**106,598**	**17,943**

Following are the capital requirements for market risks according to the first segment (thousands of NIS):

Kind of risk	**Capital requirement**
Interest risk	235
Risk shares prices	195
Exchange rate risk	1,030
Options	- -
Total	**1,460**

Basel II recommendations are linked between required capital adequacy from banks and between effectiveness of risk management processes and internal controls. In this regard, the recommendations refer to 18 specific guidelines relating to risk management in banking institutions published by the Basel II Committee in the past. The Bank of Israel announced its intent to adopt 15 of the mentioned guidelines.

The bank operates with an external consultancy agency that, in cooperation with the working teams of the bank, prepared appropriate infrastructure for internalization of the first segment of the requirements in the bank's systems. Also, the bank engaged an additional company that implemented a survey of gaps in the bank's compliance with the requirements included in the 15 guidelines which the Bank of Israel intends to adopt. The bank utilized the results of the survey for preparation of a work plan in the framework of which the Bank will attempt to close the gaps stated in the mentioned survey.

During the third quarter of the year the Bank performed for the first time examination process of its capital adequacy - ICAAP (Internal Capital Adequacy Assessment Process). This us a current process through which the Bank implements self-evaluation of its capital adequacy. This estimation in based on the recognition and handling of risks embedded in its operating, capital quantification required for the support of these risks and examination that the actual capital exceeds this requirement and that the capital is well protected of realization of risks of which the bank is exposed. Building this process at the bank is a central part in the preparation of the bank for Basel II and the requirements of the Bank of Israel for the second segment.

Relying on the appropriate capital estimation as of 31st of December 2009 the Board of Directors of the Bank determined the capital objectives under the Basel II regime for the coming years:

In normal business situation:

- Total capital ratio to risk components (first segment) not reduced from 12.5%.
- Core capital ratio to risk components (first segment) not reduced from 8.0%.

  Minimum capital ration in extreme situation under the realization assumption of holistic event:
- Total capital ratio for risk components not reduced from 10.2%.

At the date of this report, capital ratio of the bank was significantly higher than the minimum capital objective that have been determined bu the Board of Directors of the bank in its above mentioned decision. In addition, the implementation of the yearly work plan of the bank will bring it by the end of 2011 to maintaining the core capital ratio to the risk components of 9.2% and of the total capital ratio of 13.8% (under the full recruitment assumption of deferred liability notes used for the need of capital layer 2). These ratios are higher than the capital objectives determined by the Bank of Directors of the bank.

The information regarding the bank's intent as mentioned in this section constitutes an estimate 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 estimates concerning the ability to realize the bank's plans and programs, and may not be realized as a result of unexpected responses from factors active in the bank's business environment.

It is emphasized that the ICAAP process will be performed at the same time of the integration of the strategic plan. The capital objectives are determined by the Board of Directors of the bank based on the estimation of the required capital level for the support in the future risk profile resulting from the current operation of the bank. In the framework of the integration of the strategic plan the bank may decide on more conservative capital planning and temporarily saving, until establishment of the strategic plan, by high capital objectives of those remaining. During the integration of the strategic plan, the mentioned capital objectives will be examined and as far as significant additional risks are recognized, the objectives will be updated as needed.

Products of the process including capital objectives determined by the Bank of Directors of the bank, are centralized in the ICAAP document that has been presented to the Bank of Israel on the 18th of August 2010. The bank received the first comments of the ICAAP process and this document of the Bank of Israel and it examines how to implement these comments and the consequences on the increase of the capital objectives. Implementation of these comments will be performed in the ICAAP process for the year 2010 which should be presented till the end of the month April 2011.

The Supervisor on the Bank will perform survey process and evaluation concurrent with the ICAAP process, that is an internal process in the Bank, as mentioned. This SREP (Supervisory Review and Evaluation Process) requires the Supervisor to determine the capital adequacy of a banking institution and the appropriateness of the ICAAP process for purposes of risk exposure (risk profile), taking into account the Bank's institutional framework. This process will assist the Supervisor to formulate an opinion regarding the appropriate level of capital adequacy and the supervisory measures and additional risk-reducing activity in this regard.

In these reports, similar to all banking systems, the capital adequacy data were reported according to standard presentation principles in Basel II. Minimum capital adequacy ratio required from the banking system under the regime of Basel II is 9%, from this 8% for the first segment. However, the Supervisor on the Banks released a guideline saying that until the adjustment of proper banking management instructions to updated recommendations of Basel II, the banks will adopt objective for core capital ratio for the 31st of December 2010 at a rate of not less than 7.5%. In addition instructed the Supervisor that until the completion of the SREP- process, all the banks need to comply also with capital objectives as defined by them in Basel I guidelines.

The general decision of standard presentation (first segment) of Basel II on the Bank of Israel, reduces the asset risks of the bank, this is different from the banking system as a whole. The Supervisor on the Banks instructed the bank that until the completion of the ICAAP process and obtaining minimum included capital ratio, it is required by the Supervisor on the Banks to report report in financial reports on temporary ratio as mentioned of 13%. The calculation of this rate is performed in a technical manner and is obtained from conversion of general capital ratio required from the bank in terms of Basel I, that was 10.5%, to general capital ratio in terms of Basel II calculated for the 31st of December 2009. It should be emphasized that the objectives of capital adequacy of the bank as well as ratio capital adequacy required by the Supervisor on the Banks will be determined only after completion of the ICAAP process by the bank and the SREP process by the Supervisor.

Management of the bank regards with great importance the preparations for risk management handling and accordingly the bank is planning to integrate the Basel II principles in its business activity. The bank has started collection of data required for construction of statistical models needed for ranking the bank’s customers. These models will support the decision making for providing credit and will assist in the future building advanced models required for the need of implementing the Basel II recommendations.

Implementation of the Basel II principles involves investment of extensive management resources and costs that will be spread over several years.

The Process of Reviewing Exposure to Various Risks

The bank reviews its exposure to the various risks both regularly and at specific times designated for this purpose. Risk exposure is assessed on the basis of a wide range of data and reports, which cumulatively provide a complete picture of exposure. Because of the importance of this subject, various forums at the bank devote time designated for overall monitoring of the exposure and different risks. In addition, a large part of the date is being monitored currently and reviewed at meetings of the committees of the bank.

The process of reviewing market risks, liquidity and nostro takes place each month, and starts after collection of exposure data in the Risk Management Department. The exposure data are examined at a meeting with the Manager of the Risk Management Division, and brought up for discussion at the monthly meeting of the Risk Management Forum. These data are collected and reported in the quarterly exposure document, which is presented at each meeting of the Board of Directors' Committee on Risk Management and each quarter at the Board of Directors. The document summarizes the main points of the policy regarding exposure to market risks, liquidity and nostro and monitors developments in exposure to risks and compliance with the restrictions defined by the Board of Directors.

The process of reviewing credit risks takes place each quarter, and starts after collection of exposure data in the Credit Control Division. The exposure data are examined at a meeting with the Manager of the Risk Management Division, and reported in the quarterly exposure document, which is presented each quarter to the Board of Directors. The document monitors developments in exposure to credit risks through a number of indicators, and compliance with the restrictions defined by the Board of Directors.

The process of reviewing operating and legal risks takes place each quarter, and starts after collection of exposure data in the relevant divisions. These data are reported in the quarterly exposure documents, which are presented to the Board of Directors' Committee on Risk Management. The documents monitor problematic events that occurred during the reporting period and the main developments in exposure to the risks.

Credit risks

The bank's credit policy is presented one a year to the Board of Directors for discussion and approval. In the framework of the policy, principals and regulations have been determined with respect to the granting of credit and the management and supervision credit portfolio, relating to households as well as to business customers, according to the bank classification. The credit policy of the bank is derived from its work plans, with consideration to the credit limitations of the sole borrower and borrowing group and enters supervised into a new credit area. In the framework of preparations of the bank for changes in the business environment and with the willingness to reduce the exposure of the bank to large borrowers, the Board of Directors of the bank has narrowed, beyond the regulatory limits, the restrictions of the sole borrower, of the framework for group borrowing and of the framework for the six large borrowers.

Recently the Board of Directors approved the updated credit policy and the bank began providing consumer credit (without guarantees) to its customers. The credit is granted relying on a model that is developed based on criteria examined by the credit experts of the bank. The bank devotes significant resources for the analysis and monitoring of risks embedded in this credit. The bank improves the credit model and started to validate the criteria that has been chosen and their weight in the model through statistics on its customers data.

The bank’s business policy in this field places emphasis on improving the quality of its credit portfolio in all areas of operation while managing permanent control of the portfolio and determining policy of the quality of collateral. With the purpose of reducing credit risk, the bank operates to spread its credit portfolio between many borrowers in different sectors of the economy.

The banks' credit portfolio is managed in two division : retail credit division and business division , with clear segregation regarding credit authorization, kind of credit, kind of customer and amount of credit. The under writing process is also defined and each request for credit is examined and approved by the appropriate level of authority in accordance with principles approved by the Board of Directors of the bank.

The Retail Credit Division includes an underwriting center, that sends each mortgage application exceeding the approval authority of the branch manager, for approval by the grade that is authorized to approve such credit.

In addition, the bank has a central system for examining all mortgage files before actual execution. 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 function of monitoring the process of creating loans, 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 Resources division and thus there exists a management dividing between credit approval process and transferring of documents for examination.

In the Business Credit division, applications for credit are prepared by the manager of the operating team in the division and not by the referents (creating the risks), and they are examined by the unit for analysis of credit risks in the division, before being submitted for approval in the relevant credit committees, in accordance with the specified level of authority. The Credit Risk Examination and Analysis Unit was set up during the year (hereinafter: “the CREA Unit”) and has two main tasks – examination of credit and collateral portfolios of borrowers, and analysis of credit risks. The unit was set up in the framework of preparations for Basel II in order to to separate the grade that creates the credit risk (that brings the transaction to the bank), the grade that prepares the credit request, and the grade that approves.

In the framework of examining 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. In the framework of analyzing credit risks, the CREA unit gives an additional opinion on the quality of the credit when it is raised for approval in the bank’s institutions in a separate and independent document (hereinafter - “the CREA document”). It is emphasized that applications for credit are not discussed in the bank’s institutions with the CREA document that is submitted at the same time as the application. Once a quarter, the manager of the CREA unit reports to the Risk Management Control division on the CREA documents prepared by him during this period.

In the area of accompanying projects, each accompanied project is managed linked to the Construction Supervisor, reporting periodically reports on its progress situation. The required additional credit needed for the completion of the construction is approved only after examination of the updated exposure report of the project, in consideration with its progress rate and the conditions to which the borrower needs to comply in parameters and determined milestones. In addition, during the life of the project, generally once per month (with the receipt of the performance report of the supervisor), the financial solidity of the project is examined by the referents of the division.

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 date of granting of the credit and as of the date of the renewal. Also in this department, examinations are implemented regarding the borrowers' financial stability and regarding the financial statement reporting. Daily controls are also implemented regarding exceptions to the credit framework and collateral, by the credit manager and by the risks division of the bank.

In the Risk division there is a credit control unit, which prepares reviews of credit at the bank, according to business needs and at the request of the Bank of Israel. The role of this unit includes assessing the quality of specific borrowers, examining and assessing the quality of the bank's credit portfolio as a whole, and checking and reviewing the main borrowers. This process of assessment in the unit is independent of the functions that approve credit, since credit control is not involved in decisions regarding the provision of credit and its terms.

Once in a yearly quarter, in the framework of periodic meetings, all credit granted is reviewed specifically and a decision is reached regarding implementation and recommendations for classification of the credit and allowances for doubtful debts. The recommendations are presented to the problematic debts committee according to the level of authority determined by Board of Directors of the bank, which conducts discussions and implements decisions.

The Board of Directors and its committees receive periodic reports regarding 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 rate of completion, liquidity status, erosion of margins, value of inventories, etc. In addition, during 2010, the business department introduced a new system for management of commercial credit, in general, and accompanied projects, in particular. At present, this system is at the stage of partial integration, and at the same time a number of components are being redefined due to the need for additional adjustments required by the Basel II instructions.

The bank determines provisions for doubtful debts on loans against mortgage of a residential apartment according to the depth of arrears as determined in Appropriate Banking Management Instructions No. 314 of the Supervisor of Banks. The other retail credit and business credit are not operated by statistical methods for determination of specific provisions and general provisions but rather an individual approach is implemented, which takes into account each borrower separately or, insofar as required, the group of borrowers to which the specific borrower belongs.

Principals of Credit Policy

Retail credit

Most of the bank's activity in this sector is providing of credit to individuals (households) against mortgage of a residential apartment. The credit is provided (also to small businesses) against physical collateral, e.g. commercial real estate (office) or vehicle, or against liquid financial collateral - bank deposit or securities portfolio. Credit is granted for a specific purpose, with a defined repayment schedule. The provided financing includes examination of quantitative parameters of interest rates and the borrower's repayment ability.

During the past year, the bank started to operate in the consumer credit area as part of its plan to expand its retail activity. Until now, the bank mainly turned to existing costumers having historical positive credit at the bank. The bank intends to expand the providing of credit also to new customers according to the underwriting model.

Accompanying projects area

The bank's policy includes accompanying projects in areas of demand that may be implemented in stages, for the seize of several dozen residential units, which are available for construction within a short time period. The rate of equity for the project is determined on the basis of the borrower's financial stability, risk embedded in establishing the project and complying with the market risks. The amount of the equity, required in advance from the borrower, derived from consideration of the project's execution stages.

Regarding accompanying projects for construction of income-producing assets, financing is provided for the construction period while examining the long-term repayment ability, but without the bank's commitment for long-term financing. The amount of the equity and the rate of financing are derived from a large number of parameters including the rate of rental of the asset, the expected quality of the tenants, the period of the rental agreement and the existence of another buyer or other financier upon completion of construction.

Commercial credit area

The bank's policy prefers to finance transactions that do not require close operation, wherein examination of the credit focuses, first and foremost, on the quality of the borrower and the borrower's financial stability. Credit policy includes criteria characterizing the kind of borrower preferred by the bank in the commercial credit sector including, among others, the borrower's internal ranking. Approval of financing is subject to fulfillment of quantitative principles and parameters including interest rates and examination of the borrower's repayment ability.

Financing in the income-producing assets area and financing of leasing companies is provided, among others, against material collateral. In the commercial credit area, credit is provided against current collateral, e.g. current lien on the company's assets and lien on checks. The bank does not initiate marketing of credit to third party sector(associations), except at the customer's request and as accompaniment to the customer's principal additional banking activity.

Revaluation policy and collateral management

The bank examines and verifies the value of the collateral for retail credit for financing real estate or for financing vehicle purchase, provided for a designated period and repaid according to a clearance table, at time of providing the credit. Collateral is also revalued whenever new credit is given to an existing customer, based on the same collateral.

On the other hand, the bank implements periodic, or even daily, revaluation of collateral for other credit provided. For instance, examination is performed (generally once a month) of collateral for accompanying projects, based on the rate of project completion and project value, also, daily examinations and revaluations (according to advanced security utilized at the bank) of securities utilized as collateral for credit. Quarterly examinations are performed of the value of vehicles utilized as collateral according to their accepted prices. Also, periodic examinations are conducted of current liens recorded in favor of commercial credit, based mainly on reports regarding the distribution of receivables and inventories of the borrowers. Periodically, assessments of assets utilized as security are received.

Collateral management is performed through recording of the collateral, follow-up of liens, examination of receipt of insurance policies and reports to relevant credit managers. The examinations are performed by examination system, designated personnel for collateral, business branch managers and business department managers. Also, controls exist relating to receipt of collateral and management thereof by the controls and internal audit sections.

Principle kind of collateral acceptable by the bank

The principal collateral provided to the Bank is a mortgage on rights to a real estate asset. The mortgage enables the bank, in the event of breach of the loan agreement, to sell the mortgaged asset and repay the loan from the sale proceeds. Regarding credit to finance acquisition of a vehicle, a lien is recorded on the vehicle license with the Ministry of Transport and an announcement is transmitted to the Registrar of Liens. Such loans to corporate entities also include recording of a subordinate charge with the Registrar of Companies as required in accordance with relevant legislation. Also, the bank receives current liens, project liens and project accounts, liens on deposits and securities, bank guarantees from third parties, personal guarantees of guarantors to a debt, liens on property insurance and contractors' insurance policies, etc.

Collateral is adapted specifically and exactly to circumstances of each loan. Some kinds of collateral are fixed for all loans (e.g. liability note, property insurance, life assurance). Other kinds of collateral are determined by various criteria. For instance, the method by which a lien is recorded - is determined in accordance with the rights to the asset utilized as collateral for the loan. Other kinds of collateral (like: guarantee, loan insurance, offset lien note, conversion of Sales Law guarantee provided to the borrower) are determined, among others, according to the kind of collateral provided by the borrower and/or his payoff ability, or according to other criteria.

To calculate capital adequacy, the bank operates according to Appropriate Banking Management Instruction No. 311 of the Supervisor of Banks and sets off from credit to the public only deductible collateral in accordance with the mentioned instruction.

In this calculation according to the interim instruction, the bank refers to two central CRM instruments, according to the Basel II guidelines, clarifications of the Bank of Israel, and legal opinions. The first is deposits and savings that are 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 , and also 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.

Main kinds of guarantors

In addition to recording of a mortgage on an asset, real estate, etc, the bank may require personal guarantors in accordance with criteria determined in the bank's credit policy. In business credit, the main kinds of guarantors are individual shareholders of corporate borrowers.

In order to reduce the credit risk derived from centralization of the construction sector, the bank cooperates with insurance companies issuing sale policies to buyers in projects accompanied by the bank and divide common collateral with the bank – "pari passu".

Following is the overall credit risk table for problematic borrowers Iin thousands of NIS):

	Balance for the day of the 31st of December	
	2010	2009
	(Millions of NIS)	
Problematic debts [1] for housing		
For which the provision is according to depth arrears [2]	76.5	78.2
For which the provision is not according to depth of the arrears	54.3	71.0
Temporarily arrears (over 3 months up to 6 months)	67.7	70.9
Problematic other debts [1] [4]		
Under special supervision	9.7	8.6
Temporary arrears	22.8	64.0
Re-organized	33.2	13.2
Non-income producing loans	22.4	36.1
Total balance sheet credit for problematic borrowers [3]	286.6	342.0
Off-balance sheet credit risk for problematic borrowers [4] [3]	52.1	47.4
Debentures of problematic borrowers	7.4	13.9
Credit risk for problematic borrowers [3]	346.1	403.3

1. Debts are presented after deduction of the specific provision for doubtful accounts.
2. Including problematic debts that were re-organized and that are not in arrears.
3. Not included problematic debts that are cover by collateral approved for deductible purposes of limitation on debts of an individual borrower and of a group of borrowers (Appropriate Banking Management Instruction No. 313).
4. Calculated for purposes of limitation on debts of an individual borrower and of a group of borrowers, except for guarantees provided by a borrower to secure liabilities of a third party.

On the issue of capital adequacy see above chapter "Equity" and Note 17b of the financial reports.

Credit exposure for foreign financial institutes on consolidated basis as of the 31st of December 2010

External credit rank	Short term rank	Number of institutes	Credit risk in millions of NIS	
			Balance sheets	Including
AA	F1+	1	33	33

With the outbreak of the financial crisis in the year 2008, the bank narrowed its deposits at the financial institutes abroad, determined restrictions on centralized deposits and determined procedures and required examinations prior the financial deposit at foreign banks abroad. The bank relies on the rating of the rating companies "Moody's and Standard & Poors". 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 the 31st of December 2010 is not significant.

Clearances risks and counter-party

The main source for exposure of the bank for clearance risk is clearance of derivative transactions (OTC). The bank operates versus it customers in derivative instruments traded at the various stock exchanges, but does not operate versus them in OTC derivatives. The bank operates in these derivatives for itself an only for risk hedging and as an additional tool it uses for the management of its assets and liabilities. In addition, the exposure of the bank to clearance risks resulting from trading in foreign securities performed versus brokers through clearance processes of NON-DVP kind,

Therefore, the main exposure of the bank to counter-party risk is formed versus banks and recognized financial institutes abroad for clearance of derivative transactions (OTC) and versus brokers and retail service provides in securities for clearance of foreign securities. In the frameworks of the activity that are approved at least once a year by the Board of Directors of the bank as part of the credit framework of these institutes as the activity scope is not significant.

Market risks

General

The bank has a system weakening the cash flow of the banks, derivative of its various financial activities. This system enables the asset and liabilities management - ALM - and among others, enables quantification of the market risk according to the value methodologies provided for the risk - VaR. In addition, the system enables monitoring after additional risk rate such as: interest exposures and stress testing.

The VaR measures the maximum loss expected to occur at the bank as a result of realization of market risks in a given period of time and at a predetermined statistical level, according to previous market conditions. The calculation is performed monthly, during a period of ten days and at a significant level of 99%. The system measures the comprehensive risk through the VaR of the total banking portfolio and the portfolio's exposure to market risk through this system.

The bank determined limitations for given risk value (economic VaR): total VaR – 18 million NIS. As of December 31, 2010 the VaR amounted to 13.8 million NIS, compared to 15.9 million NIS as of December 31, 2009. The maximum economic VaR (month end) amounted to 17.1 million NIS during the reporting year, compared to a maximum value of 15.9 million NIS in the year 2009.

Interest risk

Interest risk results from the differences between the relative sensitivity of assets and of liabilities to unexpected changes in interest rates and between this sensitivity of liability changes - that may result in corrosion of the bank's capital. The Bank’s role as a financial intermediary creates exposure to this risk, and the bank operates to reduce. 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. In the remaining sectors, the bank’s main operations bear variable short-term interest rates.

The bank monitors the reduction in average lifetime of the loans versus the deposits, for the purpose of taking measurements to minimize the influence of possible change on interest rate on the value of its net financial flows. Therefore it continuously measures the average lifetime derive from the current new activity, and also monitors the extend of early repayments of loans that have a significant influence on the effective lifetime.

The bank's policy on management of exposure to interest risk is periodically examined with consideration of expectations regarding decrease in various interest rates and examination of costs required to reduce the exposure to this risk and taking into with consideration of estimated early repayment rates on loans and influencing factors. Estimates of early repayment rates is performed relying on past experience and on the bank's assumptions regarding several factors affecting the early repayment rate, including mainly interest rates.

The Board of Directors determines restrictions on the exposure to interest risk according to the average lifetime model, measuring the margins of repayments of assets and liabilities. In the sector linked to the index for the year 2010 is the gap of the average lifetime limited between the assets and liabilities (compared to the expected rate of early repayment) to ±0.6 years.

The bank measures the mentioned exposure through monthly model, while currently monitoring the significant developments in its various activities that may bring deviation in these restrictions. On the 31st of December 2010 the gap of the weighted average lifetime between the assets and liabilities of the bank in the sector linked to the index was about -0.32 years according to model calculating the estimation of the early repayment rate, compared to the gap of -0.53 years on the 31st of December 2009. This average data according to the year (end of months) was -0.40 and the gap in most of the average lifetime during the year was -0.57 years.

According to the estimation of the bank, considering the extend of early repayments during the last year and the low interest, the risk exposure as result of unexpected change of 1% interest in the sector linked to the index was smaller, relatively to the value of the net flows of the capitalization of the bank.

In addition, the bank's exposure to risk results from reducing the margins in the mortgages area and that in view of the sharp competition in this area. One of the objectives of the strategic plan integrating these days at the bank is to reduce this risk and to narrow down the dependency of the bank in this area.

Following information concerning the influence of hypothetical changes in the interest rate on the fair value of the financial instruments of the bank and its subsidiaries as of the 31st of December 2010 (in millions of NIS):

1. Fair value of the financial instruments of the bank and its subsidiaries, except for non-financial items (before hypothetical changes in interest rate):

	Israeli currency			
	not linked	Linked to CPI	Foreign currency	Total
Financial assets*	5,741.9	3,243.1	1,158.4	**10,143.4**
Receivable amounts for derivative financial instruments	78.0	366.0	- -	**444.0**
Financial liabilities	4,854.6	3,730.2	1,053.0	**9,637.8**
Payable amounts for derivative financial instruments	319.4	- -	111.4	**430.8**
Fair value net	645.9	(121.1)	(6.0)	**518.8**

2. The influence of hypothetical changes in interest rates on the fair value of the financial instruments of the bank and its subsidiaries, except for non-financial items:

	Net fair value of financial instruments after the influence of changes in interest rates				Change in fair value	
	Israeli currency				Millions of NIS	in percentages
The change in interest rates	**not linked**	**Linked to CPI**	**Foreign currency**	**Total**	**Total**	**Total**
Immediate concurrent increase of 1%	635.3	(123.5)	(2.9)	508.9	(9.9)	(1.9%)
Immediate concurrent increase of 0.1%	644.8	(120.9)	(5.0)	518.9	0.1	0.0%
Immediate concurrent decrease of 1%	657.3	(114.9)	(7.5)	534.9	16.1	3.1%

* Not including balance sheet balances of ALM derivatives and fair value of off-balance sheet financial instruments.

** Including Israeli currency linked to foreign currency.

*** Amounts receivable (payable) for ALM derivatives and for off-balance sheet financial instruments, capitalized at interest rates utilized to calculate fair value presented in Note 21C of the financial reports.

Most of the financial instruments at the bank cannot quote "market price" because active market in which they trade does not exist. Therefore, the fair value is made through accepted models for pricing, like current value of future cash flow causing interest reduction at a rate that reflects the embedded risk level in the financial instruments. Estimation of fair value through future cash flow evaluation and determining reduced interest rate is subjective. Therefore, for most of the financial instruments, the above mentioned evaluation of fair value is not necessarily and indication for realization value of the financial instrument on the reporting day.

Evaluation of the fair value has been done 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 fair value is obtained that may be significantly different. Specially in the mentioned items concerning 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 the tax influence.

Following the method and principal instructions for estimation of the fair value of the financial instruments:

- Deposits at banks, debentures and loans that are not trades and credit to the State - Method of discounting future cash flows according to interest rates at which the bank made similar transactions at the time of reporting, and in general their balances will be equal to the values of the balance sheets.
- Negotiable securities - according to market value, non-negotiable securities - according to adjusted cost.
- Credit for the public - The fair value from the credit balance for the public is according to the method of current value from future cash flows reduced by suitable reduction rates. Credit balance split into categories according to main type of population in dividing according to linked sectors and credit in fixed and variabe interest rates. Cash flows (funds and interest) reduce the interest rates equally to the average interest rates according to which similar transactions are being made at the bank at the date of reporting. The fair value at early credit payoff has not been taken into account during the calculation when their influence is not unequivocal.
- The fair value of the bad debts is calculated with the use of reducing interest rates reflecting the high credit risk embedded in them. These reduction rates are not reduced from the highest interest rate the bank uses for its transactions at reporting date. Future cash flows for bad debts are calculated after deduction of specific provisions for doubtful debts. The additional and general provision are not deducted from the credit balance for calculation of the flow at evaluation of the fair value. The fair value at early credit payoff has not been taken into account during the calculation when their influence is not unequivocal.

- Deposits, debentures and notes of deferred liabilities - Method of discounting future cash flows according to interest rate in which the bank raises similar deposits, or in issuance of debentures and deferred liabilities notes, by the bank on the day of reporting, except for debentures recorded for trading at the Securities Exchange presented according to market value.
- The off-balance sheet financial instruments at which the balance is present credit risk - the evaluated fair value according to the current evaluator of future cash flows is reduced at the interest rate reflecting the interest level at which similar transaction has been performed at the date of the reporting.
- Financial instruments for the original period for up to three months and at fluctuating market interest - the balance on the balance sheet is close to the fair value subject to changes in credit risk and in the profit of the bank in transactions with fluctuating interest.

Basic risk

The exposure to basic risk results from changes in the interest rates, in the exchange rate and inflation rate. The policy of the bank is to manage the risks resulting from basic exposure in a controller manner, in the framework of the limitations determined by the Board of Directors.

The bank currently manages the positions in the various linkage sectors through a variety of financial instruments available to it, in accordance with considerations changes in relevant economic data and current supervision of risks resulting from such exposure. The limitations determined while maintaining the flexibility of the bank and its ability to change the various positions in a short period according to the economic forecasts. In order to limit this risk exposure, the Board of Directors of the bank determined the maximum rates in each linked sector.

Following are limitations on exposure rates in each linkage sector as determined by the Board of Directors (not necessarily accounting exposure). The limitations are on the excess amounts (deficit) of assets over liabilities in each sector:

	In percentages from the financial capital [(1)]		**In millions of NIS as per 31/12/2010**	
	Maximum amount	Minimum amount	Maximum amount	Minimum amount
Linked to CPI	50%	-50%	298	(298)
In foreign currency and linked to foreign currency	6.8%	-6.8%	41	(41)
not linked	150%	50%	894	298

(1) The financial capital is equity less non-financial assets in consolidation.

The bank measures its positions in various linkage bases daily 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 height of the reporting position in a current way at the meetings of the assets and liabilities management committee and at meetings of the other forums operating in risk management.

Following are the economic exposures (that are not necessarily accounting exposure) active in each linkage sector (in millions of NIS):

	Exposure for the day of 31/12/2010	Exposure during the reporting periods (2)		
		Maximum	Minimum	Average
	Millions of NIS			
Linked to CPI	13.0	64.0	(190)	(53)
In foreign currency and linked to foreign currency	0.5	13.1	(9.3)	(0.2)

(2) Exposure in the index linked sector is determined on the 15th of each month.

Part of the overall strategy of the bank for managing the exposure level to market risks, as mentioned above, performs the bank, among others, transactions in derivative financial instruments for reducing its exposure to these risks. The bank's activity in derivative financial instruments is as intermediary, trader or end-user. The bank has derivative financial instruments like 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 way in the income report. In addition, 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 results from uncertainty regarding availability of sources and anility to recruit (without influencing unusual affect on the prices) and regarding the ability to realize assets in fixed time and reasonable price. The exposure results from providing loans at long term (even if provided with fluctuating interest) financed by deposits of short term. Liquidity risk also exists when recruiting deposits for short term suitable for the period of interest changes in loans, if by this the exposure of interest risk reduces.

The bank is exposed to liquidity risks and to uncertainty regarding lessening of its ability to mobilize negotiable debt or institutional sources due to changes in the market, legislative changes and/or changes in preferences of depositors. In order to comply with this risk, the bank implements a policy of enlarging its depositors' base and decreasing reliance on large depositors. Also, emphasis is placed on extending the average life of the deposits and maintaining a high level of liquidity.

The bank's policy is to adjust, as far as possible, the repayment periods of these sources to those of utilization in each linkage segment. The characteristic of credit and rates of early repayment in the various linkage segments and learning the recycling of short term deposits have a significant effect on the estimated exposure to this risk.

In accordance with Bank of Israel instructions, every banking corporation is required to establish a comprehensive policy to manage liquidity and to maintain a data system for supervision, measurement, control and reporting of the liquidity position. 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.

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 higher frequency). For purposes of the model, the Bank collected and continues to collect data regarding 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 system pressure (e.g. failure at all the banking systems) that may influence on the bank, and 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 realization ability of liquid assets.

The Board of Directors of the bank has determined the liquidity management principles, the level of responsibility and authority and the system of information and handling regarding determined exceptions. Determination of limitations and restrictions, as mentioned above, take into account expected events at the bank and in the business environment and possibilities available to the Bank regarding mobilization of alternative sources insofar as required, as well as the costs of these sources

The board of Directors of the bank determined limitations (according to the internal model), on the gap between repayment flows of assets and those of liabilities by periods. Also, the Board of Directors has determined additional limitation and among them the limitation relating to liquidity assets for liabilities (for repayment periods of up to one month) not less than 1.5 as limitation and as policy not less than 1.8.

The mentioned ratio as per the 31st of December 2010 was about 2.37 compared to the ratio of 2.26 for the 31st of December 2009. Average ratio during the year was 2.44 and the lowest of this ratio was 2.07. According to the estimation of the bank, considering the recycling rate of deposits in the last years, the mentioned exposure risk is higher, among others, because the bank diversifies its financing sources, meticulously expands the basis of the depositors and reduces the reliance on large depositors and maintain sufficient liquidity cushion expressed by a higher than required ratio of liquid assets ratio.

Operating risks

Operating risk is the risk of loss resulting from failure or lack of adaptation 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 outside events. Defining the operating risk included legal risks, but do not include strategic or goodwill risks.

As mentioned, the Bank of Israel published interim regulations arranging calculation of capital adequacy. In accordance with the instructions, the bank is required to allocate capital for operating risks as from the effective date of the instructions.

In its current activity, the bank is exposed, as any other financial/banking system, to operating risks or to risks of fraud and embezzlement. In order to decrease the exposure of losses from operating risks, the bank operates on several levels:

- Decrease in operating exposure through continuing control measurements and requirement for performing double controls in all processes that involve a real operating risk.
- Performing centralized controls in various sectors of activity in accordance with the risk embedded in the process or procedure, emphasizing processes and procedures without double built-in controls.
- Performing operating risks survey and reviewing embezzlement and fraud.
- Regular improvements of processes according to evaluation of risks.
- Approval of all procedures, and new products by a designated committee for monitoring operating risks and risks for embezzlement and fraud headed by the CEO of the bank.
- Collection of data on operating deficiencies and failures in order to prevent such occurrences in the future.

The bank has an operating risks manager (Eitan Stein, Manager of Operating Risks and Compliance Division), subordinate to the CRO and in additional there is an Operational risk monitoring steering committee as mentioned above. Management of the bank 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 risks survey in the framework of which operating risks are mapped and evaluated, risks levels and effectivity of controls with reference to the substantial business and operating procedures. Also, the embezzlement and fraud survey that has been performed by the internal audit, has ended. At the end of this review, the bank will prepare an action plan for reducing residual risks (the risks remaining after all controls) which will be defined as high or medium level risks found in the two above mentioned surveys.

The bank is also conducting a review of infrastructures, together with outside consultants, with two segments: the first – a survey to examine the suitability of the bank's procedures and forms for the consumer instructions; the second – the manner of implementing the consumer instructions at the Bank. In this framework there is an examination of the way 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 the emphasis on consumer instructions.

Legal risks

Definition of legal risk is - The risk resulting from potential loss and result of breach of laws, regulations, or regulatory instructions, or as a result of rights or debts of the bank that were not based 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 or harm the rights of the bank.

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 guarantee from customer or from third party such as: connection that is not properly back-up by a contract, guarantee that can not be used as result of defect in its creation or recording, or because the guarantee 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 dependable on the bank, such as: change in the legal instructions, regulations or instructions of the various supervising (instructions of the Supervisor on the Banks, instructions from the Securities Authorities, Money Laundering Prohibition Authority, etc) or new verdict of the Courts according to which the bank is required to operate on a certain issue in a different manner then it used to operate until the verdict.

The legal risks are part of the overall operating risks the banks is exposed to. The lawyer, Sarit Vistuch, Vice CEO and legal adviser is responsible for the legal risk management of the bank, assisted by employees from the legal department of the bank. The regulatory legal risk is managed at the bank is an organized and structural manner, anchored in written procedures and policies for the purpose to minimize as much as possible the realization of these risks and the minimize the damage caused to the bank in the case this risk was indeed actual realized.

According to the policy and the procedures of the bank any legal issue emerging in the framework of business management is transferred to the bank's Legal Department (each in the area of responsibility). Each claim, legal procedure or lawsuit threat due to the bank's employees are transferred for handling to the legal department, every contact of a customer to an employee of the bank with legal question is for response transferred to the legal department or legal assistance.

Compliance risk

Compliance risk is the risk of legal or regulatory sanction corporation suffers, significant financial loss or damaging 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 regarding the relation between the bank and its customer in the framework of the obligations applicable to the bank versus the public and its customers, including the Money Laundering Law, 2000, prohibition on money laundering (requirements regarding identification reporting and record of banking institutions to prevent money laundering and financing terrorism), 2001, instructions of the Banking Supervision Order and Securities Authorities guidelines.

Compliance risks are managed at the bank by Chief Compliance Officer in the framework of the operating and compliance risk department at the Risks Division. The complexity and development of the banking activity, requires the bank to be more strict on the existence of the overall obligations applicable to banking corporation, in the connections with its customers, by virtue of legislation, regulations, orders, permits and the instructions of the Bank of Israel.

Appropriate Banking Management Instruction No. 308 - Compliance officer, requires the bank to enforce the consumer instructions, meaning: laws, regulations, and instructions regulating the banking activity concerning the relation 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 performed that mapped the consumer instructions, risks occurring at abnormal events along with specific instructions preventing controls.

In the year 2010 the main part of the infrastructure compliance at the bank has been completed. Based on the survey a perennial compliance plan has been determined. The results of the survey have been entered into the dedicated system enabling management and dynamic monitoring after the compliance risks.

Money Laundering and Terrorism Financing Risk

Money Laundering and Terrorism Financing Risk is the risk to lose that may be caused to the bank as a result of exploitation of objectives for money laundering and financing of terrorism by it 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 reputation risks, from operating risks and legal risks resulting from it.

In the framework of it activity the bank is exposed to money laundering and terrorism financing risks. This exposure advances in 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 at which their source by the violations is defined as "predicate offenses" Money Laundering 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"). The responsible at the bank who is also the chief compliance officer of the bank, operates in the framework of the risks division of the bank and is subordinated and reports directly to the manager of the division, who is a member of the management of the bank.

The Board of Directors and the management of the bank 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 the year 2010 the bank implemented a computerized system for monitoring extreme activity at the accounts of the customers. It constantly performs training and implementation of the relevant instructions on the issue for groups of employees, according to the professional occupational and management area while adjusting the issues and volume. In addition, all new employees of the bank receive training of the issue of prohibition of money laundering, before receiving permission to enter the bank's computer systems.

Each branch of each headquarters unit was appointed a trustee of money laundering which is a professional factor linked to the location of performing the transactions and provide an immediate response to questions arising at branches. The trustee receives increased training and seminars with the purpose of raising its level in the area and is a connecting factor between the responsible on the issue of prohibition of money laundering and the branch.

The responsible is updated continuously with renewals of the legislation, the ordesrs and standard connected to the prohibition of money laundering, among others, by participation in meetings and seminars on the issue. It is his responsibility to take care of the implementation of all the implications resulting from these updating on the bank's activity.

Credit control and collateral on securities trading

In accordance with stock exchange and the requirements of the Bank of Israel , the bank implements credit and collateral controls, and implements real-time monitoring on securities trading. Also, the bank operates blockage and automatic warning mechanisms and systems in its trading system, and updates in the system operating results in respect of securities traded on stock exchanges outside of Israel, as required in accordance with these requirements.

❖ Influence of risk factors on the transactions of the banking corporation

The bank is required, like all the banking corporations, to included a table with risk factors in each of the detailed categories below, and the estimated the influence of the risk factor on its business. In the framework 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. In addition, the adequacy of the control to the risk environment, as other activity performed by the bank, for purposes of risk management affects the level of risk exposure. Therefore, the estimates detailed in the following table are the bank's subjective evaluation of the effect of the residual risk on its business

	Risk factors	Risk influence
1	**Comprehensive influence of credit risks** The risk results from the borrower's non-fulfillment of liabilities to the bank according to the agreement. Deterioration of various borrowers' stability and/or ability to repay the credit may affect negatively 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 kinds of borrowers in different sectors of activity.	**Medium**
1.1	**Risk for quality of borrowers and collateral** The risk results from deterioration of the quality of the borrowers and/or the value of the collateral provided as security to the bank, which may affect negatively the chances of collecting the credit and therefore 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 kinds of borrowers in the specific sectors of activity and various products.	**Low**
1.2	**Risk for centralizing sectors** The risk results from a large volume of credit provided to borrowers in a certain economic sector relative to the credit portfolio. Deterioration in operating results in the same sector may harm repayment ability and/or the value of the collateral provided by part of the borrowers in the sector and, as a result, may affect negatively 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 regarding maximum exposure in various sectors. The bank does not go beyond the mentioned restrictions.	**Medium**

	Risk factors	Risk influence
1.3	**Risk for 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 affect negatively the chances for collecting the credit and the value of the bank's assets and its profitability. Risk exposure is managed, among other, through restrictions of the Bank of Israel in this regard and limitations determined by the Board of Directors regarding maximum exposure for a borrower and for a group of borrowers. Current controls also exist regarding compliance with these restrictions. The bank does not go beyond the mentioned restrictions.	**Low**
2	**Comprehensive influence of market risks** The risk results from changes in prices or changes in market rates or other financial parameters, which influence the value of the bank's assets or liabilities, and which may result in erosion of its capital or damage of its profitability. Risk exposure is managed regarding each risk separately as detailed below and also centralized through the VaR model.	**Low**
2.1	**Interest risk** Interest risk results from the differences between the relative sensitivity value of assets and of liabilities to unexpected changes in interest rates and between this sensitivity of liability changes - that may result in corrosion of the bank's capital. As a result from the exposure to interest the various linkage bases may cause future decrease (during assets life of liabilities life) relying on the finance Risk exposure is managed, among others, in accordance with estimates regarding market variables and subject to restrictions on sensitivity from net capitalizing financing income of the bank to change in shekel interest curves and index linked interest. Exposure limitations are controlled currently	**Low**
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 regarding the amount of the active financial capital, considering changes in relevant economic data in accordance with market conditions. Exposure limitations are controlled regularly.	**Low**

	Risk factors	Risk influence
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 sectors of the foreign currency and linked to foreign currency The management of the risk exposure is performed, among others, subject to the restrictions on the height of the active financial capital, with consideration to the changes effective in relevant economical data and according to the market conditions. The bank's policy is to prevent as much as possible the risk exposure to the exchange rate between the various foreign currencies. The exposure restrictions are being controlled continuously.	**Low**
2.4	**Risk shares and debentures prices** The risk results from decrease in the value of shares and debentures held by the bank. The bank's securities portfolio includes mostly Government debentures and a small part of corporate debentures. The bank's policy does not enable significant activity in shares (not for purposes of investment and not for purposes of trading). The rate of the bank's holding (including indirect holding) in shares and indexes of shares is negligible. Risk exposure is managed through limitations and restrictions on the amount of investments, characteristic, marketability, lifetime of portfolio and amount of expected loss from these investments. The limitations and restrictions are managed through the VaR model and through extreme scenarios	**Low**
3	**Liquidity risk** Liquidity risk results from uncertainty regarding availability of sources and anility to recruit (without influencing unusual affect on the prices) and regarding the ability to realize assets in fixed time and reasonable price. In extreme "supply and demand" circumstances on financial markets may create non-expected costs of sources mobilization that may influence on the finance income. Management of exposure to risk is performed, among others, through Mt. The base of depositors and decrease in reliance on large depositors, extension of the lifetime of sources and maintaining a high level of liquidity. The bank has a system of controls based on an internal model that examines several scenarios. Also, the bank examines, over time, behavior of its customers that may affect exposure to this risk.	**Low**

	Risk factors	Risk influence
4	**Operating risk** Operating risk is the risk of loss resulting from failure or lack of adaptation 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 outside events. Risk exposure is managed, among others, through operating risks survey, writing of procedures, controls and integration of systems on issues influencing 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	**Legal risk** The risk results from unexpected events, like 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 the risk exposure is performed, among others, through legal controls and internal and external legal consultancy system. Past experience ascertains that mentioned events did not expose the bank to significant losses.	**Low**
6	**Regulatory risk** Regulatory risk is an existing or futuristic risk on income and capital of the bank that may create reuglatory changes or in legislation which had significant influence on the bank's activity and applied obligations. The bank, as a banking corporation and as a public company subject to many regulatory instruction expressed by legislation, secondary legislation, policies and instructions of the execution of various regulators and authorities.	**Low**
7	**Reputation risk** The risk results from damage to the bank's image as a stable reliable financial institution, as a result of publications, correct or incorrect, by customers, investors and/or regulatory authorities. Damage to reputation may result in transfer of customers' activity to other providers of financial services, harming the bank's activity and profitability.	**Medium**
8	**Strategic risk** The strategic risk results from mistaken business decisions, improper implementation of decision or lack of response to sector changes, economical or technical. The risk results also, among others, from income from new areas, expansion of existing services and increase on infrastructure investment for realization of business strategy. This risk has a potential of adjustment between the strategic objectives of the bank, business plans developed for obtaining these objectives, allocating resources to comply with these objectives and quality of the implementation. Exposure management for this risk is performed, among others, through building strategic arrangements, receiving external professional advise in the area and addition activity for reducing the risk,	**Medium**

❖Legislative updating and instructions of the Bank of Israel

New legislation

Bank of Israel Law, 2010

On the 24th of March 2010 the Bank of Israel published an amendment to the Bank if Israel Law that mainly regulates the objectives and positions of the Bank of Israel. Among others, is has been determined in the amendment of the law that the CEO fo the banking corporation applies obligation to supervise on the banking corporation and its employees in such a way that they will not breach the legislative instructions. In case on a breach as mentioned, the Governor of the Bank of Israel has the authority to impose financial sanction on the CEO and even instruct termination of his tenure.

Regulation of Investment Counseling, Investment Marketing and Portfolio Management (amendment number 13), 2010

On the 13th of April 2010 amendment number 13 of the Consultancy Law became effective (except for chapter 1b, that deals with providing services by foreign dealers). In the framework of amendment number 13 to the Consultancy Law the following instructions have been determined, among others:
- Foreign dealers are allowed in their countries of origin to deal in investment consultancy, market investments and managing investment portfolios, and may offer these services to customers in Israel, also without the obligation of an Israeli permit.
- New categories have been determined of able customers, to whom may be provided investment consult services, market investment and management of investment portfolios without permit.
- The Securities Authorities have been granted with the authority to expand its supervising system through controls on permit holders, that will be evaluated by the Authority including through outsourcing services.

The bank adjusts its operating to the mentioned amendments.

Regulation of Investment Counseling, Investment Marketing and Portfolio Management (amendment number 14), 2010

On the 22nd of February, 2010, the Knesset adopted amendment number 14 of the Consultancy Law, that amended the law in two main manners;
- Comparison of the arrangement effective on the issue of investment consult, market investments and management of investment portfolios in any way regarding the ETFs for existing arrangement for mutual funds units, and correspondingly also expanding other measuring products.
- Cancellation of the insurance requirements as condition for providing an individual license, while determining that complying with the insurance condition is obligatory effective on the license holder, among other obligations applicable to him.

Companies Regulations (instructions and conditions regarding approval of the procedure of the financial reports), 2010

On the 28th of January, 2010 Companies Regulations (instructions and conditions regarding approval of the procedure of the financial reports), 2010 has been published (hereinafter: "the Regulations"). In the regulations instructions and conditions have been determined regarding the examination procedure and approval of the financial reports in public companies, prior to presenting the financial reports to the Board of Directors for approval, by the committee for examination of the financial reports. The financial reports of the bank are prepared on the 31st of December 2010 and henceforth, will be required to be approved according to the above mentioned regulation. Companies Regulations (instructions and conditions regarding approval of the procedure of the financial reports), 2010. The bank adjusts its operating to the mentioned regulations.

Securities Regulations (Periodic and Immediate Reports) (Amendment), 2010, Securities Regulations (Periodic and Immediate Reports) (Amendment), 2010 and Securities Regulations (Details forecast and forecast draft - structure and form)(Amendment), 2010

On the 15th of December, 2010, the financial committee of the Knesset has approved the mentioned amendment in which is anchored the guiding instructions of the Securities Authorities on the issue of disclosure concerning status of liabilities of t he corporation and on the issue of disclosure of programs of self acquisition and on self acquisition. In addition, amendments have been determined in the regulation concerning the reporting on the holdings of stakeholders (including senior officers at the corporation and institutional stakeholders) in all the securities of the bank and its investee companies.

With the effectiveness of the regulations, the instructions of the regulations regarding liability status according to payoff dates on subsidiaries of the bank that are not reporting corporation, became applicable. In addition, instructions on the issue of disclosure of acquisition plans and self acquisition became applicable, and also on the issue of reporting on holdings of stakeholders, from the shareholders registrar and changes in it.

The bank studies the instructions of the regulations and will implement these at the bank and its subsidiaries upon effectiveness.

Law for efficiency of enforcement procedures at the Securities Authority (Legislative Amendments), 2010

Law for efficiency of enforcement procedures at the Securities Authority (Legislative Amendments), 2010 passed on second and third reading in the Knesset on the 17th of January, 2010. The purpose of the law is to optimize the enforcement at the capital market, shorten the period between performing of breach and imposing punishment, and to adjust the extend of the punishment intensity. For the realization of the purpose of the law three parallel enforcement channels have been defined - process of imposing financial punishment by the authority, administrative enforcement process and criminal process.

The instruction of the law are applicable on the bank being a member of the Stock Exchange and as public company, and is subject to providing securities services to the customers and including brokerage services, managing portfolios (through controlled companies) and investment consultancy.

In addition, these legislative instructions are applicable on subsidiaries of the bank that are non-reporting corporations.
The bank studies the legislative instructions.

Legislative bills and initiatives

Draft Amendment for Prohibition Money Laundering (Requirements Regarding Identification, Reporting and Managing of Records of Banking Corporations), 2010

On the 30th of December, 2009 an updated draft of the amendment to the Regulation on Prohibition of Money Laundering applying to the banks was distributed. The proposed amendment deals, among others, with the following subjects:
Adding a general obligation for banks to take measures to “get to know the customer” before opening an account, in addition to the duty of identification and recording details and this in addition to impose a duty on the banks to verify the identification details; the possibility of having a true copy of an original verified also by an attorney from the OECD countries; giving the person responsible for the prohibition on money laundering the possibility, in special circumstances, of determining methods of identification, verification of details and alternative document requirements for service recipients; imposing a duty on the banks to take reasonable measures to verify the identification details declared in affidavits of beneficiaries and owners of control; changing the duty of reporting “unusual actions”, to a duty to report “actions for which there are reasonable grounds to assume that they are linked to money laundering or funding of terror”.
Parallel to the proposed amendment to the Ordinance, on January 24, 2010 an amendment was published to Bank Managing Instructions no. 411 (Prevention of Money Laundering and Financing of Terror and Identification of Customers) which adjusts the content of the instruction to the amendment to the Ordinance. The instruction became effective on the 1st of July 2010.
The bank studies the proposed amendments to the Ordinance and the amendment to the instruction on proper bank managing.

Memorandum for the proposed Mortgage Act, 2010

Legislative memorandum that has been published by the Ministry of Justice on the 18th of January 2010, for public notes. The memorandum replaces the Mortgages Act, 1967, with a modern act performing reform in the judgments of the liens in Israel. The memorandum deals, among others, with the following subjects:
Providing possibility to an individual to mortgage all is assets, except for assets for personal needs, providing the possibility to individuals to mortgages future asset that does not yet belong to him, cancellation of floating mortgage institution, cancellation of ability provided to the mortgage recipient to avoid creating additional liens on the same property,change in registration method of mortgages.
The bank studies the principles of the memorandum. as far as the memorandum shall be integrated, the requiring law will have implications on the managing of collateral of the bank and procedures for providing credit to its customers.

Proposal Companies Law (Amendment number 12) (Optimizing corporate governance), 2010

On the 10th of March, 2010, the authorities published Proposal Companies Law (Amendment number 12)(Optimizing corporate governance), 2010, that proposes to amend the Companies Law, 1999 (hereinafter: "Companies Law") on the issue of adapting and implementing of principles of Corporate Governance in Israel. The framework of the law proposal offers, among others:
To amend the definition of the term "Director" such that is will explain the principle undependable opinion of the director; to add and detail in the first appendix of the companies law recommended corporate governance principles, that in order to be applicable on the companies will have to be anchored specifically in its statutes; amending various paragraphs in the companies law relating to the Board of Directors and its committees; to amend and add paragraphs on the issue derivative claim, and also on the issue of equipment offers, external companies and authority for Securities Authority system to impose financial punishments for a number of legislative instructions; to amend paragraphs dealing with transactions of companies claiming special permits, as far as the proposal of the law will be received, the bank will have to examine the adjustment of its organizational structure and its authority, as mentioned.

The draft law for prohibiting unfair use of information on securities (Legislative Amendments), 2010

On the 24th of October, 2010, the assembly of Securities Authorities approved the draft law prohibiting unfair use of information on securities (Legislative Amendment), 2010, and distributed it for public notes until the 25th of November, 2010 ("Draft Law"). The draft law offers to enter amendments in the Securities Law, Consultancy Law and Joint Investment Trust Law, such that, among others, the following issues will be regulated:
- Prohibition of acts of anticipation by other financial managers and their employees.
- Defining limitations on possession of securities and transactions, by creating a uniform agreement regarding restrictions on the possession and making transactions in securities, presently determined by the Consultancy Law and the Joint Investment Trust Law.
- Defining corporate control requirements that are financial intermediaries, employing other financial intermediaries in order to determine procedures that will assure the preservation of the proposed prohibitions under the draft law.

Memorandum Standard Contracts Law, 2010

On the 9th of May, 2010, the Ministry of Justice published in notes to the public a legislative memorandum requesting to change the Standard Contracts Law, 1982, mainly on the following issues:
- Adding a list of standard contract terms which appear strong because they are depriving.
- Creating a process "examining the existence of depriving conditions" in the standard contract, which will replace the approval process of the current uniform contract law.

Determination as condition that is canceled by the court for being depriving condition, will be calculated as disabling condition in each contract that is closed according to the same standard contract also before date of decision of the court.
The bank studies the principals of the memorandum.

Memorandum Authorities Securities Authority Law (Legislative Amendment), 2010

On the 24th of May, 2010, the Securities Authority distributed a legislative memorandum. The purpose of the memorandum is to formalize the status of the Securities Authority as a professional, trustworthy body regulating the capital market, and strengthening its independence as such. The framework of the memorandum offers, among others, to define, that most of the presently fixed agreements in the Securities Law, and provided by the Minister of Finance to regulate in regulations (mostly with approval of the finance committee), will be revised with the approval of the plenary authority, to regulate by way of administrative instructions. In addition it is proposed to create clarity regarding the role the various organizations in the Securities Authority, to combine in a standard regulation including to which the Stock Exchange in Tel Aviv presently operates, and to regulate the activity of the Securities Authority providing response to preliminary inquiries of the public. The bank studies the instructions of the memorandum.

Proposal Law for Regulating Investment Intermediates, 2010

On the 22nd of August, 2010, the Securities Authority published the Proposal Law Regulating Investment Intermediates - 2010 (hereinafter: "the Proposal") for public notes.
The proposal proposes to replace the existing Regulation of Investment Counseling, Investment Marketing and Portfolio Management Law, 1995, and to change part of the presently existing regulations regarding investment intermediaries, marketing investments and investment portfolios procedures. The proposal will also apply to bodies that are not governed today under supervision, brokers, dealers and those engaged in custody services, securities and financial assets. The proposal will establish a council to monitor the financial intermediaries, which regulate and supervise the activities of investment intermediaries, as defined in the proposal. The Securities Authority will supervise the council. The bank studies the principles of the proposal. As the instructions of the proposal will be approved, the bank will have to examine the adjustments of its procedures, and the procedures of its subsidiaries, to the instructions.

Memorandum on the Antitrust Law, 2010

On the 19th of September, 2010, the Antitrust Authority published the Antitrust Law, 2010, memorandum. The purpose of the memorandum is to add to the Antitrust Law, 1988, an administrative enforcement mechanism, including the authority for composing financial punishment. The memorandum proposes, among others, to define a system for imposing financial punishment for maximum amounts that are not determined in advance, but depend on the sales volumes of performer of the breach, and also to regulate the legislative controls on the fact of imposing punishment as well as on the height, by submitting an appeal to the court of the Antitrust. The bank studies the principals of the memorandum.

Proposal on the Antitrust Law (Amendment number 11), 2010

On the 1st of November, 2010, in name of the Government a Proposal on the Antitrust Law (Amendment number 11), 2010, was published, with the purpose to deal with competitive market failure, called "market power" that is caused is many industrial sectors in which centralized groups are operating (oligopolies) for minimum competitors and high income barriers of the sector, and as result hereof damage the consumers and the economy. According to the proposed amendment, among others, the Commissioner of the Antitrust will be granted with tools to effectively deal with the mentioned competition failure, and special regulation will be determined on the issue of member of centralized groups. The bank studies the principles of the proposal.

Proposed Banking Act (Legislative Amendment), 2011

On the 5th of January, 2010, Proposal Banking Act (legislative amendment), 2011 was published in the records, according to which was proposed,among others, to amend the Banking Act (permit), 1981, and also the Banking Ordinance, 1941, Securities Act, 1968, and Internal Auditing Act, 1992, on a number of issues, amongst: the ways of proposing directors for tenure and their election, the way of appointing directors at any of the banking corporations that are not public companies, way of proposing on the issue of terminating the tenure of director, examinations used by the Supervisor on the Banks during his consideration of suitability of the candidate for the position at the banking corporation, and starting the reporting obligation of stakeholders according to the Securities Law, 1968 also on some one possessing over 1% of controlling means in a banking corporation without controlling.

As the proposal of the law will be approved, the bank will have to examine the adjustments of its procedures and to the instructions.

Proposal Loans without return right Act, 2010

On the 15th of March, 2010, a private bill was submitted to the Knesset proposing that is will be determined by law that the guarantee for the loan payoff of residential housing unit purchasing will be the mortgage asset for ensuring the loan only, and that the borrower who took a loan of this kind, will not be charged with an amount exceeding the compensation that will be received from the sales of the mortgaged asset. Also mentioned in the proposal that at loans of this kind the lender will not be allowed to demand guarantee from the borrower as condition for providing the loan.

As the proposal of the law will be accepted, the bank will have to consider its instructions during defining of transaction conditions to comply with the loans of this kind to its customers.

Proposal Banking Act (customer service) (Amendment - interest on credit balances)-2010

Private bills tabled before the Knesset on the 15th of March, 2010, proposing to oblige banks to pay interest on amounts accumulated in their customers' checking accounts. In the estimation of the Bank management, if the proposed bill becomes law, its effect on the Bank will not be significant. The bank studies the proposed instructions.

Proposal Housing Loan Act (Amendment - Mandatory referral for special committee for extraordinary loans before submitting request for executing mortgage), 2010

On the 17th of March 2010 and on the 11th of October 2010 a proposal of private law was submitted to the Knesset in which was proposed to determine that the right of the banking corporation starting realization mortgage procedures to "eligible" borrowers will be subject to providing of significant opportunity to the borrower to apply tp the special committee of the Ministry of Housing. In addition, it proposed to start the arrangement, in the obliged changes, also in cases in which the borrower received a loan not from Government funds and anchored by law, the custom of operating committees for exceptions at the banking corporation. The bank studies the proposed instructions.

Instructions and Memorandums of the Supervisor on the Banks

Instructions of the Supervisor on the 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 memorandum that includes amendments to the requirements for reporting to the public, "Measurement and Disclosure of Overdue Debts, Credit Risk and Allowance for Credit Losses", the new requirements were discussed extensively in the 2007 annual report, in the "Miscellaneous" section.. According to the memorandum, the instruction will be implemented in the financial reports of banking corporations as from January 1, 2010 and henceforth. According to the announcement of the Bank of Israel, implementation of the instruction has been postponed until January 1, 2011.
Management of the bank is preparing for implementation of the instruction, in accordance with the detailed program with timetable for implementation. For details concerning the expected influence on the implementation instructions, see note 3 in the financial reports.

Instructions of the Supervisor on Banks on the issue of handling problematic debts

On the 27th of December 2010 the Supervisor on Banks published a memorandum including amendments for Proper Banking Management instructions 314, according to which the bank is required to perform provisions for "large loans" according to the method of "depth of the arrears". The memorandum will be effective from the 1st of January 2011. For details concerning the expected influence on the implementation of the instruction, see note 3 in the financial reports.

Instructions of the Supervisor on Banks on the issue of group acquisition

On the 25th of March 2010 the Supervisor on Banks issued a guide line on the issue of change in way of credit classification the banks provided to acquisition groups. According to the instructions of the memorandum, in view of the risks involved in providing credit to acquisition groups, the banks are required to classify the credit provided to acquisition groups as debt of the corporation in the real estate sector, and also to weight is at a rate of 100% in the calculation of capital adequacy and that until the forwarding ot the key to the purchasers. The guide line will be effective - June 2010. The bank implements the instruction of the Supervisor.

Memorandum of the Supervisor on the issue of transferring activity and closing account of customer.

On the 25th of March the Supervisor on Banks published a memorandum amending the Proper Banking Management instruction 432 on the issue of transferring activity and closing account of customer, in order to make it easier for the customers that are transferring to another bank and require to exchange the chargeable card in their possession for a new chargeable card. For this reason, the memorandum determines that the issuer transferring the chargeable card will be obliged to act versus the various issuers of the customer, for transferring the permissions for charging the account of the customer to the new chargeable card. The bank implements the instructions of the memorandum.

Letter from the Supervisor of Banks on the issue of developments in the risks of housing loans

On the 12th of July 2010 the Supervisor on Banks issued a letter to the bank, in which was mentioned that in view of the recent developments at the housing market that may lead to erosion of the quality of banks' credit portfolio, the banks are required to re-examine their credit portfolios and their credit policies on the issue of mortgages and to ensure that their policies comply with their lust for risk. Also is determined in the letter that all banking corporations will keep additional provision at a rate of 0.75% for housing loans complying with certain criteria. Validation of the letter - 30th of June 2010. The bank implements the instructions.

Letter of the Supervisor on Banks on the issue of social networks

On the 28th of July 2010 the Supervisor on Banks has sent a letter to the banking corporations, that deals with the risks embedded in the use of social networks on the Internet. In the letter it is mentioned that during the last years the use of these networks has increased, that may use the bank for forwarding marketing messages, providing general information, performing activity on the account of the customer and more, but on the other hand embedded are operating, legal, regulatory and reputation risks. Therefore, the bank is required to operate to minimize the mentioned risks by taking measurements as detailed in the letter. The bank prepares to implement the instructions of this letter.

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

On the 28th of October 2010 the Supervisor on Banks issued an instructions on the issue of "Leveraged Housing Loans at Variable Interest". According to the instruction, concerning all housing loans that have financing rates than 60% and more from 25% of the loan provided to the customer at variable interest, the risk weight of the loand provided with variable interest, is 100%. The instruction is not applicable on loans with a financial scope lower than 800,000 NIS and on loans provided to eligible of the Housing Ministry. The bank operates according the instruction.

Amendment Proper Banking Management Instruction 301 on the issue of Board of Directors

On the 29th of December, 2010, the Supervisor on Banks published new Proper Banking Management Instruction number 301 on the issue of the Board of Directors, and this in the framework of the updating of Proper Banking Management Instructions and their adjustment to the Basel framework.

The main changes in the new instruction relate, among others, to the issue of positions in various aspects, including the approval procedure of senior officers, for the positions of the Board of Directors, for the approval on credit policy specified by the Board of Directors, ensuring the independence and qualifications for audit and control functions, approval of appointment, discharges and evaluation of performance of the senior rank, determining ethical code, determining policies and guide lines for conflict of interests, reference for activities lacking transparency, how to delegate authorities to the committees of the Board of Directors, composition and way of operating, composition and seize of the Board of Directors and the way of functioning, directors and external directors, renewed approval by the Board of Directors, Salary and Benefit committee and benefit policy, Risk Management committee. The bank implements the instructions of the Supervisor.

❖ The internal auditing

Mr. Eitan Stein served as internal auditor of the bank from March 9, 2008 and until December 4, 2010. Mr Stein was employed at the bank from the year 1997 in a full time position. He is a certified public accountant with a BA in accounting and economics and a MA degree in business administration from the Hebrew University, he served as deputy internal auditor of the bank and its subsidiaries, in the three years prior to the date of his appointment as internal auditor and served as deputy auditor during the period from January 1 and until March 9 2008.
Effective from the 5th of December 2010 Motti Gedali served as internal auditor of the bank. Mr Motti Gedali has a BA degree in economics and political science and a MA degree in business management from the Hebrew University. During the year 1976-2005 he held various positions at the Bank of Israel at the Supervision on Banks Department as auditor and as manager of the control unit specializing in supervising and control on the manner of exposure of the banking corporations in Israel to all kinds of financial risks.
During the meeting on the 23rd of November 2010 the Auditing committee recommended the Board of Director to approve the appointment of Mr Motti Gedali as internal auditor of the bank, and his appointment was approved by the Board of Directors in the meeting on the 25th of November 2010, subject to the approval of the Bank of Israel.
Mr Stein and Mr Gedali comply with the instructions of paragraph 146 (b) of the Companies Law-1999, and with the instructions of paragraph 8 of the Internal Auditing Act 1992 and are not related to other senior officers or stakeholders at the bank.

The internal auditing employees comply with the instructions of paragraph 8 of Banking Regulations (internal auditing), 1992.

Identity of the Superior and Scope of Employment of the Internal Auditor

The person responsible for the Internal Auditor is the Chairman of the Board of Directors.
The extend of the employment of the internal auditor and his team of employees for the year 2010 is about 5.5 average positions (including outsourcing). The deputy internal auditor and his replacement are also responsible for the inquiries of the public. The scope of average position in the area of public inquiries - one position.

Auditing program

The work program if the internal auditing for the year 2010 is based on the on the long-term audit program, composed of a program for the current year and a program for the next three years.
The audit subjects include the bank's organizational units, subsidiaries and associated corporations, work processes, products marketed and computerized systems. Periodic reviews are also implemented for exposure of the bank for risks of embezzlement and fraud and for various risks like: financial risks, operating risks compliance risks, etc. Follow-up reports are also prepared regarding correction of significant deficiencies disclosed in the audit work – of the Internal Auditor, of the independent auditor 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.

In the framework of integrating the ICAAP process at the bank, the internal auditing committee prepares an undependable survey. For the preparation of this survey the internal auditing is assisted by an external professional consultant.

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 to evaluation of the quality of the controls intended to reduce risks. These estimates are updated regularly.

The annual work program is derived from the long-term work program, which is updated prior to the start of each new calendar year. The annual internal audit work program is determined based on both the bank's work program, and on the basis of updates regarding planned significant changes transferred to the Internal Auditor by the bank's CEO, and on basis on published regulatory changes including published changes in the framework of instructions and guide line of the Supervisor on Banks.

In the second half of 2009, with the assistance of an external company, a comprehensive review of risks was carried out for on all the bank's divisions. The long term work program for the period 2010-2013 relies on this review and on a systematic methodology of risk assessment and controls, received from the company. On basis of all these the frequency of audit for each separate subject is determined. Annually performing updates of mapping controlled entities of the bank and determining the update frequency for examination of these entities according to the business developments and regulator guide lines.

The work program is discussed and approved by the audit committee, after which by the assembly of the Board of Directors and by the Chairman of the Board of Directors.

Significant transactions, if any, carried out by the bank, are reported to the Internal Auditor and examined, including the process of the approval of these transactions.

The Internal Auditor is authorized to deviate from the work program, subject to updating the Chairman of the Board of Directors and the chairman of the audit committee currently and receipt of approval from them.

The Internal Auditor prepares the internal audit based on accepted professional standards, published by the Association of Internal Auditors and fulfills his responsibilities in accordance with instructions and guide lines issued by the Supervisor on Banks.

The Internal Audit has free and complete access to information and data as stated in paragraph 9 of the Internal Audit Law, 1992, including free and complete access to the corporation's data systems including financial data derived from these systems.

Reference to corporations that are significant holdings

The Internal Auditor also serves as Internal Auditor of all subsidiaries of the bank. The subsidiaries are included in the long-term work program and are audited according to the frequency determined in accordance with risk estimates as specified in the above paragraph.

Audit Reports and Discussion Thereon

According to a work procedure of the audit committee and a work procedure of the Internal Auditor derived from it, each audit report is presented in writing to the CEO, to the Chairman of the Board of Directors and to the Chairman of the audit committee, and is presented for discussion in the audit committee. The summary of audit activity in 2010 was discussed in the audit committee on December 23, 2010. During the same meeting, the audit committee held a discussion and approved the long-term work plan for the years 2011 until 2013 and the annual work plan for 2011.

Compensation of the Internal Auditor

As mentioned above, the Internal Auditor is in his position since the 5th of December 2010 and his salary cost amounted in the annual report to the total of 28 thousand NIS. The annual salary cost of Mr. Eitan Stein, who served as internal auditor until December 5, 2010 amounted to a total of 499 thousand NIS.

Evaluation of Board of Directors

Annually, the audit committee holds a meeting alone with the internal auditor, which was held on the 23rd of November, 2010.

Based on the current information and data received by the committee, the current reports presented 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 of the independent auditor, the audit committee expresses its opinion regarding the internal auditor's fulfillment of professional standards, according to which the auditing reports on the bank's activity were edited.

The Board of Directors and the audit committee believe that the scope, nature, continuity of activity and work program of the internal auditor are reasonable in the existing circumstances, and they address and meet the objectives of the bank's internal audit.

❖ Disclosure Regarding Process of Approval of Financial Reports

The Board of Directors of the Bank is responsible for comprehensive control (as defined in Proper Banking Management Instruction No. 303) (see list of directors below).

Prior to approval of the financial reports by the Board of Directors, draft financial reports, draft directors' report and draft annual periodic report are transferred to the balance sheet committee of the Board of Directors. The balance sheet committee includes the Chairman of the Board of Directors and three directors, of whom one is an external director and one is an independent director.

Also, the bank's CEO, accountant and chief controller, and representatives of the independent auditor, participate in the meeting.

The committee discusses the financial reports format and implements a decision regarding recommendation for approval of the financial reports by the Board of Directors.

After reaching an agreement regarding such recommendation, the draft financial reports, draft directors' report and draft annual periodic report are transferred for review by members of the Board of Directors, several days prior to the date of the meeting fixed for approval of the reports.

During the meeting of the Board of Directors, operating results and financial status are reviewed, and information regarding the bank's activity is presented and directors' questions are answered.

The bank's independent auditor also participates in the meeting in order to express a professional opinion regarding the financial reports and regarding accounting issues relating to the financial reports. After conclusion of the discussion, the Board of Directors decides regarding approval of the financial reports.

❖ Miscellaneous

Memorandum – Management Responsibility for Internal Controls on Financial Reporting – SOX Act 404

On December 5, 2005 the Supervisor of Banks issued a memorandum detailing instructions for implementation of the requirements of Paragraph 404 of the SOX Act. Paragraph 404 determines regulations of the SEC and the Public Company Accounting Oversight Board (PCAOB) regarding management responsibility for internal controls on financial reporting.

The Supervisor's instructions in the memorandum determine as follows:

- Banking corporations will implement the requirement of Paragraph 404 and the SEC regulations published thereunder.
- Appropriate internal control requires existence of a control system according to a clear defined framework and the model of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") fulfills the requirements and may be utilized for purposes of evaluation of internal control.

Implementation of the 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 until the reporting date of December 2008.

In the framework of implementation of the instructions, the bank performed, in cooperation with an independent accounting, 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

Also, 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 management of the bank, under the supervision of the Board of Directors, evaluates the effectiveness of the internal auditing of the bank on the financial reports as of the day of the 31st of December 2010, 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 evaluation, the management believes that as of the day of the 31st of December 2010 the internal auditing of the bank on the financial reports was effective.

The effectiveness of the internal auditing of the bank on the financial reports as of the day of the 31st of December 2010 has been audited by the auditor of bank "Kost Forer Gabbay & Kasierer", as has been stated in their report on page 133 in which an unrestricted opinion has been included on the issue of effectiveness of the internal auditing of the bank on the financial reports as of the day of the 31st of December 2010.

Evaluation of Controls, Processes and Procedures Regarding Financial Statement Disclosure

Management of the bank, in cooperation with the CEO and accountant and chief controller, evaluated as of the end of the reporting year the effectiveness of the bank's controls, processes and procedures relating to disclosure. Based on this evaluation, the bank's CEO and accountant and chief controller concluded that as of the end of the reporting year 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 in accordance with the public reporting requirements of the Supervisor of Banks, as of the date determined in these requirements.

During the reporting year, no change occurred that impacted materially, or that could reasonably impact significantly, on the Bank's internal control on financial reporting.

Donations

The bank's donation policy is performed according to the decision of the management and in the framework of the bank's budget. This policy includes criteria for the selection of institutes and associations. In the year 2010 the bank donated 560 thousand NIS (2009 - 525 thousand NIS) to help associations and public institutions.

In the framework 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 between 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.

The Bank has future commitments for donations in the framework of the "Adopt a Fighter" project in the sum of 100 thousand NIS annually for 3 years, ending in 2011.

❖ Defective debts, credit risk and provision for credit losses

On December 31, 2007 the Supervisor of Banks published an instruction that includes amendments to requirements for reporting to the public regarding "Measurement and Disclosure of Damaged Debts, Credit Risk and Provision for Credit Losses" ("the New Instructions"). The New Instructions are intended to adjust the instructions for reporting to the public to accounting principles applied in this regard, to required disclosure, by banks throughout the world, in general, and in the United States, in particular. Among others, the new instructions determine:

Specific regulations relating to classification of damaged debts, credit risks, measurement of provisions for credit losses, accounting waiver of debts and recognition of income for debts.

Detailed requirements for a methodological process to determination provisions for credit losses for consistent implementation, and maintaining of supporting documentation of the process and the provisions.

Requirements for expansion of financial report disclosure regarding methods and assumptions applicable by a banking institution for measurement of provisions for credit losses.

The New Instructions will be applicable for financial reports of banking corporation as from January 1, 2011 and henceforth. The New Instructions will not be implemented retroactively for payoff in financial reports for previous periods. Adjustments of the balance of the provision for credit losses for credit to the public and for off-balance sheet credit instruments as of January 1, 2011 in accordance with requirements mentioned in the New Instructions, will be included directly in the paragraph of excess in equity.

In accordance with Paragraph 29B of the New Instructions, “for housing loans as defined in the appendix Proper Banking Management Instruction No. 314 … The minimum specific provision will be calculated according to the extent of repayment”, i.e. the provision will be calculated according to the existing present regulations

More than 70% of the bank’s credit balance is housing loans and therefore implementation of the New Instructions will be relevant only regarding less than 30% of the bank’s credit.

The bank finished the preparation for the implementation of the instructions and data on the influence, if present, and implemented for the first time on the 31st of December 2010 as shown in the following table in note 3 of the financial reports.

Non-performing assets, damaged debts accumulating income interest, commercial problematic credit risk, and non-defective debts in arrears of 90 days or more (*)

Reported amounts	Consolidated
	December 31, 2010
1. Non-performing assets	
Credit to defective public that does not accumulate income interest:	
Examined on individual bases	**31.3**
Examined on group basis	**---**
Total	**31.3**
2. Damaged debts in re-organization of problematic debts accumulating income interest	**5.8**
3. Commercial problematic credit risk[1]	
Credit risk included in balance sheets for the public	**118.9**
Credit risk off-balance sheets for the public[2]	**52.1**
Total commercial problematic credit for the public	**171.0**
Credit risk included in balance sheets for others[2]	**7.5**
Total	**178.5**
4. Non-defective debts in arrears of 90 days or more	**251.9**
From this: housing loans for which exist provision according to depth of arrears	**130.6**
Housing loans for non-existing provision according to depth of arrears[3]	**76.6**

(*) Each of the presented balances in this appendix are presented according to the new instructions and measurements and disclosure of damages debts, credit risk and provision for credit losses, in case they were implemented for the first time on the 31st of December 2010.
The influence for provision of credit losses according to collateral influences allowing deduction for the borrower and for groups of borrowers.

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 damaged, appropriate or under special supervision, except for balance sheet credit and off-balance sheet credit risk for private persons.

2 Calculated for purposes of limitation on debts of an individual borrower and of a group of borrowers, except for guarantees provided by a borrower to secure liabilities of a third party, before the permitted collateral influence for deduction.

3 Housing loans that the provision minimize for which was calculated according to depth of the arrears that are in arrears over 3 months and up to 6 months, and other housing loans, that are not damaged, that are in arrears of 90 days or more and the minimum provision for not calculated according to the depth of arrears.

❖ Transactions with controlling shareholder

1 According to the Securities Regulations (Periodic and Immediate Reports), 1970, a corporation that must report pursuant to these regulations will submit in an immediate report and in the periodic report details "regarding every transaction entered into by the corporation with the controlling owner or where the controlling owner has a personal interest in its approval". Among other things, 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 mentioned above 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), 1993 – i.e. a transaction answering to "the types and characteristics of the transactions" that the corporation sees as negligible. Since these regulations do not apply to banks, the Association of Banks contacted the Securities Authority in order to determine the reporting format applying to banks in this context. Further to this contact by the Association of Banks and the discussions between the bank and the bank with its controlling owner or with another person where the controlling owner has a personal interest, on the division into banking transactions 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 on their occurrence. However, 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) 1970, the bank is required to submit an immediate report also for transactions that are not exceptional.

b. For non banking transactions – the bank will determine criteria for classifying such transactions that are "negligible", and they will be subject to the provisions regarding reporting of transactions with a controlling owner that apply to other reporting corporations (i.e. that are not banks).

The Instructions on Proper Bank Management (312) of the Supervisor on Banks (hereinafter: "PBM 312") stipulate that as a rule the bank shall not do a deal with a "linked person" (as this term is defined in the mentioned instructions) on terms that are better than those under which it does similar deals 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 in the meeting of the Board of Directors audit committee which met on 18.2.2010, at the division into banking and non banking transactions.

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 reports last published before the date of the transaction (hereinafter: "regulatory capital") or if the growth in liability of an individual borrower 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 are not made with a "linked person", within the meaning of PBM 312, the bank shall bring them for approval as determined in the said PBM 312. For these transactions, the bank will submit information cumulatively in the framework 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 doubtful debts or deletion of a particular amount for the liability of a controlling owner or a corporation linked to him shall be deemed a significant transaction.

b. Regarding "deposit" transactions – the deposit of money in a deposit of any kind shall be deemed 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" for 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 deemed 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 debt transaction or deposit transaction as specified above) – transaction in securities or transaction in foreign currency will be considered as extraordinary if the yearly commission collected is equal or exceeds 4% of the annual total of operating income of the bank (with deduction on income from investment in shares) according to the last annual financial reports of the bank.

c. Any other banking transaction, of the type that the bank usually carries out 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 extents 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 discovered in the framework 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 Not exceptional banking transactions:

The following transactions shall be deemed 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 regarding 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 250 thousand NIS, providing that the total number of transactions of this type in one calendar year does not exceed 0.1% of the regulatory capital. The mentioned total shall not include individual transactions whose value is less than 25,000 NIS.

b. Transactions concerning the hire of space 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 250,000 NIS 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 250,000 NIS, providing that the total of such transactions in one calendar year will not exceed 0.1% of the regulatory capital. The mentioned total shall not include individual transactions whose value is less than 25,000 NIS.

Definitions:

For the purposes of the above decisions, with all their paragraphs, the following terms shall have the following meanings:

(1) "Liability" – as this term is defined in Proper Banking Management Instruction312 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 pursuant 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 not 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

(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) include 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, 2010 (in thousands of NIS):

Kind of balance	Controlling shareholder group	Controlling shareholder relative	Ytzu Investments Ltd.
Credit	59.3	-	11.1
Unused framework	103.5	-	-
Guarantees provided to the bank by a controlling shareholder, in favor of a 3rd party	-	-	-
Liability of controlling shareholder for transactions in derivatives	-	-	-
Deposits	(9,582.8)	(643.4)	(867.0)

Below are details of income from commissions for 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, 2010 (in thousands of NIS):

	Controlling shareholder group	Controlling shareholder relative	Ytzu Investments Ltd.
Income from commission	1,553.4	3.3	56.8

1.3.6 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, 2010 (in thousands of NIS):

(1) The bank (through a fully owned subsidiary) rents, in the normal course of business and on market terms, office space, storage space and parking space from fully owned subsidiaries of a relative of a controlling shareholder of the bank, as follows:

(a) Until the end of them month March 2010 (in view of the transfer to the new building in Tel Aviv) - offices with an area of 1,150 sq.m. in Tel Aviv, used for a bank branch and its management offices, plus parking space in the same building. From April 2010 and henceforth, training room and computer room in an area of 263 sq.m. In return the Bank paid the mentioned companies in 2010 the sum of 181 thousand NIS as rent and about 89 thousand NIS for the parking space and 165 thousand NIS for maintenance. These amounts are not significant for the bank.

(b) Storage space with an area of 565 sq.m. in Jerusalem used for archives. The rental period has been set to the end of the year 2011. In return in 2010 the bank paid the sum of 166 thousand NIS rent and 142 thousand NIS maintenance fees. These amounts are not significant for the bank.

(2) The bank (through a fully owned subsidiary) receives, in the normal course of business and on market terms, holdings rights and usage of conference room in the Shalom Tower, for an area of 101 sq.m from Ytzu Investment Corporation Ltd (controlling share holder at the bank) for the period of 5 years.

According to the agreement that has been signed in the year 2010 between the above mentioned parties, the subsidiary will pay for the above mentioned rights a total of 88,600 NIS per year (being 75% of the rent, management and current expenses for the mentioned room). A total of 73 thousand NIS has been paid for the year 2010 (including municipality taxes) for the right of the above mentioned. These amounts are not significant for the bank.

It should be mentioned that, according to the agreement, the parties will share the renovation costs. The overall cost of renovations was an amount of 350,000 NIS in addition of VAT. The amount of participation of the subsidiary amounts to 262,500 NIS in addition of VAT.

The agreement has been approved by the Board of Directors of the bank during the meeting on the 30th of December 2010, after receiving approval from the auditing committee during the meeting on 23rd of December 2010.

(3) During the year 2010, the bank (through a wholly controlled subsidiary) made an agreement with the company I.T.P.Line Ltd (company controlled by "relative" of controlling shareholder), according to which the company will grant the subsidiary, internal design services for the offices rented by the bank in Airport City (hereinafter: "the building"), for a compensation of 495,000 NIS while the payment is according the progress stage of the project. The period of the agreement; for the whole period of the renovation project and the adjustments to the building (about 5 months).

The agreement has been approved by the Board of Directors of the bank during the meeting on the 30th of December 2010, after receiving approval from the auditing committee during the meeting on 23rd of December 2010.

(4) The general assembly of the bank, in a decision on the the 7th of September 2010, approved the beginning of the agreement of the bank with the directors and with its senior officers (including in subsidiaries), concerning the acquisition of insurance for senior officers (O&D) also on senior offices that are not relatives of the controlling shareholder and are called directors of the bank on date of decision, in such a way that it will be identical to the average insurance coverage for other directors and senior officers at the bank,

The insurance coverage will not be in the boundaries of responsibility of 22 million US dollars per event and the period and this for the period of 12 months starting on the day 1.10.10 and until the day 30.09.11.

The yearly premium the bank will pay for the purchasing of the above senior officer policy according to this decision (including the compensation for the front services of the insurer) will not exceed the total amount of US $100,000.

The deductible amount of the senior officer insurance policy for the bank will not exceed the total amount of US $25,000 .

The engagement in the above insurance policy has been approved on the 15th of August 2010 by the Board of Directors of the bank, after it being approved by the auditing committee of the bank of the 5th of August 2010.

- **The Board of Directors, the management and the salary of senior officers**

Names of the members of the Board of Directors and their occupation: [4]

Name of director	Main occupation	Members of the Board of Directors: body in which they are senior officers or members of the Board of Directors
Irony Jonathan	Financial adviser; Chairman of the Board of Directors of the bank, Financial adviser for the Gandir group	Member of the Committee of Risk Management and the Committee for Capital Planning and Strategy; Member of the following Boards of Directors: Shagrir Car Systems Ltd., Spantec Industries Ltd., I.P.Automation Solutions Ltd. Chairman of the credit committee of financial institutions of the insurance group Migal (external representative who is no director).
Dr. Shoval Zalman	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 following Board of Directors: S.F.C Comprehensive Financing Corporation Ltd, I.C.C. - Israeli Capital Corporation Ltd. Member of the Board of Directors of Shoval Grofman Real Estate 2002 Ltd. and the Board of Directors of 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 - 01/00, during his service as Israeli ambassador in Washington, there was a break in his membership from the Board of Directors.
Eshel Shmuel (external director)	**Advisor and financial consultant**	Member of the Audit committee, Chairman of the auditing committee and Risk management committee, 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 Agencies and Insurance and at Carmel - Union Mortgages and Investments Ltd.
Bauer Moshe	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., C.F.C. Comprehensive Financing Corporation Ltd., Israeli Guarantees Corporation Ltd., Tara Firma Ltd,, I.C.C. Israel Capital Corporation Ltd,, Mercator Management Corporation Ltd., Foreign Mutal Inc., Financial Trust Corporation Ltd, and Eitanim Insurance Ltd.
Ben-Ozer Oved	Companies manager	Member of the Audit committee, Board of Directors credit committee and compensation committee. Director at Ytzu Investments Corporation Ltd. and its consolidated corporations and at Shalom Meir Tower Ltd. Serves as a member of the financial committee of the Zionist Labor Organization and as member of the assets and liabilities committee of the Jewish Agency.

4 Additional information of the members of the Board of Directors of the bank are presented in the "Report on Directors, their accounting and financial expertise and professional abilities" in this report, in the periodical report of the bank for the year 2010 and at the website Magna from the Securities Authority http//www.magna.isa.gov.il .

Name of director	Main occupation	Members of the Board of Directors: body in which they are senior officers or members of the Board of Directors
Prof. Shalom-Yosef Hochman (external director)	Prof. in financing; CEO of Bank Mercantile Discount (until the month of July 2006).	Chairman of the Risk management committee, member of the Audit committee, credit committee, committee for Capital Planning and Strategy. 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
Volovelsky Pinchas	Lawyer	Member of the Board of Directors credit committee. Members of the following Board of Directors: C.F.C.Comprehensive Financing Corporation Ltd., Ytzu Financing Corporation Ltd., I.C.C.Israel Capital Corporation Ltd., Arwell Holdings Ltd, Riza Holdings Ltd, Ofer David Trust Company Ltd, Comprehensive Holding Corporation SA, and in "CHC Finance"
Dr. Tolkovsky Efrat (external director)	urer at the Tel Aviv ersity, academic ager of the Haim zman Institute Gazit e for real estate	Member of the Audit committee and Risk management committee. Member of the following Boards of Directors: Babylon Ltd. (external director); Eco City Ltd; Eco City S.L. Entrepreneurship and Construction Ltd.
Gideon Shoval	CEO and Replacement for the Chairman of the Board of Directors of Ytzu Investments Corporation Ltd. (parent company)	Chairman of the Committee for capital planning and strategy Director at Mercator Ltd.

Report on directors with accounting and financial expertise

According the instructions of the Companies Law - 1999 and the companies regulations (conditions and examines for directors with accounting and financial expertise and directors with professional skills), - 2005, and the instruction 630 of the Instructions for Reporting to the Public of the Supervisor on Banks, the Board of Directors of the bank need to determined the minimum number required of a director "with accounting and financial expertise" who will serve on the Board of Directors. According to the above mentioned instruction 630, the Board of Directors of the bank is required also to determine the minimum number required of a director "with accounting and financial expertise" who worth to be a member of the Auditing committee of the Board of Directors and also in other committees of the Board of Directors, that is authorized to discuss the financial reports. In addition, the above mentioned instruction 630 determines that in the report of the Board of Directors will be detailed the number of directors that "have no accounting and financial expertise" at the date of reporting.

According to the decision of the Board of Directors of the bank the minimum number worth of directors "with accounting and financial expertise" will be three directors or four of the member of the Board of Directors, to lowest of the two. In additional, the Board of Directors has determined that the minimum number worth of directors with accounting and financial expertise serving in the auditing committee of the bank, that is also being used as approval committee for the financial reports, will be at least one director. The Board of Directors determined in its above mentioned decision that it believes that the above minimal rate enables the bank to comply with the debts, authorities and functions applied on it, including the responsibility of examining the financial status of the bank, evaluation of financial reports and approval.

At the moment 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 details below:

Irony Jonathan -

Bachelor's degree in economics; Present position – Financial consultant and Chairman of Board of Directors of the Bank.

Director in the following corporations: Spantek Industries Ltd., A.P. Automation Solutions Ltd., Shagrir Vehicle Systems Ltd.

Chairman of the credit committee of financial institutions of the insurance group Migal (external representative who is no director).

Formerly Managing Director and Director of Investec Bank Ltd.

Dr. Shoval Zalman -

Bachelors Degree in International Relations, MA in International Relations and Political Science.

Present position – Chairman of Board of Directors of Yitzu Investments Corporation Ltd. (parent company of the Bank)

Chairman of the Board of Directors on the companies: C.F.C.Comprehensive Financing Corporations Ltd., I.C.C - Israel Capital Corporation Ltd; member of the Board of Directors Shoval Grofman Management Real Estate 2002 Ltd. and Director at the Hadassah hospital.

Formerly Managing Director of Export Bank and Israeli Ambassador to the United States.

Eshel Shmuel -

Bachelors degree in political science.

Present occupation - adviser and financial consultant.

Served as Vice CEO of the Union Bank in the mortgages area (2004-2009); member of the management of the Union Bank, Vice CEO, Head of business department of the Union Bank (1998 - 2004); additional positions at the Union Bank starting from the year 1977. Until June 2009 served as director at Liblov Agencies and Insurance and at Carmel - Union Mortgages and Investments Ltd. In addition, served as Chairman of the Union Leasing Corporation Ltd, and director in the Planus Loans Fund (1998 - 2004).

Bauer Moshe -

High school education.

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., C.F.C. Comprehensive Financing Corporation Ltd., Israeli Guarantees Corporation Ltd., Tara Firma Ltd,, I.C.C. Israel Capital Corporation Ltd,, Mercator Management Corporation Ltd., Foreign Mutal Inc., Financial Trust Corporation Ltd, and Eitanim Insurance Ltd.

Formerly Manager of Foreign Currency Department in Bank Elran, Secretary General of Bank Elran and Secretary General of Export Bank.

Ben-Ozer Oved -

Masters degree in political science.

Present occupation - Manager of Companies.

Director at Ytzu Investments Corporation Ltd. and its consolidated corporations and at Shalom Meir Tower Ltd. Serves as a member of the financial committee of the Zionist Labor Organization and as member of the assets and liabilities committee of the Jewish Agency.

Served as a member professor of Houston University in the USA and as Chairman of the Association of Members of the Stock Exchange in Tel Aviv. Served as a member of the Board of Directors ranking committee.

Hochman Shalom-Josef -

Doctorate in financing from University of Toronto, master’s degree in finance and bachelor’s degree in economics from the Hebrew University of Jerusalem.

Present occupation - Financial lecturer, consultant and member of the Board of Directors.

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.

Served as CEO of the Mercantile Discount Bank (until the year 2006); served as professor member of the Huston University in America. External lecturer at the faculty for Business at the University of Tel Aviv.

Volovelsky Pinchas -

Bachelors degree in Economics and International Relations and Master degree in Law.

Present occupation - Lawyer at a private firm.

Member of the following Board of Directors: C.F.C Comprehensive Financing Corporation Ltd., Ytzu Investment Corporation Ltd, T.C.C. Israeli Capital Corporation Ltd., Arwell Holdings Ltd, Riza Holdings Ltd, Ofer David Trust Company Ltd, Comprehensive Holding Corporation SA, and in "CHC Finance"

Formerly Chairman of the Board of Directors of the bank.

Dr. Tolkovsky Efrat -

Doctor degree in Finance and accounting from the University of Tel Aviv, Master degree in Financing and Accounting, Bachelors degree in electronic engineering from the University of Tel Aviv.

Present occupation - Lecturer at the Tel Aviv University, academic manager of the Haim Weizman Institute Gazit Globe for real estate.

During the years 2002-2004 served as member of the Faculty of Industrial Engineering at the Technion in Haifa. From the year 2005 and until end 2006 - member of the Board of Directors and auditing committee of Dash Securities and Investments Ltd.

Shoval Gideon -

Bachelors degree in Law and MA in Law and Business Management.

Present position – CEO and replacement of the Chairman of the Board of Directors of Yitzu Investments Corporation Ltd.

Presently serves as director at Mercator Ltd.

Number of meetings of the Board of Directors:

During the year 2010 there were 15 meetings of the assembly of the Bank of Directors (in the year 2009 - 16).

Members of the Board of Directors as of the 31st of December 2010 [5]

Uri Paz	CEO
Nachman Nitzan	Replacement and Vice CEO, Manager of the Financial Division
Asher Ben David	Vice CEO, Manager of the Retail Division
Reli Meridor	Vice CEO, Manager of Human Resources Division
Bentzi Adiri	Vice CEO, Manager Business Department
Michael Ben Ischai	Vice CEO, Manager Credit Retail Department;
Sarit Weisstof	Vice CEO, legal consultant
Arik Zwilli	Vice CEO, Manager Cooperation Channels Department
Arnon Zayit	Vice CEO, Manager Of Financial Department
Nissan Levi	Vice CEO, Manager Risk Management Control Division and Chief Risk Director (CRO)
Dinah Promovitz	VIce CEO, Manager Branches And Marketing Department
Ronit Schwartz [6]	Vice CEO, Manager Capital Market
Motti Gedali	Internal auditor
Ron Sagy	Replacement and Deputy Internal auditor, Vice CEO, candidate for member of management
Carmel Florentz	Secretary of the bank

Salaries of senior officers

See appendix A.

Salary of auditors

See appendix A.

The Board of Directors of the bank thanks the management of the bank and its employees for their dedicated work and diligence.

Uri Paz CEO	Jonathany Irony Chairman of the Board of Directors

5 Additional information on senior officers at the bank are present in the periodical report of the bank for the year 2010 and at the web site Magna from the Securities Authority http//www.magna.isa.gov.il .

6 Terminated her tenure on 8.2.11.

Main data from the consolidated financial reports For the year ending on December 31, 201

Appendix A Board of Directors Report

	Rate change In %	For the year ending on December 31 2010	2009
A. Profit and Profitability		**In percentages**	
1. Net yield income for average capital		**5.5%**	10.2%
		Reported amounts Millions of NIS	
2. Income from financing activity before provision for doubtful debts	-9%	**163.4**	180.5
3. Provision for doubtful debt	100%	**2.6**	1.3
4. Income from financing activity after provision for doubtful debt	-9%	**166.0**	181.8
5. Operating income and other	1%	**85.2**	84.1
6. Operating expenses and other	17%	**(203.1)**	(173.6)
7. Regular operating income before taxes in reported amounts	-48%	**48.1**	92.3
8. Provision for taxes	-58%	**(14.0)**	(33.6)
9. Net income	-42%	**34.1**	58.7

B. Principal financial relations			
Provision for doubtful debts for credit balance			
For the public (incl. off-balance weighted credit risk end of the year:		**In percentages**	
10. Annual provision		**-0.03%**	-0.02%
11. Cumulative provision		**1.5%**	1.7%
12. Capital ratio for risk components (first segment Basel II)		**15.2%**	16.0%

	Rate Change In %	Present balance 31.12.10	31.12.09
		Millions of NIS	
C. Balance sheet - Principle paragraphs			
13. Total for balance sheets	9%	**10,126**	9,301
14. Cash and deposits at banks	-15%	**652**	765
15. Securities	21%	**1,315**	1,083
16. Credit for the public	9%	**8,037**	7,349
17. Deposits of public	4%	**7,408**	7,116
18. Liabilities certificates and deferred liability notes	38%	**1,921**	1,392
19. Equity	5%	**633**	606
20. Capital needed for capital ratio (first segment Basel II)	0.2%	**905**	903
D. Off-balance sheets paragraphs			
21. Loan balance from deposits according to collecting proportion	-12%	**2,617**	2,975
22. Collateral balance	-18%	**416**	505

Main data on the bank and its consolidated companies **Appendix A (cont.)**
For the year ending on December 31, 2010 **Board of Directors Report**

E. Details compensation of senior officers (in thousands of NIS)

For the year ending on December 31, 2010

Details receiver of Compensation				Compensation for services			Other benefits		Total
Name	**Function**	**Extend of position**	**Holdings rate in capital of corporation**	**Salary(1)**	**Grant(2)**	**Benefit for payment based on shares (8)**	**Interest (3)**	**Other**	
A. Jonathan Ironay (4)	Chairman of the Board	Partial	-	621	-	-	-	-	**621**
B. Avi Bzoura (5)	CEO	100%	-	2,111	716	-	-	-	**2,827**
C. Uri Paz (7)	CEO	100%	-	1,683	-	2,326	-	-	**4,009**
D. Benzi Adiri	Vice CEO, Manager Business department	100%	-	1,039	35	-	-	-	**1,074**
E. Shwartz Ronit(9)	Vice CEO, Manager Securities and Foreign Currency	100%	-	909	30	-	-	-	**939**
F. Ron Sagy	Replacement and Deputy Internal auditor	100%	-	853	35	-	-	-	**888**

For the year ending on December 31, 2009

Details receiver of Compensation				Compensation for services			Other benefits		Total
Name	**Function**	**Extend of position**	**Holdings rate in capital of corporation**	**Salary(1)**	**Grant(2)**	**Benefit for payment based on**	**Interest (3)**	**Other**	
A. Jonathan Ironay (4)	Chairman of the Board	Partial	-	603	-	-	-	-	603
B. Avi Bzoura (5)	CEO	100%	-	1,807	572	-	-	-	2,379
C. Joav Geradi	Vice CEO, Manager Risk department and Nostro	100%	-	1,285	-	-	4	-	1,289
D. Benzi Adiri	Vice CEO, Manager Business department	100%	-	973	-	-	-	-	973
E. Ron Sagy	Replacement and Deputy Internal auditor	100%	-	831	-	-	-	-	831
F. Michael Ben Ishai	Manager Retail Credit Department	100%	-	782	-	-	4	-	785

(1) .Includes contributions for severance pay, provident/pension benefits, continuing education fund, vacation and national insurance, but excluding payroll tax

(2) (excluding payroll tax)Includes bonus provided in the year under review and not yet paid

(3) Includes interest benefit in respect of loans granted at preferential conditions.

(4) Mr. Jonathan Irony was appointed Chairman of the Board of Directors of the bank as from March 30, 2006. In accordance with the agreement for provision of service signed between the Chairman of the Board of Directors and the bank, the Chairman is entitled to monthly payment for the services he provides to the bank and t refund of expenses actually incurred.

(5) Mr. Avi Bzoura terminated his tenure on April 13, 2010 according to his employment agreement and subject to the determined conditions he is entitled to, Mr. A Bzoura is entitled to a grant at the end of his tenure for a total of 1,300 thousand NIS. The grant is included in the year 2010 and is the grant he is entitled to a mentioned with deduction of provision balance for the beginning of the year.

(6) In the employment agreement of Mr. Avi Bzoura, signed in October 2007, Mr. Avi Bzoura is entitled to an annual grant given at a yearly yield rate of the bank. Accordir to the agreement at a yearly yield of 9.5% the height of the grants is 200 thousand NIS and on each addition of 0.5% in the yield rate, the grant will increase 5 thousand NIS. In addition in the employment agreement exits a grant given during employment years according to the agreement Mr. Avi Bzoura will be entitled at th end of three years tenure to a yearly grant of 300 thousand NIS for each year of his tenure and at the end of the fourth year to a grant of 390 thousand NIS.

(7) .Mr Uri Paz started his tenure on April 13, 2010. For details on the issue of his employment agreements see Not 23d

(8) For obligations of issuance of options for Mr Uri Paz according the employment agreement signed in the year 2010 (without payroll tax) for details see Note 30 in the financial reports.

(9) Terminated her tenure at the bank on 08.02.2011.

Main data on the bank and its consolidated companies
For the year ending on December 31, 2010

Appendix A (cont.)
Board of Directors Report

	For the year ending on December 31	
	2010	**2009**
F. Data on organizational structure		
1. Number of bank branches	**16**	16
2. Number of employees including subsidiaries (including temporary outsourcing employees)	**412**	377
3. Number of positions with overtime (monthly average)	**13**	11
4. Number of meetings of the Board of Directors	**15**	16
5. Number of meetings Board of Directors committees	**66**	45

G. Salary Internal Auditor [1,2,3] in thousands of NIS

	Consolidated		The bank	
	For the year ending on December 31			
	2010	**2009**	**2010**	**2009**
For auditing activity : [4]				
Auditor	**1,086**	764	**907**	602
For tax services [5]				
Auditor	**259**	440	**259**	385
For other services				
Auditor	**488**	607	**488**	165
	1,833	1,811	**1,654**	1,152

(1) Report of Board of Directors to annual general meeting on the auditors' salary for auditing services and additional services, under Sections 165 and 167, Companies Law, 1999.
(2) Auditors' salary includes payments to partnerships and corporations under their control, and payments in accordance with the VAT Law.
(3) Includes paid salary and cumulative salary.
(4) Auditing the financial reports and reviewing the intermediary reports
(5) Current tax services and preparation of tax returns.

Heading - Management Review

Management review on the business status of the bank and results of its operating

Following are long-term data and details to the financial reports in order to provide a comprehensive picture of the bank's financial position and operating results:

Consolidated Balance Sheets – Multiple years periodical data for the years 2006 - 2010

Appendix A

	December 31				
	2010	**2009**	**2008**	**2007**	**2006**
	Reported amounts in millions of NIS				
Assets					
Cash and deposits at banks	**652.3**	765.1	350.7	369.5	765.5
Securities	**1,314.9**	1,083.2	1,291.7	1,350.4	955.8
Credit for the public	**8,036.9**	7,349.3	7,510.1	7,188.5	6,398.9
Activa and equipment	**56.7**	52.4	51.8	43.8	46.6
Other assets	**64.9**	51.4	47.0	26.2	24.3
Total assets	**10,125.7**	9,301.4	9,251.3	8,978.4	8,191.1
Liabilities and capital					
Deposits of the public	**7,407.8**	7,115.7	7,279.3	6,960.3	6,730.5
Deposits from banks	**86.5**	103.9	139.5	170.8	221.4
Government deposits	**4.9**	5.4	3.7	9.0	15.9
Securities loaned or sold in framework of reacquisition agreement	**-**	-	50.0	-	-
Liabilities certificates and deferred liability notes	**1,921.1**	1,391.8	1,188.3	1,261.7	692.3
Other liabilities	**72.2**	78.7	70.6	74.2	69.3
Total liabilities	**9,492.5**	8,695.5	8,731.4	8,476.0	7,729.4
Equity	**633.2**	605.9	519.9	502.4	461.7
Total liabilities and capital	**10,125.7**	9,301.4	9,251.3	8,978.4	8,191.1

Income reports - long-term for the years 2006 – 2010

Appendix B

	For the year ending on December 31				
	2010	**2009**	**2008**	**2007**	**2006**
	Reported amounts in millions of NIS				
Income from financing operating before provision for doubtful debts	**163.4**	180.5	171.7	182.7	155.7
Provision for doubtful debts	**(2.6)**	(1.3)	6.8	12.6	15.5
Income from financing operating after provision for doubtful debts	**166.0**	181.8	164.9	170.1	140.2
Income from other operating					
Operating commissions	**84.3**	84.0	83.1 *	88.5 *	89.2 *
Income (losses) from investment in shares, net	**0.3**	-	(1.0)	(0.2)	0.8
Other income	**0.6**	0.1	0.8 *	0.1 *	0.2 *
Total income from other operating and other	**85.2**	84.1	82.9	88.4	90.2
Expenses from operating and other					
Salaries and related expenses	**120.7**	105.8	102.6	103.7	105.2
Maintenance and impairment activa and equipment	**29.4**	27.9	24.4	24.0	23.1
Other expenses	**53.0**	39.9	39.2	39.3	36.9
Total expenses from operating and other	**203.1**	173.6	166.2	167.0	165.2
Income from regular operating prior taxes	**48.1**	92.3	81.6	91.5	65.2
Provision for taxes on regular operating	**14.0**	33.6	29.9	30.6	27.6
Income from regular operating after taxes	**34.1**	58.7	51.7	60.9	37.6
Income from extraordinary operating after taxes	**-**	-		0.1	26.4
Net income	**34.1**	**58.7**	**51.7**	**61.0**	**64.0**
Net income per share (in NIS)					
Income from regular operating	**0.48**	0.83	0.73	0.87	0.54
Income from extraordinary operating	**-**	-	-	-	0.38
Total net income per share (in NIS)	**0.48**	0.83	0.73	0.87	0.92

* reclassified

Income and expenses rates – from the bank and its consolidated companies[1]

Reported amounts

Appendix C

	2010			
		Income (expense) rate [5]		
	Average balance for period [2]	Income (expenses) finance	Without derivative influence	Including derivative influence
	millions of NIS		percentages	
Israeli currency not linked				
Assets [7]	4,993.2	178.8	3.58	3.58
Liabilities [7]	4,071.6	(79.7)	(1.96)	
Influence of ALM derivatives [8]	305.3	(13.6)		
Total liabilities	4,376.9	(93.3)		(2.13)
Interest difference			1.62	1.45
Israeli currency linked to CPI				
Assets [7]	3,208.5	204.0	6.36	
Influence of ALM derivatives [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 difference			0.48	0.17
Foreign currency - domestic operations [3]				
Assets [7]	1,227.3	(38.0)	(3.10)	
Influence of ALM derivatives [8]	268.1	(21.8)		
Total assets	1,495.4	(59.8)		(4.00)
Liabilities [7]	1,085.7	65.5	6.03	
Influence of ALM derivatives [8]	332.9	20.0		
Total liabilities	1,418.6	85.5		6.03
Interest difference			2.94	2.03
Total				
Financial assets producing financing [7]	9,429.0	344.8	3.66	
Influence of ALM derivatives [8]	638.2	(9.4)		
Total assets	10,067.2	335.4		3.33
Financial liabilities causing financial expenses [7]	8,858.1	(231.7)	(2.62)	
Influence of ALM derivatives [8]	638.2	6.4		
Total liabilities	9,496.3	(225.3)		(2.37)
Interest difference			1.04	0.96

Comments may be found at the end of this review

Income and expenses rates – from the bank and its consolidated companies[1] (cont.)

Reported amounts

Appendix C (cont.)

	2010	
	Average balance for period [2]	Income (expenses) finance
	Millions of NIS	
For other derivative instruments		1.0
Commission from finance transactions and income from other finance [4]		52.3
Income from finance operating prior provision for doubtful debts		163.4
Provision for doubtful debts (including general and additional)		2.6
Income from finance operating after provision for doubtful debts		**166.0**
Financial assets producing financial income	9,429.0	
Assets resulting from derivative instruments [6]	17.3	
Other financial assets [7]	20.2	
General and additional provision for doubtful debts	(6.4)	
Total financial assets	**9,460.1**	
Financial obligations causing finance expenses	8,858.1	
Obligations resulting fro derivative instruments [6]	8.3	
Other financial obligations [7]	30.5	
Total financial obligations	**8,896.9**	
Total excess financial assets on financial obligations	563.2	
Non-financial assets	32.5	
Non-financial obligations	30.2	
Total capital means	**625.9**	

Comments may be found at the end of this review

Income and expenses rates – from the bank and its consolidated companies[1] (cont.)

Reported amounts

Appendix C (cont.)

	2009			
			Income (expense) rate [5]	
	Average balance for period [2]	Income (expenses) finance	Without derivative influence	Including derivative influence
	millions of NIS		percentages	
Israeli currency not linked				
Assets [7]	4,845.0	143.1	2.95	
Liabilities [7]	3,785.0	(55.8)	(1.47)	
Influence hedging derivatives	88.2	(5.0)		
Influence of ALM derivatives [8]	214.4	(8.0)		
Total liabilities	4,087.6	(68.8)		(1.68)
Interest difference			1.48	(1.68)
Israeli currency linked to CPI				
Assets [7]	3,412.4	282.8	8.29	
Influence of ALM derivatives [8]	212.1	19.5		
Total assets	3,624.5	302.3		8.34
Liabilities [7]	3,970.1	(305.8)	(7.70)	
Influence hedging derivatives	(88.2)	7.0		
Total liabilities	3,881.9	(298.8)		(7.70)
Interest difference			0.58	0.64
Foreign currency - domestic operations [3]				
Assets [7]	1,114.6	44.4	3.98	
Influence of ALM derivatives [8]	285.3	16.4		
Total assets	1,399.9	60.8		4.34
Liabilities [7]	1,029.5	(16.7)	(1.62)	
Influence of ALM derivatives [8]	282.9	(3.5)		
Total liabilities	1,312.4	(20.2)		(1.54)
Interest difference			2.36	2.80
Total				
Financial assets producing financing [7]	9,372.0	470.3	5.02	
Influence of ALM derivatives [8]	497.4	35.9		
Total assets	9,869.4	506.2		5.13
Financial liabilities causing financing expenses [7]	8,784.6	(378.3)	(4.31)	
Influence hedging derivatives	-	2.0		
Influence of ALM derivatives [8]	497.3	(11.5)		
Total liabilities	9,281.9	(387.8)		(4.18)
Interest difference			0.71	0.95

* reclassified

Comments may be found at the end of this review

Income and expenses rates – from the bank and its consolidated companies[1] (cont.)

Reported amounts

Appendix C (cont.)

	2009	
	Average balance for period [2]	Income (expenses) finance
	Millions of NIS	
For options		(3.2)
For other derivative instruments		1.3
Commission from finance transactions and income from other finance [4]		64.0
Income from finance operating prior provision for doubtful debts		180.5
Provision for doubtful debts (including general and additional)		1.3
Income from finance operating after provision for doubtful debts		181.8
Financial assets producing financial income	9,372.0	
Assets resulting from derivative instruments [6]	19.2	
Other financial assets [7]	13.6	
General and additional provision for doubtful debts	(7.3)	
Total financial assets	9,397.5	
Financial obligations causing finance expenses	8,784.6	
Obligations resulting from derivative instruments [6]	7.8	
Other financial obligations [7]	32.3	
Total financial obligations	8,824.7	
Total excess financial assets on financial obligations	572.8	
Non-financial assets	25.3	
Non-financial obligations	(23.1)	
Total capital means	575.0	

Comments may be found at the end of this review

Income and expenses rates – from the bank and its consolidated companies[1] (cont.)

Appendix C (cont.)

Foreign currency – nominal in US dollars

	2010			
			Income (expense) rate[5]	
	Average balance for period [2]	Income (expenses) finance	Without derivative influence	Including derivative influence
	Millions of NIS		percentages	
Domestic operations [3]				
Assets [7]	**328.0**	**7.3**	**2.23**	
Influence of ALM derivatives [8]	**110.9**	**0.7**		
Total assets	**438.9**	**8.0**		**1.82**
Liabilities [7]	**278.1**	**(1.4)**	**(0.50)**	
Influence of ALM derivatives [8]	**121.2**	**(0.4)**		
Total liabilities	**399.3**	**(1.8)**		**(0.45)**
Interest difference			**1.72**	**1.37**

	2009			
			Income (expense) rate [5]	
	Average balance for period [2]	Income (expenses) finance	Without derivative influence	Including derivative influence
	Millions of NIS		percentages	
Domestic operations [3]				
Assets [7]	292.3	11.1	3.80	
Influence of ALM derivatives [8]	42.6	0.7		
Total assets	334.9	11.8		3.52
Liabilities [7]	262.2	(2.2)	(0.84)	
Influence of ALM derivatives [8]	41.8	(0.5)		
Total liabilities	304.0	(2.7)		(0.89)
Interest difference			2.96	2.64

Remarks
(1) The data in this table are mentioned before and after the influence of ALM derivatives (including off-balance sheet effect of ALM derivatives).

(2) Based on monthly opening balances, except for the non-linked Israel currency segment where the average balance is computed daily, and after deducting the average balance of the specific provisions for doubtful debts.

(3) Including Israeli currency linked to foreign currency.

(4) Includes income and losses arising on sale of investments in debentures and from adjustment to fair value of marketable debentures.

(5) The percentage is calculated on the basis of date expressed in thousands of shekels.

(6) Average balance sheet balances of derivative instruments (not including average off-balance sheet balances of derivative instruments).

(7) Except ALM derivative instruments.

(8) ALM derivative instruments comprising part of bank's system of management of assets and liabilities, and with respect to which income and expenses may be attributed to linkage segments.

Full data on income and expense for each segment according to the various balance sheet items, shall be provided upon request.

Exposure of the bank and its consolidated companies to fluctuations of interest rates as of December 31 , 2010

Appendix D

	December 31 2010				
	With demand up to one month	Over one month up to 3 months	Over 3 months up to one year	over over year up to 3 years	Over 3 years up to 5 years
	millions of NIS				
Israeli currency not linked					
Financial assets	3,242.6	1,045.6	1,096.4	170.1	43.4
Derivative financial instruments (except options)	78.0	-	-	-	-
Total fair value	3,320.6	1,045.6	1,096.4	170.1	43.4
Financial liabilities	3,122.4	1,143.2	279.5	97.7	197.0
Derivative financial instruments (except options)	-	83.9	133.2	102.3	-
Total fair value	3,122.4	1,227.1	412.7	200.0	197.0
Financial instruments, net					
Exposure to interest rate changes in the sector	198.2	(181.5)	683.7	(29.9)	(153.6)
Accumulated exposure in sector	198.2	16.7	700.4	670.5	516.9
Israel currency – linked					
Financial assets	69.5	146.8	707.4	941.8	679.2
Derivative financial instruments (except options)	-	103.3	159.3	103.4	-
Total fair value	69.5	250.1	866.7	1,045.2	679.2
Financial liabilities	67.0	159.9	717.5	1,364.6	996.2
Derivative financial instruments (except options)	-	-	-	-	-
Total fair value	67.0	159.9	717.5	1,364.6	996.2
Financial instruments, net					
Exposure of sector to changes in interest rates	2.5	90.2	149.2	(319.4)	(317.0)
Accumulated exposure in sector	2.5	92.7	241.9	(77.5)	(394.5)
Foreign currency (2)					
Financial assets	1,024.6	67.1	47.8	7.9	7.0
Derivative financial instruments (except options)	-	-	-	-	-
Total fair value	1,024.6	67.1	47.8	7.9	7.0
Financial liabilities	604.2	161.9	264.5	16.8	4.5
Derivative financial instruments (except options)	75.2	18.8	17.4	-	-
Total fair value	679.4	180.7	281.9	16.8	4.5
Financial instruments, net					
Exposure of sector to changes in interest rates	345.2	(113.6)	(234.1)	(8.9)	2.5
Accumulated exposure in sector	345.2	231.6	(2.5)	(11.4)	(8.9)
Exposure including changes in interest rates					
Total assets	4,336.7	1,259.5	1,851.6	1,119.8	729.6
Derivative financial instruments (except options)	78.0	103.3	159.3	103.4	-
Total fair value	4,414.7	1,362.8	2,010.9	1,223.2	729.6
Total liabilities	3,793.6	1,465.0	1,261.5	1,479.1	1,197.7
Derivative financial instruments (except options)	75.2	102.7	150.6	102.3	-
Total fair value	3,868.8	1,567.7	1,412.1	1,581.4	1,197.7
Financial instruments, net					
Exposure of sector to changes in interest rates	545.9	(204.9)	598.8	(358.2)	(468.1)
Accumulated exposure in sector	545.9	341.0	939.8	581.6	113.5

(1) The column, "without maturity date," presents balance sheet balances.
(2) Domestic activity, including Israeli currency linked to foreign currency.

Remarks

a. Additional details on exposure to changes in interest rates at each sector according paragraphs of various balance sheets will be provided upon request.

b. In this table, the data by period represent the present value of future cash flows, as capitalized by the interest rate reducing the in Note 21c, following the guide lines according to which the fair value of the financial instruments is calculated. For more details on the issue of guide lines used for calculating the fair value see Note 22c in the financial reports.

c. Internal yield rate is the interest rate reducing the expected cash flows from financial instrument to its value as described in Note 22 in the financial statements.

d. The average effective life of financial instruments group is an approximation to change in percentages in fair value .caused by a small change in the internal yield rate of each instrument

Exposure of the bank and its consolidated companies to fluctuations of interest rates as of December 31 , 2010 (cont.)

December 31								
2010							2009	
Over 5 years up to 10 years	over 10 up to 20 years	over 20 years	without period Maturity (1)	Total	Rate yield internal	Average life time	Rate yield internal	Average life time
millions of NIS					%	years	%	years
141.1	2.6	0.1	-	5,741.9	4.58	0.46	3.57	0.50
-	-	-	-	78.0		-		0.20
141.1	2.6	0.1	-	5,819.9		0.45		0.49
14.8	-	-	-	4,854.6	2.64	0.28	1.60	0.70
-	-	-	-	319.4		0.77		0.90
14.8	-	-	-	5,174.0		0.31		0.72
126.3	2.6	0.1	-	645.9	1.94	0.18		(0.23)
643.2	645.8	645.9	645.9	645.9				
526.4	167.2	4.8	-	3,243.1	3.45	3.25	3.77	3.76
-	-	-	-	366.0		0.77		1.00
526.4	167.2	4.8	-	3,609.1	3.45	3.00		3.48
393.4	31.6	-	-	3,730.2	1.58	2.72	2.77	2.85
-	-	-	-	-		-		-
393.4	31.6	-	-	3,730.2		2.72		2.85
133.0	135.6	4.8	-	(121.1)	1.87	0.53		0.63
(261.5)	(125.9)	(121.1)	(121.1)	(121.1)				
6.3	(2.3)	-	-	1,158.4	2.56	0.05	2.38	0.10
-	-	-	-	-	-	-		0.20
6.3	(2.3)	-	-	1,158.4		0.05		0.10
0.2	0.9	-	-	1,053.0	1.00	0.27	0.95	0.24
-	-	-	-	111.4		-		-
0.2	0.9	-	-	1,164.4		0.24		0.24
6.1	(3.2)	-	-	(6.0)	1.56	(0.22)		(0.14)
(2.8)	(6.0)	(6.0)	(6.0)	(6.0)				
673.8	167.5	4.9	-	10,143.4	3.67	1.31	3.73	1.63
-	-	-	-	444.0		0.63		0.88
673.8	167.5	4.9	-	10,587.4		1.28		1.59
408.4	32.5	-	-	9,637.8	1.69	1.22	2.50	1.55
-	-	-	-	430.8		0.57		0.70
408.4	32.5	-	-	10,068.6		1.20		1.52
265.4	135.0	4.9	-	518.8	1.98	0.08		0.07
378.9	513.9	518.8	518.8	518.8				

Comprehensive credit risk for the public according to economic sectors - consolidated

Reported amounts

Appendix E

	December 2010 31							
	Credit	Debentures	Derivatives	Credit risk included in balance sheets	Credit risks off-balance sheets (1)	Total credit risks	Expenses (income) for specific provision for doubtful debts	Balance problematic debts (2)
	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)	972.7	15.4	-	988.1	636.4	1,624.5	(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
Hotel, guest houses and catering services	8.4	-	-	8.4	0.4	8.8	0.1	-
Transport and storage	71.1		-	71.1	0.5	71.6	0.2	-
Communication 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	-	-
Other business services	127.0	4.4	-	131.4	8.5	139.9	(0.5)	-
Services for the public and community	42.0	1.5	-	43.5	18.9	62.4	-	0.3
Private persons – housing loans	6,052.8	-	-	6,052.8	494.9	6,547.7	(0.2)	198.5
Private persons – other	593.8	-	-	593.8	202.1	795.9	1.6	41.7
Total exposure to the public	8,042.7	39.2	-	8,081.9	1,381.8	9,463.7	(1.5)	346.1
Exposure of the central bank	405.9	-	-	405.9	-	405.9	-	-
Exposure banking corporations	240.8	88.6	18.1	347.5	-	347.5	-	-
Quarterly exposure	-	1,187.1	-	1,187.1	-	1,187.1	-	-
Other exposure	103.2	-	5.8	109.0	-	109.0	-	-
Total exposure	8,792.6	1,314.9	23.9	10,131.4	1,381.8	11,513.2	(1.5)	346.1

1. Credit risks in off-balance sheets financial instruments as calculated for limitations of borrower's debts.
2. Balance problematic debts with credit deduction in permitted collateral for deduction for limitations on the borrower's debts and of borrowing groups. Including off-balance sheets risks.
3. Including housing loans, provided for acquisition groups in building stages of a total of 102 millions NIS in the framework provided for those groups of a total of 230 million NIS.

(on December 31, 2009 – 21 million NIS and 32 million NIS in adjustment)

Comprehensive credit risk for the public according to economic sectors – consolidated (cont.)

Reported amounts

Appendix E (cont.)

	December 2009 31							
	Credit	Debentures	Derivatives	Credit risk included in balance sheets	Credit risks off-balance sheets [1]	Total credit risks	Expenses (income) for specific provision for doubtful debts	Balance problematic debts [2]
	Millions of NIS							
Agriculture	11.7	-	-	11.7	2.0	13.7	0.3	-
Industry	51.4	16.9	-	68.3	5.0	73.3	-	2.1
Construction and real estate [3]	972.4	66.8	-	1,039.2	548.6	1,587.8	(0.6)	144.2
Electricity and water	0.8	4.6	-	5.4	-	5.4	-	-
Commerce	46.5	1.9	-	48.4	3.2	51.6	0.2	0.1
Hotel, guest houses and catering services	9.9	-	-	9.9	1.3	11.2	0.6	-
Transport and storage	67.7	14.5	-	82.2	0.2	82.4	0.4	-
Communication and computer services	5.0	10.2	-	15.2	0.1	15.3	-	-
Financial services	61.9	35.7	-	97.6	5.3	102.9	-	4.7
Other business services	135.2	7.1	-	142.3	25.4	167.7	0.2	4.2
Services for the public and community	45.9	1.4	-	47.3	44.0	91.3	-	0.3
Private persons – housing loans	5,406.9	-	-	5,406.9	389.5	5,796.4	(0.8)	220.2
Private persons – other	540.3	-	-	540.3	139.1	679.4	(0.7)	27.5
Total exposure to the public	7,355.6	159.1	-	7,514.7	1,163.7	8,678.4	(0.4)	403.3
Exposure of the central bank	549.4	-	-	549.4	-	549.4	-	-
Exposure banking corporations	211.2	52.0	16.6	279.8	-	279.8	-	-
Quarterly exposure	-	872.1	-	872.1	-	872.1	-	-
Other exposure	84.7	-	7.0	91.7	-	91.7	-	-
Total exposure	8,200.9	1,083.2	23.6	9,307.7	1,163.7	10,471.4	(0.4)	403.3

Comprehensive credit risk for the public according to economic sectors – consolidated (cont.)

Reported amounts

Appendix E (cont.)

	Average for the year 2010					
	Credit	Debentures	Derivatives	Credit risk included in balance sheets		Credit risks off-balance sheets [(1)]
	Millions of NIS					
Agriculture	10.0	-	-	10.0	-	1.0
Industry	48.9	6.8	-	55.7	-	3.1
Construction and real estate	966.3	52.9	-	1,019.2	-	654.0
Electricity and water	0.9	3.2	-	4.1	-	-
Commerce	45.0	1.8	-	46.8	-	13.8
Hotel, guest houses and catering services	8.8	-	-	8.8	-	0.8
Transport and storage	72.7	5.1	-	77.8	-	1.5
Communication and computer services	5.7	9.3	-	15.0	-	0.1
Financial services	62.8	19.1	-	81.9	-	6.3
Other business services	125.0	13.0	-	138.0	-	11.6
Services for the public and	59.7	1.5	-	61.2	-	31.3
Private persons – housing loans	5,720.4	-	-	5,720.4	-	431.1
Private persons – other	557.8	-	-	557.8	-	165.2
Total exposure to the public	7,684.0	112.7	-	7,796.7	#REF!	1,319.8
Exposure of the central bank	325.1	-	-	325.1	-	-
Exposure banking corporations	148.9	62.4	16.1	227.4	-	-
Quarterly exposure	-	1,099.1	-	1,099.1	-	-
Other exposure	93.8	-	3.9	97.7	-	-
Total exposure	8,251.8	1,274.2	20.0	9,546.0	#REF!	1,319.8

1. Credit risks in off-balance sheets financial instruments as calculated for limitations of borrower's debts.

Consolidated balance sheets - multiple quarters data for the end of each quarter in the years 2009 - 2010

Reported amounts

Appendix F

	2010				2009			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	Millions of NIS							
Assets								
Cash and deposits at banks	652.3	316.6	348.1	314.3	765.1	881.9	843.6	466.4
Securities	1,314.9	1,210.3	1,366.4	1,395.5	1,083.2	1,173.5	1,194.2	1,390.2
Credit to the public	8,036.9	7,851.5	7,673.1	7,477.2	7,349.3	7,291.4	7,383.9	7,484.9
Activa and equipment	56.7	52.5	54.0	54.2	52.4	49.9	50.3	51.0
Other assets	64.9	61.0	49.2	51.9	51.4	52.7	45.0	42.8
Total assets	**10,125.7**	**9,491.9**	**9,490.8**	**9,293.1**	9,301.4	9,449.4	9,517.0	9,435.3
Liabilities and capital								
Deposits by the public	7,407.8	7,070.6	7,075.1	6,845.5	7,115.7	7,178.3	7,411.3	7,356.2
Deposits from banks	86.5	93.9	97.2	97.9	103.9	112.7	124.1	133.2
Government deposits	4.9	0.5	2.5	12.7	5.4	0.5	3.9	4.8
Securities loaned or sold in the framework of reacquisition agreement	-	-	-	-	-	-	200.0	150.0
Liabilities certificates and deferred liability notes	1,921.1	1,613.7	1,606.8	1,636.5	1,391.8	1,485.6	1,113.0	1,134.6
Other liabilities	72.2	79.5	80.4	77.3	78.7	74.2	75.4	77.1
Total liabilities	**9,492.5**	**8,858.2**	**8,862.0**	**8,669.9**	8,695.5	8,851.3	8,927.7	8,855.9
Equity	633.2	633.7	628.8	623.2	605.9	598.1	589.3	579.4
Total liabilities and capital	**10,125.7**	**9,491.9**	**9,490.8**	**9,293.1**	9,301.4	9,449.4	9,517.0	9,435.3

Consolidated income report – multi-quarter data for the years 2009 - 2010

Reported amounts

Appendix G

	2010				2009			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	Millions of NIS							
Income from financing operations before provision for doubtful debts	39.0	40.2	39.8	44.4	41.4	30.8	47.2	61.1
Provision for doubtful debs	(4.0)	0.7	0.6	0.1	(2.9)	(3.1)	0.8	3.9
Income from financing operations after provision for doubtful deb	**43.0**	**39.5**	**39.2**	**44.3**	44.3	33.9	46.4	57.2
Operating income and other								
Operating commission	20.9	20.5	20.8	22.1	21.6	21.7	20.4	20.3
Income (losses) from investments in shares, net	0.2	0.3	(0.3)	0.1	-	-	-	-
Other income	-	0.1	-	0.5	(0.4)	0.2	0.2	0.1
Total operating income and other	**21.1**	**20.9**	**20.5**	**22.7**	21.2	21.9	20.6	20.4
			-					
Operating expenses and other								
Salaries and related expenses	30.9	28.2	30.8	30.8	28.0	25.2	25.4	27.2
Maintenance and impairment of activa and equipment	7.2	7.5	7.3	7.4	7.1	7.0	7.0	6.8
Other expenses	19.6	10.9	11.0	11.5	11.9	9.1	9.7	9.2
Total operating expenses and other	**57.7**	**46.6**	**49.1**	**49.7**	47.0	41.3	42.1	43.2
Income from regular operating prior taxes	6.4	13.8	10.6	17.3	18.5	14.5	24.9	34.4
Provision for taxes on income from regular income	0.3	4.1	3.4	6.2	7.3	5.5	7.2	13.6
Net income	**6.1**	**9.7**	**7.2**	**11.1**	11.2	9.0	17.7	20.8
Income net per share (in NIS)								
Income from regular operating	0.08	0.14	0.10	0.16	0.15	0.13	0.25	0.30

CERTIFICATIONS

I, Uri Paz, declare that:

1. I reviewed the financial statements of Bank of Jerusalem Ltd (hereinafter: "the Bank") as of December 31, 2010 (hereinafter: "the Report")
2. Based on my knowledge, the report does not include any incorrect presentation of any significant fact and does not lack any material fact required so that the presentations included therein, in light of the circumstances in which they were included, will not be misleading relative to the period of the report.
3. Based on my knowledge, the financial reports and the other financial data included in the report reflect appropriately, from all significant standpoints, the financial position, operating results, cash flows and changes in equity of the bank as of the dates and for the periods presented in the report.
4. I and others at the bank declaring this certification are responsible for the determination and for the existence of controls and procedures for purposes of the required disclosure in the bank's report. And:
   a. We determined such controls and procedures, or caused such determination, intended to ensure that the significant data relating to the bank, including its consolidated entities, is brought to our attention by others in the bank and in those corporations, especially during the period of preparation of the report;
   b. We have determined the internal audit of the financial reports such, or caused the determination under our supervision of the internal audit on the financial reports such, designated to provide data with reasonable security of the reliability of the financial reports and so that the financial reports for external purpose are edited according to the acceptable accounting regulations and instructions and guide lines of the Supervisor on Banks;
   c. We estimated the effectiveness of the controls and procedures regarding the bank's disclosure and we presented our conclusions regarding the effectiveness of the controls and procedures regarding such disclosure, as of the end of the period of the report based on our estimates; and
   d. We disclosed in the report all changes in internal controls at the bank relating to financial reporting in the reporting period that affected significantly, or that it is reasonable to assume affected significantly, the internal control of the bank on financial reporting; and
5. I and others in the bank declaring this certification disclosed to the bank's auditors, to the Board of
   a. All significant defects and deficiencies and significant weaknesses in the determination or operation of the internal control on financial reporting, that it is reasonable to assume may harm the bank's ability to record, process, summarize and report on financial data; and
   b. Any fraud or deceit, significant or insignificant, in which management or other employees with a senior position are involved relating to the internal control of the bank on financial reporting.

The above does not impair my responsibility or the responsibility of any other individual according to the law.

Uri Paz
CEO

February 24, 2011

CERTIFICATION

I, Arnon Zayit, hereby declare that:

.1 I reviewed the financial statements of Bank of Jerusalem Ltd (hereinafter: "the Bank") as of December 31, 2010 (hereinafter: "the Report")

.2 Based on my knowledge, the report does not include any incorrect presentation of any significant fact and does not lack any material fact required so that the presentations included therein, in light of the circumstances in which they were included, will not be misleading relative to the period of the report.

.3 Based on my knowledge, the financial reports and the other financial data included in the report reflect appropriately, from all significant standpoints, the financial position, operating results, cash flows and changes in equity of the bank as of the dates and for the periods presented in the report.

.4 I and others at the bank declaring this certification are responsible for the determination and for the existence of controls and procedures for purposes of the required disclosure in the bank's report. And:

a. We determined such controls and procedures, or caused such determination, intended to ensure that the significant data relating to the bank, including its consolidated entities, is brought to our attention by others in the bank and in those corporations, especially during the period of preparation of the report;

b. We have determined the internal audit of the financial reports such, or caused the determination under our supervision of the internal audit on the financial reports such, designated to provide data with reasonable security of the reliability of the financial reports and so that the financial reports for external purpose are edited according to the acceptable accounting regulations and instructions and guide lines of the Supervisor on Banks;

c. We estimated the effectiveness of the controls and procedures regarding the bank's disclosure and we presented our conclusions regarding the effectiveness of the controls and procedures regarding such disclosure, as of the end of the period of the report based on our estimates; and

d. We disclosed in the report all changes in internal controls at the bank relating to financial

5. I and others in the bank declaring this certification disclosed to the bank's auditors, to the Board of Directors and to the Audit Committee and the Balance Sheet Committee of the Board of Directors of the bank, based on our most recent updated estimate regarding the internal control on financial reporting:

a. All significant defects and deficiencies and significant weaknesses in the determination or operation of the internal control on financial reporting, that it is reasonable to assume may harm the bank's ability to record, process, summarize and report on financial data; and

b. Any fraud or deceit, significant or insignificant, in which management or other employees with a senior position are involved relating to the internal control of the bank on financial reporting.

The above does not impair my responsibility or the responsibility of any other individual according to the law.

Arnon Zayit

Vice CEO, Manager of
Financing department
and Chief Accountant

February 24, 2011

Report of the Board of Directors and the management on the issue of internal audit on the financial reports

The Board of Directors of Bank of Jerusalem Ltd (hereinafter - “the Bank”) is responsible for establishment and existence of appropriate internal control on financial reporting (as defined in public reporting requirements regarding the Directors’ Report). The bank’s internal control system is intended to provide reasonable certainty to the Board of Directors and to management of the bank regarding appropriate preparation and presentation of financial statements issued in accordance with accepted accounting principles and with instructions and guide lines of the Supervisor of Banks. Without dependence on the quality of their level of planning, every internal control system includes certain limitations and restrictions. Accordingly, also in the event that it is determined that these systems are effective, they may provide reasonable certainty only regarding the preparation and presentation of the financial statements.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are performed in accordance with management’s authorization, protected assets and reliable accounting entries. Also, management, under the supervision of the Board of Directors, performs measures to ensure that the data and communication channels are effective and monitored, including implementation of internal control procedures.

Management of the bank, under the supervision of the Board of Directors, evaluated the effectiveness of the bank’s internal control on financial reporting as of December 31, 2009, based on criteria determined in the internal model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management believes that as of December 31, 2009 the bank’s internal control on financial reporting is effective.

The effectiveness of the bank’s internal control on financial reporting as of December 31, 2010 was audited by the bank’s independent auditors, Kost Forer Gabbay & Kasierer, as stated in their report on page 129 that includes an unqualified opinion regarding the effectiveness of the Bank’s internal control on financial reporting, as of December 31, 2010.

Jonathan Irony
Chairman of the
Board of Directors

Uri Paz
CEO

Arnon Zayit
Vice CEO, Manager of
Financing department
and Chief Accountant

February 24, 2011

Financial Reports - Contents

Kost Forer Gabbay & Kasierer

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Report of the Auditor to the shareholders of the Bank of Jerusalem Ltd. in accordance with Public Reporting Directives of the Supervisor of Banks regarding Internal control over Financial Reporting

We have audited the internal control of BANK OF JERUSALEM LTD. ("the Bank") on the financial reporting as of December 31, 2010, based on criteria determined in the integrated framework of internal control of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Board of Directors and management of the Bank are responsible for the existence of effective internal control over financial reporting and for evaluation of the effectiveness of the internal control over financial reporting, included in the Report of the Board of Directors and Management regarding internal control on financial reporting, attached herewith. Our responsibility is to express an opinion on the Bank's internal control on financial reporting based on our audit.

We conducted our audits in accordance with standards issued by the Public Company Accounting Oversight Board (United States), as adopted by the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about the existence of effective internal control over financial reporting, from all material standpoints. Our audit included obtaining an understanding of internal control over financial reporting, evaluation of the risk of existence of material weakness, examination and evaluation of the effectiveness of the planning and implementation of internal control based on the risk evaluated. Our audit included also implementation of other procedures deemed necessary in accordance with the circumstances. We believe that our audits provide a reasonable basis for our opinion.

The Bank's internal control over financial reporting constitutes a planned process in order to provide a reasonable level of certainty regarding the reliability of the financial reporting and preparation of the financial statements for outside purposes in accordance with generally accepted accounting principles, requirements and directives of the Supervisor of Banks. The Bank's internal control on financial reporting includes the policies, processes and procedures that are (1) attributed to maintenance of records that, with reasonable certainty, reflect exactly and appropriately the transactions and changes in the Bank's assets; (2) provide reasonable certainty that the transactions are recorded as required in order to enable preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and requirements and directives of the Supervisor of Banks, and that the Bank's proceeds and payments are implemented only in accordance with authorization from management of the Bank and its Directors; and (3) provide reasonable certainty regarding avoidance or disclosure as of the date of unauthorized acquisition, utilization or transfer of Bank assets, which may impact materially on the financial statements.

As a result of objective limitations or restrictions, internal control over financial reporting may not prevent or disclose misleading presentation. Also, the implications of any effective evaluation on future periods may incur risk that controls could become inappropriate because of changes in conditions, or the level of compliance with policy, processes or procedures could be reduced.

In our opinion, the Bank implements, from all material standpoints, effective internal control over financial reporting as of December 31, 2008, based on criteria determined in the integrated framework of internal control of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also audited in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973, and certain auditing standards whose implementation in audit of banking institutions was determined in accordance with directives of the Supervisor of Banks, the attached balance sheets of the Bank as of December 31, 2010 and 2009, and the consolidated balance sheets as of the same dates, and the statements of income, statements of changes in shareholders' equity and statements of cash flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2010, and our report of February 24, 2011 includes an unqualified opinion on the said consolidated financial statements.

Tel Aviv — KOST FORER GABBAY & KASIERER

February 24, 2011 — A U D I T O R

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Auditor report for the shareholders of the Bank of Jerusalem Ltd.

Yearly financial statements

We have audited the attached balance sheets of the Bank of Jerusalem Ltd. (hereinafter – the Bank) as of December 31, 2010 and 2009 and the consolidated balance sheets for the same dates and the income reports, the reports with changes in equity and the cash flow reports – of the bank and the consolidated – for each of the last three years of which the last ended on December 31, 2010. These financial reports are the responsibility of the Board of Directors and management of the bank. Our responsibility is to express an opinion on the Bank's internal control on financial reporting based on our audit.

We conducted our audits in accordance with the accepted auditing standards in Israel, including regulations determined by the Accounting Regulations (through action of an auditor), 1973 and certain auditing regulations implemented in auditing of banking corporations and determined according to the instructions and guide lines of the Supervisor of Banks..Those standards require that we plan and perform the audit to obtain reasonable assurance about the existence of effective internal control over financial reporting, from all material standpoints. Our audit included obtaining an understanding of internal control over financial reporting, evaluation of the risk of existence of material weakness, examination and evaluation of the effectiveness of the planning and implementation of internal control based on the risk evaluated. Our audit included also implementation of other procedures deemed necessary in accordance with the circumstances. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the above financial reports reflect in an appropriate manner according to, from all significant point of views, the financial situation – of the bank and consolidated – as per December 31, 2010 and 2009 and the operating results, the changes in equity and cash flows – of the bank and consolidated – for each of the last three years of which the last ended on the 31st of December, 2010, according to the accepted accounting standards in Israel (Israeli GAAP). Also, we believe that our audits provide a reasonable basis for our opinion.

Without qualifying our above mentioned opinion reviews, we point the attention to the mentioned Note 19 C.2.a concerning the claims against the bank including the request for approval of class action. The bank is not able to estimate at this stage if the claim will be recognized as class action and the success rate of the prosecution if the mediation process will not be successful.

We also audited in accordance with accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973, and certain auditing standards based on criteria determined in the integrated framework of internal control of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) whose implementation in audit of banking institutions was determined in accordance with directives of the Supervisor of Banks, as per December 31, 2010, and our report of February 24, 2011 includes an unqualified opinion on the mentioned consolidated financial reports.

Tel Aviv — KOST FORER GABBAY & KASIERER

February 24, 2011 — A U D I T O R

Balance Sheets

Reported amounts

		Consolidated		The bank	
		December 31			
		2010	2009	2010	2009
	Note	millions of NIS			
Assets					
Cash and deposits at banks	4	**652.3**	765.1	**651.9**	764.9
Securities	5	**1,314.9**	1,083.2	**1,260.3**	1,111.3
Credit for the public	6	**8,036.9**	7,349.3	**8,036.9**	7,349.3
Credit for Government	7	**-**	**-**	**-**	-
Investments in investee companies	8	**-**	-	**307.4**	291.6
Activa and equipment	9	**56.7**	52.4	**23.0**	25.4
Other assets	10	**64.9**	51.4	**52.5**	43.9
Total assets		**10,125.7**	9,301.4	**10,332.0**	9,586.4
Liabilities and capital					
Deposits by the public	11	**7,407.8**	7,115.7	**9,087.4**	8,345.5
Deposits from banks	12	**86.5**	103.9	**86.5**	103.9
Government deposits		**4.9**	5.4	**4.9**	5.4
Liabilities certificates and deferred liability notes	13	**1,921.1**	1,391.8	**450.4**	449.0
Other liabilities	14	**72.2**	78.7	**69.6**	76.7
Total liabilities		**9,492.5**	8,695.5	**9,698.8**	8,980.5
Equity	א17	**633.2**	605.9	**633.2**	605.9
Total liabilities and capital		**10,125.7**	9,301.4	**10,332.0**	9,586.4

Jonathan Irony	**Uri Paz**	**Arnon Zayit**
Chairman of the Board of Directors	CEO	Vice CEO, Manager of Financing department and Chief Accountant

Date of approval of financial reports:

February 24, 2011

The notes to the financial reports are an integral part of them.

Income Report

Reported amounts

	Note	Consolidated				The bank			
		For the year ending on December 31							
		2010	2009	2008		2010	2009	2008	
		millions of NIS							
Income from finance operating prior provision for doubtful debts	24	**163.4**	180.5	171.7		**154.0**	160.8	161.0	
Provision for doubtful debts	6	**(2.6)**	(1.3)	6.8		**(2.6)**	(1.3)	6.8	
Income from finance operating after provision for doubtful debts		**166.0**	181.8	164.9		**156.6**	162.1	154.2	
Operating income and other									
Operating commission	25	**84.3**	84.0	83.1	*	**72.1**	71.4	71.4	*
Income (loss) from investments in shares, net		**0.3**	-	(1.0)		**0.3**	-	(1.0)	
Other income		**0.6**	0.1	0.8	*	**0.6**	0.1	-	*
Total operating income and other		**85.2**	84.1	82.9		**73.0**	71.5	70.4	
Expenses from operating and other									
Salaries and related expenses	26	**120.7**	105.8	102.6		**110.9**	97.1	93.1	
Maintenance and impairment of activa and equipment		**29.4**	27.9	24.4		**22.3**	21.4	19.5	
Other expenses	27	**53.0**	39.9	39.2		**66.7**	53.0	50.5	
Total operating expenses and other		**203.1**	173.6	166.2		**199.9**	171.5	163.1	
Income from regular operating prior taxes		**48.1**	92.3	81.6		**29.7**	62.1	61.5	
Provision for taxes on income from regular operating	28	**14.0**	33.6	29.9		**10.4**	26.4	25.6	
Income from regular operating after taxes		**34.1**	58.7	51.7		**19.3**	35.7	35.9	
The share of the bank in income from regular operating of investee companies after influence of tax	8	**-**	-	-		**14.8**	23.0	15.8	
Income net		**34.1**	58.7	51.7		**34.1**	58.7	51.7	
Net income per share (in NIS)									
Income from extraordinary operating		**0.48**	0.83	0.73		**0.48**	0.83	0.73	

* reclassification
The notes are an integral part of the financial reports.

Report on Changes in the Equity

Reported amounts

	Capital of paid shares	Capital funds from premium	Total capital of paid shares and capital funds	Income (loss) including after accumulating: Adjustment for presenting available securities for sale according fair value	Income (losses) for hedging cash flows	excess	Total equity
	millions of NIS						
Balance for the 1st of January 2008	127.3	95.3	222.6	(3.7)	1.3	282.2	502.4
Net income	-	-	-	-	-	51.7	51.7
Adjustments for securities available for sale at fair value	-	-	-	(37.2)	-	-	(37.2)
Adjustment for presentation of securities available for sale reclassified for the income report	-	-	-	(1.0)	-	-	(1.0)
Influence relating tax	-	-	-	13.9	-	-	13.9
Paid dividend	-	-	-	-	-	(7.2)	(7.2)
Losses net for hedging cash flows	-	-	-	-	(2.7)	-	(2.7)
Balance for the 1st of January 2009	127.3	95.3	222.6	(28.0)	(1.4)	326.7	519.9
Net income	-	-	-	-	-	58.7	58.7
adjustment for securities available for sale at fair value	-	-	-	77.9	-	-	77.9
Adjustment for presentation of securities available for sale reclassified for the income report	-	-	-	(36.3)	-	-	(36.3)
Influence relating tax	-	-	-	(15.7)	-	-	(15.7)
Income net for hedging cash flows	-	-	-	-	1.4	-	1.4
balance for the 1st of January 2010	**127.3**	**95.3**	**222.6**	**(2.1)**	**-**	**385.4**	**605.9**
Net income	**-**	**-**	**-**	**-**	**-**	**34.1**	**34.1**
adjustment for securities available for sale at fair value	**-**	**-**	**-**	**7.0**	**-**	**-**	**7.0**
Adjustment for presentation of securities available for sale reclassified for the income report	**-**	**-**	**-**	**(17.6)**	**-**	**-**	**(17.6)**
Influence relating tax	**-**	**-**	**-**	**3.8**	**-**	**-**	**3.8**
balance for the 31st of December 2010	**127.3**	**95.3**	**222.6**	**(8.9)**	**-**	**419.5**	**633.2**

The notes to the financial reports are an integral part of them.

Reports on Cash Flows

Reported amounts

	Consolidated			The bank		
	for the year ending on December 31					
	2010	2009	2008	2010	2009	2008
	millions of NIS					
Cash flow from current operating						
Net income	**34.1**	58.7	51.7	**34.1**	58.7	51.7
Required adjustments for presenting the operating cash flows:						
Share of the bank in income of investee companies, with deduction of received dividend	**-**	-	-	**(14.8)**	(23.0)	(15.8)
Impairment on activa and equipment	**10.3**	9.7	8.1	**2.7**	2.8	2.6
Other impairment, net	**(2.7)**	(1.0)	(0.4)	**0.1**	0.4	(0.2)
Provision for doubtful debts	**(2.6)**	(1.3)	6.8	**(2.6)**	(1.3)	6.8
Income from debentures held for payoff	**-**	-	(0.2)	**-**	-	(0.2)
Income (loss) from debentures available for sale	**(24.9)**	(16.6)	19.9	**(23.7)**	(42.6)	24.6
Income (loss) from negotiable securities	**(3.3)**	(5.9)	1.4	**(3.2)**	0.6	(2.8)
Deferred taxes, net	**1.6**	(7.1)	0.5	**0.5**	(5.1)	(2.3)
Decrease (increase) in reserve excess of designated compensation provision	**(6.3)**	(2.7)	4.0	**(6.3)**	(3.6)	5.0
Preliminary income and expenses to be paid	**7.9**	4.2	(2.4)	**7.9**	1.4	0.8
Adjustment provision including investment and finance activity	**73.5**	(17.0)	(23.2)	**19.5**	(71.5)	(97.9)
Cash net resulting from current operating (utilized for activity)	**87.6**	21.0	66.2	**14.2**	(83.2)	(27.7)
Cash flows from operating in assets						
Compensation fro payoff and sales of held debentures	**-**	-	63.1	**-**	-	63.1
Acquisition of debentures available for sale	**(1,585.7)**	(2,063.2)	(1,853.7)	**(1,288.2)**	(2,018.1)	(1,532.5)
Compensation of payoff and sales of debentures available for sales	**1,388.7**	2,282.7	1,797.8	**1,174.2**	2,100.0	1,599.4
Negotiable securities, net	**(17.1)**	53.1	(7.8)	**(20.6)**	49.2	(41.9)
Deposits at banks, net	**0.9**	1.2	1.0	**0.9**	1.2	1.0
Credit provision for the public – housing	**(1,805.4)**	(1,069.2)	(903.5)	**(1,805.4)**	(1,069.2)	(903.5)
Collecting from credit for the public - housing	**1,073.9**	986.4	883.2	**1,073.9**	986.4	883.2
Credit for the public – commercial, net	**63.1**	362.4	(173.7)	**69.6**	364.1	(173.7)
Acquisition of activa and equipment	**(14.6)**	(10.3)	(16.1)	**(0.4)**	(1.8)	(6.5)
	(8.6)	(10.6)	(9.7)	**(4.5)**	(14.3)	(7.2)
Cash net resulting for operating in assets (utilized for activity)	**(904.8)**	532.5	(219.4)	**(800.5)**	397.5	(118.6)

The notes to the financial reports are an integral part of them.

Reports on cash flow (continuation)

Reported amounts

	Consolidated			The bank		
	For the year ending in December 31					
	2010	2009	2008	2010	2009	2008
	millions of NIS					
Cash flow from operating in liabilities and capital						
Deposits from the public, net	**292.1**	(163.6)	319.0	**741.9**	204.6	174.1
Deposits from banks, net	**(17.4)**	(35.6)	(31.3)	**(17.4)**	(35.6)	(31.3)
Deposits from Government, net	**(0.5)**	1.7	(5.3)	**(0.5)**	1.7	(5.3)
Securities loaned or sold in other purchasing agreement framework	**-**	(50.0)	50.0	**-**	(50.0)	50.0
Issuance liabilities certificates and deferred liability notes, net	**667.0**	349.4	2.6	**-**	-	2.6
Payoff debentures, liabilities certificates and deferred liability notes	**(227.7)**	(246.7)	(186.7)	**(41.0)**	(31.0)	(44.1)
Other liabilities, net	**(8.2)**	6.9	(5.7)	**(8.8)**	11.5	(10.3)
Dividend paid to shareholders	**-**	-	(7.2)	**-**	-	(7.2)
Cash net resulting from activity in (utilized for activity) in liabilities and capital	**705.3**	(137.9)	135.4	**674.2**	101.2	128.5
Increase (decrease) in cash from deposits in banks	**(111.9)**	415.6	(17.8)	**(112.1)**	415.5	(17.8)
Balance from cash and deposits at banks for the beginning of the year	**764.2**	348.6	366.4	**764.0**	348.5	366.3
Balance from cash and deposits at banks for the end of the year	**652.3**	764.2	348.6	**651.9**	764.0	348.5
Cash flow reports not including data on activity before collecting proportion [(1)] :						
Providing credit for housing	**3.9**	12.9	38.4	**3.9**	12.9	38.4
Providing standing loans and grants	**5.3**	3.7	9.0	**5.3**	3.7	9.0
Collecting from credit for housing	**419.0**	405.1	353.5	**419.0**	405.1	353.5

(1) .For additional details on the issue of collecting proportion activity see Note 20b

.The notes to the financial reports are an integral part of them

Notes for Financial Reports

Note 1 - General

Bank of Jerusalem Ltd. (hereinafter – the Bank) is a commercial bank dealing mainly in providing credit for housing and purchasing of vehicles, in financing construction business for housing and raising deposits for short-term, activity at the capital market, managing checking accounts and providing private banking services for foreign residents.

The bank is a subsidiary of "Ytzu" Investment Corporation Ltd (hereinafter - "Ytzu") and its shares are registered for trade at the Stock Exchange of Tel Aviv.

The financial reports of the bank are edited according to the accepted accounting regulations in Israel (Israel GAAP) and also according the instructions and guidelines of the Supervisor on Banks on the issue of editing annual financial reports of the bank.

Note 2 – Accounting Policy

Principle accounting policies, that are consistently implemented for editing the financial reports, and comply with the instructions and guidelines of the Supervisor on Banks, are:

A - Basis for Reporting Financial Reports

In the past the bank edited his financial reports on basis of historical costs adjusted to the Consumer Price Index. The adjusted amounts, as mentioned, that are included in the financial reports as of 31st of December 2003 used point of view for reporting the nominal finance effective from January 1, 2004. Addition is performed after the transferring time included in the nominal values.

According to the accounting regulation number 12 on the issue "Ceasing adjustment of the financial reports" the adjustments of the financial reports for the inflation have been ceased as of the 31st of December 2003 and effective from the same date the bank started to report in reporting amounts.

These incoming financial assets are not necessarily presented in realization value or updated economic value, but only in reported amounts of these assets.

In the financial reports "cost" means cost in reported amounts.

Summary of the data of the bank in historical nominal values for tax purposes are given in note 30.

B. Consolidating regulations

The financial consolidated reports of the bank include the reports of the companies at which the bank has control. Balances and mutual transactions between the bank and the subsidiaries are canceled in the consolidated financial reports.

C. Activity currency and presentir

The activity and presenting currency of the bank and its subsidiaries is NIS.

D. Foreign currency and linkage

Assets and liabilities is foreign currency or linked to it and those linked to the Consumer Price Index are included in the financial reports as follows:

1. Those linked to the Consumer Price Index are presented according to the index last published according to the date of balance sheets.
2. Those in foreign currency or linked to it are presented according to the business exchange rate published by the Bank of Israel for the date of the balance sheets, except for cases in which the conditions of the agreement determine otherwise.

Following details on the Consumer Price Index and the business exchange rate of the US dollar and he increase (decrease) of rates:

	As per 31st of December			Increase (decrease) rates for the years		
	2010	200	2008	2010	2009	2008
				in percentages		
Exchange rate of the US dollars (in NIS)	3.549	3.775	3.802	(6.0)	(0.7)	(1.1)
Consumer Price Index basis 1993 (in points)						
Month of November	210.9	206.2	198.6	2.3	3.8	4.5
Month of December	211.7	206.2	198.4	2.7	3.9	3.8

Note 2 – Accounting Policy (cont.)

E. Government credit – deposits according collecting proportion

The amounts of the destined deposits that their settlement to the conditional depositor proportional to the levy from the credit, were deducted from the amounts of the credit that were given from these deposits and accordingly it's impossible to express them in the balance sheet. The income resulting from the activity according to the proportion of the levy as mentioned, were presented as operational commissions.

F. Securities

1. Debentures held for payoff are presented according to their reduced cost on the day of the report.
2. Securities available for sale are presented in the balance sheets according to fair value. The fair value is based on the rates at the Stock Exchange regarding the securities that have a rate or on estimation data obtained from external sources regarding debentures that have no rate. The income or loss for the suitable reserve deduction for tax is presented in a separate paragraph in the framework of equity that is called: "adjustments for presenting securities available for sale according to fair value".
3. Securities for trading are presented according to fair value (market value).
4. The bank examines periodically the necessity of recording the provision for impairment that has no temporarily characteristics. The bank determines the criteria for monitoring after the securities for the mentioned examination. These criteria are based, among others, on the following factors:
   - Change in the rating of securities by rating agencies.
   - Duration the securities are traded at high yielding.
   - Extreme cases such as extreme impairment.

   In addition, the bank determined criteria according to which the immediate provision for impairment is performed. These criteria are based, among others, on the following factors:
   - The current rating of the securities by rating agencies.
   - Current extreme yielding at which the securities are traded.
   - Duration at which the securities were traded at extreme yielding.
   - Significant negative indications within the financial reports.

   These criteria are discussed in the credit committee of the Board of Directors and approved by them.

G. Transfer and services of financial assets and clearance of liabilities

The bank implements the memorandum of the Supervisor on Banks, that determines amendment on instructions for reporting to the public on the issue of "Transfer and services of financial assets and clearance of liabilities". The instructions that have been determined in this memorandum adopt the measuring and disclosure regulations determined in the American standard FAS 140, Accounting Regulations for Transferring and Service of Financial Assets, and Clearance of Liabilities, for the purpose of distinction between transferring financial assets recorded for sale and other transferring. In view of this, the principle has been adopted according to which the financial asset that is transferred will be presented in the balance sheets of the side controlling it, and if it transfers the asset and between if it receive the asset. For this issue, the specified instructions distinct the control related to the re-occurring purchasing transactions, lending of securities, securitization of securities, sales and participation in loans.
Transactions not complying with these mentioned management regulations, are handled according to the instructions reporting for the public before adoption of the FAS 140 regulation.

H. Provision for doubtful debts

.1 In determining specific provision for doubtful debts the bank's management consideration lead the bank's security situation and comprehensive evaluation of the risks connected to recipients of loans. According to the instructions of the Supervisor on Banks (hereinafter: "the Supervisor") some calculation regulations are applicable for determining the minimum provision for housing loans, where the depths of the arrears exceeds six months (the provision is calculated in rates between 8% up to 80% from the balance of the debt in arrears, according to the depths of arrears). In addition, the bank created specific provision for doubtful debt for other debts and for housing loans beyond the minimum provision mentioned, for which at the estimation of the bank exists doubt for collection.

Bad debts are deleted after it became clear that the collection proceedings have been exhausted and there is no chance of their collection.

Note 2 – Accounting Policy (cont.)

H. Provision for doubtful debts (cont.)

2. Effective from January 1, 2006 the bank implements the guidelines of the Supervisor on Banks on implementation of the banks of the instructions for proper banking management on the issue of "provision for doubtful debts regarding housing loans" (hereinafter - "the guidelines of the Supervisor"). The instructions of the Supervisor relate to a number of principal issues relating to the manner calculating provisions for doubtful debts regarding housing loans, that has been implemented by the bank in the past, except for detailed as follows:

Provisions regarding loans in agreements and re-organization:

a. Loans in agreement – Loans at which an agreement has been performed without change in the clearance table regarding the balance of the loan. Calculation of depths of arrears is performed with consideration of the arrears balance according to which the new monthly charge. Cancellation of provision will be performed in case the borrower complies with the loan installments during a period of two years from the date of agreement or if half of the period has passed of the remaining period of the second half of the loan for which arrears occurred, the earliest of them.

b. Loans in re-organization – Loans at which the clearance table has been changed. Regarding these loans the provision will be frozen according to the depths of the arrears and the conceptual arrears balance will be recorded equal to the arrears balance and all according to the date of the agreement. Freezing of the provision and the conceptual arrears balance will be for a period of six months while at the end the bank is entitled to reduce the conceptual arrears balance during two years in a straight line.

.3 In addition to the above provisions the instructions of the supervisor determine that an additional provision should be create for doubtful debts regarding credit to contractors and others calculated in various rates hiding extremes of customers in consideration of various risk characteristics.

Balance of the addition provision for the date of the balance sheet is at a cumulative rate of 0.1% (2003-identical) of the total credit risk reported in note 6a of the financial reports.

The estimation of the management the provisions performed reflect the appropriate manner for the estimating of embedded losses in the credit portfolio.

I. Investment in investee companies

Investment in investee companies is presented according to the balance sheet value method. The share of the banks in the investee companies is determined on basis of their issued capital for the date of the balance sheet.

J. Activa and Equipment

Activa and equipment are presented according to the cost in addition of direct acquisition cost and deduction of impairment. The impairment is calculated according to the impairment rate compared to annual rates considered sufficient to reduce the assets during the estimated utilizing period. The bank examines during every reporting period the necessity for recording the difference in impairment according to the instructions in accounting regulation number 15 (see A above).

K. Impairment assets

The bank implements accounting regulation number 15 "Impairment of Assets". The regulations determines the accounting handling and the presentation required in case on impairment of asset. The regulations, regarding the bank, relates to activa and equipment and investment in consolidated companies that are no subsidiaries. According to the regulation, in case there is some kind of sign pointing to impairment of asset, the bank must examine whether there has been impairment of the asset compared to the book vice of the asset and the utilizing value and realization at end of life time. In case the value of the asses in the balance sheets exceeds the recoverable value, the impairment loss should be recognized at the height of the difference between the book value of the asset for the recoverable amount. Loss from impairment that has been recognized will be canceled only if changes are affective in the estimates standard used for determining the recoverable amount of the asset at the date of recognition of the loss from impairment.

L. Deferred expenses

Expenses for issuance and distribution of debentures and expenses for mobilization of deposits are presented based on cost and they are deducted during the payoff period of the liabilities according to the effective interest method.

Note 2 – Accounting Policy (cont.)

M. Tax expenses on income

Tax expenses on income include current and deferred taxes. Current and deferred taxes are reflected in the income report, but only of the tax results for transaction or event that is directly recognized in the equity. In those cases the tax expenses on the income are reflected in the equity. The current tax is the expected payable tax amount (or receivable) on the income levied by annual taxes, while it is calculated according to tax rates applicable according to the passed or enacted law actual for the date of the balance sheet, and includes the changes in tax payments relating to the previous years.

The provision for taxes on the income of the bank and its consolidated companies that are financial institutes for the purpose of Value Added Tax, includes income tax applied on the income according to the Value Added Tax Act. VAT applied on the wages in the financial institutes is included in the income report in paragraph " Salaries and related expenses".

Deferred taxes calculated for timing differences including in the income and expenses between the financial reports and the recognition for the purpose of income tax (excluding regarding the general and additional provision for doubtful debts) and also for adjustment of non-financial assets (excluding activa) regarding gap between adjusted values and the value remaining for deduction of income tax purposes . The deferred taxes are calculated according to the expected tax rate applicable during utilization of reserves of realization of tax benefits, based on Tax laws that are valid at the date of the balance sheets.

In the calculation of the deferred taxes the taxes applicable in case of realization of investments in investee companies have not been taken into consideration as long as the assumption exists of the continuous strengthening of its investments. The policy of distribution of dividend in investee companies does usually not cause additional tax charge to the bank.

N. Derivative financial instruments

According the the instructions of the Supervisor on Banks, the banking corporations should recognized all derivative instruments, including certain derivative instruments integrated in other contracts, as assets of liabilities in the data sheets and measure them according to the fair value. The change in the fair value of the derivative instrument will be reported in the income report or included in the equity as component of income included other, according to the manner of designation of the derivative instrument. The change in the fair value of the derivatives, defined exposure of the change on fair value of asset, liabilities or strong connection, will be recognized in a current way in the income reports, as also the change in fair value of the hedging item, that may be related to the hedging risk.

The accounting handling in change of fair value of derivatives, defining the fluctuations in cash flows from income, liabilities or from predicted transaction depend on the effectiveness of the hedging ratio..

The non-effective part of the change in fair value of the designated derivative mentioned above, is recognized directly in the income report.
The bank engages in contracts that do not completely comply with the definition of derivative instrument – these contracts may included integrated derivative instruments. Integrated derivative instrument of the hosting contract and handled as derivative instrument in complying with the following three conditions, cumulative: economical characteristics of integrated derivative is not linked clearly and strong with those of the hosting contract, the involved instruments are not newly measured according to the fair value according to accepted accounting regulations, while reporting on changes in fair value in the income report during the creating and separate instrument with the same conditions as for the integrated instrument that complies with the definition of derivative instrument. When the integrated derivative is recognized is is separated from the hosting contract and is handles as derivative on itself. Integrated derivative separated is present in the balance sheet together with the hosting contract. The integrated separated derivatives at the bank result from providing credit linked to the foreign currency including basic floor of linkage and mobilization saving program with identical characteristics.

Income or loss from derivative that is not designated as hedging instrument is recognized in the income report in a current way. The transactions in derivative instruments are pare of the assets and liabilities managing system of the bank. The fair value of the derivative instruments is presented in the balance sheets are other income or as other liabilities, per issue, and the results of transactions in derivative instruments resulting directly on the basis fair value included in the income report in the frameworks of income from finance operating.

Note 2 – Accounting Policy (continuati

O. Recognition basis in income and liabilities

The income and the expenses include basis of cumulative, including income regarding off-balance financial instrument.

Commission from early payoff of housing loans are reflected in the income report at equal rates during three years, except the part relating to the financial capital reflected in the income report with its receipt.

Management fee regarding loans that have been sold reflected in the income report on the remaining period of payoff of loans and related to their balance.

Arrears interest regarding housing loans is reflected in the income reports only with collection.

Income from dividend is reflected on the date of the right of receipt.

P. Retirement compensation

The reserve for retirement compensation is calculated based on the last salary and the period of employment of the employee and according to the law, the conditions of the employment agreement, custom and expectations of the management. The designated amount for compensation included in the balance sheets includes cumulative earnings.

Q. Contingent liabilities

According to the guidelines of the Supervisor on Banks, the American accounting instruction SFAS5 and the relevant instructions have been adopted on the issue of accounting handling in contingent legal claims, except for exceptional cases like class actions in which the bank and its legal advisers have no possibility to evaluate the result. The evaluation of the bank, replying of the legal advisers in connection to the probability for realization of exposure to risk in prosecution is determined based on three probability areas, as follows:

a. Expected – probability above 70%.

b. Possible – probability above 20% and lower or equal to 70%.

c. Unlikely – Very low probability lower that 20%

In case where the realization of the expected provision is included in full in the financial reports is the exposure amount, as stated the bank's management. In case of possible exposure the provision is not included in the financial reports but disclosure of the exposure amount may be given. Regarding claims in which the exposure is unlikely but maximum possible liabilities or loss may question the position of the activity of the bank, will be disclosed.

R. Use of estimates and preparation of financial reports

In the editing of the financial reports according to the accepted accounting regulations the management is required to use the estimates and evaluations influencing of the reported data of the assets and liabilities, on the data on the issue of approved assets and contingent liabilities to which exposure has been provided in the financial reports and also on the income and expenses data in the reporting period, The actual results may be different than these estimations.

S. Income per share

The bank present the income data per share regarding its regular and weighted shares capital. The basic income per share is calculated on average weighted basis of a number of shares that actual exist during the period, while adjustment for payoff for bonus/split shares shares/issuance rights. Convertible securities that have been converted to shares during the period are included in the basic income per share for the date of conversion and henceforth.

Comparison numbers
.In the financial reports are comparison numbers states that are reclassified

Reports on cash flow

Cash flows from assets and liabilities activities are presented in net, except for the activities in housing credit, in transfer of non-financial items, in securities that are not negotiable and debentures and deferred liabilities notes. Cash include also deposits at banks at which the original period from the date of deposit is up to three months.

Disclosure of the influence of new accounting standards and instructions of the Supervisor on Banks in

Accounting standard number 29 – Adopting international financial reporting standards (IFRS)

In July 2006 the Israeli Institute for Accounting Standards published the accounting standard 29, :Adopting International Financial Reporting Standard (IFRS)" (hereinafter - "the standard"). The standard determined that the entities subjected to the Securities Act, 1968 and are obliged to report according to its statutes, will edit their financial reports according to IFRS standard for the periods effective from January 1, 2008. The mentioned is effective on banking corporations whose financial reports are edited according to the instructions and guidelines of the Supervisor on Banks.

In June 2009 the Supervisor on Banks published a memorandum on the issue "Report of banking corporations and credit card companies in Israel according to the International Financial Reporting Standards (IFRS)" that determine the manner of expected adoption of the International Financial Reporting Standards (IFRS) by the banking corporations and credit card companies.

According to the memorandum, the target date for the reports of banking corporations and credit card companies according to the IFRS-standards is:

.1 On issues that are not core banking business – effective from January 1, 2011. From this date and forward the banking corporations and the credit card companies are required to update the accounting handling on these issues in a current manner, according to the transfer instructions in the new international standards are published on these issues, and according to the clarifications forwarded by the Supervisor on Banks.

2. On issues of core banking business – effective from January 1, 2012, while it is in the intention of the Supervisor on Banks to obtain during the year 2011 a final solution on this issue. The final solution determines with consideration of the timetables that have been determined in the United States and on the progress in the process of the convergence between the international and American standard bodies.

The memorandum clarifies that after the completion of the adjustment process for the requirements of the international standards the authority of the Supervisor on Banks will be allowed to determine mandatory clarifications regarding the manner of implementation of the requirements of the international standards, and also to determine the additional instructions in cases for which the issue is required in view of the demands of the supervising authorities in the developed countries in the world or in issued for which do not exist reference in the international standards. In addition, the Supervisor on Banks will remain his authority to determine the disclosure and report requirements.

Therefore, until the target dates for the adoption of the IFRS standards as mentioned above, financial reports of the banking corporations or credit card companies will continue to be edited according the instructions and guidelines of the Supervisor on Banks.

On December 31, 2009 the Supervisor on Banks published a memorandum in which, among others, he adopted certain of the international financial reporting standards (IFRS) handling the issues that are not core banking business. In memorandum the international financing reporting standards were adopted on the issues detailed below:

Accounting policies, accounting changes, changes in exchange rates of foreign currency, income per share, payment based on shares, hyper inflationary economics, intermediary financial reports, business combinations, consolidated financial reports, investments in investee companies, impairment of assets, active and real estate for investment.

According to the memorandum, the banking corporations will implement the international financial reporting standards as specified above, effective from January 1, 2011 and henceforth.

Note 2 – Accounting Policy (cont.)

U. Disclosure of the influence of new accounting standards and instructions of the Supervisor on Banks in the period before implementation (continuation)

The first implementation of the international financial reporting standards that have been adopted in this memorandum, will be performed according to the transfer instructions that have been determined in the international financial reporting standards, including amendment for payoff of comparison numbers if required in the international financial reporting

On January 1, 2011 and henceforth the banking corporations will update in a currently manner the accounting handling on the issues dealing with the memorandum in accordance with the starting date and the transfer instructions that have been determined in the new international financing reporting standards that have been published on these issue and according to the adopted principals and clarifications of the Supervisor on Banks.

The bank examines the adoption implications of the international financing reporting standards on the financial reports, and in this stage there is not possibility to estimate the expected influence of the first implementation. .

According to the estimation of the bank, the expected influence of the first implementation of the above standard is not significant.

2. Accounting standard number 23 – Accounting handling in transactions between entities and its controlling shareholders

In the month December 2006 the Israeli Accounting Standards Institute published accounting standard number 23 - "Accounting handling of transactions between entities and its controlling shareholder (hereinafter - "the standard"). The standard replaces the Securities standards (presenting activities between corporation and its controlling shareholder in the financial reports, 1996) as has been adopted in the public reporting instructions of the Supervisor on Banks and determined that assets and liabilities performed transaction between the entity and its controlling shareholder will be measured on the date of the transaction according to the fair value and the provision between the fair value and the compensation that is reflected in the transaction will be reflected in the equity. The difference in debt is in essence the dividend and therefore reduces the excess balance. The difference in rights is in essence the investment owner and therefore it will be presented in a separate paragraph in the equity that will be called "Capital fund from transaction between entity and its controlling shareholder"..

The standard discusses three issues regarding the transactions between entity and its controlling shareholder, as follows: transfer of asset to the entity from controlling shareholder, or alternatively, transfer of asset from entity to controlling shareholder; taking liabilities of the entity towards third party, in whole or partial, by the controlling shareholder, indemnifying the entity by the controlling shareholder regarding expense, waiver of controlling shareholder to the entity of debt he is entitled to from the entity, in full or partial; and loans provided to the controlling shareholder or loans the controlling shareholder receives. In addition, the standard determines the disclosure that should be provided in the financial reports regarding the transactions between the entity and the controlling shareholder during the period.
In May 2008 a letter of the Supervisor on Banks has been distributed in which was stated that a renewed examination is

.1 The international financing reporting standards;

.2 In lack of specific reference in the international financing reporting standards, the American acceptable accounting

.3 In lack of reference in the American accepted accounting regulations parts of the standard should be implemented, on condition that they are not in conflict with the international financing reporting standards and also the American accepted standards as mentioned above.

For the date of publishing of the reports the final instructions of the Supervisor of the Banks regarding the adoption of specific regulations concerning the first implementation were not yet published.

3. Measuring and disclosure of damaged debts, credit risk and provision for credit losses

On December 31, 2007 the Supervisor on Banks published in a memorandum on the issue: "Measurement and disclosure or damaged debts, credit risk and provision for credit losses" and on August 20, 200* the draft amendment was received on the above instruction (hereinafter - " the memorandum" or "the instruction"). The memorandum is based, among others, on the American accounting standards and on the regulatory instructions relating to the institute of supervision on banks and the Securities Authority in the United States. The leading principles in on which the memorandum was based, are significant change relation to the current instructions on the classifying issue of problematic debts and measuring the provision for credit losses regarding these debts.

Note 2 – Accounting Policy (cont.)

U. Disclosure of the influence of new accounting standards and instructions of the Supervisor on Banks in

According to the memorandum the banking corporations are required to establish provision for the credit losses at a appropriate level for covering the expected (estimated) credit losses in relation to its credit portfolio. In addition to the mentioned above, according to the memorandum it is required to establish, a separate liabilities account, such as engagements for providing credit and collateral. The required provision for coverage of the credit debts expected in relation for the credit portfolio will be evaluated, at one of the two tracks: "the individual provision" and "group provision". On this issue, "individual provision for credit losses" - for every debt where the contractual balance (without deduction of write-offs that do not involve waivers, unrecognized interest, provisions for credit losses and collateral) is 1 million NIS or more and also regarding other debts recognized by the banking corporation for the purpose of individual evaluation and when the provision for impairment regarding those is not included in the group provision.

The individual provision for credit losses will be estimated based on the future expected cash flows, capitalized in the effective interest rate of the debt, or, when the debt is not conditional on collateral or when the banking corporation determines the expected property seizure, according to the fair value of the mortgages security for ensuring the credit. "Specific provision for credit losses estimated on group basis" - will be implemented for ensuring the same credit.

"Specific provision for credit losses estimated on group bases" - will be implemented for the provision of impairment of large groups of small debts and homogeneous (like: credit card debts, housing loans and consumer debts paid of in installments) and also regarding debts that have been examined individual and appear not to be damaged. The specific provision for credit loss regarding debts estimated on group basis, except for housing loans for which minimal specific provision has been calculated according to the depths of arrears, will be calculated according to the regulations that have been determined in the American accounting standard: for contingencies FAS 5 (hereinafter - "FAS 5"), based on the updated estimations of the loss rate transferred regarding each of the homogeneous groups of debts with similar risk characteristics. The required provision relating to the off-balance sheets credit will be estimated according to the regulations that are determined in the American accounting standard FAS 5.

In addition to this, in the instructions are determined definitions and various classifications of credit risk in and off-balance sheets, recognition regulations in income from interest for damaged debts and accounting delete regulations of problematic debts. Among others, is determined in the memorandum that accounting deletes are on each debt evaluated on individual basis that has been calculated not collectible and with such a low value that keeping it as asset is not justified or debt for which the banking corporation manages efforts over a long term, Regarding debts estimated on group basis, delete regulations have been determined on their arrears period and all depending on their being of secured debts by residential housing, except for housing loans regarding to which a minimum provision has been arranged according to the depth of arrears, debts ensured by collateral that are not residential housing, unsecured debts, debts from borrowers in bankruptcies and debts created in deceit.

This instruction will be implemented in the financial reports of the banking corporation and credit card companies, effective from January 1, 2011 (in original instruction – in January 2011). The instruction shall not be implemented for payoff in the financial reports for the previous period.

In relation to the mortgage bank, when implementing the depths of arrears method according to the credit portfolio, the adopted instruction of the memorandum of the Supervisor on Banks from January1, 2006 on the issue of provision according to depths arrears.

Information on the influence of the measuring and disclosure instruction of damaged debts, credit risk and

provision for credit losses on various balance sheet paragraphs in note 3 of the financial reports.

4. American accounting standard 166 on the issue of transfer and service of financial assets and American accounting standard 167 on the issue of entities union fluctuating control rights

In accordance with the memorandum of the Supervisor on Banks from September 6, 2009,the banking corporation is required to implement the regulations determined in FAS 166 transfer and service of financial assets, and in FAS 167 union of entities with fluctuating owner rights, including requirements of disclosure that have been determined in them effective from January 1, 2010 and henceforth according to the instructions of transfer that have been determined in these standards, generally, according to the transfer instructions is required:

- To implement the recognition and measuring requirements in standard regarding the transfer of financial assets that have been performed on January 1 and henceforth.
- To examine on January 1, 2010 and henceforth if is its required to unite in accordance with FAS 167 entities that have been determined according to the old regulations as entities capable for special purpose.

In addition, the banking corporation is entitled not to supply disclosure for the comparison numbers for the year 2009, regarding the requirement of disclosure added for the first time because of the memorandum of the Supervisor on banks.

According to the estimation of the bank the expected influence of first implementation of the above mentioned standards it not significant..

Note 2 – Accounting Policy (cont.)

U. Disclosure of the influence of new accounting standards and instructions of the Supervisor on Banks in the period before implementation (continuation)

5. American accounting standard 167 on the issue of measuring fair value

   On December 31, 2009 the Supervisor on Banks published a memorandum in which he adopted, among others, the American accounting standard 157, on the issue of measuring fair value (hereinafter – the standard)..

   The standard defines fair value and determines the consistent work framework for measuring fair value by defining the fair value evaluation techniques regarding assets and liabilities and determining the rate of fair value and detailed implementation guidelines. In addition, the standard extends the disclosure requirement for measuring fair value.

   The standard is effective from January 1, 2011 and henceforth except for a number of financial instruments that have been implemented in a limited program of implementation for payoff at the date of the first implementation, the provision between the remaining balance sheets of certain financial instruments and fair value estimate of the same financial instruments recognized as cumulative influence on the opening balance of excess for the 1st of January 2011 that has been presented separately.

   For the purpose of the first implementation of the standard, the banking corporation is required to examine again the evaluation methods implemented by the measuring of the fair value.

   The bank examines the adopting implication of the standard on the financial reports, and at this stage it has not possibility to estimate the expected influence from the first implementation of the standard.

   According to the estimates of the bank, the influence of the first implementation of the above mentioned standard is not significant.

6. American Accountant Standard 159, on the issue fair value for financial assets and financial liabilities

   On December 31, 2009 the Supervisor on Banks published a memorandum in which he adopted American accounting standard 159, on the issue of alternative fair value for financial assets and financial liabilities (hereinafter – the standard)

   The standard enables the banking corporation to measure the fair value of financial instruments and other certain items (appropriate items), that according to the public reporting instructions do not require measuring fair value. Income and losses that have not yet been realized regarding the changes of fair value of items for which has been chosen alternative fair value, and also commissions and transaction fees will be reported in the income report on each following reporting date. Choosing alternative implementation for fair value will be done regarding any instrument separately and cannot be canceled.

   In addition, the standard determines the presenting and disclosure requirement designated to assist in the comparison between the banking corporations choosing the various basic similar measurements of assets and liabilities.

   In spite of the mentioned above, the memorandum clarifies that the banking corporations do not choose alternative fair value, only if they developed in advance knowledge, systems, procedures and controls at a high level that enables it to measure the item at a high reliable level.

   The standard will be effective on January 1, 2011 and henceforth. Implementing in adoption for payoff and implementing in early adoption is forbidden. Also transfer instructions have been determined relating to the implementation regarding existing able items at the starting date and also securities available for sale and securities held for payoff.
   The bank examines the implications of adoption of the standard on the financial reports and at this stage it has no possibility to estimate the expected influence of the first implementation of the standard.

   According to the estimates of the bank, the influence of the first implementation of the above mentioned standard is not significant.

Note 3 - Influence of the instruction on the measurement and disclosure of damaged debts, credit risk and provision for credit losses on certain balance sheet paragraphs

Reported amounts

A – Influence of first implementation of new instructions on main balance sheet paragraphs

	December 31 2010 millions of NIS
a. Summary the influence on excesses	
Balances of excesses included in financial reports	419.5
Cumulative influence net from tax from first time implementation of new instructions	(4.3)
from that:	
The change in provision for credit losses	(9.2)
Influence of the relating tax	4.9
Balance excesses according to new instructions	423.8
b. The influence on credit for the public (before provision deduction for credit losses)	
Foreign currency and linked to foreign currency	
Credit balance for the public (before provision deduction for doubtful debts) included in the financial reports	8,158.4
Influence of first implementation of new instructions	
Accounting deletions net, recognized	(40.6)
Other changes in balance of credit for the public	-
Credit balance for the public (before provision deduction of doubtful debts) according to new instructions	8,117.8

C. Influence on provision for credit losses regarding debts and regarding off-balance sheet credit instruments as of December 31, 2010

	Provision for credit losses			
		on group basis*		
	On individual basis	acc.to depths arrears	Other	Total
	millions of NIS			
Balance provision for credit losses included in the financial report	47.0 [2]	69.2 [3]	6.6 [4]	122.8
Foreign currency and linked to foreign currency				
Influence of first implementation of new instructions				
Accounting deletions net, recognized	(33.3)	(7.3)	-	(40.6)
Other changes in provision for credit losses (reflected in equity)	(2.9)	5.8	6.3	9.2
Balance provision for credit losses before new instructions	10.8	67.7	12.9	91.4

* Including provision on group basis regarding debts examined individually and appeared to be not damaged

1 "This amount is presented in note 6 as of December 31, 2010 in paragraph "Provision for doubtful debts

2 This amount is presented in note 6 as of December 31, 2010 in paragraph "Other specific provision"

3 This amount is presented in note 6 as of December 31, 2010 in paragraph "Specific provision for depth arrears"

4 This amount is presented in note 6 as of December 31, 2010 in paragraph "Other provision"

B – Additional details on data according to new instructions

	As of December 31 , 2010		
	millions of NIS		
	Recorded debt balance	Provision for credit losses	Debt balance, net
a. Balance of credit for the public according new instructions			
Credit for the public examined on individual basis*	1,346.9	15.0	1,331.9
			-
Credit for the public examined on group basis**	6,770.9	76.4	6,694.5
Total credit for the public	8,117.8	91.4	8,026.4

* Including credit examined on individual basis and appeared to be non-damaged. The provision for credit losses regarding this credit is calculated on group basis. For additional details regarding credit examined on individual basis see table in paragraph B..

** Credit for which the provision for credit losses regarding it is estimated on group basis in depths arrears method according to Appendix Proper Banking Management Instructions No. 314, and credit that has not be examined individual when the provision for credit losses regarding it is calculates on groups bases. For additional details see table in paragraph C.

Note 3 - Influence of the instruction on the measurement and disclosure of damaged debts, credit risk and provision for credit losses on certain balance sheet

Reported amounts

B. Credit for the public examined on individual basis

	December 31, 2010 millions of NIS		
	Balance recorded debt	Provision for credit losses	Debt balance, net
Credit for the public examined on individual basis, including:			
Damaged credit for the public*	37.1	10.8	26.3
Credit for the public not damaged, in arrears 90 days or more**	18.1	0.1	18.0
Credit to the public not damaged, in arrears of 30 days up to 89 days**	65.5	0.2	65.3
Credit to the public not damaged**	1,226.2	3.9	1,222.3
Total credit to the public not damaged**	**1,309.8**	**4.2**	**1,305.6**
Total credit to the public examined on individual basis	**1,346.9**	**15.0**	**1,331.9**

	December 31 2010 millions of NIS
Additional information on credit for the public damaged examined on individual basis	
Credit to the public damaged for which exists provision for credit losses on individual basis	31.3
Credit for the public damaged for which exists provision for credit losses on individual basis	5.8
Total credit for the public damage	**37.1**
Credit to the public damaged measured according to current value of cash flows	13.8
Credit to the public damaged measured according value collateral	23.3
Total credit for the public damaged	**37.1**

	December 31, 2010 millions of NIS		
	Recorded debt balance	Provision for credit losses	Debt balance, net
Problematic credit in re-organization in its framework performed changes in credit conditions			
Not accumulating interest income	5.1	4.3	0.8
Accumulated interest income, arrears of 90 days or more	-	-	-
Accumulates interest income, in arrears of 30 days and up to 89 days	-	-	-
Accumulates interest income	30.6	-	30.6
Total (including credit for the public damaged)	**35.7**	**4.3**	**31.4**

* Damaged credit does not accumulate interest income, except for certain credit in re-organization as mentioned below in the paragraph.

** Credit examined individual basis and appears to be not damaged. The provision for credit losses for this credit is calculated on group basis.

Note 3 - Influence of the instruction on the measurement and disclosure of damaged debts, credit risk and provision for credit losses on certain balance sheet

Reported amounts

B – Additional details on data according the new instructions (cont.)

C. Credit for the public examined on group basis including:

Housing loans for which minimum provision for losses has been made according to depth arrears according to Appendix Proper Banking

	Depths of arrears							
	In arrears of 30 days	In arrears off 90 days or more						
	2 months up to 3 months	Over 3 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 regarding recycled loans in arrears***	Total
	millions of NIS							
Amount in arrears	2.7	3.8	5.1	6.0	63.3	78.2	-	80.9
From this: balance interest provision*	-	-	0.1	0.1	24.2	24.4	-	24.4
Recorded debt balance	210.9	74.4	49.3	17.6	63.6	204.9	22.5	438.3
Balance for the provision for credit losses**	-	-	5.0	8.5	50.7	64.2	3.5	67.7
Debt balance, net	210.9	74.4	44.3	9.1	8.7	136.5	19.0	366.4

* Regarding interest on amount that are in arrears

** Not include balance interest provision

*** Loans in which an arrangement has been signed for repaying arrears of borrower, when changes are made in the clearance table regarding balance ofl oan that has not yet be paid off.

Other credit that has not be examined individual as the provision for credit losses regarding it has been calculated on group basis.

	December 31, 2010		
	millions of NIS		
	Recorded debt balance	Provision for credit losses	Debt balance, net
Damaged credit for the public	-	-	-
Credit for the public not damaged, in arrears 90 days or more	28.8	3.6	25.2
Credit to the public not damaged, in arrears of 30 days up to 89 days	91.7	1.0	90.7
Credit to the public not damaged	624.1	2.3	621.8
Total	**744.6**	**6.9**	**737.7**

Note 3 - Influence of the instruction on the measurement and disclosure of damaged debts, credit risk and provision for credit losses on certain balance sheet

Reported amounts

B – Additional details on data according the new instructions (cont.)

D. Composition balance of provision as of December 31, 2010

	Provision for credit losses			
		on group basis*		
	On individual basis	Acc. Depths arrears	Other	Total
	millions of NIS			
Regarding credit for the public	8.9	67.7	12.9	89.5
Regarding financial instruments off-balance sheets	1.9	-	-	1.9

* Including provision on group basis regarding debts examined individually and appeared not to be damaged

E. Additional details on housing loans and the manner of calculating the provision for credit losses

	December 31, 2010						
	Housing loans	Housing loans damaged or in arrears of more than 90 days		Balance provision for credit losses			
					Other		
	Recorded debt balance[5]	Amount in arrears[3]	Recorded debt balance	Acc. Depths arrears[4]	on group basis	On individual basis	Total
	millions of NIS						
Housing loans for which it is mandatory to calculate the provision of credit losses according to depth of arrears	6,026.3	78.1	205.0	67.7	-	-	67.7
"Large" housing loans[2]	-	-	-	-	-	-	-
Other housing loans	193.8	0.6	2.2	-	1.8	-	1.8
Total	**6,220.1**	**78.7**	**207.2**	**67.7**	**1.8**	**-**	**69.5**

1 Housing loans damaged and housing loans in arrears over 3 months

2 Housing loans which balance of each exceeds 800 thousand NIS are presented in the framework of housing loans that are mandatory to calculated for them the provision of credit losses according depth of arrears.

3 .Includes interest on the arrears amount

4 Includes balance transfer provision for the obligatory according to depths of arrears for a total of 0.9 million NIS,

5 From this: the housing loans in fluctuating interest for a total of 3,856.8 million NIS.

Note 4 – Cash and Deposits at Banks

Reported amounts

	Consolidated		The Bank	
	December 31			
	2010	2009	2010	2009
	millions of NIS			
Cash and deposits at the Bank of Israel	**411.1**	553.9	**411.1**	553.9
Cash and deposits at commercial banks	**241.2**	211.2	**240.8**	211.0
	652.3	765.1	**651.9**	764.9
From this: cash, deposits at banks and deposits at the Bank of Israel for the original period of up to 3 months	**652.3**	764.2	**651.9**	764.0

Note 5 – Securities - consolidated

Reported amounts

	December 31, 2010				
	Value at balance sheet	Reduced cost (in shares - cost)	Income not yet recognized from adjustment fair value	Losses not yet recognized from adjustment for fair value	Fair value (1)
	millions of NIS				
Securities available for sale -					
Debentures and Government grants	1,115.2	1,126.9	0.2	11.9	1,115.2
of others	118.9	120.2	1.9	3.2	118.9
Total securities for sale	1,234.1	1,247.1	2.1 (2)	15.1 (2)	1,234.1
Negotiable securities -					
Debentures and Government grants	71.9	71.8	0.5	0.4	71.9
of others	8.9	8.5	0.6	0.2	8.9
Total negotiable securities	80.8	80.3	1.1 (3)	0.6 (3)	80.8
Total securities	1,314.9	1,327.4			1,314.9

(1) Data fair value is based in general on stock exchange rates that do not necessarily reflect the price obtained from sales of securities in large volumes.

(2) Included in equity in paragraph “Adjustment regarding presentation securities available for sale according to fair value”.

(3) Reflected in income report

Remark:

The Bank of Jerusalem has no significant activity in financial instruments backed assets that may cause significant losses in this area.

For details on activities in debentures investments – see note 24

Note 5 – Securities (cont.) – consolidated

Reported amounts

	December 31, 2009				
	Value at balance sheet	Reduced cost (in shares - cost)	Income not yet recognized from adjustment fair value	Losses not yet recognized from adjustment for fair value	Fair value (1)
	millions of NIS				
Securities available for sale -					
Debentures and Government grants	815.6	818.1	5.5	8.0	815.6
of others	207.2	207.2	7.5	7.5	207.2
Total securities for sale	1,022.8	1,025.3	13.0 (2)	15.5 (2)	1,022.8
Negotiable securities -					
Debentures and Government grants	56.5	56.8	0.1	0.4	56.5
of others	3.9	3.9	-	-	3.9
Total negotiable securities	60.4	60.7	0.1 (3)	0.4 (3)	60.4
Total securities	1,083.2	1,086.0			1,083.2

(1) Data fair value is based in general on stock exchange rates that do not necessarily reflect the price obtained from sales of securities in large volumes.

(2) Included in equity in paragraph "Adjustment regarding presentation securities available for sale according to fair value".

(3) Reflected in income report

Remark:

The Bank of Jerusalem has no significant activity in financial instruments backed assets that may cause significant losses in this area.

For details on activities in debentures investments – see note 24

Note 5 – Securities (cont.) – the bank

Reported amounts

	December 31, 2010				
	Value at balance sheet	Reduced cost (in shares - cost)	Income not yet recognized from adjustment fair value	Losses not yet recognized from adjustment for fair value	Fair value [(1)]
	millions of NIS				
Securities available for sale -					
Debentures and Government grants	922.4	931.8	0.2	9.6	922.4
of others[(4)]	262.9	264.2	1.9	3.2	262.9
Total securities for sale	1,185.3	1,196.0	2.1 [(2)]	12.8 [(2)]	1,185.3
Negotiable securities -					
Debentures and Government grants	69.6	69.5	0.5	0.4	69.6
of others	5.4	5.1	0.3	-	5.4
Total negotiable securities	75.0	74.6	0.8 [(3)]	0.4 [(3)]	75.0
Total securities	1,260.3	1,270.6			1,260.3

(1) Data fair value is based in general on stock exchange rates that do not necessarily reflect the price obtained from sales of securities in large volumes.

(2) Included in equity in paragraph “Adjustment regarding presentation securities available for sale according to fair value”.

(3) Reflected in income report

(4) Included liability notes issued by the subsidiary for about 144 million NIS, see note 8d.

Remark
The Bank of Jerusalem has no significant activity in financial instruments backed assets that may cause significant losses in this area.

For details on activities in debentures investments – see note 24

Note 5 – Securities (cont.) – the bank

reported amounts

	December 31, 2010				
	Value at balance sheet	Reduced cost (in shares - cost)	Income not yet recognized from adjustment fair value	Losses not yet recognized from adjustment for fair value	Fair value [1]
	Amounts adjusted for inflation influence according to index December 2003.				
	millions of NIS				
Securities available for sale -					
Debentures and Government grants	704.8	703.7	5.5	4.4	704.8
of others[4]	355.2	355.1	7.5	7.4	355.2
Total securities for sale	1,060.0	1,058.8	13.0 [2]	11.8 [2]	1,060.0
Negotiable securities -					
Debentures and Government grants	50.8	50.8	0.2	0.2	50.8
of others	0.5	0.9	0.1	0.5	0.5
Total negotiable securities	51.3	51.7	0.3 [3]	0.7 [3]	51.3
Total securities	1,111.3	1,110.5			1,111.3

(1) Data fair value is based in general on stock exchange rates that do not necessarily reflect the price obtained from sales of securities in large volumes.

(2) Included in equity in paragraph “Adjustment regarding presentation securities available for sale according to fair value”.

(3) Reflected in income report

(4) Included liability notes issued by the subsidiary for about 144 million NIS, see note 8d.

Remark
The Bank of Jerusalem has no significant activity in financial instruments backed assets that may cause significant losses in this area.

For details on activities in debentures investments – see note 24

Note 6 – Credit for the Public (consolidated and the bank)

Reported amounts

A - The composition

	December 31, 2010				
	Credit [6]	Off-balance sheet credit risk [1]	Total	Expenses for specific provision for doubtful debts	Balance problematic debts
	millions of NIS				
For housing - for which the provision is estimated according to depths of arrears	4,500.6	725.5	5,226.1	(0.3)	144.2
Other housing [2]	1,654.6	-	1,654.6	0.1	54.3
Total housing loans [3] [5] [7]	6,155.2	725.5	6,880.7	(0.2)	198.5
Activa and real estate	870.3	405.9	1,276.2	(3.0)	103.1
For industry	47.1	3.8	50.9	-	-
For hotels, guest houses and catering services	8.4	0.4	8.8	0.1	-
Other	961.7	246.3	1,208.0	1.6	37.1
Total	8,042.7	1,381.9	9,424.6	(1.5)	338.7
With deduction – general provision and additional provision for doubtful debts	5.8	0.8	6.6		
Total credit for the public consolidated and the bank	**8,036.9**	**1,381.1**	**9,418.0**		
Credit risk that is included in other economical sectors – local authorities [4]	0.5	1.4	1.9		

Note 6 – Credit for the Public (consolidated and the bank) – cont.

Reported amounts

A - The composition

	December 31, 2009				
	Credit [6]	**Off-balance sheet credit risk [1]**	**Total**	**Expenses for specific provision for doubtful debts**	**Balance problematic debts**
	millions of NIS				
For housing - for which the provision is estimated according to depths of arrears	4,041.7	387.4	4,429.1	2.8	149.1
Other housing [2]	1,365.2	2.1	1,367.3	(3.7)	71.0
Total housing loans [3] [5] [7]	5,406.9	389.5	5,796.4	(0.9)	220.1
Activa and real estate	972.4	548.6	1,521.0	(0.6)	130.3
For industry	51.5	5.0	56.5	-	2.1
For hotels, guest houses and catering services	9.9	1.3	11.2	0.6	-
Other	914.9	219.3	1,134.2	0.5	36.9
Total	7,355.6	1,163.7	8,519.3	(0.4)	389.4
With deduction – general provision and additional provision for doubtful debts	6.3	1.4	7.7		
Total credit for the public consolidated and the bank	7,349.3	1,162.3	8,511.6		
Credit risk that is included in other economical sectors – local authorities [4]	0.6	-	0.6		

(1) Credit risk in off-balance sheet financial instruments according to the calculated for the purpose of limitations of debts of borrower.

(2) Housing loans for which each exceeds a total of 0.9 million NIS not being paid in monthly installments.

(3) Total housing loans in fluctuating interest for a total of 3,856.8 million NIS (2009 – 3,830./ million NIS)

(4) For the responsibility of the depositor

(5) Balance housing credit and other housing is after deduction the part of the loan purchasers for a total of 15.4 million NIS (2009 – 24.4 million NIS). The bank reduced and/or is obliged to reduce for the benefit of the loan purchasers their rights and debts in part of the sold loans. The bank continues to manage according to the agreement with purchasers the loans for them..

(6) Includes credit for vehicle sector for a total of 582.4 million NIS (200 – 615.6 million NIS).

(7) Including credit for house loans provided for certain acquisition groups being in construction stage of a total of 102.0 million NIS (at December 31, 2009 - 21.1 million NIS), that have been classified as credit for construction and real estate branch.

Remark: The specific provision for doubtful debts is cleared from the appropriate credit paragraphs.

Note 6 – Credit for the Public (consolidated and the bank) – cont.

Reported amounts

B - Provision for doubtful debts

	For the year ending on December 31				
	2010				
	Specific provision				
	Housing loans (1)				
	Acc. Depths of arrears	Other (2)	Contractors and others (2)	Provision Additional (2)	Total
	millions of NIS				
Balance of provision for beginning of the year	75.4	3.0	47.6	7.7	133.7
Provisions in reporting year	18.2	0.8	2.6	2.7	24.3
Decrease of provision	(18.5)	(0.7)	(3.9)	(3.8)	(26.9)
Amount reflected in income report	(0.3)	0.1	(1.3)	(1.1)	(2.6)
Deletes	(5.9)	-	(2.4)	-	(8.3)
Balance of provision end of the year	**69.2**	**3.1**	**43.9**	**6.6**	**122.8**
From this – Provision balance not cleared for credit for the public paragraph (included in paragraph "Other liabilities")	-	-	0.5	0.8	1.3

	For the year ending on December 31				
	2009				
	Specific provision				
	Housing loans (1)				
	Acc. Depths of arrears	Other (2)	Contractors and others (2)	Provision Additional (2)	Total
	millions of NIS				
Balance of provision for beginning of the	77.3	6.7	51.5	8.6	144.1
Provisions in reporting year	19.6	0.6	6.4	2.3	28.9
Decrease of provision	(16.8)	(4.3)	(5.9)	(3.2)	(30.2)
Amount reflected in income report	2.8	(3.7)	0.5	(0.9)	(1.3)
Deletes	(4.7)	-	(4.4)	-	(9.1)
Balance of provision end of the year	75.4	3.0	47.6	7.7	133.7
From this – Provision balance not cleared for credit for the public paragraph (included in paragraph "Other liabilities")	-	-	0.5	1.4	1.9

Note 6 – Credit for the Public (consolidated and the bank) – cont.

Reported amounts

B - Provision for doubtful debts

	For the year ending on December 31				
	2008				
	Specific provision				
	Housing loans [1]				
	Acc. Depths of arrears	Other [2]	Contractors and others [2]	Provision Additional [2]	Total
	millions of NIS				
Balance of provision for beginning of the year	76.3	6.9	48.6	7.8	139.6
Provisions in reporting year	18.0	1.7	4.3	3.0	27.0
Decrease of provision	(14.7)	(1.9)	(1.4)	(2.2)	(20.2)
Amount reflected in income report	3.3	(0.2)	2.9	0.8	6.8
Deletes	(2.3)	-	-	-	(2.3)
Balance of provision end of the year	77.3	6.7	51.5	8.6	144.1
From this – Provision balance not cleared for credit for the public paragraph (included in paragraph "Other liabilities")	-	-	0.5	1.4	1.9

(1) Does not included interest for debts in arrears

(2) Does not include provision for interest on doubtful debts after the debts have been defined as doubtful.

(3) Including general provision for doubtful debts for a total of 0.7 million NIS (on December 31 2009 and 2008 similar)

Note 6 - Credit to the Public (Consolidated and for the Bank) (Cont.)

Reported Amounts

C - Residential loans in arrears for which provision for doubtful debts was made, by depth of arrears

	3 Months to 6 Months	6 Months to 15 Months	15 Months to 33 Months	Over 33 Months	Balances of Recast Loans	Total
	Millions of NIS					
For December 31 2010						
Amount in arrears	3.5	4.7	5.6	58.5	-	72.3
Of which - interest on amount in arrears	-	0.1	0.1	21.8	-	22.0
Balance of the provision for doubtful debts, by depth of arrears (1)	-	6.0	9.9	49.8	3.5	69.2
Loan balance, deducting provision for doubtful debts	**66.1**	**39.2**	**10.0**	**9.9**	**19.0**	**144.2**
For December 31 2009						
Amount in arrears	3.7	5.3	6.2	58.5	3.7	77.4
Of which - interest on amount in arrears	-	0.1	0.2	23.2	-	23.5
Balance of the provision for doubtful debts, by depth of arrears (1)	-	6.4	11.8	53.3	3.9	75.4
Loan balance, deducting provision for doubtful debts	70.9	40.9	15.5	8.6	13.2	149.1

(1) Does not include provision for interest on the amount in arrears.

Note 6 - Credit to the Public (Consolidated and for the Bank) (Cont.)

Reported Amounts

D - Credit to problematic borrowers (excluding residential loans)

		2010	2009
		Millions of NIS	
(A)	**Non-income-earning credit**		
	Non-indexed	**38.5**	49.5
	Indexed	**0.2**	1.0
	Foreign currency and foreign currency-indexed	**2.0**	2.0
(B)	**Credit reorganized in previous years, without waiver on income**		
	Non-indexed	**0.2**	4.9
	Indexed	**0.5**	1.2
(B1)	**Credit reorganized in previous years, with waiver on income**		
	Non-indexed	**6.6**	6.1
(C)	**Credit reorganized during the current year, without waiver on income**		
	Non-indexed	**24.8**	0.3
	Average weighted maturity period, in years	**14.7**	2.0
	Indexed	**0.7**	-
	Average weighted maturity period, in years	**0.2**	-
(D)	**Credit reorganized during the current year, with waiver on income**		
	Indexed	**0.4**	1.5
	Average weighted maturity period, in years	**10.0**	10.3
(E)	**Credit in temporary arrears**		
	Balance on the balance date	**25.5**	74.6
	Interest credited to the profit and loss statement due to credit	**1.1**	1.8
(F)	**Credit under special supervision**		
	Non-indexed	**40.9**	28.2

Note 6 - Credit to the Public (Consolidated and for the Bank) (Cont.)

Reported Amounts

E - Details Regarding the Method Used for Calculating the Specific Provision for Residential Loans

	December 31 2010					
				Specific Provision Balance		
	Credit	Problematic Debt Balance (2)	Amount in Arrears (3)	By Depth of Arrears (4)	Other	Total
	Millions of NIS					
Residential Loans for which provision must be calculated by depth of arrears	4,500.6	144.2	72.3	69.2	-	69.2
"Large" Loans (1)	1,461.0	52.3	8.4	-	2.9	2.9
Other Loans	193.6	2.0	0.6	-	0.2	0.2
Total	**6,155.2**	**198.5**	**81.3**	**69.2**	**3.1**	**72.3**
From this: Regarding housing loans provided to certain purchasing groups being in building state (5)	102.0					

	December 31 2009					
				Specific Provision Balance		
	Credit	Problematic Debt Balance (2)	Amount in Arrears (3)	By Depth of Arrears (4)	Other	Total
	Millions of NIS					
Residential Loans for which provision must be calculated by depth of arrears	4,041.7	149.1	77.4	75.4	-	75.4
"Large" Loans (1)	1,205.2	70.2	11.9	-	2.8	2.8
Other Loans	160.0	0.8	0.1	-	0.2	0.2
Total	**5,406.9**	**220.1**	**89.4**	**75.4**	**3.0**	**78.4**
From this: Regarding housing	21.1					

(1) Residential loans whose individual balance exceeds NIS 0.9 million (For December 31 2009 – identical).

(2) After deducting specific provisions for doubtful debts, and without deducting general and additional provisions.

(3) Including interest for arrears.

(4) Including specific provision beyond the amount required, by depth of arrears, in the amount of NIS 0.9 million (For December 31 2009 – NIS 1.4 million).

(5) Loans classified as credit for structure and real estate sector

Note 6 - Credit to the Public (Consolidated and for the Bank) (Cont.)

Reported Amounts

F. Credit to the public and off-balance credit risk, according to the borrower's credit size

Credit Ceiling in Thousands of NIS		December 31 2010 No. of Borrowers[1]	December 31 2010 Credit[2] (Millions of NIS)	December 31 2010 Credit Risk[2] [3] (Millions of NIS)	December 31 2009 No. of Borrowers[1]	December 31 2009 Credit[2] (Millions of NIS)	December 31 2009 Credit Risk[2] [3] (Millions of NIS)
	Up to 10	**2,964**	**13.8**	**2.9**	3,018	14.4	2.6
Over 10	Up to 20	**2,260**	**29.6**	**6.3**	2,725	38.1	5.3
Over 20	Up to 40	**4,425**	**118.6**	**15.1**	4,371	121.2	10.9
Over 40	Up to 80	**6,676**	**366.0**	**25.0**	6,897	385.8	18.6
Over 80	Up to 150	**6,248**	**662.0**	**30.3**	6,633	709.5	58.0
Over 150	Up to 300	**5,777**	**1,178.7**	**60.4**	5,852	1,196.2	56.7
Over 300	Up to 600	**4,140**	**1,612.8**	**139.9**	3,630	1,411.5	117.3
Over 600	Up to 1,200	**1,950**	**1,435.3**	**175.0**	1,574	1,165.9	131.7
Over 1,200	Up to 2,000	**555**	**734.6**	**109.7**	445	571.1	99.9
Over 2,000	Up to 4,000	**280**	**648.4**	**107.4**	226	519.8	86.5
Over 4,000	Up to 8,000	**103**	**438.8**	**130.5**	72	348.3	57.5
Over 8,000	Up to 20,000	**55**	**450.4**	**192.8**	50	396.8	203.5
Over 20,000	Up to 40,000	**16**	**191.6**	**279.4**	18	276.7	247.0
Over 40,000	Up to 60,000	**6**	**162.1**	**107.2**	5	200.3	68.2
		35,455	**8,042.7**	**1,381.9**	35,516	7,355.6	1,163.7

(1) Number of borrowers according to total credit and credit risk.

(2) After deducting specific provisions for doubtful debts, and without deducting general and additional provisions.

(3) Risk credit in off-balance financial instruments, as calculated for determining the debt limits of a single borrower.

Note 7 - Credit to the Government (Consolidated and at the Bank)

Reported Amounts

	December 31	
	2010	**2009**
	Millions of NIS	
Credit as part of arrangements for completion of interest to an eligible party at the Ministry of Construction and Housing(1)	**2.7**	3.9
Deducting interest completion from the Prime Minister	**(2.7)**	(3.9)
Total credit to the government	**-**	-

(1) According to an agreement between the Government of Israel and the Bank, the government committed to complete for the Bank, for certain residential loans given to parties eligible to receive assistance according to the guidelines of the Ministry of Construction and Housing, the gap in interest between the average low interest rate used at mortgage banks, based on an agreed-upon formula, and the actual interest rate for the aforementioned loans. The above completion of interest, for the entire advance loan period, when capitalized according to interest at a rate of 2% p.a., was listed as a deposit for the Bank by the Accountant General, and bears interest at an identical rate.

Note 8 - Investments in Held Companies

Reported Amounts

A - Composition of the Investment

	Consolidated		The Bank	
	December 31			
	2010	**2009**	**2010**	**2009**
	Millions of NIS			
Consolidated companies				
Investment in shares according to the book value method	**-**	**-**	**307.4**	291.6
Of which: profits accrued since the purchase date	**-**	-	**14.8**	23.0
Sections accrued in equity since the purchase date				
Net adjustments due to presentation of sellable securities at fair value	**-**	**-**	**(1.7)**	(2.7)

B - The Bank's share in the profits or losses of held companies

	Consolidated			Bank		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
	Millions of NIS					
The Bank's share in profits from regular operations of held companies	**-**	**-**	-	**18.8**	30.2	21.5
<u>Provision for taxes</u>						
Current taxes	**-**	-	-	**4.8**	6.5	4.1
Deferred taxes	**-**	-	-	**(0.8)**	0.7	1.6
Total provision for taxes	**-**	**-**	**-**	**4.0**	**7.2**	**5.7**
The Bank's share in the profits from regular operations of held companies, after tax	**-**	-	-	**14.8**	23.0	15.8

Note 8 - Investments in Held Companies (Cont.)

Reported Amounts

C - Details of Held Companies

Company Name	Company Details	Share in Capital Granting Profit Rights and Voting Rights %	Investment in Shares At Book Value For December 31 2010	2009	Contribution to Net Profits From Regular Operations On December 31 2010	2009
			Millions of NIS			
Tomer Jerusalem Ltd.	(1)	100	**129.3**	126.7	**2.6**	4.2
Ir Shalem Insurance Agency (1996) Ltd.	(2)	100	**130.2**	119.1	**10.1**	14.9
Jerusalem Portfolio Management Ltd.	(3)	100	**34.3**	33.0	**1.3**	1.4
Jerusalem Capital Markets (1980) Ltd.	(4)	100	**1.5**	1.5	**-**	-
Jerusalem Underwriting and Issuing Ltd.	(5)	100	**6.5**	6.1	**0.4**	1.5
Bank of Jerusalem Trust Company Ltd.	(6)	100	**0.4**	0.4	**-**	-
Jerusalem Finance and Issuance (2005) Ltd.	(7)	100	**5.2**	4.8	**0.4**	1.0
Jerusalem Financial Operation (2005) Ltd.	(8)	100	**-**	**-**	**-**	**-**

(1) The main operations of Tomer Jerusalem Ltd. (hereinafter: "Tomer") were renting the buildings and equipment owned by it, and granting computing services to the Bank.

(2) Ir Shalem Insurance Agency (Ltd.) operates as an insurance agency providing services related to insuring the assets and life insurance policies of the Bank's loan recipients.

(3) Jerusalem Portfolio Management Ltd. deals in provision of consulting and portfolio management services.

(4) Jerusalem Capital Markets (1980) Ltd. dealt in trust fund management. The trust fund operations were sold in 2006.

(5) Jerusalem Signing and Issuing Ltd. deals in the area of signing and issuing.

(6) Bank of Jerusalem Trust Company Ltd. deals in management in trust of accounts, investment and financial assets of foreign residents and others.

(7) Jerusalem Finance and Issuance (2005) Ltd. (a subsidiary fully controlled and owned by the Bank) works to raise funds by issuing certificates of deposit and deferred liability deeds to the public. In 2009, the company raised NIS 335 million through the issuance of bonds. For details, see Note 13 B.

(8) Jerusalem Financial Operation (2005) Ltd. serves as an extension for executing operations in bond series offered to the public by Jerusalem Finance and Issuance (2005) Ltd. The company has been inactive since 2005. After the balance sheet date, the Bank began the procedure for closing the company.

D - Purchase of liability certificates issued by a subsidiary

The Bank holds, as of the balance sheet date, liability certificates of subsidiaries at a nominal value of NIS 124,927 thousand (from series A, B, D and E). Regarding series A and B - the Bank is entitled to receive interest according to the certificates, but may waive it. For series D and E - the Bank is not entitled to receive interest. The Bank purchased, during the first nine months of 2010, a nominal value total of NIS 34,591 thousand of series G, and sold its holdings in the series in October 2010.

Note 9 - Buildings and Equipment

Reported Amounts

	Consolidated			Bank		
	Buildings and Real Estate (1) (3)	Equipment, Furniture and Vehicles	Total	Buildings and Real Estate (1)	Equipment, Furniture and Vehicles	Total
	Millions of NIS					
Cost of Assets						
For December 31 2009[2]	66.9	87.1	154.0	45.3	28.4	73.7
Added during the reporting year	2.6	12.0	14.6	0.1	0.3	0.4
For December 31 2010	**69.5**	**99.1**	**168.6**	**45.4**	**28.7**	**74.1**
Accrued depreciation						
For December 31 2009	37.5	64.1	101.6	26.5	21.9	48.4
Depreciation	1.9	8.4	10.3	1.5	1.2	2.7
Accrued by December 31 2010	**39.4**	**72.5**	**111.9**	**28.0**	**23.1**	**51.1**
Depreciated balance						
For December 31 2010	**30.1**	**26.6**	**56.7**	**17.4**	**5.6**	**23.0**
For December 31 2009	29.4	23.0	52.4	18.9	6.5	25.4
Average depreciation rate (in percent)						
For December 31 2010	**4.58**	**19.33**		**6.12**	**8.71**	
For December 31 2009	5.40	18.91		6.14	8.59	

(1) Includes leasehold improvements which refer to investments in the Bank's main offices (owned by Tomer) and the other branches of the Bank, which are rented for various periods with options to extend. The depreciation rates were determined based on the lease period (including extension option) and the mgt's intentions regarding continuing the lease.

(2) The Bank and subsidiaries own property at the cost of NIS 22.3 million combined, and NIS 17 million in the Bank (2009 - NIS 20.6 million, and NIS 15.6 million, respectively), which was dully deducted and is still in use.

Buildings whose depreciated cost are NIS 9.4 million (2009 - NIS 10.2 million) are under capitalized lease until 2041.

Note 10 - Other Assets

Reported Amounts

	Consolidated		Bank	
	December 31			
	2010	2009	2010	2009
	Millions of NIS			
Debt balance for derivative financial assets	**23.9**	23.6	**23.9**	23.6
Net receivable deferred taxes (See Note 28D)	**11.1**	12.6	**12.1**	12.5
Balance of expenses for bond issuance and raising long term deposits, for amortization	**7.8**	5.1	**0.2**	0.3
Advance expenses	**3.6**	4.4	**3.5**	4.3
Excess advance payments paid to income tax for current provisions	**12.0**	2.6	**10.1**	-
Income receivable	**0.9**	0.8	**-**	-
Other debts and debt balances	**5.6**	2.3	**2.7**	3.2
Total Other Assets	**64.9**	51.4	**52.5**	43.9

Note 11 - Deposits to the Public

Reported Amounts

	Consolidated		Bank	
	December 31			
	2010	2009	2010	2009
	Millions of NIS			
Demand deposits (including current credit deposits)	**728.3**	694.2	**754.0**	693.0
Fixed term deposits [(1)]	**6,569.5**	6,214.8	**8,223.4**	7,445.8
Deposits in savings programs [(1)]	**110.0**	206.7	**110.0**	206.7
Total public deposits	**7,407.8**	7,115.7	**9,087.4**	8,345.5

After classification, savings plans for fixed term deposits during 2010 amounted to NIS 2,043 million (2009 – NIS 1,827 million).

Note 12 - Deposits from Banks

Reported Amounts

	Consolidated		Bank	
	December 31			
	2010	2009	2010	2009
	Millions of NIS			
Short term deposits from commercial banks	**86.5**	103.9	**86.5**	103.9

Note 13 - Liability Certificates and Deferred Liability Deeds

Reported Amounts

A - Composition

	Average Lifetime (2)	Internal Yield Rate (2)	Consolidated		Bank	
			December 31			
			2010	2009	2010	2009
	Years	%	Millions of NIS			
Certificates						
Certificates of Deposit - Issued by Subsidiary (1)						
Non-indexed	4.0	3.5	**1,048.9**	426.3	**-**	-
Indexed	2.3	4.5	**421.8**	516.5	**-**	-
Total certificates of deposit			**1,470.7**	942.8	**-**	-
Deferred, Non-indexed liability deeds	4.0	6.6	**26.2**	21.8	**26.2**	21.8
Deferred, indexed liability deeds	2.4	5.0	**242.5**	253.4	**242.5**	253.4
Deferred, Non-indexed liability deeds - Issued by subsidiary (1) (3)	4.8	4.3	**176.3**	167.7	**176.3**	167.7
Deferred, USD-indexed liability deeds	1.4	5.4	**5.4**	6.1	**5.4**	6.1
Total deferred liability deeds			**450.4**	449.0	**450.4**	449.0
Total liability certificates and deferred liability deeds			**1,921.1**	1,391.8	**450.4**	449.0
Of which: marketable liability certificates and deferred liability deeds			**1,647.0**	1,110.5	**-**	-

B - Additional Details

(1) A. On March 24 2010, Jerusalem Finance and Issuance (2005) Ltd. (hereinafter: the "Subsidiary") issued, according to the shelf offering from March 23 2010 that was published based on the shelf forecast from June 17 2009, bonds at a nominal value of NIS 250,000 thousand. On April 7 2010, the company made a private issuance to a confidential investor of bonds (Series G) at a total nominal value of NIS 40,000 thousand.

B. On November 2010, the Subsidiary issued, according to the shelf offering report from October 31 2010 that was published according to the shelf forecast from June 17 2009, bonds (Series H) at a total nominal value of NIS 360,000 thousand.

Jerusalem Finance has an agreement with the Bank, in which it was determined that the issuance amount of the certificates of deposit, according to the forecast, would be deposited at the Bank via an interest-bearing deposit, with identical maturity terms to those of certificates of deposit, and at identical or better interest terms, as will be agreed from time to time with the Bank. The deposit will be for the Bank's use, at its discretion, and at a maturity rate equal to the other deposits in the Bank.

On October 7 2010, Standard & Poor's Maalot ratified the Bank's issuer rating as ilA+. The rating forecast remained negative.

The above is also the rating for the bonds (excluding the deferred liability deeds specified below) issued by Jerusalem Finance and Issuance (2005) Ltd., a subsidiary fully owned and controlled by the Bank (hereinafter: "Finance and Issuance"), that is, ilA+. The deferred liability deeds issued by Finance and Issuance are rated one rating lower than the Bank's rating. Therefore, their rating is ilA (and not ilA+).

Jerusalem Bank has committed to fulfill all the terms of all bonds issued by Finance and Issuance.

The deferred liability deeds issued by Jerusalem Finance (Series C) are rated one rating lower than the Bank's rating, and therefore are rated as A (and not A+). The forecast has been changed from stable to negative for the deferred liability deeds as well.

Internal yield rate is the interest rate that attributes the forecasted payment flow to the balance-sheet balance presented in the financial reports. Average lifetime is the average of the weighted payment periods in a capitalized flow, based on the internal yield rate.

(3) For details regarding liability certificates purchased by the Bank and issued by Jerusalem Finance and Issuance (2005) Ltd., see Note 8 D.

Note 14 - Other Liabilities

Reported Amounts

	Consolidated		Bank	
	December 31			
	2010	2009	2010	2009
	Millions of NIS			
Advance Income	**33.5**	25.6	**33.5**	25.6
Payable salaries and associated expenses	**13.8**	15.4	**12.7**	14.6
Credit balance for derivative financial instruments	**10.7**	11.0	**10.7**	11.0
Current tax reserves in excess of advance income tax payments	**-**	10.2	**-**	9.9
Severance pay reserves in excess of provision (See Note 15A)	**1.9**	8.5	**1.9**	8.2
Provision for doubtful debts due to off-balance sections (See Note 6A)	**1.3**	1.9	**1.3**	1.9
Creditors due to sold loans	**-**	0.9	**-**	0.9
Expenses payable	**8.6**	0.5	**7.2**	3.6
Other creditors and credit balances	**2.4**	4.7	**2.3**	1.0
Total Other Liabilities	**72.2**	78.7	**69.6**	76.7

Note 15 - Employees' Rights

Reported Amounts

A - Severance Pay

The severance pay reserves presented in the balance sheet, along with payments for insurance policies, cover the commitment to pay severance pay to employees based on their last salary and period of work at the Bank and its subsidiaries. The amounts deposited by the Bank and its subsidiaries in insurance companies as part of a personal directors' insurance program are not included in the balance sheet, since they are not under the Bank's control. Withdrawal of the provision's funds is conditional upon the fulfillment of the conditions of the Severance Compensation Law. The reserve and provision amounts are as follows:

	Consolidated		Bank	
	December 31			
	2010	2009	2010	2009
	Millions of NIS			
Reserve amount	**53.5**	43.8	**50.1**	40.3
Provision amount	**51.6**	35.3	**48.2**	32.1
Severance pay in excess of the provision (included in the section for "Other Liabilities")	**1.9**	8.5	**1.9**	8.2

B - Provision for jubilee bonuses

The employees of the Bank and its subsidiaries are entitled, upon reaching a certain level of seniority, to receive a special bonus ("Jubilee Bonus"). In accordance with the instructions issued by of the Supervisor of Banks, the provision for this liability is calculated as of 2007 on an actuarial basis, and is presented at current value. The capitalization rate set by the Supervisor of Banks is 4%, and takes into account the future increase in salary. The financial reports include provisions for jubilee bonuses with the following balances: combined NIS 2.4 million (2009 - NIS 1.7 million), in the Bank - NIS 2.2 million (2009 - NIS 1.6 million), under "Payable salaries and accompanying expenses", under the header of "Other Liabilities".

C - Vacation Days

The employees of the Bank and its subsidiaries are entitled, by law and according to their work agreements, to annual vacation days. The vacation provision is calculated based on the employees' last salary, and the vacation days they accrued, plus the required accompanying expenses. The provision balance as of the balance sheet date amounts to NIS 5.6 million combined, and NIS 5.1 million in the Bank (2009 - NIS 5.3 million combines, and NIS 4.9 million in the Bank), and is included in the financial reports under "Payable salaries and accompanying expenses", under the header "Other Liabilities".

D - Description of the Bonus Program for Employees

The Bank of Jerusalem created, during 2010, a bonus program for employees of the Bank, based on the instruction issued by the Supervisor of Banks on this matter, in order to determine a clear formula, known in advance, to link the Bank's returns to the annual bonus distributed, as resulting from a long term evaluation of the Bank's targets, and in consideration of the degree of risk involved in reaching these returns. Distribution of the bonus among the Bank's employees will be done differentially, and will be based on quantitative and qualitative performance metrics, as well as other parameters.

Similarly, salary bonuses may also be granted, depending on manager recommendations and the employee's achievements, in a differential manner.

Note 16 - Charges and Limiting Conditions

A - According to the bylaws of Maof Clearing House Ltd. (hereinafter: "Maof Clearing House"), the Bank is required, as a member of Maof Clearing House, to deposit liquid securities for the total exposure due to its activities with derivatives, and for its part in the risk fund. For this purpose, the Bank has charged to Maof Clearing House its rights to the following accounts:

1. An account opened in the stock exchange clearing house, under the name of Maof Clearing House, in which government bonds are deposited equal to the worth of all security demands of the Bank's clients, for the Bank's share in the risk fund (hereinafter: the "Securities Account"). The value of the bonds deposited as of December 31 2010 amounted to NIS 49,7 million.

2. An account opened at Bank Leumi Leisrael Ltd. under the name of Maof Clearing House, in which funds amounting to no less than 25% of the Bank's share in the risk fund will be deposited. Deposits will also be made into this account for funds paid for securities to be deposited in the Bank's Securities Account. As of December 31 2010, a total of NIS 1.3 million has been deposited in this account.

The accounts specified above are charged by means of a floating charge to Maof Clearing House, and

the accounts specified in sections 1 and 2 above are also under fixed charge to Maof Clearing House.

B - As a member of the stock exchange, the Bank is required to deposit liquid securities to guarantee the fulfillment of all the obligations of the Bank's clients towards the stock exchange clearing house, due to transactions executed at the stock exchange clearing house, and to guarantee their share in the risk fund of the stock exchange clearing house. For this purpose, the Bank has charged to the stock exchange clearing house, by means of first degree fixed charge, its rights to the following accounts:

1. An account opened at the stock exchange clearing house under its name, and which is managed for the Bank, including government bonds worth the entire security requirements for the Bank's clients, and for the Bank's share in the risk fund. The value of the bonds deposited as of December 31 2010 amounted to NIS 4.0 million.
2. An account opened at Bank Leumi Leisrael Ltd., under the name of the stock exchange clearing house, in which funds worth no less than 25% of the Bank's share in the risk fund will be deposited, and in which will also be deposited funds paid as for securities to be deposited in the Bank's Securities Account. As of December 31 2010, a total of NIS 1.5 million has been deposited in this account.

C - For the purpose of guaranteeing the credit that the Bank has given, or will give, as part of the Bank's activities in the RTGS system, the Bank has charged to the Bank of Israel, by means of a bond from July 23 2007, bonds which are held by the Bank and which have been, or will be, deposited in a designated account managed at the stock exchange, under the name of the Bank of Israel. The charge is not limited by amount. The value of the bonds deposited as of December 31 2010 amounted to NIS 186.8 million.

Note 17A - Equity

A - The Bank's registered share capital as of December 31 2010 amount to 100,250,000 regular shares of NIS 1 each (For December 31 2009 - similar). The issued and paid capital for December 31 2010 is 70,517,741 shares, registered for trading at the Tel Aviv Stock Exchange (For December 31 2009 - similar).

B - On April 17 2008, the Bank's board of directors decided upon a dividend distribution in the amount of NIS 72 million. This dividend was distributed on May 11 2008.

C - No dividends were distributed in the years 2009 and 2010.

The distribution of dividends is done in accordance with the Law of Companies, 5759 - 1999, and instructions issued by the Supervisor of Banks.

Note 17B - Capital Adequacy Requirement, According to the Instructions Issued by the Supervisor of Banks

Reported Amounts

Calculated according to the Proper Banking Management Instructions, No. 201-211 – "Measurement and adequacy capital".

A. For consolidated data:

A - Capital for the purpose of calculating the capital adequacy ratio

	31/12/2011	
	2010	**2009**
	Millions of NIS	
Tier 1 capital, after deductions	**633.2**	605.6
Tier 2 capital, after deductions	**271.5**	297
Total Capital	**904.7**	902.7

B - Weighted balances of risk assets

Credit risk	**5,457.8**	5,141.7
Market risks	**18.3**	11.5
Operational risk	**480.1**	495.3
Total weighted average of risk assets	**5,956.2**	5,648.5

C - Ratio of capital to risk components

	In Percent	
Ratio of tier 1 capital to risk components	**10.6**	10.7
Ratio of total capital to risk components	**15.2**	16.0
Total minimum capital ratio required by the Supervisor of Banks	**13.0**	13.0

Note 17B - Capital Adequacy, According to the Instructions Issued by the Supervisor of Banks (Cont.)

Reported Amounts

B. Capital components for the purpose of calculating the capital adequacy ratio

A - Tier 1 capital

	December 31 2010	
	2010	**2009**
	Millions of NIS	
Equity	**633.2**	605.9
Deductions from tier 1 capital	**-**	(0.3)
Total tier 1 capital	**633.2**	605.6
B - Tier 2 capital		
Upper Tier 2 capital		
General provision for doubtful debts	**0.7**	0.7
Lower tier 2 capital		
Deferred liability deeds	**270.8**	296.4
Total Tier 2 capital	**271.5**	297.1

Note 18 - Assets and Liabilities by Indexation Base – Consolidated

Reported Amounts

	December 31 2010					
	Israeli Currency		Foreign Currency [1]			
	Non-indexed	CPI-Indexed	US Dollar-Indexed	Other	Non-Monetary Items	Total
	Millions of NIS					
Assets						
Cash and deposits in banks	547.5	-	83.6	21.2	-	652.3
Securities	1,009.7	287.9	14.8	-	2.5	1,314.9
Credit to the public	4,050.5	2,874.7	950.2	161.5	-	8,036.9
Buildings and equipment	-	-	-	-	56.7	56.7
Other assets	39.9	10.4	1.5	1.3	11.8	64.9
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
Bonds and deferred liability deeds	1,075.1	840.6	5.4	-	-	1,921.1
Other liabilities	32.7	-	4.0	2.0	33.5	72.2
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
Non-hedging derivative instruments						
Derivative instruments (excluding 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 indexation to foreign currency.

Note 18 - Assets and Liabilities by Indexation Base (Cont.) – Consolidated

Reported Amounts

	December 31 2009					
	Israeli Currency		Foreign Currency [1]			
	Non-indexed	CPI-Indexed	US Dollar-Indexed	Other	Non-Monetary Items	Total
	Millions of NIS					
Assets						
Cash and deposits in banks	637.5	0.9	101.3	25.4	-	765.1
Securities	731.0	335.0	17.1	-	0.1	1,083.2
Credit to the public	3,413.9	2,919.3	844.4	171.7	-	7,349.3
Buildings and equipment	-	-	-	-	52.4	52.4
Other assets	22.2	13.7	5.4	0.2	9.9	51.4
Total assets	4,804.6	3,268.9	968.2	197.3	62.4	9,301.4
Liabilities						
Public deposits	3,231.1	2,745.3	908.9	230.4	-	7,115.7
Deposits from banks	-	72.0	31.9	-	-	103.9
Government deposits	4.9	0.5	-	-	-	5.4
Bonds and deferred liability deeds	448.1	937.6	6.1	-	-	1,391.8
Other liabilities	47.2	0.4	5.2	0.3	25.6	78.7
Total liabilities	3,731.3	3,755.8	952.1	230.7	25.6	8,695.5
Difference	1,073.3	(486.9)	16.1	(33.4)	36.8	605.9
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(424.8)	320.9	69.8	34.1	-	-
General Total	**648.5**	**(166.0)**	**85.9**	**0.7**	**36.8**	**605.9**

(1) Including indexation to foreign currency.

Note 18 - Assets and Liabilities by Indexation Base (Cont.) – Bank

Reported Amounts

	December 31 2010					
	Israeli Currency		Foreign Currency (1)			
	Non-indexed	CPI-Indexed	US Dollar-Indexed	Other	Non-Monetary Items	Total
	Millions of NIS					
Assets						
Cash and deposits in banks	547.2	-	83.6	21.1	-	651.9
Securities	1,012.9	230.4	14.4	-	2.6	1,260.3
Credit to 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
Other assets	35.2	10.4	1.5	1.3	4.1	52.5
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
Bonds and deferred liability deeds	26.2	418.8	5.4	-	-	450.4
Other liabilities	30.1	-	4.0	2.0	33.5	69.6
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
Non-hedging derivative instruments						
Derivative instruments (excluding 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 indexation to foreign currency.

Note 18 - Assets and Liabilities by Indexation Base (Cont.) – Bank

Reported Amounts

	December 31 2009					
	Israeli Currency		Foreign Currency [1]			
	Non-indexed	CPI-Indexed	US Dollar-Indexed	Other	Non-Monetary Items	Total
	Millions of NIS					
Assets						
Cash and deposits in banks	637.3	0.9	101.3	25.4	-	764.9
Securities	733.3	361.2	16.7	-	0.1	1,111.3
Credit to the public	3,413.9	2,919.3	844.4	171.7	-	7,349.3
Investment in consolidated companies	-	4.3	-	-	287.3	291.6
Buildings and equipment	-	-	-	-	25.4	25.4
Other assets	19.9	13.3	5.4	0.3	5.0	43.9
Total assets	4,804.4	3,299.0	967.8	197.4	317.8	9,586.4
Liabilities						
Public deposits	3,788.8	3,417.4	908.9	230.4	-	8,345.5
Deposits from banks	-	72.0	31.9	-	-	103.9
Government deposits	4.9	0.5	-	-	-	5.4
Bonds and deferred liability deeds	21.8	421.1	6.1	-	-	449.0
Other liabilities	45.2	0.4	5.2	0.3	25.6	76.7
Total liabilities	3,860.7	3,911.4	952.1	230.7	25.6	8,980.5
Difference	943.7	(612.4)	15.7	(33.3)	292.2	605.9
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(424.8)	320.9	69.8	34.1	-	-
General Total	**518.9**	**(291.5)**	**85.5**	**0.8**	**292.2**	**605.9**

(1) Including indexation to foreign currency.

Note 19 - Assets and Liabilities by Indexation Base and Maturity Period (Cont.) – Consolidated[1]

Reported Amounts

	On-demand to one month	1 month to 3 months	3 months to 1 year	1 year to 2 years	2 years to 3 years
	Millions of NIS				
For December 31 2010					
Non-indexed Israeli currency					
Assets	818.6	306.5	866.5	601.6	539.3
Liabilities	1,726.3	279.3	1,277.2	295.7	477.1
Difference	(907.7)	27.2	(410.7)	305.9	62.2
Derivatives [4]	**78.0**	**(84.0)**	**(135.2)**	**(106.9)**	**-**
Indexed Israeli currency					
Assets	19.6	71.3	297.5	386.7	377.3
Liabilities	33.5	95.9	357.2	412.8	968.2
Difference	(13.9)	(24.6)	(59.7)	(26.1)	(590.9)
Derivatives [4]	-	103.3	159.3	103.4	
Foreign currency - local activities[2]					
Assets	139.0	33.1	88.5	114.3	117.1
Liabilities	609.0	161.2	267.0	11.8	10.6
Difference	(470.0)	(128.1)	(178.5)	102.5	106.5
Derivatives [4]	(75)	(19)	(18)	-	-
Non-monetary items					
Assets	-	-	-	-	-
Liabilities	-	-	-	-	-
Difference	-	-	-	-	-
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)**
For December 31 2009					
Total					
Assets	996.0	430.2	1,295.3	1,142.7	843.3
Liabilities	2,533.1	772.8	1,309.0	840.7	650.7
Difference	(1,537.1)	(342.6)	(13.7)	302.0	192.6

(1) This note presents future contractual cash flows for the assets and liabilities sections by indexation base, based on the periods remaining until the contractual maturity date for each cash flow. The data are presented after deduction of provisions for doubtful debts.

(2) Includes foreign currency indexation.

(3) As included in Note 18 - Assets and Liabilities by Indexation Base, including off-balance amounts for derivatives.

(4) Derivatives, excluding options.

Note 19 - Assets and Liabilities by Indexation Base and Maturity Period (Cont.) – Consolidated [1]

Reported Amounts

3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 years	Total cash flow	Balance-Sheet Balance[3] No Maturity Period	Total
Millions of NIS							
331.3	281.9	1,872.1	1,167.0	108.1	6,892.9		5,647.6
322.3	237.0	424.2	-	-	5,039.1	-	4,823.9
9.0	44.9	1,447.9	1,167.0	108.1	1,853.8	-	823.7
-	-	-	-	-	(248.1)	-	(247.4)
350.4	440.1	1,192.2	895.8	87.5	4,118.4	-	3,173.0
596.1	480.4	608.5	407.0	-	3,959.6	-	3,576.8
(245.7)	(40.3)	583.7	488.8	87.5	158.8	-	(403.8)
-	-	-	-	-	366.0	-	355.6
110.0	106.9	447.9	330.9	0.7	1,488.4	-	1,234.1
6.6	4.8	0.3	-	-	1,071.3	-	1,058.3
103.4	102.1	447.6	330.9	0.7	417.1	-	175.8
-	-	-	-	-	(112.0)	-	(108.2)
-	-	-	-	-	-	71.0	71.0
-	-	-	-	-	-	33.5	33.5
-	-	-	-	-	-	37.5	37.5
791.7	**828.9**	**3,512.2**	**2,393.7**	**196.3**	**12,499.7**	**71.0**	**10,125.7**
925.0	**722.2**	**1,033.0**	**407.0**	**-**	**10,070.0**	**33.5**	**9,492.5**
(133.3)	**106.7**	**2,479.2**	**1,986.7**	**196.3**	**2,429.7**	**37.5**	**633.2**
803.4	743.3	2,710.4	1,926.0	109.5	11,000.1	26.8	9,301.4
1,095.2	816.1	814.4	470.1	-	9,302.1	-	8,695.5
(291.8)	(72.8)	1,896.0	1,455.9	109.5	1,698.0	26.8	605.9

Note 20 - Contingent Liabilities and Special Contractual Agreements (Cont.)

Reported Amounts

B - Off-balance contractual agreements for activities, by collection rate, for year end [(1)] (Cont.)

Cash flows from collection fees and interest margins for activities, by collection rate [(2)]

	December 31							
	2010							2009
	Up to 1 year	1+ years to 3 years	3+ years to 5 years	5+ years to 10 years	10+ years to 20 years	Over 20 years	Total	Total
	Millions of NIS							
Future contractual flows	18.1	34.2	31.8	73.8	29.7	-	187.6	217.6
Forecasted capitalized flows [(3)]	17.7	32.4	28.9	62.2	22.6	-	163.8	186.4

(1) Credits from deposits whose repayment to the depositor is contingent upon collection of credits, charging either margin or a collection fee (instead of margin).

(2) Including the foreign currency sector and the non-indexed Israeli currency sector, no greater than 10% of the total deposits, by collection rate.

(3) Capitalization was done at a rate of 2.18% (2009 – 2.36%).

Note: These data do not include an estimation of early deposits.

C - Lawsuits

1. General

Several lawsuits were filed against the Bank during current operations. In the opinion of the Bank's management, based on the opinion of its legal counsels regarding the chances of the lawsuits, including requests to approve recognition of class action suits, the appropriate provisions were included in the financial reports, according to accepted accounting principles, due to expected losses resulting from unresolved lawsuits against the Bank.

2. There are pending petitions to approve class action suits against the Bank.

These lawsuits are specified below:

A. In July 1997, a lawsuit was filed at the District Court of Tel Aviv against the Bank, and against four other mortgage banks, for a total amount of over NIS one billion. In addition, a request was filed to recognize the suit as a class action suit. It is claimed in the suit and request, *inter alia*, that the aforementioned banks illegally charged life insurance and property insurance fees, and that the borrowers are entitled to receive repayment of these sums. The claim and petition did not specify the manner in which this amount was calculated, nor did it specify which part of it was attributed to the Bank.

In November 1997, the District Court decided to reject the petition to recognize the claim as a class action suit according to the Banking Law (Service to Customers), 5741-1981, and the Antitrust Law, 5748-1988. The Court also ruled that the suit could be discussed as a petition for declarative remedy only, and not financial, within the framework of Regulation 29 of the Civil Procedure Regulations. In December 1997, the Supreme Court submitted to the Bank a request to appeal the above decision, as well as a petition to delay the procedure until its ruling was received on this matter. The petition to delay proceedings was approved by the Supreme Court until a decision was reached regarding the appellant's petition. In February 2008, the claim was delivered for mediation before the Honorable Vice President (Emeritus) Theodore Or, and the parties agreed upon a compromise agreement including compensation payment to public organizations, presented to the mediator for approval, and subject also to the approval of the Court.

Note 20 - Contingent Liabilities and Special Contractual Agreements

Reported Amounts

All off-balance financial instruments (Consolidated and for the Bank) [(1)]
(Contract balances, or their face values, at year end)

	For December 31	
	2010	2009
	Millions of NIS	
Transactions whose balance constitutes credit risk:		
Irrevocable liabilities, approved but not yet given	**870.0**	631.4
Guarantees to apartment buyers	**249.6**	320.0
Guarantees to secure credit	**80.7**	97.8
Other guarantees	**75.9**	86.8
Credit frameworks of unused credit cards	**112.9**	70.4
Unused current loan accounts and other credit frameworks in demand accounts	**87.4**	140.2
Certificates credit	**9.4**	0.3
Total	**1,485.9**	**1,346.9**

* Re-presented.
(1) The balances presented above are before general provision and additional provision for debts.

B - off-balance contractual agreements for activities, according to collection rate[(2)], for year end (Consolidated and for the Bank)

Credit balance from deposits, according to collection rate[(3)]

	For December 31	
	2010	2009
	Millions of NIS	
Non-indexed Israel currency	**63.3**	63.9
Indexed Israel currency	**2,546.8**	2,902.2
Foreign currency	**7.0**	8.9
Total	**2,617.1**	2,975.0

Information about loans given throughout the year

	For the year ended December 31	
	2010	2009
	Millions of NIS	
Loans from deposits, according to collection rate	**3.9**	12.9
Non-recourse loans	**5.3**	3.7

(2) Credits from deposits whose repayment to the depositor is contingent upon collection of credits, charging either margin or a collection fee (instead of margin).

(3) Non-recourse loans, and government deposits given for them, in the amount of 490.0 million NIS (2009 - 605.0 million NIS) were not included in this note.

Note 20 - Contingent Liabilities and Special Contractual Agreements (Cont.)

Reported Amounts

B - Off-balance contractual agreements for activities, by collection rate, for year end [(1)] (Cont.)

Cash flows from collection fees and interest margins for activities, by collection rate [(2)]

	December 31							
	2010							2009
	Up to 1 year	1+ years to 3 years	3+ years to 5 years	5+ years to 10 years	10+ years to 20 years	Over 20 years	Total	Total
	Millions of NIS							
Future contractual flows	**18.1**	**34.2**	**31.8**	**73.8**	**29.7**	**-**	**187.6**	217.6
Forecasted capitalized flows [(3)]	**17.7**	**32.4**	**28.9**	**62.2**	**22.6**	**-**	**163.8**	186.4

(1) Credits from deposits whose repayment to the depositor is contingent upon collection of credits, charging either margin or a collection fee (instead of margin).

(2) Including the foreign currency sector and the non-indexed Israeli currency sector, no greater than 10% of the total deposits, by collection rate.

(3) Capitalization was done at a rate of 2.18% (2009 – 2.36%).

Note: These data do not include an estimation of early deposits.

C - Lawsuits

1. General

Several lawsuits were filed against the Bank during current operations. In the opinion of the Bank's management, based on the opinion of its legal counsels regarding the chances of the lawsuits, including requests to approve recognition of class action suits, the appropriate provisions were included in the financial reports, according to accepted accounting principles, due to expected losses resulting from unresolved lawsuits against the Bank.

2. There are pending petitions to approve class action suits against the Bank.

These lawsuits are specified below:

A. In July 1997, a lawsuit was filed at the District Court of Tel Aviv against the Bank, and against four other mortgage banks, for a total amount of over NIS one billion. In addition, a request was filed to recognize the suit as a class action suit. It is claimed in the suit and request, *inter alia*, that the aforementioned banks illegally charged life insurance and property insurance fees, and that the borrowers are entitled to receive repayment of these sums. The claim and petition did not specify the manner in which this amount was calculated, nor did it specify which part of it was attributed to the Bank.

In November 1997, the District Court decided to reject the petition to recognize the claim as a class action suit according to the Banking Law (Service to Customers), 5741-1981, and the Antitrust Law, 5748-1988. The Court also ruled that the suit could be discussed as a petition for declarative remedy only, and not financial, within the framework of Regulation 29 of the Civil Procedure Regulations. In December 1997, the Supreme Court submitted to the Bank a request to appeal the above decision, as well as a petition to delay the procedure until its ruling was received on this matter. The petition to delay proceedings was approved by the Supreme Court until a decision was reached regarding the appellant's petition. In February 2008, the claim was delivered for mediation before the Honorable Vice President (Emeritus) Theodore Or, and the parties agreed upon a compromise agreement including compensation payment to public organizations, presented to the mediator for approval, and subject also to the approval of the Court.

Note 20 - Contingent Liabilities and Special Contractual Agreements (Cont.)

Reported Amounts

To the knowledge of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to estimate whether the lawsuit will be recognized as a class action, or to estimate the suit's chances, should the mediation proceedings not conclude successfully.

If the claim is accepted, the result would be a significant decrease in the Bank's income.

The income from banking services provided to borrowers regarding life insurance and apartment insurance policies, as noted above, before deduction of costs, amounted to the following:

	Consolidated		Bank	
	December 31			
	2010	2009	2010	2009
	Millions of NIS			
From life insurance	**11.8**	12.4	**8.5**	9.7
From property insurance	**5.2**	5.9	-	-
Total	**17.0**	18.3	**8.5**	9.7

B. On January 3 2010, a lawsuit was filed in the District Court of Jerusalem against the Bank, along with a petition to recognize the suit as a class action suit. The plaintiffs did not specify an amount for the class action suit. In the suit, it was claimed that the Bank gave its customers dollar loans with a "floor" rate, and that the floor rate for loans is a discriminating condition, placed in a uniform contract destined for cancellation.

In the opinion of the Bank's management, based on the opinion of its legal counsel, it is not possible to estimate at this early stage whether the suit will be recognized as a class action, or to estimate the lawsuit's chances of success.

C. On July 12 2010, a lawsuit was filed at the District Court of Jerusalem against the Bank, as well as a petition to recognize the suit as a class action suit, for the total sum of NIS 10,692,200, for the entire group being represented. The suit raises a claim that the Bank did not remove all charges registered under its name to guarantee loans that had already been fully repaid by the borrowers. Therefore, the lawsuit claims that the Bank should remove these registrations, and compensate the customers that removed these registrations at their own expense.

In the opinion of the Bank's management, based on the opinion of its legal counsel, it is not possible to estimate at this early stage whether the suit will be recognized as a class action, or to estimate the lawsuit's chances of success.

Note 20 - Contingent Liabilities and Special Contractual Agreements (Cont.)

Reported Amounts

D - Other Contingent Liabilities

1. The Bank has committed, subject to the directives and conditions set forth in the law regarding indemnification of directors and company officers, to indemnify several directors and officers of the Bank and its subsidiaries, due to financial debt that may be incurred by them towards another entity, or issuing from a court ruling, due to actions performed in their roles as directors and company officers of the Bank and its subsidiaries, including expenses for lawyer fees and reasonable litigation expenses.
2. As part of the procedure of founding "Jerusalem Finance and Issuance (2005) Ltd.", a fully controlled subsidiary of the Bank's (hereinafter: "Finance and Issuance"), the Bank committed to indemnify the finance and issuance for all its liabilities, in order to fulfill the requirements of the regulations issued by the Supervisor of Banks regarding minimum capital ratio (Section 4 of Regulation 311 of the Regulations for Proper Conduct of Bank Management).
   As part of the certificates of liability issued to the public by Finance and Issuance, the Bank has committed to Finance and Issuance, and is the responsible party for fulfilling all the terms of those certificates of liability issued by it, and held by the public. As of the date of the report, the balance of the Bank's liabilities was a nominal value of NIS 75 million in certificates of deposit (Series A), nominal value of NIS 319 million in certificates of deposit (Series B), a nominal value NIS 150 million for deferred liability deeds (Series C), a nominal value of NIS 64 million for bonds (Series D), a nominal value of NIS 83 million for bonds (Series E), a nominal value of NIS 205 million in bonds (Series F), a nominal value of NIS 130 million in bonds (Series G), and a nominal value of NIS 360 million in bonds (Series H), issued by Finance and Issuance. The above liabilities of the Bank are non-cancellable and non-amendable, since the rights of the certificate owners are dependent upon them.
3. The Bank committed to allow depositors and saving customers to purchase an apartment or an automobile, mostly in the amount of their deposits, at an interest rate lower than the nominal interest which will be used by the Bank at the time the loan is provided. This right will be available to them starting one year from the beginning of the deposit period, on the condition that they fulfill the conditions required by the Bank for provision of loans, and that the funds are deposited at the dates specified in the program terms.
   The following is the composition of liability amounts for the granting of credit:

Details of Savings Plans	Rate of amortization from nominal interest	Maximum liability for provision of loans for December 31	
	%	2010	2009
		Millions of NIS	
Monthly deposit savings plan	0.4%	**762.6**	643.2
Single deposit savings plan	0.5%	**50.8**	67.0
Savings plans (single deposit or multiple deposit)	0.25%	**1,963.9**	1,759.0
Total		**2,777.3**	2,469.2

Note 20 - Contingent Liabilities and Special Contractual Agreements (Cont.)

Reported Amounts

E - Contractual Agreements

The Bank and consolidated company entered into long term rental contracts, including options for extension. The rental fees for payment in the coming years for these contracts are as

	Consolidated		Bank	
	December 31, 2010			
	2010	2009	2010	2009
	Millions of NIS			
First year	**8.7**	3.6	**3.0**	3.2
Second year	**8.1**	3.2	**2.2**	2.7
Third year	**7.3**	2.0	**2.0**	1.8
Fourth year	**6.7**	1.4	**1.3**	1.2
Fifth year and onwards	**16.6**	1.6	**3.8**	1.4
Total long term rental contracts	**47.4**	**11.8**	**12.3**	**10.3**

Note 21 - Operations in Derivative Instruments - Scope, Credit Risks and Maturity Dates (Consolidated and for the Bank)

A. Implementation of the instructions of the Supervisor on the issue of derivative

The Bank's operations as a financial mediator expose it to a variety of risks, including market risks. Market risks include, among others, base risks, interest risks, fluctuation risks in exchange rates, and inflation rate risks. As part of the Bank's general strategy to control levels of exposure to market risks, as noted above, the Bank enters, *inter alia* , transactions using derivative financial instruments in order to decrease its exposure to market risks. The Bank's operations using derivative financial instruments are in the role of mediator, trader or final user. The Bank has derivative financial instruments, including future currency swap transactions, future and forward contracts to protect currency rates, maof options, and options for increases in the consumer price index and increases in other currency rates.

Transactions done with the derivative financial instruments are listed at fair value, and changes to their fair value are listed on an ongoing basis in the profit and loss statements.

The Bank enters into contracts which of themselves are not derivative instruments, but do contain embedded derivatives. For each contract, the Bank estimates whether the financial characteristics of the embedded derivative are clearly and closely related to those of the host contract, and determines whether a separate instrument with the same terms as those of the embedded derivative would fulfill the definition of an derivative instrument. In cases where it is determined that an embedded derivative has financial characteristics that are not clearly and closely related to the financial characteristics of the host contract, and that a separate instrument with identical terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and handled as a derivative instrument in and of itself. Separated embedded derivatives are presented on the balance sheet together with the host contract.

Note 21 - Operations in Derivative Instruments - Scope, Credit Risks and Maturity Dates (Consolidated and for the Bank) (Cont.)

Reported Amounts

B. Scope of Operations

Nominal amount of derivative instruments

	Interest contracts NIS - Index	Interest contracts Other	Foreign currency contracts	Contracts for shares	Total
	Millions of NIS				
For December 31 2010 -					
A. ALM Derivatives [(1) (2)]					
Forward contracts	-	-	432.0	-	432.0
Swaps	350.0	-	-	-	350.0
Total	**350.0**	**-**	**432.0**	**-**	**782.0**
B. Other Derivatives [(1)]					
Market-traded options contracts					
Written options	-	-	35.6	309.6	345.2
Bought options	-	-	35.6	309.6	345.2
Total	**-**	**-**	**71.2**	**619.2**	**690.4**
C. Credit derivatives and foreign currency spot exchanges					
Foreign currency spot exchange contracts	-	-	66.0	-	66.0
Total of all nominal value	**350.0**	**-**	**569.2**	**619.2**	**1,538.4**
For December 31 2009 -					
A. ALM Derivatives [(1) (2)]					
Forward contracts	-	-	514.8	-	514.8
Swaps	320.0	-	3.8	-	323.8
Total	320.0	-	518.6	-	838.6

(1) Excluding credit derivatives and foreign currency SPOT exchange.

(2) Derivatives constitute a part of the Bank's assets and liabilities management tools that was not designated for hedging ratios.

Note 21 - Operations in Derivative Instruments - Scope, Credit Risks and Maturity Dates (Consolidated and for the Bank) (Cont.)

Reported Amounts

For December 31 2009 - Cont.

	Interest contracts		Foreign currency	Share	
	NIS - Indexed	Others	contracts	contracts	Total
	Millions of NIS				
B. Other derivatives [1]					
Market-traded options contracts					
Written options	-	-	39.9	513.9	553.8
Bought options	-	-	39.9	513.9	553.8
Total	-	-	79.8	1,027.8	1,107.6
C. Credit derivatives and foreign currency spot exchanges					
Foreign currency spot exchange contracts	-	-	14.9	-	14.9
Total of all nominal value	320.0	-	613.3	1,027.8	1,961.1

(1) Excluding credit derivatives and foreign currency spot exchanges.

C. Credit risk due to derivative instruments, by the opposite party to the contract

	Stock Exchanges	Banks	Others	Total
	Millions of NIS			
For December 31 2010 -				
Gross positive fair value of derivative instruments	5.8	18.1	-	23.9
Of these - independent instruments	5.8	18.1	-	23.9
Balance-sheet balances of assets resulting from derivative instruments	5.8	18.1	-	23.9
Off-balance credit risk due to derivative instruments	-	84.8	-	84.8
Total credit risk due to derivative instruments	**5.8**	**102.9**	**-**	**108.7**
For December 31 2009 -				
Gross positive fair value of derivative instruments	7.0	16.6	-	23.6
Of these - independent instruments	7.0	16.6	-	23.6
Balance-sheet balances of assets resulting from derivative instruments	7.0	16.6	-	23.6
Off-balance credit risk due to derivative instruments	3.8	85.3	-	89.1
Total credit risk due to derivative instruments	10.8	101.9	-	112.7

Note 21 - Operations in Derivative Instruments - Scope, Credit Risks and Maturity Dates (Consolidated and for the Bank) (Cont.)

Reported Amounts

D. Gross fair value of derivative instruments

	Interest contracts NIS - Indexed	Interest contracts Others	Foreign currency contracts	Share contracts	Total
	Millions of NIS				
For December 31 2010 -					
Gross fair value of derivative instruments					
A. ALM derivatives [1][2]					
Positive gross fair value	**10.4**	**-**	**7.7**	**-**	**18.1**
Negative gross fair value	**-**	**-**	**4.9**	**-**	**4.9**
B. Other derivatives [1]					
Positive gross fair value	**-**	**-**	**1.3**	**4.5**	**5.8**
Negative gross fair value	**-**	**-**	**1.3**	**4.5**	**5.8**
B. Other derivatives					
For December 31 2009 -					
A. ALM derivatives [1][2]					
Positive gross fair value	11.5	-	5.1	-	16.6
Negative gross fair value	0.4	-	3.6	-	4.0
B. Other derivatives [1]					
Positive gross fair value	-	-	2.4	4.6	7.0
Negative gross fair value	-	-	2.4	4.6	7.0

E. Details of Maturity Dates (nominal value amounts)

	Up to 3 months	3 Months to 1 year	1 Year to 5 years	Over 5 years	Total
	Millions of NIS				
For December 31 2010 -					
Interest contracts (NIS - index)	100.0	150.0	100.0	-	350.0
Interest contracts (other)	-	-	-	-	-
Foreign currency contracts	561.0	8.2	-	-	569.2
Share contracts	619.2	-	-	-	619.2
Total	**1,280.2**	**158.2**	**100.0**	**-**	**1,538.4**
For December 31 2009 -					
Interest contracts (NIS - index)	-	170.0	150.0	-	320.0
Interest contracts (other)	-	-	-	-	-
Foreign currency contracts	590.4	22.9			613.3
Share contracts	1,027.8	-	-	-	1,027.8
Total	1,618.2	192.9	150.0	-	1,961.1

(1) Excluding credit derivatives and foreign currency SPOT exchange.

(2) Derivatives make up part of the Bank's asset and liability management tools that were not designated for hedging ratios.

Note 22 - Balances and Fair Value Estimates of Financial Instruments (Consolidated)

A - Fair value of financial instruments

The information included in this Note refers to an estimate of the fair value of financial instruments.

A "market price" cannot be quoted for most of the Bank's financial instruments, since there exists no active market in which to trade them. Therefore, fair value is estimated using accepted pricing models, such as the current value of future capitalized cash flow, after deducting interest at a rate reflecting the level of risk inherent in the financial instrument. The estimation of fair value is done using an estimation of future cash flow, with deduction interest rate being determined subjectively. Therefore, for most financial instruments, the above fair value estimate is not necessarily an indication of the realization value of that financial instrument on the day of the report. The fair value estimate is prepared using interest rates valid for the reporting date, and does not take fluctuation of interest rates into account. The use of different assumed interest rates will result in fair value amounts which may be materially different. For the most part, this matter refers to financial instruments with fixed interest, or which do not bear interest. In addition, when determining fair value amounts, fees which will be received or paid as part of business operations were not taken into account, and neither was the effect due to taxes.

It is hereby clarified that it is possible that the difference between the balance-sheets balances and the fair value balances may not be realized, since in most cases the Bank may hold the financial instrument until the maturity date. Due to all of the above, it is hereby emphasized that the data presented in this Note do not indicate the Banking corporation's value as a live business. In addition, caution should be taken when conducting comparisons between different banks with regards to fair value, due to the variety of estimation techniques and possible estimates that may be used when conducting fair value estimates.

B - Method and main assumptions used for estimation of the fair value of financial instruments

Deposits in banks, bonds and non-tradable loans, and credit to the government - using the future cash flow capitalization method, according to the interest rates used by the Bank when performing similar transactions on the reporting date.

Tradable securities - at market value; non-tradable securities - according to the revaluation data received from external sources.

Credit to the public - the fair value of credit balance to the public is estimated using the current value method for future cash flows, after deducting the appropriate deduction rates. The credit balance is divided into categories based on main population types, in distribution based on linkage and credit sectors, using fixed and variable interest rates. Cash flows (fund and interest) were capitalized using interest rates that were equal to the average interest rates used by the Bank to perform similar transactions on the reporting date. The fair value of the early payments of credits whose effect is not unambiguous was not taken into account.

The fair value of problematic debts was calculated using deduction interest rates that reflect the high credit risk inherent therein. These deduction rates were no lower than the highest interest rate used by the Bank in its transactions on the reporting date. Future cash flows for problematic debts were calculated after deducting the specific provisions for doubtful debts. The general and additional provisions were not deducted from the credit balances for the purpose of calculating the flow with the fair value estimate. The fair value of the early payments of credits whose effect is not unambiguous was not taken into account.

Deposits, bonds and deferred deeds of liability - using the future cash flow capitalization method, based on an interest rate with which the Bank raises similar deposits, or by issuing bonds and similar deferred deeds of liability, by the Bank on the reporting date, excluding bonds listed for trading on the stock exchange, which are presented at market value.

Off-balance financial instruments where the balance represents credit risk - fair value was estimated based on the current value of the future capitalized cash flow, at an interest rate reflecting the interest level at which a similar transaction would have been performed on the reporting date.

Financial instruments for an original period of up to 3 months and at a variable market interest rate - the balance-sheet balance constitutes an approximation of fair value, subject to changes in credit risks and the Bank's margin in variable interest transactions.

Note 22 - Balances and Fair Value Estimates of Financial Instruments (Consolidated) (Cont.)

	December 31							
	2010				2009			
	Balance-sheet Balance			Fair	Balance-sheet Balance			Fair
	(1)	(2)	Total	Value	(1)	(2)	Total	Value
	Millions of NIS							
Financial Assets								
Cash and deposits in banks	652.3	-	652.3	652.3	764.2	0.9	765.1	764.8
Securities	1,314.9	-	1,314.9	1,314.9	1,083.2	-	1,083.2	1,083.2
Credit to the public	-	8,036.9	8,036.9	8,147.2	18.2	7,331.1	7,349.3	7,349.1
Other financial assets	23.9	29.2	53.1	53.1	23.6	41.1	64.7	64.7
Total financial assets	**1,991.1**	**8,066.1**	**10,057.2**	**10,167.5**	1,889.2	7,373.1	9,262.3	9,261.8
Financial liabilities								
Public deposits	-	7,407.8	7,407.8	7,550.4	177.6	6,938.1	7,115.7	7,247.1
Deposits from banks	-	86.5	86.5	98.2	-	103.9	103.9	132.5
Repo Loans		-						
Government deposits	-	4.9	4.9	5.1	-	5.4	5.4	4.9
Bonds and deferred deeds of liability	-	1,921.1	1,921.1	1,945.6	-	1,391.8	1,391.8	1,462.0
Other financial liabilities	10.7	38.7	49.4	49.4	11.0	42.1	53.1	53.1
Total financial liabilities	**10.7**	**9,459.0**	**9,469.7**	**9,648.7**	188.6	8,481.3	8,669.9	8,899.6
Off-balance financial instruments								
Transactions where the balance constitutes a credit risk	**-**	**406.2**	**406.2**	**406.2**	-	504.6	504.6	504.6

(1) Financial instruments where the balance-sheet balance reflects the fair value estimate - instruments presented at market value.

(2) Other financial instruments.

Note 23 - Interested Parties and Related Parties [1] (Consolidated)

Reported Amounts

A - Balances

	Parent Company		Directors and General Managers		Others [4]	
	(2)	(3)	(2)	(3)	(2)	(3)
	Millions of NIS					
For December 31 2010 -						
Assets:						
Credit to the public	**-**	**-**	**0.6**	**0.8**	**-**	**-**
Liabilities and capital:						
Public deposits	**0.9**	**0.9**	**8.2**	**12.3**	**-**	**-**
Certificates of liability and deferred deeds of liability	**-**	**-**	**-**	**-**	**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**
For December 31 2009 -						
Assets:						
Credit to the public	-	-	0.7	0.9	-	-
Liabilities and capital:						
Public deposits	0.4	2.5	10.2	13.6	-	-
Certificates of liability and deferred deeds of liability	-	-	-	-	2.3	2.3
Other liabilities	-	-	0.9	0.9	-	-
Shares (included in equity)	522.4	522.4	-	-	32.3	32.3

(1) Interested parties and related parties as defined in the Securities Regulations.
Related party - a related party that is not an interested party, as defined in standard no. 29 of the Institute of Certified Public Accountants in Israel.

(2) Balance on the balance sheet date.

(3) The highest balance during the year - based on end of month balances.

(4) Interested parties, due to their holdings in the Bank's shares.

Note 23 - Interested Parties and Related Parties [1] (Consolidated) (Cont.)

Reported Amounts

B - Summary of business results

	Directors and General Managers	Others	Total
	Millions of NIS		
For the year ended December 31 2010			
Operational and other expenses (C)	**(9.4)**	**-**	**(9.4)**
For the year ended December 31 2009			
Operational and other expenses (C)	(4.4)	-	(4.4)

Note: Transactions with interested parties were entered under the same conditions that would have been used had those transactions been made with non-interested parties.

C - Bonuses

	For the year ended December 31			
	2010		2009	
	Total Bonuses	No. of Bonus Receivers	Total Bonuses	No. of Bonus Receivers
	Millions of NIS			
Interested parties employed by the corporation	**7.5**	**3**	3	2
Directors not employed by the corporation	**1.9**	**15**	1.4	15

Note 23 - Interested Parties and Related Parties (1) (Consolidated) (Cont.)

D - Terms of the CEO's Employment

On April 13, 2010, Mr. Uri Paz (hereinafter: "Mr. Paz" or the "CEO") began serving as CEO of the Bank, after authorization was received from the Bank of Israel for his nomination. An immediate, detailed report was issued by the Bank regarding the terms of the CEO's employment on March 15, 2010.

The main terms of the CEO's employment are as follows:

1. Mr. Paz will be employed by the Bank as its CEO and management member for a contractual period of 4 years. Notwithstanding the above, each
2. The salary received by Mr. Paz as CEO will be in the amount of NIS 120,000 gross per month for a full-time position, CPI-indexed. In addition, the
3. Upon beginning his employment at the Bank, the CEO will receive a one-time joining bonus in the gross amount of two monthly salaries, to be paid along with his first salary. In addition, during the first year of his work, the CEO will be entitled to receive a bonus amounting to two gross monthly salaries, once the conditions specified in the agreement have been fulfilled.
4. In addition, during the first year of his work, the CEO will be entitled to a special one-time bonus equal to two gross monthly salaries, if during the 12 months from the beginning of his tenure as CEO of the Bank, a capital issuance of Bank shares (private or to the public) is done at a value reflecting 120% of the Bank's equity value, with the charge terms used by the Bank at the time, when the eligibility for payment of the bonus becomes relevant.
5. The CEO will be entitled to receive a yearly bonus in accordance with the yearly bonus program derived from the Bank's returns to capital and its rate of capital growth, amounting to no more than 24 gross monthly salaries. The bonus amount will be no less than 3 gross monthly salaries (at an average returns to capital and capital increase rate of 9%), up to 24 gross monthly salaries (at an average rate of 15%). The payment of each yearly bonus will be spread out over 3 years (50% in the first year and 25% in the second and third years), with payment of each part of the bonus being conditional upon continued achievement of goals for the year it is being paid for.
6. A. The CEO will be entitled to receive two kinds of options - type A units, and type B units. The amount of type A units will differ according to the returns achieved by Bank shares, as follows: starting from 70,518 units for each group, if, from the beginning of employment until the option's realization date, the return of Bank shares reflects an annual return up to and including 6.5% above the basic share price of NIS 8.6 per share, and up to 423,106 units per group, if the returns of Bank shares, from the beginning of employment until the unit option's realization date, reflects an annual return of over 9% above the basic share price of NIS 8.6 per share. The number of type B option units will be 282,071 units per group.

   B. The options will mature and will be realizable in 5 yearly groups, the first of which will mature at the start of the CEO's tenure at the Bank, and the fifth will mature 4 years after the start of the CEO's tenure at the Bank. The options will be realizable within a period of 72 months from the maturity date of each group, subject to the terms of the agreement.

   C. The realization addition for each type A option unit will be in the range between NIS 8.6 for the first group, and NIS 10.8 for the fifth group, and will bear compound interest at an annual rate of 4% from the maturity date until the realization date, and the realization addition for each type B option unit will be in a range between NIS 10.3 for the first group to NIS 12.5 for the fifth group, bearing compound interest at a yearly rate of 3% from the maturity date until the realization date, all subject to the adjustments specified in the agreement.

   D. The CEO is entitled to receive, after the realization of each option unit, an amount reflecting the difference between the average Bank share during the 30 work days preceding the realization date, and the realization addition.

   E. In the event of termination of the employer - employee relationship between the Bank and the CEO, the matured options will be realizable within 180 days of the date of termination of the employer - employee relationship, since otherwise they will expire.

   F. As of the date of approval of the financial reports, the Bank's board of directors has not yet determined the manner in which the options will be granted to the Bank's CEO, whether as part of a plan paid using capital instruments, with a payment alternative in cash, or as part of a cash payment plan.

   G. Expenses for options to the CEO were presented in the Bank's financial reports for December 31 2010, in the amount of approx. NIS 2.7 million.
   The financial worth was estimated based on the following main parameters:
   Standard deviation of annual yield: between 27.39% and 30.42%.
   Risk-free interest rate: between 3.9% and 4.72%.
   Share price: NIS 6.767.

Note 24 - Profits from Financing Activities Before Provision for Doubtful Debts

Reported Amounts

	Consolidated			Bank		
	For the year ended December 31					
	2010	2009	2008	2010	2009	2008
	Millions of NIS					
A. Due to assets						
From credit to the public	**308.4**	405.0	550.7	**308.4**	405.0	550.7
From deposits in banks	**(3.0)**	4.1	0.9	**(2.7)**	4.2	1.2
From deposits in the Bank of Israel, and from cash	**2.3**	2.0	0.3	**2.3**	2.0	0.3
From bonds	**36.7**	59.9	61.5	**30.5**	57.2	56.3
From other assets	**0.3**	(0.5)	(0.2)	**-**	(0.7)	-
	344.7	470.5	613.2	**338.5**	467.7	608.5
B. Due to liabilities						
For public deposits	**(130.3)**	(260.8)	(310.3) *	**(197.7)**	(332.4)	(398.2) *
For deposits from banks	**(3.7)**	(8.5)	(16.3)	**(3.7)**	(8.5)	(16.3)
For government deposits	**(0.1)**	(0.1)	(0.3)	**(0.1)**	(0.1)	(0.3)
For securities lent or sold as part of repurchasing agreements	**-**	(0.3)	(1.0)	**-**	(0.3)	(1.0)
For bonds and deferred liability deeds	**(97.5)**	(106.8)	(124.0)	**(31.7)**	(37.7)	(40.2)
	(231.6)	(376.5)	(451.9)	**(233.2)**	(379.0)	(456.0)
C. Due to derivative financial instruments						
Net income (expenses) due to ALM derivatives	**(3.0)**	24.4	(31.1) *	**(3.0)**	24.4	(31.1) *
Net income (expenses) due to other derivatives	**1.0**	(1.9)	0.7	**1.0**	(1.9)	0.7
	(2.0)	22.5	(30.4)	**(2.0)**	22.5	(30.4)
D. Others						
Fees for financing operations	**4.4**	5.0	5.6	**4.4**	5.0	5.6
Other income from financing (2)	**47.9**	59.0	35.2	**46.3**	44.6	33.3
	52.3	64.0	40.8	**50.7**	49.6	38.9
Total profit from financing operations before provision for doubtful debts (1)	**163.4**	180.5	171.7	**154.0**	160.8	161.0
(1) Of which: net rate differentials	**2.5**	0.3	8.2	**2.5**	0.3	8.2
(2) Of which: income due to interest charged for problematic debts	**3.3**	4.8	5.0	**3.3**	4.8	5.0
E. Details of the results of bond investment operations						
Accumulation-based financing income from bonds:						
Held to maturity	**-**	-	2.8	**-**	-	2.8
Available for sale	**35.4**	56.4	54.6	**29.2**	56.4	49.9
For trading	**1.3**	3.5	4.1	**1.3**	0.8	3.6
Total included in profits from financing operations for assets	**36.7**	59.9	61.5	**30.5**	57.2	56.3
Profits from the sale of sellable bonds	**22.0**	48.9	17.9	**19.7**	34.5	16.8
Losses from the sale of sellable bonds **	**(4.4)**	(12.6)	(16.9)	**(3.6)**	(12.6)	(16.9)
Profits realized, and not yet realized, with regards to the adjustments to fair value of tradable bonds (included under other financing income)	**4.5**	3.2	4.7	**4.5**	3.2	4.7
Total included in other income from financing	**22.1**	39.5	5.7	**20.6**	25.1	4.6
Total from investment in bonds	58.8	99.4	67.2	**51.1**	82.3	60.9
Details of the net effect of hedging derivatives on profit from financing operations						
Financing income due to liabilities	**-**	2.0	2.5	**-**	2.0	2.5

* Re-classified.
** Including provision for loss in value of NIS 1.2 million during 2010 (2009 - NIS 4.4 million).

Note 25 - Operational Fees

Reported Amounts

	Consolidated			Bank		
	For the year ended December 31 *					
	2010	2009	2008	2010	2009	2008
	Millions of NIS					
Net income from service for credit portfolios	**19.9**	21.7	22.8	**19.9**	21.7	22.8
Handling of credit	**21.1**	20.9	20.6	**21.1**	20.9	20.6
Operations on securities and certain derivatives	**15.4**	15.0	11.5	**11.7**	11.2	8.9
Fees from life insurance	**11.8**	12.4	12.8	**8.5**	9.7	10.6
Fees from property insurance	**5.2**	5.9	6.8	**-**	-	-
Conversion differentials	**2.1**	2.1	1.8	**2.1**	2.1	1.8
Distribution fees for financial products	**1.1**	0.6	0.7	**1.1**	0.6	0.7
Credit cards	**0.6**	0.5	0.2	**0.6**	0.5	0.2
Account management	**0.3**	0.4	0.5	**0.3**	0.3	0.4
Foreign trading operations	**0.1**	0.1	0.1	**0.1**	0.1	0.1
Others	**6.7**	4.4	5.3	**6.7**	4.3	5.3
Total operational fees	**84.3**	84.0	83.1	**72.1**	71.4	71.4

* Re-presented.

Note 26 - Salaries and Associated Expenses

Reported Amounts

	Consolidated			Bank		
	For the year ended December 31					
	2010	2009	2008	2010	2009	2008
	Millions of NIS					
Salaries	**81.9**	76.0	67.6	**75.6**	69.5	61.2
Bituach Leumi and salary tax	**19.6**	16.2	15.6	**19.0**	15.7	15.0
Severance pay, proceeds, study funds and vacation funds	**17.1**	12.5	18.2	**16.0**	11.6	16.8
Other associated expenses	**2.1**	1.1	1.2	**0.3**	0.3	0.1
Total salaries and associated expenses	**120.7**	105.8	102.6	**110.9**	97.1	93.1

* Re-classified.

Note 27 - Other Expenses

Reported Amounts

	Consolidated			Bank		
	For the year ended December 31					
	2010	2009	2008	2010	2009	2008
	Millions of NIS					
Computer	**12.8**	13.2	12.2	**32.0**	28.1	25.5
Professional services	**9.7**	6.2	4.9	**7.6**	5.3	3.7
Professional consulting	**8.2**	4.8	3.8	**6.2**	4.1	2.9
Marketing and advertising	**3.5**	2.9	4.2	**3.4**	2.9	4.2
Communications	**3.2**	2.6	2.7	**3.1**	2.6	2.7
Training and continuing education	**2.5**	1.8	2.1	**2.5**	1.8	2.1
Insurance	**1.6**	1.7	1.7	**1.6**	1.6	1.7
Office expenses	**1.6**	1.5	1.6	**1.6**	1.4	1.5
Salaries of board members not employed by the Bank	**1.8**	1.1	1.0	**1.6**	1.0	0.9
Fees	**0.6**	0.6	0.5	**1.8**	1.8	1.4
Others	**7.5**	3.5	4.5	**5.3**	2.4	3.9
Total other expenses	**53.0**	39.9	39.2	**66.7**	53.0	50.5

Note 28 - Provision for Taxes on Profits from Regular Operations

Reported Amounts

A - Provision for taxes on profits from regular operations

	Consolidated			Bank		
	For the year ended December 31					
	2010	2009	2008	2010	2009	2008
	Millions of NIS					
Current taxes -						
For the accounting year	**11.0**	50.9	8.0	**7.6**	43.4	7.7
For previous years	**(1.9)**	6.8	1.2	**(1.9)**	6.8	1.3
Total current taxes	**9.1**	57.7	9.2	**5.7**	50.2	9.0
Deducting -						
Deferred taxes for the accounting year	**4.9**	(19.0)	20.7	**4.7**	(18.7)	16.6
Deferred taxes for previous years	**-**	(5.1)	-	**-**	(5.1)	-
Total deferred taxes	**4.9**	(24.1)	20.7	**4.7**	(23.8)	16.6
Provision for taxes on profits from regular operations	**14.0**	33.6	29.9	**10.4**	26.4	25.6

Note 28 - Provision for Taxes on Profits from Regular Operations (Cont.)

Reported Amounts

B - Adjustment between the theoretical tax amount that would apply if the profit from regular operations required tax according to the statutory tax rate applicable to the Bank in Israel, and the provision for taxes on profits from regular operations as presented in the profit and loss statement:

	Consolidated			Bank		
	For the year ended December 31					
	2010	2009	2008*	2010	2009	2008*
	Millions of NIS					
Tax amount based on the statutory tax rate	**17.0**	33.4	30.0	**10.5**	22.5	22.5
Tax (tax savings) due to:						
General and additional provisions for doubtful debts	**(0.4)**	(0.3)	0.3	**(0.4)**	(0.3)	0.3
Other unrecognized expenses	**1.3**	1.8	1.2	**1.3**	1.8	1.1
Net profit tax on salary tax	**-**	-	0.6	**-**	-	0.6
Tax-exempt and limited-tax income	**(0.9)**	-	(1.4)	**(0.1)**	-	-
Taxes from previous years	**(1.9)**	0.6	1.2	**(1.9)**	0.6	1.3
Changes to the deferred tax balance due to changes in the tax rate	**(0.1)**	1.1	(0.6)	**(0.1)**	1.1	(0.6)
Depreciation adjustment differentials	**-**	-	-	**-**	-	-
Income from subsidiaries in Israel	**(1.7)**	(2.8)	(1.6)	**-**	-	-
Other differentials	**0.7**	(0.2)	0.2	**1.1**	0.7	0.4
Provision for income tax	**14.0**	33.6	29.9	**10.4**	26.4	25.6

* Re-classified.

C- Assessments

Final assessments up to and including 2007 have been made for the Bank. Final tax assessments were made for two subsidiaries up to and including the 2005 tax year. For the remaining subsidiaries, the tax assessments up to and including the 2005 tax year are considered final.

D - Balance of receivable deferred taxes and deferred tax reserves

	Consolidated				Bank			
	31-							
	2010	2009	2010	2009	2010	2009	2010	2009
	Millions of NIS		Average Tax Rate		Millions of NIS		Average Tax Rate	
Receivable deferred taxes:								
Due to timing differentials:								
Provision for vacation and jubilee bonus	**2.2**	2.1	**33.0%**	34.8%	**2.0**	1.9	**33.7%**	35.6%
Reserves for severance pay in excess of the provision	**0.7**	2.6	**34.5%**	31.3%	**0.7**	2.6	**34.5%**	31.4%
Securities	**5.1**	4.3	**33.0%**	31.7%	**5.1**	4.4	**33.0%**	33.8%
Liability certificates and deferred liability deeds	**(0.8)**	-	**33.0%**		**-**	-		
From provision for doubtful debts	**1.5**	1.5	**31.4%**	31.6%	**1.5**	1.5	**31.4%**	31.6%
From interest not credited to the year's income	**1.0**	1.1	**32.4%**	33.3%	**1.0**	1.1	**32.4%**	33.3%
Due to adjustment of non-financial and other assets	**1.4**	1.0	**34.5%**	31.9%	**1.8**	1.0	**34.5%**	32.4%
Total receivable deferred taxes	**11.1**	12.6	**33.0%**	32.3%	**12.1**	12.5	**33.1%**	33.1%

Note:

Realization of the net receivable income tax is based on a forecast relying upon the appropriate amount of future taxable income.

Note 28 - Provision for Taxes on Profits from Regular Operations (Cont.)

E - Tax rates applicable to the Bank and its subsidiaries

The statutory tax applicable to financial institutions, including the Bank, is comprised of company tax and profit tax.

According to the Value Added Tax Act (Tax Rate on NPO's and Financial Institutions) (Interim Order), 5769-2009, approved by the Knesset in June and December 2009, the profit tax rate applicable to financial institutions will be as follows: 16.5% - from July 1 2009 to December 31 2009. 16% - during 2010. 15.5% - starting from January 1 2011.

In July 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments to Implement the Economic Plan for the Years 2009 and 2010), 5769-2009, which determines, *inter alia* , an additional gradual decrease in the company tax rate and real capital gains tax rate in Israel, starting in 2011.

In light of the above, the statutory tax rate applicable to the Bank and its subsidiaries which are defined as "financial institutions" for VAT purposes is as follows:

Year	Company tax rate	Profit Tax rate	Total tax rate
2010	25%	16.0%	35.34%
2011	24%	16.0%	34.48%
2012	23%	16.0%	33.62%
2013	22%	15.5%	32.47%
2014	21%	15.5%	31.60%
2015	20%	15.5%	30.74%
2016 onwards	18%	15.5%	29.00%

* Weighted rate

Current and deferred taxes were calculated according to the new tax rates. The effect of the change in question on the balance of deferred taxes resulted in a decrease of NIS 1.1 million in net profit for the year ended December 31 2009.

Note 29 - Operational Sectors (Consolidated)

A - General

The Bank of Jerusalem Group concentrates its operations in the Bank's main offices, its branches and its subsidiaries. The Bank's operational sectors were classified in accordance with the instructions issued by the Supervisor of Banks, according to the customer types included in each of the sectors, and do not necessarily match the Bank's organizational structure.
The Group operates and provides a variety of banking services, in four main operational sectors. The details of the reported operational sectors are presented below:

Household Sector
This sector includes operations entered with households. Operations with small businesses that have characteristics of households are also included under this sector.

Private banking sector
This sector includes operations entered with clients with a medium to high level of financial wealth, using a branch specializing in private banking, mainly fro foreign residents (mostly from North America, England and France).

Business sector
This sector includes operations entered with construction and real estate companies, business clients, corporations and associations.

Financial management sector
This sector includes management of the Bank's available financial capital and held positions, management of the Bank's nostro account, operations entered with banks in Israel and abroad and with the Bank of Israel, and execution of transactions in derivatives.

Unallocated amounts and adjustments
Includes investment in trust funds and capital gains from sale of fixed assets, if any. In addition, the sector includes a provision for decrease in the value of fixed assets, if any.

B - Main principles used for dividing the operational results among the different sectors:

Profit from financing activities before provision for doubtful debts
Profits received due to the difference between the credit interest available to the sector's customers, and the original price. This profit includes inter-sect oral financing costs - charging the sector that gave the loan, and crediting the sector that raised the deposit at transition prices. (Accordingly, the income in the sector that raised the deposits is increased, and the income in the sector that made use of the credit is decreased).

Operational Income
Operational income is directly attributed to the sector in which the clients' operations are classified.

Provision for Doubtful Debts
Credited to the operational sector classified for client operations for which the provision was made. Similarly, billing is done from the provision made, or whose decrease was also attributed to the sector under which the client operations are classified.

Operational and other expenses
Direct, identifiable expenses were specifically attributed to operational sectors. The balance of indirect expenses or direct expenses which could not be precisely categorized were attributed using a model stating that these expenses should be attributed based on the proportion of direct employment positions in that sector, relative to the total number of employment positions in the Bank, for each of the operational sectors.

Taxes on Income
Taxes were calculated based on the effective tax rate, and were attributed accordingly to each sector.

Returns to capital
Capital allocation for the purpose of calculating returns to capital for each of the operational sectors was done based on the average risk assets in each sector. Calculation of the yield for each sector was done according to the equity attributed to that sector.

Note 29 - Operational Sectors (Consolidated) (Cont.)

Reported amounts	For the year ended December 31 2010					
	Households	Private Banking	Business	Financial Management	Unallocated and unadjusted	Total
	In millions of NIS					
Profit from financing operations, before provision for doubtful debts:						
From externals	116.7	21.2	42.4	(16.9)	-	163.4
Inter-sectoral	(17.6)	(2.6)	(7.6)	27.8	-	-
Operational and other income:						
From externals	65.5	4.9	14.2	0.1	0.5	85.2
Total income	164.6	23.5	49.0	11.0	0.5	248.6
Provision for doubtful debts	(1.4)	-	4.0	-	-	2.6
Operational and other expenses from externals, including depreciation and amortization	(143.1)	(19.9)	(34.5)	(5.6)	-	(203.1)
Profit from regular operations, before tax	20.1	3.6	18.5	5.4	0.5	48.1
Provision for taxes on profit from regular operations	(5.7)	(1.1)	(5.4)	(1.6)	(0.2)	(14.0)
Profit from regular operations, after tax	14.4	2.5	13.1	3.8	0.3	34.1
Net profit	14.4	2.5	13.1	3.8	0.3	34.1
Returns to capital (net profit percentage of average capital)	4.3%	4.0%	6.5%	14.4%	-	5.5%
Average balance of assets	5,631.2	902.9	1,354.9	1,571.1	-	9,460.1
Average balance of liabilities	4,776.5	760.2	3,064.0	296.2	-	8,896.9
Average balance of risk assets (Basel II)	3,041.1	582.5	1,833.8	244.1	-	5,701.5
Average balance of securities	1,545.0	207.6	265.7	-	-	2,018.3
Average balance of other managed asserts	2,862.8	-	252.2	-	-	3,115.0
Margin from credit-granting operations	62.5	7.9	22.7	(21.8)	-	71.3
Margin from deposit-receiving operations	15.8	3.4	2.8	-	-	22.0
Other	20.8	7.3	9.3	32.7	-	70.1
Total profit from financing operations, before provision for doubtful debts	99.1	18.6	34.8	10.9	-	163.4

Note 29 - Operational Sectors (Consolidated) (Cont.)

Reported amounts	For the year ended December 31 2009 *					
	Households	Private Banking	Business	Financial Management	Unallocated and unadjusted	Total
	In millions of NIS					
Profit from financing operations, before provision for doubtful debts:						
From externals	95.5	20.2	40.3	24.5	-	180.5
Inter-sectoral	(12.7)	(1.7)	(6.1)	20.5	-	-
Operational and other income:						-
From externals	66.8	4.9	12.4		-	84.1
Total income	149.6	23.4	46.6	45.0	-	264.6
Provision for doubtful debts	(2.8)	0.3	3.8	-	-	1.3
Operational and other expenses from externals, including depreciation and amortization	(118.4)	(19.3)	(30.1)	(5.8)	-	(173.6)
Profit from regular operations, before tax	28.4	4.4	20.3	39.2	-	92.3
Provision for taxes on profit from regular operations	(10.4)	(1.6)	(7.3)	(14.3)	-	(33.6)
Profit from regular operations, after tax	18.0	2.8	13.0	24.9	-	58.7
Returns to capital (net profit percentage of average capital)	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 of risk asses (Basel I)	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 managed asserts	3,366.1	-	242.5	-	-	3,608.6
Margin from credit-granting operations	48.4	8.3	26.3	(9.0)	-	74.0
Margin from deposit-receiving operations	18.3	2.6	1.9	-	-	22.8
Other	16.1	7.6	6.0	54.0	-	83.7
Total profit from financing operations, before provision for doubtful debts	82.8	18.5	34.2	45.0	-	180.5

* Re-classified.

Note 29 - Operational Sectors (Consolidated) (Cont.)

Reported Amounts	For the year ended December 31 2008 *					
	Households	Private Banking	Business	Financial Management	Unallocated and unadjusted	Total
	In millions of NIS					
Profit from financing operations, before provision for doubtful debts:						
From externals	86.2	26.9	44.3	14.3	-	171.7
Inter-sectoral	8.4	-	(3.9)	(4.5)	-	-
Operational and other income:						
From externals	64.7	4.5	14.7	(1.0)	-	82.9
Total income	159.3	31.4	55.1	8.8	-	254.6
Provision for doubtful debts	(5.1)	0.2	(1.9)	-	-	(6.8)
Operational and other expenses from externals, including depreciation and amortization	(111.3)	(16.7)	(33.1)	(5.1)	-	(166.2)
Profit from regular operations, before tax	42.9	14.9	20.1	3.7	-	81.6
Provision for taxes on profit from regular operations	(15.7)	(5.4)	(7.4)	(1.4)	-	(29.9)
Profit from regular operations, after tax	27.2	9.5	12.7	2.3	-	51.7
Returns to capital (net profit percentage of average capital)	9.6%	22.7%	8.0%	8.5%	-	10.1%
Average balance of assets	5,021.0	706.0	1,763.0	1,738.8	-	9,228.8
Average balance of liabilities	5,232.5	766.0	2,207.3	471.9	-	8,677.7
Average balance of risk assets (Basel I)	3,881.3	573.2	2,187.5	381.0	-	7,023.0
Average balance of securities	898.2	179.3	1,055.0	-	-	2,132.5
Average balance of other managed asserts	3,602.0	-	1,311.2	-	-	4,913.2
Margin from credit-granting operations	38.4	11.8	26.4	7.2	-	83.8
Margin from deposit-receiving operations	27.8	7.5	-	-	-	35.3
Other	28.4	7.6	14.0	2.6	-	52.6
Total profit from financing operations, before provision for doubtful debts	94.6	26.9	40.4	9.8	-	171.7

* Re-classified.

Note 30 - Information Based on the Bank's Nominal Data

	December 31	
	2010	2009
	Millions of NIS	
Total assets	**10,330.5**	9,584.1
Total liabilities	**9,698.9**	8,980.5
Equity	**631.6**	603.6

	For the year ended December 31	
	2010	2009
	Millions of NIS	
Net profit	**34.4**	59.0