

BANK OF JERUSALEM LTD.
INTERIM CONSOLIDATED REPORT
(UNAUDITED)

AS OF SEPTEMBER 30, 2009

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The interim consolidated report can be downloaded from the Bank's website:
www.bankjerusalem.co.il

DIRECTORS' REPORT AS OF SEPTEMBER 30, 2009

At the meeting of the Board of Directors held on November 26, 2009, it was resolved to approve and publish the consolidated financial statements of Bank of Jerusalem Ltd. ("the Bank" or "Bank of Jerusalem") and its subsidiaries for the nine months ended September 30, 2009 ("the period under review"). The financial statements were prepared in conformity with the instructions of the Supervisor of Banks. The data contained therein are expressed in reported amounts.

Estimates

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

The Bank's actual results may differ from that included, if included, in the framework of estimates, as a result of many factors including, *inter alia*, as a result of special economic events, e.g. extreme changes in interest rates, devaluation/revaluation and inflation, and unexpected political/security-related events that may affect public behavior, regarding the scope of loans taken out, early repayment, renewal or difficulties relating to current repayments, in all sectors of activity in the Bank, and regarding the ability to mobilize sources. Also, changes in legislation and/or in statutory regulations, directives and competitors' behavior may affect the Bank's activity.

Estimates are characterized by expressions including: "in the Bank's estimate", "the Bank intends ...", "is expected to ...", "may ...", "might possibly ...", "estimates that ...", etc.

These estimates involve risks and uncertainties since they are based on management's estimates regarding future events that include, *inter alia*:

- Mergers and acquisitions in the banking system and their effect on competition.
- Effect of regulatory changes on customers' behavior and/or on the scope of activity in the banking sector and the competition therein and/or on the Bank's profitability.
- The Bank's ability to realize its strategic programs and plans.
- Unexpected responses of other entities (customers, competitors, etc) operating in the Bank's business environment.
- Future realization of forecasts in the sector and in the macro-economic environment in accordance with the Bank's preliminary estimates.
- Possible results of legal processes.
- Change in consumer preferences and/or behavior.

The information presented below is based, *inter alia*, on the Bank's professional estimates, on macro economic forecasts regarding economic conditions and the business environment, on publications and estimates of entities in the sector and on statistical analyses prepared by the Bank regarding customer behavior.

The Bank is not committed to publish updates to estimates included in this report, including regarding the implications of circumstances or events occurring after publication of this report on the said data.

Activity of the Bank and its Business Development

The Bank

Bank of Jerusalem was founded in 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. In 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, savings and deposits, capital market, financing of residential construction, financing of credit for acquisition of vehicles and other commercial credit.

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 distribution of risk.

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

Operating Results - Profit and Profitability

Net income from ordinary operations after taxes for the period under review amounted to NIS 47.5 million, compared to NIS 32.4 million in the corresponding period of the previous year, an increase of 47%. The rate of return on income from ordinary operations was 11.4% in the period under review, compared to 8.4% in the corresponding period of the previous year. Most of the increase is derived from an increase in income from financing activity.

Earnings from financing operations before allowance for doubtful debts amounted to NIS 139.1 million for the period under review, compared to NIS 114.5 million for the corresponding period of the previous year, an increase of 21%. Most of the increase is derived from realization of securities available for sale and earnings from marketable securities in the amount of NIS 40.1 million and from an increase in earnings from adjustment of fair value of derivative financial instruments in the amount of NIS 4.5 million. On the other hand, a decrease was recorded in earnings from margins and from financial capital in the amount of NIS 24.5 million, mainly as a result of decrease in interest and decrease in earnings from positions in the amount of NIS 3.1 million. Also, a decrease in the amount of NIS 6.3 million was recorded in the allowance for impairment of securities compared to the allowance recorded in the corresponding period of the previous year (NIS 4.4 million in the period under review compared to NIS 10.7 million in the corresponding period of the previous year).

The allowance for doubtful debts amounted to NIS 1.6 million in the period under review, compared to NIS 3.4 million in the corresponding period of the previous year, a decrease of 53%.

For the period under review, the allowance for doubtful debts with respect to credit granted to the general public (including off-balance sheet credit risk) was 0.03% of the balance of the portfolio in annual terms. The total accumulated allowance for doubtful debts with respect to credit granted to the general public (including off-balance sheet credit risk) amounted to 1.8% of the balance of the portfolio.

Earnings from financing operations after allowance for doubtful debts amounted to NIS 137.5 million for the period under review, compared to NIS 111.1 million for the corresponding period of the previous year, an increase of 24%.

Operating and other income during the period under review, amounted to NIS 62.9 million, compared to NIS 62.5 million in the corresponding period of the previous year, an increase of 1%.

The Bank's total income (without allowance for doubtful debts) amounted to NIS 202 million in the period under review, compared to NIS 177 million in the corresponding period of the previous year, an increase of 14%.

Operating and other expenses during the period under review, amounted to NIS 126.6 million, compared to NIS 123.0 million in the corresponding period of the previous year, an increase of 3%.

Income from ordinary operations before taxes amounted to NIS 73.8 million for the period under review, compared to NIS 50.6 million for the corresponding period of the previous year, an increase of 46%. Most of the increase is derived from an increase in income from financing activity.

The provision for taxes amounted to NIS 26.3 million for the period under review, compared to NIS 18.2 million for the corresponding period of the previous year, an increase of 45% derived from an increase in earnings from operating activity.

Principal Changes in Balance Sheet Items

Total assets as of September 30, 2009 amounted to NIS 9,449 million, compared to NIS 9,251 million as of the end of 2008, an increase of 2%.

Total cash and bank deposits as of September 30, 2009 amounted to NIS 882 million, compared to NIS 351 million as of December 31, 2008, an increase of 151%.

The balance of securities as of September 30, 2009 amounted to NIS 1,174 million, compared to NIS 1,292 million as of December 31, 2008, a decrease of 9%.

Following is the composition of securities:

	Balance at	
	September 30 2009	December 31 2008
	NIS in millions	
Government debentures	952	1,085
Bank debentures	82	116
Corporate and other debentures	140	91
Total securities	1,174	1,292

The balance of cash and deposits with banks as of September 30, 2009 amounted to NIS 2,056 million, compared to NIS 1,643 million as of the end of 2008, an increase of 25%. The increase is derived from continued mobilization of deposits and marketable liability notes in greater scopes than the decrease in the credit balance, as detailed below.

Outstanding credit granted to the general public as of September 30, 2009 amounted to NIS 7,291 million, compared to NIS 7,510 million as of the end of 2008, a decrease of 3%. The decrease in credit balance is derived mainly from a decrease in the credit balance to contractors, which amounted to NIS 533.1 million as of September 30, 2009, compared to a balance of NIS 700.8 million as of the end of 2008, and a decrease of 15% in the balance of credit for vehicles, which amounted to NIS 627 million as of September 30, 2009, compared to a balance of NIS 740 million as of the end of 2008.

Following are data regarding housing loans and vehicle loans:

	September 30		Change in %
	2009	2008	
	NIS in millions		
Housing loans	608	722	(16)
Renewal of housing loans	185	64	189
Total housing loans (including renewal)	793	786	1
Vehicle loans	199	369	(46)
Total housing (including renewal) and vehicle loans	992	1,155	(14)

Outstanding loans from deposits by reference to the extent of repayment as of September 30, 2009, amounted to NIS 3,084 million, compared to NIS 3,279 million as of the end of 2008, a decrease of 6%.

Total deposits from the general public as of September 30, 2009, amounted to NIS 7,178 million, compared to NIS 7,279 million as of the end of 2008, a decrease of 1%.

The balance of deposit certificates and subordinated liability notes as of September 30, 2009 amounted to NIS 1,486 million (of which subordinated liability notes NIS 449 million), compared to NIS 1,188 million as of the end of 2008 (of which subordinated liability notes NIS 426 million), an increase of 25%, derived mainly from mobilization through Jerusalem Financing and Issuances (2005) Ltd, as detailed below in "Material Events in the Period Under Review".

Material Events in the Period under Review

In June 2009 the Knesset approved an amendment to the Value Added Tax (Tax Rate for Non-Profit Entities and Financial Institutions) Law (Interim Regulations), 2009 ("the Amendment"). The Amendment determines an increase in the profit tax rate applicable to financial institutions from 15.5% to 16.5%, in effect from July 1, 2009 through December 31, 2010. For details regarding the statutory tax rates to which the Bank is subject in accordance with the Amendment see Note 10 to the financial statements.

On June 17, 2009 Jerusalem Financing and Issuances (2005) Ltd published a shelf prospectus. On July 7, 2009 Jerusalem Financing and Issuances (2005) Ltd, a wholly owned subsidiary of the Bank, mobilized NIS 150 million through issuance of debentures (Series F).

On July 28, 2009 Jerusalem Financing and Issuances (2005) Ltd, a wholly owned subsidiary of the Bank, mobilized NIS 56 million through issuance of debentures (Series F).

On August 30, 2009 Jerusalem Financing and Issuances (2005) Ltd, a wholly owned subsidiary of the Bank, mobilized NIS 130 million through issuance of debentures (Series G).

For details regarding the issuances see Note 10 to the financial statements.

In July 2009 the Knesset approved the Budget (Legislative Amendments for Implementation of the Budget for the Years 2009 and 2010) Law, 2009, which reduces corporate tax rates gradually. For details regarding the applicable tax rates for the Bank see Note 10 to the financial statements.

Principal Financial Statement Data

Principal data from the Bank's financial statements and other information published in the Directors' Report are attached as an Appendix to the Directors' Report.

Investments in the Bank and Transactions in its Shares

Shareholders' Equity

As of September 30, 2009, the shareholders' equity of the Bank amounted to NIS 598.1 million, compared to NIS 519.9 million as of the end of the previous year, an increase of 15%. This increase is derived mainly from the Bank's earnings in the period under review in the amount of NIS 47.5 million and from an increase in the capital reserve in respect of adjustment of securities available for sale according to fair value in the amount of NIS 29.3 million (net after tax effect). The positive movement in the capital reserve in respect of adjustment of securities available for sale according to fair value is derived from an increase in the value of corporate debentures in the amount of NIS 27.5 million, from a decrease in the value of government debentures in the amount of NIS 0.9 million and from an increase in the value of banking debentures in the amount of NIS 2.7 million.

The Bank examines periodically the requirement to record an allowance for impairment that is not of a temporary nature. The Bank determined criteria for follow-up in respect of securities and for such examination. These criteria are based on the following factors:

- Change in ranking of securities by ranking agencies.
- Period of time during which the securities were traded with high yield.
- Special circumstances, e.g. exceptional impairment.

Also, the Bank determined additional criteria in respect of which an immediate allowance for impairment will be recorded. These criteria are based on the following factors:

- Present ranking of securities by ranking agencies.
- Present exceptional yield according to which the securities were traded.
- Period of time during which the securities were traded with exceptional yield.
- Material negative indications in financial statements.

These criteria were discussed and approved in the Credit Committee of the Board of Directors.

During the period under review, the Bank recorded an allowance for impairment that is not of a temporary nature in the amount of NIS 4.4 million in respect of one debenture.

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

Rate of impairment as of balance sheet date	Amount of impairment (NIS millions)					
	Period of time during which fair value of the asset was less than cost				Total impairment as of	
	Up to 6 months	6 - 9 months	9 - 12 months	More than 12 months	September 30, 2009	December 31, 2008
Up to 20%	0.3	-	-	4.8	5.1	10.8
20% - 40%	-	-	-	6.3	6.3	12.5
More than 40%	-	-	-	-	-	31.3
	0.3	-	-	11.1	11.4	54.6

As of September 30, 2009, the capital basis for the purposes of calculating the ratio of capital to risk components (capital adequacy) amounted to NIS 891 million, compared to NIS 822 million as of the end of 2008, an increase of 8%.

According to a decision of the Board of Directors of the Bank, the capital adequacy ratio will be 12% as of the end of 2009, wherein the primary capital adequacy ratio for risk assets will be 8.5%.

The ratio of capital to risk components was 13.0% as of the end of the period under review, compared to 11.8% as of the end of 2008. The primary capital adequacy ratio for risk assets was 8.7% as of the end of the period under review, compared to 7.8% as of the end of 2008.

The Bank examines periodically its capital requirements and mobilizes currently deferred deposits in accordance with such requirements. The Bank's business plan takes into account possible mobilization of deferred deposits for purposes of current activity.

The balance of deposit certificates and subordinated liability notes mobilized from homeowners and from institutional investors, included in the capital for purposes of calculating the ratio of capital to risk components amounted to NIS 294 million as of September 30, 2009, compared to NIS 274 million as of the end of 2008.

Material Developments

The Bank's activity is affected by the level of activity in the economy as a whole. Accordingly, any positive or negative change at this level may affect the Bank's activity. The Bank follows up currently regarding developments in this section and implements preparations to reduce their negative impact on its activity. For details regarding the Bank's preparations, see section on risk assets.

Principal Economic Developments

During the first nine months of 2009, stabilization was evident in the local economy. The first six months of the year were characterized by economic slowdown, while during the third quarter of the year, principal indicators evidenced renewed growth. The combined index of the economy decreased in the first nine months of the year by 2%, wherein during the first half of the year the index decreased by a cumulative rate of 5.1% and during the third quarter increased by 3.1%. The unemployment rate increased in the first nine months of the year from 6.9% to 7.6%. The sharpest increase in the unemployment rate was recorded in the first half of the year, to a level of 7.9%. Certain improvement was recorded in the third quarter and in August the unemployment rate decreased to 7.6%.

A review of companies and businesses prepared by the Bank of Israel also indicated recovery in economic activity. Most of the recovery was reported in industry and trade and less in the services sectors. Most recovery, according to the review, is derived from an increase in domestic activity.

During the first nine months of 2009, interest decreased from 1.75% to a minimum rate of 0.5%. In August, the Governor of the Bank of Israel increased interest by 0.25% to a level of 0.75%, the level in effect as of the end of the period under review.

In the first nine months of 2009, the consumer price index recorded an increase of 3.4%, higher than the Bank of Israel goal. The housing sector contributed materially to the increase in the index, with an increase of 5.2% as from the beginning of the year.

In the first nine months of 2009, the Israeli capital market recorded sharp recovery. Share and debenture indices reached levels similar to the levels prior to the economic crisis. The Tel Aviv 25 Index recorded a sharp increase of 52% and the Tel Aviv 100 Index increased by 64.5%. The Tel Aviv-Bond Debenture Index increased by 22% and the Tel-Bond 40 Index increased by 41%.

Global Economic Developments

During the second and third quarters of 2009, a positive trend became evident in the real sector, and the improvement that commenced in financial markets in the first quarter continued. Notwithstanding uncertainties regarding continuation of this trend, international entities increased their estimates regarding global growth.

Improvement in financial markets continued also in the third quarter. The MSCI global share index reached the highest level since October 2008; inter-bank interest margins decreased, corporate credit margins were reduced at most levels and the scope of debenture issuances, mainly in the United States, continued to increase.

The positive trend in the real sector was expressed in moderation of the decrease in the United States' product, in increase in purchasing indices in various countries and in an increase in industrial production indices in Europe and in Japan. The low inflationary environment in developed economies will apparently enable continuation of policy supporting real activity.

However, indications remain that moderate the increasing optimism: the scope of bank credit remains low - *inter alia*, because of strict conditions for receipt of loans. Reduction of credit impacts on both homeowners and on small businesses, whose sole source of credit is from banks. Additionally, concern is evident that the improvement in capital and financial markets results mainly from extensive government programs and that this improvement will reverse after these programs end.

Also in the real sector, concern is evident that the increase in activity, based on unprecedented fiscal support exceeding accepted policy, will not continue and that its cessation may moderate the increase in demand. Moreover, many developed countries, headed by the United States, face tremendous government deficits, which endanger the stability of exchange rates, and whose treatment may include material increase in taxes that impair activity over time.

Inflation and Exchange Rates

In the first nine months of 2009 the consumer price index increased by 3.4%, exceeding the Bank of Israel's goal of 1% - 3%. A principal component of the increase in the index is housing. Apartment prices increased as from the beginning of the year by 5.2%. The index without fruit and vegetables increased by 3.2%; the index without housing increased by 2.8% and the index without energy increased by 2.8%. Inflation in the last twelve months increased by 2.8%, close to the Bank of Israel's goal.

Weakening of the United States dollar, derived from possible implications of the recovery program in the United States, was felt also in Israel. The exchange rate of the dollar decreased by 1.2% as from the beginning of the year. During the third quarter alone, a decrease of 4.1% was recorded in the dollar exchange rate. The Bank of Israel announced that it will cease fixed foreign currency acquisitions and will again transact specifically in the foreign currency market, in situations of extraordinary foreign currency fluctuation, which does not reflect material changes in economic conditions or in situations in which the foreign currency market does not operate appropriately.

Fiscal and Monetary Policy

During the first nine months of the year, Bank of Israel interest decreased from 1.75% to a minimum level of 0.5%. The decrease in interest was intended to encourage economic activity, in accordance with interest trends worldwide in the framework of global measures intended to improve liquidity in markets and to encourage growth. The Bank of Israel was the first central bank in the West to increase interest. During August, the Governor of the Bank of Israel increased interest by 0.25% to a level of 0.75%, the present level as of the end of the period under review. The increase in interest was derived from the exception from the annual inflationary goal and from the indicators of a positive trend in real economic activity.

As from the beginning of the year, the government budget deficit amounts to NIS 21.9 billion, compared to a budget excess of NIS 1.3 billion in the corresponding period of the previous year. In the period under review, government expenses amount to NIS 142.8 billion, compared to NIS 135.7 billion in the corresponding period of the previous year, an increase of 5.2%. Income from taxes in the period under review amounted to NIS 132.5 billion, compared to NIS 143.2 billion in the corresponding period of the previous year.

Capital and Monetary Markets

The Israeli capital market recorded sharp recovery in the first nine months of the year. Share and debenture indices reached levels similar to the levels prior to the economic crisis. The Tel Aviv 25 Index recorded a sharp increase of 52% and the Tel Aviv 100 Index increased by 64.5%. Other share indices increased by 92.8% and the index of technology shares increased by 73.7%. A similar trend was evident in the debenture market. Corporate index-linked debentures recorded an increase of 37%, the Tel Aviv-Bond Debenture Index increased by 22% and the Tel-Bond 40 Index increased by 41%. Government debentures increased more moderately. Index-linked government debentures increased in the period under reviews by 10% and non-linked debentures by 2.6% only. The average volume of trading in shares amounted to NIS 1.6 billion, compared to NIS 2 billion in the corresponding period of the previous year. The average volume of trading in debentures amounted to NIS 4.2 billion, compared to NIS 3.8 billion in the corresponding period of the previous year.

Since the beginning of 2009, the business sector mobilized from the public, through debenture issuances and allocations, NIS 25 billion, of which 43% mobilized by banks. As from the beginning of the year, NIS 2.1 billion was mobilized through private issuances and allocations, compared to NIS 5.1 billion in the corresponding period of the previous year.

In the first nine months of the year, mutual funds recorded positive accruals of NIS 14.6 billion, net; most of the mobilization in debenture funds in the amount of NIS 21.6 billion, with redemptions of NIS 12.8 billion in monetary funds.

Construction Sector

In the first nine months of the year, an increase of 8% was recorded in sale of new apartments, compared to the corresponding period of the previous year. Most of the increase is derived from sale in the period May - June 2009. The increase is explained, *inter alia*, by the low interest level. In recent months, interest rates offered for savings have decreased materially and have become unattractive for many, while attractive loans are offered to purchasers of housing. The combination of a low interest environment, on one hand, and regarding purchase of an apartment as a solid investment option, on the other hand, has resulted in deviation of funds to this channel.

The areas in which an increase was recorded compared to the corresponding period of the previous year are: Haifa (33.6%), Jerusalem (28.5%), central area (25.0%), northern Israel (5.8%) and southern Israel (1.2%). The areas in which a decrease was recorded compared to the corresponding period of the previous year are: Tel Aviv (14.8%) and Judea and Samaria (40%).

Approximately 44% of total new apartments sold are located in the central area and approximately 18% in Tel Aviv.

Inventories of apartments continue to decrease and the number of new apartments available for sale, in the private sector, amounted to only 7,650 new apartments as of the end of September 2009, a decrease of 27% compared to the corresponding period of the previous year. Of the total new apartments available for sale in the private sector as of the end of September, 7,160 new apartments are under active construction and 490 new apartments whose construction was completed during the last fifteen months.

Of the total new apartments available for sale as of the end of the period under review, 36% were constructed in the central area and 32% in Tel Aviv.

Vehicle Market

According to Israel Tax Authority data, as from the beginning of the year a sharp decrease is evident in import of vehicles to Israel. In the period under review, 127,000 vehicles were imported to Israel, a decrease of 23% compared to the corresponding period of the previous year.

Sales of new vehicles (not including trucks) from the beginning of the year until September amounted to 124,000 vehicles, a decrease of 26% compared to the corresponding period of the previous year. According to market estimates, "green" taxation resulted in many buyers advancing their purchase (prior to price increases), increasing sales by vehicle imports in August, on account of later months. According to these estimates, a decrease in vehicle sales is expected in the last quarter of the year.

Description of the Bank according to Sectors of Activity

Principal Activity

In the period under review the Bank continued to realize its business plan.

The Bank of Jerusalem Group operates through its head office, subsidiaries and branches. The distribution by sectors of activity of the Bank is based on the kind of customers in each sector. The Group operates and provides a variety of banking services in four principal sectors of activity:

- Homeowners sector
- Private banking (mainly to foreign residents) sector
- Business sector
- Financial management sector

For details regarding operating results by sectors of activity, earnings and net income, see Note 9 to the condensed financial statements.

Following is a comprehensive description of the sectors:

Homeowners Sector

Activity relative to homeowners - Israeli resident individuals - is implemented in all of the branches of the Bank. This sector constitutes the principal sector of activity of the Bank and the income therefrom represents 56% of the Bank's total income. This activity includes three sub-sectors: housing loans, banking and financing and capital market activity.

Housing loan activity includes several products and services:

- Granting of housing loans against mortgage of residential apartments to Israeli residents with various linkage bases and according to a variety of interest tracks. This activity includes loans from Bank funds and loans from government/budget funds at government responsibility for entitled Ministry of Housing borrowers.
- Loan-related services regarding borrowers' life assurance and property insurance as a result of taking out housing loans, implemented through Ir Shalem Insurance Agency (1996) Ltd, a wholly owned and controlled subsidiary of the Bank.

The banking and finance activity includes mainly granting of credit for purposes of acquisition of vehicles and fixed-term credit against collateral and credit through issuance of credit cards. This activity also includes mobilization of deposits and savings plans from individuals.

The capital market activity offers sector customers the following products: brokerage services - implementation and management of transactions in securities and in derivatives in Israel and abroad; investment consulting - securities consulting for customers; management of investment portfolios - management of financial assets for customers through Jerusalem Capital Markets, a wholly owned subsidiary of the Bank.

Earnings in the homeowners sector, as of the end of the period under review, amounted to NIS 11.9 million, compared to NIS 22.2 million in the corresponding period of the previous year. Most of the decrease is derived from a decrease in financing income (see below) and from an increase in the allowance for doubtful debts in respect of housing loans.

Net income of the sector from ordinary activity amounted to NIS 114.1 million in the period under review, compared to NIS 121.9 million in the corresponding period of the previous year. Most of the decrease in income is derived from a decrease in shekel interest, resulting in decrease in income from financial capital attributed to this sector.

In the period under review the allowance for doubtful debts amounted to an expense of NIS 4.7 billion, compared to an expense of NIS 2.7 million in the corresponding period of the previous year. Most of the increase is derived from the allowance for housing loans according to the extent of repayment.

Housing loans granted from Bank funds in the sector in the period under review amounted to NIS 439 million, compared to NIS 500 million in the corresponding period of the previous year.

The balance of housing loans in the sector, from Bank funds, as of the end of the period under review, amounted to NIS 4,433 million, compared to NIS 4,380 million as of the end of 2008. The balance of credit from deposits according to extent of repayment (loans granted from budget funds) amounted to NIS 3,084 million, compared to NIS 3,279 million as of the end of 2008.

Private Banking Sector

Activity implemented relative to customers with medium to high financial status through a section specializing in private banking, mainly for foreign residents. Income of this sector constitutes 11% of the Bank's total income. The activity includes three sub-sectors: housing loans, banking and finance and capital market activity.

Net income of the sector amounted to NIS 5.9 million in the period under review, compared to NIS 7.6 million in the corresponding period of the previous year. Most of the decrease is derived from a decrease in the financial margin, as detailed below.

Earnings of the sector in the period under review amounted to NIS 21.5 million, compared to NIS 22.8 million in the corresponding period of the previous year, a decrease of 6%. Most of the decrease is derived from a decrease in earnings from the margin as a result of the decrease in Libor interest compared to the corresponding period of the previous year.

The balance of housing loans in the sector as of the end of the period under review amounted to NIS 856 million, compared to NIS 825 million as of the end of 2008.

The activity in respect of housing loans includes granting of loans from Bank funds to private customers, foreign residents and Israeli residents, with a high level of financial stability, to finance acquisition of apartments in Israel, and other credit against a mortgage on a residential apartment.

Housing loans from Bank funds granted by the sector in the period under review amounted to NIS 168 million, compared to NIS 222 million in the corresponding period of the previous year.

The banking and finance activity includes granting of credit and transactions in current accounts (also to clients in the non-profit organization sector). The activity also includes mobilization of foreign currency deposits, mainly from foreign resident individuals.

The capital market activity offers the sector's customers, as in respect of customers of the other sectors also, the following products: brokerage and investment consulting.

The sector's part in the Bank's total profitability from ordinary operations amounted to 12%, compared to 23% in the corresponding period of the previous year.

Business Sector

Activity implemented relative to business customers, corporate entities and associations in certain branches of the Bank. Income of this sector constitutes 14% of the Bank's total income. The activity includes three sub-sectors: construction and real estate, banking and finance and capital market activity. The Bank's activity in this sector constitutes mainly granting of fixed-term credit against tangible collateral (real estate, vehicles and monetary deposits).

Net income of the sector in the period under review amounted to NIS 6.2 million, compared to NIS 8.9 million in the corresponding period of the previous year. Most of the decrease is derived from a decrease in financing income and operating income, as detailed below.

Earnings of the sector amounted to NIS 27.2 million in the period under review, compared to NIS 40.0 million the corresponding period of the previous year. The decrease in income is derived mainly from a decrease in Prime interest, resulting in erosion of the margin the non-linked sector. Also, a material decrease in brokerage income impaired the sector's profitability.

In the period under review, income was recorded in respect of an allowance for doubtful accounts in the amount of NIS 3 million, compared to an expense of NIS 0.9 million in the corresponding period of the previous year.

The construction and real estate activity includes granting of credit to construction and real estate companies, accompaniment of projects according to the rolling finance method and issuance of guarantees according to the Sales Law (Apartments) and other guarantees.

As of September 30, 2009, the balance of credit granted to the real estate sector amounted to NIS 718 million, compared to NIS 828 million as of December 31, 2008.

The banking and finance activity includes granting of credit to finance current activity, to finance acquisition of commercial assets for self-use, e.g. stores or offices, supplementary business services, e.g. guarantees, currency conversion and foreign trade. The Bank focuses mainly on the retail commercial sector and various business services, and credit to leasing companies. The activity in this sector also includes mobilization of deposits from institutional entities and companies through the variety of deposits existing in the Bank.

The capital market activity offers the sector's customers, as in respect of customers of the other sectors also, the following products: brokerage, investment consulting and management of investment portfolios.

Financial Management Sector

The sector includes activity of the Bank that is not derived from activity relative to customers, including management of the Bank's available financial capital and positions, management of the Bank's investment portfolio (*nostro*), activity relative to banks in Israel and abroad and relative to the Bank of Israel, and implementation of transactions in derivative financial instruments.

The earnings of the sector amounted to NIS 23.5 million in the period under review, compared to NIS 6.3 million in the corresponding period of the previous year. Most of the increase is derived from financing income of the sector, as detailed below.

Income of the sector in the period under review amounted to NIS 39.2 million, compared to a loss of NIS 7.7 million in the corresponding period of the previous year. Most of the increase is derived from realization of securities available for sale in the amount of NIS 40 million, compared to a loss in the corresponding period of the previous year derived from recording a provision that is not of a temporary nature, and from adjustment to fair value of derivative financial instruments.

Mobilization of Financing Sources

The Bank's policy, during many years, includes expansion of activity relative to homeowners in order to increase its financing sources. This policy contributed, in recent years, to a material increase in the part of homeowners out of the total deposits of the public. As of September 30, 2009, the balance of deposits of the public amounted to NIS 7,178 million, compared to NIS 7,279 million as of the end of 2008. Deposits of the public include savings and deposits of homeowners and deposits mobilized from institutional investors and from companies.

Following is the composition of the Bank's financing sources including deposits of the public, deposit certificates and subordinated liability notes:

	Balance as of			Change compared to	
	September 30		December 31,	September	December 31,
	2009	2008	2008	30, 2008	2008
	In millions of NIS			%	
1. Shekel deposits and current accounts	3,373	3,434	3,386	(61)	(13)
2. Savings plans and index linked deposits	2,874	2,744	2,898	130	(24)
3. Foreign currency deposits	826	783	828	43	(2)
4. Foreign currency linked deposits	105	179	167	(74)	(62)
Total deposits of the public	7,178	7,140	7,279	38	(101)
5. Liability certificates and subordinated liability notes	1,486	1,280	1,188	206	298
Total financing sources	8,664	8,420	8,467	244	197

Material Agreements Not in the Regular Course of Business

In the period under review, no material agreements, which were not in the regular course of business of the Bank, were signed.

Risk Factors

The information detailed in this section regarding risk factors constitutes an estimate 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 regarding future realization of industry forecasts and macro-economic forecasts in accordance with the Bank's preliminary estimates. These estimates may not be realized, *inter alia* as a result of economic events, political/security-related events, changes in customer preferences and increased competition.

The Bank's activity and earnings are affected by the economic situation, developments in the real estate and capital markets and 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, specifically.

Following are the principal changes in the nature of the activity and business environment that may impact on earnings.

- The financial crisis and slowdown may impact on borrowers' ability to repay loans to the Bank, on increase in the scope of overdue payments by borrowers as a result of repayment inability, on the Bank's ability to mobilize sources and on earnings from banking activity.
- Material changes in the residential real estate market may impact on decrease in the value of collateral for credit provided by the Bank and on increase in problematic debts and on scope of credit granted to homeowners against mortgage of a residential apartment; these changes may impact on credit granted for projects accompanied by the Bank.
- Continuation of the crisis in global financial markets may impact on foreign residents' repayment ability, on decrease in demand for new credit to finance acquisition of residential assets in Israel and on impairment of the ability to mobilize sources to financing activity in foreign currency.
- Slowdown in the capital market may impair the Bank's business in the capital market sector or in the financial management sector. However, since the Bank's activity in this sector does not constitute a large part of its business, the Bank estimates that realization of this risk would not impair the Bank materially.
- Future realization of macro economic estimates and forecasts in accordance with, or differently from, those of the Bank may impact on results of the financial management sector.

Also, the Bank's activity as a financial intermediary exposes it to a variety of risks, including credit risks, market risks and liquidity risks. The Bank incurs additional exposure derived from operating risks and legal risks. The Bank's activity in a variety of sectors of activity and linkage sectors and the cash flows derived from its activity - amounting to hundreds of millions of shekels per month - necessitate current management of the various risks. These risks are managed in coordination with management as follows:

Credit risk is managed by all management personnel in the relevant sector of activity. Market and liquidity risks are managed by the Deputy General Manager and Financial Risks Manager, Mr. Y. Nardi, Manager of Risk Management and Financial Management Section. Operating risks, except legal risk, is managed by Mr. R. Sagi, Manager of Banking Infrastructure and Operations Section. Legal risks are managed by Advocate S. Wistoch, legal counsel.

The Board of Directors of the Bank, at each meeting, receives a review of material developments in respect of exposure to market risks and, quarterly, discusses the exposure document that summaries all data regarding market risk exposure. Also, the Board of Directors approves, at least annually, 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 Board of Directors of the Bank authorized management to implement this policy.

Also, a committee of the Board of Directors was appointed 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, committee for management of assets and liabilities that meets twice weekly, operate currently regarding subjects affecting the Bank's exposure to market risks and to liquidity risks.

Authorization to change existing exposure, increase or decrease therein, is possessed by various entities in the Bank (each entity according to the authorized hierarchy of responsibilities), within the limitations determined by the Board of Directors. Also, the Controls Department centralizes controls on credit risks and on market and liquidity risks.

The Bank's risk management policy, approved by the Board of Directors, is intended to assist management to attain its business goals, with limitation of accounting or economic losses that may be incurred 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 monetary and capital markets. The Bank manages market risks, taking into consideration the accounting exposure limitations derived from these risks. However, the accounting exposure in respect of most of these risks does not differ materially from the economic exposure, and the risk and limitation policy is implemented also in accordance with the economic risk.

The Bank implements preparations to reduce the possible negative impact of changes in risk levels in global and domestic financial markets on its activity. In the framework of these preparations, several discussions were conducted in the board of directors of the Bank, at which a decision was reached to reduce the exposure in respect of several risks and to increase the limitations and restrictions thereon. The changes include increase in the required ratio of liquid assets, reduction of limitations for an individual borrower, reduction of the VaR in the marketable portfolio and increase in limitations on financial management activity, reduction of exposure to interest risk, etc.

Basel II

At the end of June 2006, the Basel Committee, which coordinates the activity of central banks in industrialized countries, published the recommendations of the International Meeting for Determination of Capital and Capital Requirements (Basel II).

On December 31, 2008 the Bank of Israel published a new interim regulation regarding Basel II, "Work Framework for Capital Measurement and Adequacy". The regulation defines the method of calculations of capital adequacy according to Basel II principles and supplements and draft provision distributed by the Bank of Israel to banking institutions in 2007 and 2008.

Basel II includes three segments:

Segment 1 - Minimum capital requirements in respect of credit risk, market risk and, for the first time, also operating risk;

Segment 2 - Review of supervision and controls;

Segment 3 - Market compliance.

The first segment enables, for purposes of calculating minimum capital requirements, several approaches for measurement of risk components in respect of credit risks, market risks and operating risks: the standardized approach or more sophisticated approaches, based on internal models of customer ranking and relevant operating risks. The sophisticated approaches are subject to specific approval by the Supervisor.

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 material risks to which each bank is exposed. The banks are required to ensure implementation of the required methodologies for capital adequacy. The Supervisor of Banks is required to evaluate these procedures and to levy supervisory means insofar as required for purposes of such evaluation.

The third segment relates to the level of transparency and requirements for disclosure in reporting to the public by banking institutions. As an addition to the second segment, these requirements are intended to assist entities utilizing the financial statements to evaluate the bank's capital adequacy and the additional data regarding the bank's capital, as presented in the reports, the exposure to various risks and the evaluation processes. The Bank of Israel issued an interim directive requiring implementation of part of these disclosure requirements already in the 2007 financial statements.

As determined by the Bank of Israel, as from financial statements as of December 31, 2008, banking institutions in Israel are required to report to the Supervisor of Banks regarding results of capital adequacy as calculated according to the standardized approach in the first segment of Basel II, wherein capital is still allocated according to existing requirements. As from financial statements as of December 31, 2009, the banking system is expected to allocate capital according to the standardized approach determined in Basel II.

The first report was transmitted to the Bank of Israel in April 2009 and the Bank will continue to report quarterly until the end of 2009. According to preliminary calculations as of December 31, 2008, the first segment capital adequacy ratio (according to the standardized approach) amounted to 13.4%, compared to 11.8% according to the existing requirements. As of June 30, 2009 the capital adequacy ratio amounted to 15.0%, compared to 12.5% according to the existing requirements. It should be noted that this report is preliminary and is based on the Bank's understanding of the interim requirements and regulations published by the Bank of Israel. It should be noted that the capital adequacy ratio includes only capital requirements for first segment risks (credit, market and operating risks), and does not include additional possible allocations for second segment risks.

Basel II recommendations liaise 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 14 of these guidelines.

The Bank works continuously with an outside consulting company specializing in Basel II. The company's consultants, in coordination with work teams from the Bank, prepared an appropriate infrastructure for internalization of the first segment of the requirements in the Bank's systems. Also, the Bank entered into an agreement with an additional company, which implemented a gap review regarding the Bank's compliance with the requirements included in the 14 guidelines that the Bank of Israel intends to adopt. The Bank utilized the results of the review for preparation of a work plan in the framework of which the Bank will attempt to close the gaps noted in the review.

During the second quarter of 2009 the Bank commenced examination of its capital adequacy - ICAAP (Internal Capital Adequacy Assessment Process). Through the process, the Bank implements self-evaluation of its capital adequacy in accordance with risks inherent in the Bank's activity. Construction of this process in the Bank constitutes a principal component of the Bank's preparations for Basel II and for the Bank of Israel's requirements for the second segment. The Bank's capital adequacy is determined in accordance with two principal determinants, as follows:

- Risks in the framework of which the Bank determines the material risks inherent in its activity, measures the level of exposure to these risks, evaluates its ability to manage the said risks and the effectiveness of the controls thereon. This determinant fixes, in practice, the capital that the Bank is required to maintain in accordance with the level of exposure to the risks and the quality of their management.
- Capital requirements in the framework of which the Bank determines its regulatory capital and the additional capital components that may be included in the available capital for purposes of determining the capital adequacy. The available capital constitutes the Bank's source of coverage of the above mentioned risks.

The above mentioned process results in evaluation of the Bank's capital adequacy. The board of directors, after conducting a discussion in this regard, believes that the capital base, according to data as of December 31, 2008, is adequate and constitutes appropriate protection for realization of the risks to which the Bank is exposed. The results of the process will be summarized in the ICAAP document whose draft version was transmitted to the Bank of Israel on July 20, 2009. The final document will be transmitted at the beginning of 2010.

Concurrently with the ICAAP process, an internal process in the Bank, the Supervisor of Banks will also implement a review and evaluation process. 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.

Management of the Bank regards with great importance the preparations for risk management treatment and accordingly is planning to integrate the Basel II principles in its business activity. The Bank has commenced collection of data required for construction of statistical models for purposes of ranking the Bank's customers. Also, in the framework of these preparations, the Banks is internalizing a new system for management of credit risks in the business sector. This system will support decision making regarding granting credit and will assist in the future in construction of required advanced models for purposes of compliance with the Basel II principles.

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

Credit Risks

The Bank's credit policy is presented annually to the Board of Directors of the Bank for discussion and approval. In the framework of the policy, various rules and guidelines have been established with respect to the granting of credit and the management and supervision of the Bank's credit portfolio. These rules and guidelines apply equally to individuals and to commercial customers, as classified by sector. The Bank's credit policy is derived from changes as a result of the Bank's commercial banking activity, taking into account credit limitations in respect of an individual borrower and a group of borrowers and supervised commencement of new areas of credit.

In July 2008, in the framework of the Bank's preparations for changes in the business environment and in order to reduce the Bank's exposure to large borrowers, the Board of Directors of the Bank decreased, in excess of regulatory limitations, the limitations for an individual borrower, for a group of borrowers and for the six largest borrowers.

The Bank's business policy in this field emphasizes improvement of the quality of its credit portfolio in all spheres of operation whilst maintaining permanent control of the portfolio and determining policy with regard to the repayment of loans and the quality of collateral. In accordance with the Bank's policy of reducing risk exposure, the Bank attempts to spread its credit portfolio between many borrowers and to decrease credit balances for borrowers in certain sectors of the economy that, in the Bank's estimate, are characterized by higher risk levels.

The Banks' credit portfolio is managed in two sections: retail credit section and business section, 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.

CREDIT RISK IN RESPECT OF PROBLEMATIC BORROWERS

	September 30		December 31,
	2009	2008	2008
In millions of NIS			
Problematic⁽¹⁾ housing loans			
Loans for which provision is computed by reference to extent of arrear ⁽²⁾	86.6	80.9	76.1
Loans for which provision is not computed by reference to extent of arrear	78.3	50.4	52.8
Loans in temporary arrear (between nine months)	66.4	71.2	73.8
Other problematic^{(1), (4)} loans			
Loans under special supervision	26.4	22.5	60.7
Loans in temporary arrear	54.4	24.7	26.0
Restructured loans	25.6	17.4	32.6
Non-income producing loans	40.1	58.6	67.8
Total balance sheet credit risk, including that arising with respect to problematic borrowers⁽³⁾	377.8	325.7	389.8
Off-balance sheet credit risk with respect to problematic borrowers ^{(3), (4)}	41.7	30.0	41.5
Problematic debentures ⁽⁵⁾	13.6	-	6.5
Total credit risk with respect to problematic borrowers⁽³⁾	433.1	355.7	437.8

- (1) Debts are presented after deduction of the specific allowance for doubtful accounts.
- (2) Including problematic debts that were restructured and that are not in arrear.
- (3) Not including problematic debts covered by collateral deductible for purposes of limitation on debts of an individual borrower and of a group of borrowers (Appropriate Banking Management Directive No. 313).
- (4) Calculated for purposes of limitation on debts of an individual borrower and of a group of borrowers, except in respect of guarantees provided by a borrower to secure liabilities of a third party.
- (5) Most of the increase is derived from increase in the value of the debentures.

Credit exposure to foreign financial institutions (consolidated) as of September 30, 2009:

Credit risk in millions of NIS				
External credit ranking	Short-term credit ranking	Number of institutions	Balance sheet	Total
AA	F1+	1	27	27

Concurrently with commencement of the financial crisis in 2008, the Bank decreased its deposits with financial institutions abroad, determined limitations and restrictions on centralization of deposits and determined tighter procedures and required examinations prior to depositing amounts with foreign banks abroad.

Market Risks

General

The Bank has a system that dominates the Bank's cash flows, derived from a verity of financial activity. The system enables Asset and Liability Management (ALM), *inter alia*, quantification of market risks according to given risk value (VaR) methodology. Also, the system enables follow-up regarding other risk indices, e.g. interest exposure and stress testing.

The VaR measures the maximum loss expected to be incurred in 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 implemented in the Bank monthly, during a period of ten days and at a statistical 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.

The VaR model was adopted by banks in all developed countries, and constitutes an estimate of the comprehensive risk inherent in the portfolio after taking into account correlation between relevant risk factors.

The Bank determined limitations for given risk value (economic VaR): total VaR - NIS 15 million, of which maximum in an individual linkage sector - NIS 10 million. As of September 30, 2009 the VaR amounted to NIS 13.1 million, compared to NIS 9.7 million as of December 31, 2008. The maximum economic VaR (month end) in the period under review amounted to NIS 13.3.

In addition to management and control utilizing the VaR model, the Bank also utilizes other models to quantify risks.

Interest Risks

Interest risk stems from the differences between the relative sensitivity of assets and of liabilities to unanticipated changes in interest rates. These changes may potentially cause an erosion of the Bank's equity. The Bank's role as a financial intermediary creates exposure to this risk, which exposure the Bank is endeavoring to curtail. The Bank's principal exposure is in the index-linked segment, since this is the principal segment in which most of the assets and liabilities bear fixed long-term interest rates. In the remaining segments, the Bank's principal operations bear variable short-term interest rates.

The Bank constantly reviews the average lives of loans compared with deposits, to enable it to take steps to minimize the effect of possible changes in interest rates on the value of its net financing cash flows. For this purpose, the Bank regularly measures average lives stemming from current operations, and reviews the volume of early loan repayments, which have an important effect on effective average lives.

The Bank's policy regarding management of exposure to interest risk is determined, taking into account expectations regarding decrease in various interest rates and examination of costs required to reduce the exposure to this risk and taking into account estimated early repayment rates on loans and related factors. Estimates of early repayment rates are based 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 of the Bank have set restrictions that limit the exposure to interest risk in accordance with the average duration model, which measures the repayment periods of assets and liabilities. For 2009, for the linked segment, the average duration gap between assets and liabilities has been restricted to ± 0.6 years (taking into account the expected rate of early repayment). The restriction on the maximum rate of loss as a result of a 1% change in interest in the index-linked, non-linked and foreign currency linkage sectors is NIS 20 million, NIS 15 million and NIS 5 million, respectively, wherein the total exposure risk in all of the sectors is NIS 15 million.

The Bank measures the above mentioned exposure utilizing a monthly model, including current follow-up regarding material developments in its various sectors of activity that may affect these limitations. On September 30, 2009 the difference in the weighted average life between assets and liabilities of the Bank in the index linked sector amounted to -0.41 years according to a model taking into account the estimated early repayment rate, compared to a difference of -0.36 years as of December 31, 2008.

Taking into account the volume of early repayments in recent years, the Bank estimates that the exposure to risk as a result of any unexpected 1% change in interest rates in the index linked sector is small in relation to the value of the Bank's net discounted cash flows.

Following are data regarding the effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its subsidiaries as of September 30, 2009 (in millions of NIS):

A. Fair value of financial instruments of the Bank and the subsidiaries, except non-monetary items (before hypothetical changes in interest rates):

	Israeli currency		Foreign	Total
	Non-linked	Linked to CPI	currency **	
Financial assets*	5,033.7	3,410.3	1,017.8	9,461.8
Amounts receivable in respect of ALM derivatives	3.1	432.7	5.6	441.4
Financial liabilities	3,864.5	4,056.2	973.9	8,894.6
Amounts payable in respect of ALM derivatives	380.8	0.2	47.1	428.1
Fair value, net	791.5	(213.4)	2.4	580.5

B. Effect of hypothetical changes in interest rates on fair value of financial instruments of the Bank and the subsidiaries, except non-monetary items:

	Fair value, net, of financial instruments, after effect of changes in interest rate				Change in fair value	
	Israel Currency			Total	In %	
	Non-linked	Linked to CPI	Foreign currency **		Total	Total
Immediate concurrent increase of 1%	782.3	(226.2)	3.3	559.4	(21.1)	(3.6)
Immediate concurrent increase of 0.1%	788.9	(218.2)	3.1	573.8	(6.7)	(1.2)
Immediate concurrent decrease of 1%	800.3	(202.8)	1.9	599.4	18.9	3.3

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

** Including Israeli currency linked to foreign currency.

Basis exposure risk

Basis exposure risk stems from changes in interest rates, exchange rates and the rate of inflation. The Bank's policy includes close supervision by management of basis exposure risk within the restrictions imposed by the Board of Directors.

The Bank manages positions in the various linkage sectors on a continuing basis by utilizing a variety of readily-available financial instruments, taking into account changes in relevant economic data and exercising continuous control over risks resulting from this exposure. In order to limit the exposure to basis risk, the Board of Directors has determined the maximum exposure rates for each linkage segment.

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

	Percent of financial capital ⁽¹⁾		NIS millions as of September 30, 2009	
	Maximum	Minimum	Maximum	Minimum
Index linked	50%	-50%	281	-281
In and linked to foreign currency	8.5%	-8.5%	47	-48
Non-linked	150%	50%	842	281

⁽¹⁾ The financial capital represents shareholders' equity less non-monetary assets in consolidation.

The committee of the Board of Directors for risk management, in accordance with its authority according to Bank policy, approved a temporary increase in the minimum exposure in the index-linked sector (limitation of minimum). The increase in the limitation is an additional NIS 100 million and was determined for a specified period.

The Bank measures its positions in respect of the various linkage bases daily, through its IT system. These data are reported to the units responsible for management of the positions and their adjustment in accordance with relevant restrictions and limitations. Data regarding the amount of the positions are reviewed currently at meetings of the committee for management of assets and liabilities and at meetings of other forums involved in risk management.

Following is the exposure (not necessarily accounting exposure) in each linkage sector:

	Exposure as of 30/09/09	Exposure during the period under review ⁽²⁾		
		Maximum	Minimum	Average
NIS millions				
Index linked	-235.5	-343.9	-41.4	-227.9
In and linked to foreign currency	3.2	20.4	-9.1	2.3

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

The Bank's policy is to avoid, insofar as possible, exposure to exchange rate risks between various currencies. Inter-currency exposure is managed in a limited framework and in accordance with limitations approved by the Board of Directors of the Bank.

Liquidity Risks

Liquidity risk stems from uncertainty relating to the availability of sources of finance and the extent to which these sources can be mobilized (without exceptional effect on prices), and relating to the ability to realize assets within a limited time-span and for a reasonable consideration. The exposure is derived from the granting of long-term loans (including loans at variable interest) financed from short-term deposits. The liquidity risk also exists, but is reduced, when mobilization of short-term deposits reconciles with the period of the change in interest on the loans.

The Bank is exposed to liquidity risks and to uncertainty regarding lessening of its ability to mobilize institutional sources as a result of changes in the market, legislative changes and/or changes in preferences of institutional 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 match, as far as possible, the repayment periods of sources of finance to those pertaining to the uses of funds in each linkage segment. The type of credit and rates of early repayment in the various linkage segments have a significant effect on the estimated exposure to liquidity risk.

In accordance with Bank of Israel directives, every banking entity 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 directive 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 ("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 situation at least monthly through an internal liquidity model (the Bank determines the situations in which the model is required to be activated more frequently). 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.

The Board of Directors of the Bank determined principles for management of liquidity, the level of responsibility and authority and the system of information and treatment regarding exceptions to the limitations and restrictions determined.

The Board of Directors of the Bank determined limitations and restrictions (according to the internal model) regarding the ratio between liquid assets and liabilities (for a repayment period of up to one month) of 1.5 for 2009. This restriction is examined quarterly in accordance with development of financing sources in the Bank and liquidity in the banking system and monetary markets in Israel, and is presented for ratification at each meeting of the committee of the Board of Directors for risk management. However, the Bank's policy states that the ratio will not decrease to less than 1.8. Also, the Board of Directors of the Bank determined additional limitations and restrictions, *inter alia*, the difference between repayment of assets and repayment of liabilities according to periods.

Determination of the above mentioned limitations and restrictions takes into account expected events in the Bank and in its business environment and the Bank's possibilities to mobilize alternative sources insofar as required and the costs of such sources.

The above mentioned ratio as of September 30, 2009 amounted to -2.47, compared to a ratio of 2.42 as of December 31, 2008. In the period under review, the minimum value of the ratio of liquid assets to liabilities (month end) was NIS 2.07 million.

According to the Bank, taking into account the rate of loan renewals in recent years, the exposure to liquidity risks is not extensive since the liquid assets ratio is higher than the required ratio.

Operating Risks

Operating risk is the risk of loss derived 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. Operating risks include legal risks but do not include strategic or goodwill risks.

The Basel Committee, that coordinates the activity of the principal banks in industrial countries, published its recommendations at the end of June 2004 that will take effect in Israel in accordance with a directive issued by the Supervisor of Banks as from January 1, 2010. Among other measures, the Bank is preparing for implementation of the Basel recommendations regarding operating risk management as expressed in the Sound Practices for the Management and Supervision of Operational Risk document. In accordance with this document, the Bank will be required to allocate capital in respect of operating risks, as from the effective date of the Basel II regulations.

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 risk of losses from operating risks, the Bank operates on several planes:

- Decrease in operating exposure through continuing controls and requirement for additional controls in all processes and procedures including a real operating risk.
- Implementation of principal controls in various sectors of activity in accordance with the risk inherent in the process or procedure, emphasizing processes and procedures without additional built-in controls.
- Preparation of reviews of operating risks and review of embezzlement and fraud.
- Current improvements in evaluation of risks inherent in processes and procedures.
- Approval of all processes, procedures and new products by a special committee headed by the Bank's Managing Director, to ascertain operating risks and risks of embezzlement and fraud.
- Collection of data regarding operating deficiencies and failures in order to prevent such occurrences in the future.

In order to improve identification and evaluation of all operating risks and controls, and to implement an operational procedure to supervise and reduce operating risks, the Bank is presently in the final stages of a comprehensive review of operating risk in respect of all business and operating activity.

The Bank has an operating risks manager (Ron Sagi, Deputy Managing Director of the Bank), subordinate to the Managing Director. Also, operating risk control entities and a steering committee to ascertain operating risks, as stated above, exist in the Bank. 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.

Credit control and collateral on securities trading

In accordance with stock exchange and Bank of Israel requirements, the Bank implements credit and collateral controls, and implements real-time follow-up 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 the said requirements.

Legislation and Bank of Israel Directives

Amendment to Bankruptcy Law, 1967

On November 4, 2008 an Amendment to the Bankruptcy Law was approved in the second and third readings.

According to the Amendment, the authority of the Registrar of Bankruptcies were expanded to receive data on borrowers and to levy various restrictions thereon. The Amendment enables a creditor to choose a shortened collection track for debts up to NIS 10,000, which will be handled directly by the bankruptcy authorities without legal intervention. The Amendment also determines conditions for imprisonment of debtors that reduced the possibility to implement this procedure.

Also, the possibility was cancelled to subordinate the entitlement of a borrower evicted from his apartment to receive alternative housing. Also, provisions were determined regarding the scope of the compensation in respect of alternative housing that the borrower will be entitled to receive.

The provisions will be applicable for loans granted after the effective date of the Amendment. However, in the event that the Registrar of Bankruptcies ascertains that the borrower's entitlement to alternative housing was not explained to him - the Amendment will apply also for loans granted prior to the enactment.

The Amendment is in effect as from May 6, 2009. The Bank implements the provisions of the Amendment.

According to the Bank, the Amendment will not affect the Bank materially.

Supervisor of Banks Directive Regarding Measurement and Disclosure of Overdue Debts, Credit Risk and Allowance 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 Directive will be implemented in the financial statements of banking institutions as from January 1, 2010 and onward.

On August 20, 2009 the Bank of Israel transmitted a letter to banking institutions according to which it intends to defer implementation of the Directive until July 1, 2010.

Management of the Bank is preparing for implementation of the Directive, in accordance with the timetable determined.

At this stage, the expected effect of implementation for the first time of the new requirements on the shareholders' equity cannot be quantified.

Increase in Rate of Salary Tax and Profit Tax for Financial Institutions

On May 13, 2009, in the framework of approval of the State budget for 2009 - 2010, the government decided to increase the rate of value added tax and the rate of salary tax and profit tax applicable to financial institutions from 15.5% to 16.5%, in the period July 1, 2009 through December 31, 2010, in the framework of interim regulations. In 2009, the increase in salary tax and profit tax for financial institutions (as from July 1, 2009) will apply regarding salary payable for work in July 2009 and onward and regarding half of the profit in 2009 (see Note 10 to the financial statements).

Proposed Banking Law (Customer Service) (Amendment of Early Repayment Commission on Realization of Assets), 2009

On May 4, 2009 the proposed legislation was submitted by Eitan Kabel, MK. Similarly to the proposed legislation submitted by MK Kabel to the Sixteenth Knesset (4104/P) and to the Seventeenth Knesset (3074/17/P), the proposal is intended to benefit debtors in respect of realization of their residential apartments, and to exempt them from payment of early repayment commission in the event that the asset is realized by the banking institution as a result of non-repayment of the loan. According to management of the Bank, the proposed amendment will not affect the Bank materially.

Miscellaneous

Internal Audit

Details regarding the internal audit, *inter alia*, professional standards according to which the internal audit operates, the annual work program and considerations for determination thereof, are included in the annual report for 2008. In the period under review, there were no material changes in these details.

The internal auditor's annual report for 2008 and the implementation report compared to the internal auditor's annual work program for 2008 were discussed in the audit committee at its meeting on January 15, 2009.

The internal auditor's report on implementation of the work program for the first half of 2009 was discussed in the audit committee at its meeting on July 23, 2009.

Donations

The Bank's policy in respect of donations is implemented in accordance with decisions of management and in the framework of the Bank's budget. This policy includes criteria for choosing institutions and/or associations.

In the framework of the "Adopt a Fighter" project operated by the Soldiers' Association, Bank of Jerusalem adopted the artillery school in Shivta. The artillery school in Shivta is intended to train and certify soldiers and officers in the artillery corps.

The "Adopt a Fighter" project connects between business entities and fighting corps through adoption of values, support and assistance. Adoption of the unit provides the fighters with a sense of belonging and reinforces the consensus surrounding military service.

The Bank has future commitments for donations in the framework of the "Adopt a Fighter" project in the amount of approximately NIS 100 thousand annually until 2011.

Accounting Policy in Respect of Critical Issues

Preparation of consolidated financial statements in accordance with generally accepted accounting principles and in accordance with directives of the Supervisor of Banks requires management to utilize estimates and evaluations impacting on reported amounts of assets, liabilities and income and expense amounts. Actual results of such estimates may differ from the estimates and/or evaluations.

Estimates and evaluations are based, in general, on economic estimates, evaluations of various markets and past experience, taking into consideration discretion and management's opinion regarding their reasonableness at the time of signing the financial statements.

In the period January - September 2009, no changes were evident in the accounting policy regarding critical issues compared to that detailed in the annual report for 2008.

Bank Branches

The Bank operates through 16 branches located throughout Israel. Two of the branches - in Tel Aviv and Jerusalem - constitute commercial branches and serve both business and private customers. The other branches of the Bank provide a wide variety of services for homeowners - mainly granting loans and mortgages, savings and deposits, issuance of credit cards and various capital market activity.

Controls and Procedures regarding Disclosure in the Financial Statements

Management of the Bank, in coordination with the General Manager and Controller of the Bank, evaluated as of the end of the period under review the effectiveness of the controls and procedures regarding disclosure in the Bank. Based on this evaluation, the General Manager and Controller of the Bank concluded that as of the end of the period under review the controls and procedures regarding disclosure in the Bank are effective in order to record, process, summarize and report on the data that the Bank is required to disclose in its interim report in accordance with the regulations for reporting to the public issued by the Supervisor of Banks as of the date fixed in these regulations.

During the period under review, no change was evident that affected materially, or that may reasonably be expected to affect materially, the internal controls of the Bank on its financial reporting.

Amendment to Securities Regulations (Periodic and Immediate Reports), 1970

On August 6, 2008, an amendment to the Securities Regulations (Periodic and Immediate Reports), 1970, took effect. According to the amendment, a reporting entity is required to publish an immediate report including details regarding a transaction with a controlling shareholder or regarding which a controlling shareholder has personal interest in approval thereof. As of the said date, the Securities Authority informed the Association of Banks that the Authority will not become involved in circumstances in which disclosure is not issued in an immediate report in connection with banking transactions that, in other circumstances, does not constitute an extraordinary transaction as defined in the Companies Ordinance.

In accordance with the above mentioned announcement by the Securities Authority, the Bank's audit committee decided at its meeting of September 18, 2008 to determine criteria for extraordinary transactions and for immaterial transactions with a controlling shareholder or regarding which a controlling shareholder has personal interest in approval thereof. The criteria were published by the Bank in the framework of the Directors' Report for the third quarter of 2008.

On February 22, 2009 the Securities Authority clarified, in a letter to the Association of Banks, several issues relating to such banking transactions, taking into account the banking institutions' consideration in the framework of the reports for the third quarter the Securities Authority's memorandum of September 18, 2008. In accordance with the announcement received by the Association of Banks, implementation of the Securities Authority's guidelines in its memorandum of February 22, 2009 was deferred until the fourth quarter of 2009.

Disclosure Regarding Process of Approval of Financial Statements

The Board of Directors of the Bank is responsible for comprehensive control (as defined in Appropriate Banking Management Directive No. 303).

Prior to approval of the financial statements by the Board of Directors, draft financial statements, draft directors' report and draft annual report (annual report only), are transmitted 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.

Also, the Bank's Managing Director, legal counsel, accountant and chief controller, and representatives of the independent auditor, participate in the meeting.

The balance sheet committee discusses the financial statement extensively and implements a decision regarding recommendation for approval of the financial statements by the Board of Directors.

After reaching agreement regarding such recommendation, the draft financial statements, draft directors' report and draft annual periodic report (for annual reports only) are transmitted for review by all members of the Board of Directors.

At the meeting of the Board of Directors, operating results and financial position are reviewed, 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 statements and regarding accounting issues relating to the financial statements. After conclusion of the discussion, the Board of Directors implements a decision regarding approval of the financial statements.

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 provisions of Section 404 of the Sarbanes Oxley Act. Section 404 reflects 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 institutions will implement the provision of Section 404 and the SEC regulations promulgated thereunder.
- Appropriate internal control requires existence of a control system according to a clear defined framework and the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") model fulfills the requirements and may be utilized for purposes of evaluation of internal control.
- Implementation of the requirements necessitates updating and/or establishment of an infrastructure system of internal controls in the bank and the process of development of such systems requires the bank to implement preparations and to determine intermediate stages and goals until comprehensive implementation.

The Bank completed the project according to the timetable fixed and the 2008 financial statements include management's declaration regarding its responsibility for existence and maintenance of appropriate internal controls, processes and procedures regarding financial reporting, and its evaluation of the effectiveness of these controls, processes and procedures.

November 26, 2009

JONATHAN IRONY
Chairman, Board of Directors

AVI BZOURA
General Manager

**SALIENT DATA EXTRACTED FROM THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 (Unaudited)**

	<u>Rate of change in %</u>	<u>For the nine months ended September 30,</u>	
		<u>2009</u>	<u>2008</u>
A. Income and Profitability			
1. Net return on average capital ⁽¹⁾		11.4%	8.4%
		<u>Reported amounts In millions of shekels</u>	
2. Earnings from financing operations before allowance for doubtful debts	21%	139.1	114.5
3. Allowance for doubtful debts	-53%	(1.6)	(3.4)
4. Earnings from financing operations after allowance for doubtful debts	24%	137.5	111.1
5. Operating and other income	1%	62.9	62.5
6. Operating and other expenses	3%	(126.6)	(123.0)
7. Income from ordinary operations before taxes	46%	73.8	50.6
8. Provision for taxes	45%	(26.3)	(18.2)
9. Net income	47%	47.5	32.4
B. Principal financial ratios			
		<u>30.09.09</u>	<u>31.12.08</u>
Allowance for doubtful debts with respect to outstanding credit granted to general public (including weighted amount of off-balance sheet credit risk):			
10. Allowance for the period ⁽¹⁾		0.03%	0.09%
11. Cumulative allowance		1.8%	1.8%
12. Capital adequacy ratio		13.0%	11.8%

(1) In effective annual terms.

**SALIENT DATA EXTRACTED FROM THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 (Unaudited) (Cont.)**

	Rate of change in %	30.09.09	31.12.08
C. Principal balance sheet data			
13. Total assets	2%	9,449	9,251
14. Cash and deposits with banks	151%	882	351
15. Securities	-9%	1,174	1,292
16. Credit granted to general public	-3%	7,291	7,510
17. Deposits from general public	-1%	7,178	7,279
18. Liability certificates and subordinated liability notes	25%	1,486	1,188
19. Shareholders' equity	15%	598	520
20. Capital for purposes of adequacy ratio	8%	891	822
D. Off-balance sheet items			
21. Outstanding loans made from deposits by reference to the extent of repayment	-6%	3,084	3,279
22. Outstanding guarantees	-18%	509	618

LOGO

CERTIFICATION

I, Avi Bzoura, hereby declare that:

1. I reviewed the interim financial statements of Bank of Jerusalem Ltd ("the Bank") as of September 30, 2009 ("the report").
2. Based on my knowledge, the report does not include any incorrect presentation of any material 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 interim financial statements and the other financial data included in the report reflect appropriately, from all material standpoints, the financial position, operating results, cash flows and changes in shareholders' equity of the Bank as of the dates and for the periods presented in the report.
4. I and others in the Bank declaring this certification are responsible for the determination and for the existence of controls and procedures regarding disclosure and internal controls of the Bank on financial reporting. And:
 - (a) We determined such controls and procedures, or caused such determination, intended to ensure that the material data relating to the Bank, including its consolidated entities, is brought to our attention by others in the Bank and in those entities, especially during the period of preparation of the report; and
 - (b) We determined such internal controls on financial reporting, or ensured determination, under our supervision, of such internal controls on financial reporting, intended to provide reasonable certainty regarding the reliability of the financial reporting and regarding preparation of the financial statements for external purposes in accordance with generally accepted accounting principles and in accordance with directives and instructions of the Supervisor of Banks;
 - (c) We determined such internal control on financial reporting, or ascertained determination under our supervision of such internal control on financial reporting, intended to provide reasonable certainty regarding the reliability of information and data included in the financial reporting and regarding the financial statements preparation, for external purposes, in accordance with generally accepted accounting principles and in accordance with the directives of the Supervisor of Banks and his instructions.
 - (d) We disclosed in the report all changes in internal controls in the Bank relating to financial reporting in the reporting period that affected materially, or that it is reasonable to assume affected materially, 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 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 material defects and deficiencies and material weaknesses in the determination or operation of the internal control on financial reporting, that it is reasonable to assume may impair the Bank's ability to record, process, summarize and report on financial data; and
 - (b) Any fraud or deceit, material or immaterial, 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.

November 26, 2009

Avi Bzoura
General Manager

LOGO

CERTIFICATION

I, Arnon Zayit, hereby declare that:

1. I reviewed the interim financial statements of Bank of Jerusalem Ltd ("the Bank") as of September 30, 2009 ("the report").
2. Based on my knowledge, the report does not include any incorrect presentation of any material 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 interim financial statements and the other financial data included in the report reflect appropriately, from all material standpoints, the financial position, operating results, cash flows and changes in shareholders' equity of the Bank as of the dates and for the periods presented in the report.
4. I and others in the Bank declaring this certification are responsible for the determination and for the existence of controls and procedures regarding disclosure and internal controls of the Bank on financial reporting. And:
 - (a) We determined such controls and procedures, or caused such determination, intended to ensure that the material data relating to the Bank, including its consolidated entities, is brought to our attention by others in the Bank and in those entities, especially during the period of preparation of the report; and
 - (b) We determined such internal controls on financial reporting, or ensured determination, under our supervision, of such internal controls on financial reporting, intended to provide reasonable certainty regarding the reliability of the financial reporting and regarding preparation of the financial statements for external purposes in accordance with generally accepted accounting principles and in accordance with directives and instructions of the Supervisor of Banks;
 - (c) We determined such internal control on financial reporting, or ascertained determination under our supervision of such internal control on financial reporting, intended to provide reasonable certainty regarding the reliability of information and data included in the financial reporting and regarding the financial statements preparation, for external purposes, in accordance with generally accepted accounting principles and in accordance with the directives of the Supervisor of Banks and his instructions.
 - (d) We disclosed in the report all changes in internal controls in the Bank relating to financial reporting in the reporting period that affected materially, or that it is reasonable to assume affected materially, 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 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 material defects and deficiencies and material weaknesses in the determination or operation of the internal control on financial reporting, that it is reasonable to assume may impair the Bank's ability to record, process, summarize and report on financial data; and
 - (b) Any fraud or deceit, material or immaterial, 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.

November 26, 2009

Arnon Zayit
Chief Accounting Officer

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	For the three months ended September 30, 2009			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾⁽⁶⁾	
			Without effect of ALM derivatives	Including effect of ALM derivatives
	NIS in millions		Percentages	
Israel currency - unlinked				
Assets ⁽⁸⁾	5,096.5	33.5	2.66	2.66
Liabilities ⁽⁸⁾	3,920.6	(12.3)	(1.26)	
Effect of hedging derivatives	102.8	(1.4)		
Effect of ALM derivatives ⁽⁹⁾	284.9	(2.4)		
Total liabilities	4,308.3	(16.1)		(1.50)
Interest differential			<u>1.40</u>	<u>1.16</u>
Israel currency - linked to consumer price Index				
Assets ⁽⁸⁾	3,280.6	118.9	15.30	
Effect of ALM derivatives ⁽⁹⁾	299.9	5.6		
Total assets	3,580.5	124.5		14.65
Liabilities ⁽⁸⁾	3,978.0	(135.9)	(14.38)	
Effect of hedging derivatives	(102.8)	3.5		
Total liabilities	3,875.2	(132.4)		(14.38)
Interest differential			<u>0.92</u>	<u>0.27</u>
Foreign currency - domestic operations ⁽³⁾				
Assets ⁽⁸⁾	1,094.6	(26.9)	(9.47)	
Effect of ALM derivatives ⁽⁹⁾	261.0	(6.9)		
Total assets	1,355.6	(33.8)		(9.61)
Liabilities ⁽⁸⁾	987.7	36.3	13.91	
Effect of ALM derivatives ⁽⁹⁾	276.0	1.5		
Total liabilities	1,263.7	37.8		11.44
Interest differential			<u>4.44</u>	<u>1.83</u>
Total				
Monetary assets producing financing income ⁽⁸⁾	9,471.7	125.5	5.41	
Effect of ALM derivatives ⁽⁹⁾	560.9	(1.3)		
Total assets	10,032.6	124.2		5.04
Monetary liabilities producing financing expenses ⁽⁸⁾	8,886.3	(111.9)	(5.13)	
Effect of hedging derivatives	-	2.1		
Effect of ALM derivatives ⁽⁹⁾	560.9	(0.9)		
Total liabilities	9,447.2	(110.7)		(4.77)
Interest differential			<u>0.28</u>	<u>0.27</u>

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	For the three months ended September 30, 2009			
			Rates of income (expenses) ⁽⁵⁾⁽⁶⁾	
	Average balance for period ⁽²⁾	Financing income (expenses)	Without effect of ALM derivatives	Including effect of ALM derivatives
	In millions of shekels	In millions of shekels	Percentages	
In respect of options	-			
In respect of other financial derivatives	0.3			
Commission from financing activities and other financing income ⁽⁴⁾	17.0			
Financing income before allowance for doubtful debts	30.8			
Allowance for doubtful debts (including general and additional allowance)	3.1			
Total financing income after allowance for doubtful debts	33.9			
Monetary assets producing financing income	9,471.7			
ALM derivatives ⁽⁷⁾	24.1			
Other monetary assets ⁽⁸⁾	11.2			
General and additional allowance for doubtful debts	(6.9)			
Total monetary assets	9,500.1			
Monetary liabilities producing financing expenses	8,886.3			
ALM derivatives ⁽⁷⁾	5.8			
Other monetary liabilities ⁽⁸⁾	54.0			
Total monetary liabilities	8,946.1			
Total excess of monetary assets over monetary liabilities	554.0			
Non-monetary assets	60.4			
Non-monetary liabilities	(23.0)			
Total capital resources	591.4			

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	For the three months ended September 30, 2008			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾⁽⁶⁾	
			Without the effect of derivatives	Including the effect of derivatives
	In millions of shekels		Percentages	
Israel currency - unlinked				
Assets ⁽⁸⁾	4,572.7	61.7	5.51	5.51
Liabilities ⁽⁸⁾	3,664.9	(34.6)		
Effect of hedging derivatives	93.8	(1.4)	(3.83)	
Effect of ALM derivatives ⁽⁹⁾	232.2	(4.0)		
Total assets	3,990.9	(40.0)		(4.07)
Interest differential			1.68	1.44
Israel currency - linked to consumer price Index				
Assets ⁽⁸⁾	3,492.7	115.5	13.90	
Effect of ALM derivatives ⁽⁹⁾	275.7	6.3		
Total assets	3,768.4	121.8		13.57
Liabilities ⁽⁸⁾	3,973.3	(125.3)	(13.23)	
Effect of hedging derivatives	(93.8)	2.9		
Total liabilities	3,879.5	(122.4)		(13.23)
Interest differential			0.67	0.34
Foreign currency - domestic operations ⁽³⁾				
Assets ⁽⁸⁾	1,186.9	25.9	9.02	
Effect of ALM derivatives ⁽⁹⁾	257.0	(18.2)		
Total assets	1,443.9	7.7		2.15
Liabilities ⁽⁸⁾	1,065.9	(14.4)	(5.51)	
Effect of ALM derivatives ⁽⁹⁾	270.5	15.3		
Total liabilities	1,336.4	0.9		0.27
Interest differential			3.51	2.42
Total				
Monetary assets producing financing income ⁽⁸⁾	9,252.3	203.1	9.07	
Effect of ALM derivatives ⁽⁹⁾	532.7	(11.9)		
Total assets	9,785.0	191.2		8.05
Monetary liabilities producing financing expenses ⁽⁸⁾	8,704.1	(174.3)	(8.25)	
Effect of hedging derivatives	-	1.5		
Effect of ALM derivatives ⁽⁹⁾	502.7	11.3		
Total liabilities	9,206.8	(161.5)		(7.20)
Interest differential			0.82	0.85

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	For the three months ended September 30, 2008			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾⁽⁶⁾	
			Without the effect of derivatives	Including the effect of derivatives
	In millions of shekels	Percentages		
In respect of options		(0.9)		
In respect of other financial derivatives		0.4		
Commission from financing activities and other financing income ⁽⁴⁾		<u>(4.5)</u>		
Financing income before allowance for doubtful debts		24.7		
Allowance for doubtful debts (including general and additional allowance)		<u>(2.2)</u>		
Total financing income after allowance for doubtful debts		<u><u>22.5</u></u>		
Monetary assets producing financing income	9,252.3			
Assets derived from derivative instruments ⁽⁷⁾	18.1			
Other monetary assets ⁽⁸⁾	13.7			
General and additional allowance for doubtful debts	<u>(5.6)</u>			
Total monetary assets	<u>9,278.5</u>			
Monetary liabilities producing financing expenses	8,704.1			
Assets derived from derivative instruments ⁽⁷⁾	5.9			
Other monetary liabilities ⁽⁸⁾	<u>80.3</u>			
Total monetary liabilities	<u>8,790.3</u>			
Total excess of monetary assets over monetary liabilities	488.2			
Non-monetary assets	55.7			
Non-monetary liabilities	<u>(22.8)</u>			
Total capital resources	<u><u>521.1</u></u>			

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	For the nine months ended September 30, 2009			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾⁽⁶⁾	
			Without effect of ALM derivatives	Including effect of ALM derivatives
In millions of shekels	Percentages			
Israel currency - unlinked				
Assets ⁽⁸⁾	4,799.6	109.9	3.06	3.06
Liabilities ⁽⁸⁾	3,730.2	(41.6)	(1.49)	
Effect of hedging derivatives	99.6	(4.3)		
Effect of ALM derivatives ⁽⁹⁾	185.1	(5.9)		
Total liabilities	4,014.9	(51.8)		(1.72)
Interest differential			1.57	1.34
Israel currency - linked to consumer price index				
Assets ⁽⁸⁾	3,431.4	239.3	9.40	
Effect of ALM derivatives ⁽⁹⁾	176.4	17.0		
Total assets	3,607.8	256.3		9.58
Liabilities ⁽⁸⁾	3,996.7	(262.0)	(8.83)	
Effect of hedging derivatives	(99.6)	6.6		
Total liabilities	3,897.1	(255.4)		(8.83)
Interest differential			0.57	0.75
Foreign currency- domestic operations ⁽³⁾				
Assets ⁽⁸⁾	1,123.8	34.2	4.08	
Effect of ALM derivatives ⁽⁹⁾	281.4	14.0		
Total assets	1,405.2	48.2		4.60
Liabilities ⁽⁸⁾	1,044.0	(13.5)	(1.73)	
Effect of ALM derivatives ⁽⁹⁾	272.6	(1.0)		
Total liabilities	1,316.6	(14.5)		(1.47)
Interest differential			2.35	3.13
Total				
Monetary assets producing financing income ⁽⁸⁾	9,354.8	383.4	5.50	
Effect of ALM derivatives ⁽⁹⁾	457.8	31.0		
Total assets	9,812.6	414.4		5.67
Monetary liabilities producing financing expenses ⁽⁸⁾	8,770.9	(317.1)	(4.85)	
Effect of hedging derivatives	-	2.3		
Effect of ALM derivatives ⁽⁹⁾	457.7	(6.9)		
Total liabilities	9,228.6	(321.7)		(4.67)
Interest differential			0.65	1.00

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	<u>For the nine months ended September 30, 2009</u>			
	<u>Average balance for period ⁽²⁾</u>	<u>Financing income (expenses)</u>	<u>Rates of income (expenses) ⁽⁵⁾⁽⁶⁾</u>	
			<u>Without effect of ALM derivatives</u>	<u>Including effect of ALM derivatives</u>
			<u>Percentages</u>	
<u>In millions of shekels</u>		<u>Percentages</u>		
In respect of options		(3.2)		
In respect of other financial derivatives		1.0		
Commission from financing activities and other financing income ⁽⁴⁾		48.6		
Financing income before allowance for doubtful debts		139.1		
Allowance for doubtful debts (including general and additional allowance)		(1.6)		
Total financing income after allowance for doubtful debts		137.5		
Monetary assets producing financing income	9,354.8			
ALM derivatives ⁽⁷⁾	17.6			
Other monetary assets ⁽⁸⁾	14.6			
General and additional allowance for doubtful debts	(7.4)			
Total monetary assets	9,379.6			
Monetary liabilities producing financing expenses	8,770.9			
ALM derivatives ⁽⁷⁾	7.3			
Other monetary liabilities ⁽⁸⁾	73.6			
Total monetary liabilities	8,851.8			
Total excess of monetary assets over monetary liabilities	527.8			
Non-monetary assets	60.5			
Non-monetary liabilities	(22.9)			
Total capital resources	565.4			

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	For the nine months ended September 30, 2008			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾⁽⁶⁾	
			Without the effect of derivatives	Including the effect of derivatives
	In millions of shekels	Percentages		
Israel currency - unlinked				
Assets ⁽⁸⁾	4,427.1	174.8	5.30	5.30
Liabilities ⁽⁸⁾	3,599.7	(99.0)	(3.68)	
Effect of hedging derivatives	90.1	(4.0)		
Effect of ALM derivatives ⁽⁹⁾	260.5	(10.5)		
Total liabilities	3,950.3	(113.5)		(3.85)
Interest differential			1.62	1.45
Israel currency - linked to consumer price Index				
Assets ⁽⁸⁾	3,526.6	303.2	11.62	
Effect of ALM derivatives ⁽⁹⁾	234.8	17.2		
Total assets	3,761.4	320.4		11.52
Liabilities ⁽⁸⁾	3,904.3	(320.3)	(11.09)	
Effect of hedging derivatives	(90.8)	7.2		
Total liabilities	3,813.5	(313.1)		(11.09)
Interest differential			0.53	0.43
Foreign currency - domestic operations ⁽³⁾				
Assets ⁽⁸⁾	1,185.3	(78.6)	(8.74)	
Effect of ALM derivatives ⁽⁹⁾	337.2	(50.2)		
Total assets	1,522.5	(128.8)		(11.12)
Liabilities ⁽⁸⁾	1,094.7	113.4	13.57	
Effect of ALM derivatives ⁽⁹⁾	311.4	37.0		
Total liabilities	1,406.1	150.4		14.00
Interest differential			4.83	2.88
Total				
Monetary assets producing financing income ⁽⁸⁾	9,139.0	399.4	5.87	
Effect of ALM derivatives ⁽⁹⁾	572.0	(33.0)		
Total assets	9,711.0	366.4		5.06
Monetary liabilities producing financing expenses ⁽⁸⁾	8,598.7	(305.9)	(4.77)	
Effect of hedging derivatives	(0.7)	3.2		
Effect of ALM derivatives ⁽⁹⁾	571.9	26.5		
Total liabilities	9,169.9	(276.2)		(4.04)
Interest differential			1.10	1.02

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

**APPENDIX A
REPORTED AMOUNTS**

	For the nine months ended September 30, 2008	
	Average balance for period ⁽²⁾	Financing income (expenses)
	NIS in millions	Rates of income (expenses) ⁽⁵⁾⁽⁶⁾ Without the effect of derivatives Including the effect of derivatives Percentages
In respect of options		3.2
In respect of other financial derivatives		1.4
Commission from financing activities and other financing income ⁽⁴⁾		19.7
Financing income before allowance for doubtful debts		114.5
Allowance for doubtful debts (including general and additional allowance)		(3.4)
Total financing income after allowance for doubtful debts		111.1
Monetary assets producing financing income	9,139.0	
Assets derived from derivative instruments ⁽⁷⁾	14.0	
Other monetary assets ⁽⁸⁾	11.0	
General and additional allowance for doubtful debts	(6.1)	
Total monetary assets	9,157.9	
Monetary liabilities producing financing expenses	8,598.7	
Assets derived from derivative instruments ⁽⁷⁾	8.1	
Other monetary liabilities ⁽⁸⁾	69.7	
Total monetary liabilities	8,676.5	
Total excess of monetary assets over monetary liabilities	481.4	
Non-monetary assets	56.7	
Non-monetary liabilities	(21.3)	
Total capital resources	516.8	

Remarks may be found at the end of this review.

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

APPENDIX A

FOREIGN CURRENCY - NOMINAL UNITED STATES DOLLARS

	For the three months ended September 30, 2009			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾	
			Without effect of ALM derivatives	Including effect of ALM derivatives
			Percentages	
In millions of US \$				
Foreign currency - domestic operations ⁽³⁾				
Assets ⁽⁸⁾	293.9	2.0	2.75	
Effect of ALM derivatives ⁽⁹⁾	33.9	0.2		
Total assets	327.8	2.2		2.71
Liabilities ⁽⁸⁾	258.7	(0.6)	(0.93)	
Effect of ALM derivatives ⁽⁹⁾	36.4	(0.1)		
Total liabilities	295.1	(0.7)		(0.95)
Interest differential			1.82	1.76
	For the three months ended September 30, 2008			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾	
			Without effect of ALM derivatives	Including effect of ALM derivatives
			Percentages	
In millions of US \$				
Foreign currency - domestic operations ⁽³⁾				
Assets ⁽⁸⁾	360.2	4.1	4.63	
Effect of ALM derivatives ⁽⁹⁾	27.3	0.5		
Total assets	387.5	4.6		4.83
Liabilities ⁽⁸⁾	314.6	(1.8)	(2.31)	
Effect of ALM derivatives ⁽⁹⁾	24.8	(0.4)		
Total liabilities	339.4	(2.2)		(2.62)
Interest differential			2.32	2.21

MANAGEMENT REVIEW

CONSOLIDATED RATES OF INCOME AND EXPENSES ⁽¹⁾

APPENDIX A

FOREIGN CURRENCY - NOMINAL UNITED STATES DOLLARS

	For the nine months ended September 30, 2009			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾	
			Without the effect of derivatives	Including the effect of derivatives
	In millions of US\$		Percentages	
Foreign currency - domestic operations ⁽³⁾				
Assets ⁽⁸⁾	292.3	9.1	4.17	
Effect of ALM derivatives ⁽⁹⁾	41.6	0.6		
Total assets	333.9	9.7		3.89
Liabilities ⁽⁸⁾	263.0	(2.1)	(1.07)	
Effect of ALM derivatives ⁽⁹⁾	40.3	(0.4)		
Total liabilities	303.3	(2.5)		(1.10)
Interest differential			3.10	2.79

	For the nine months ended September 30, 2008			
	Average balance for period ⁽²⁾	Financing income (expenses)	Rates of income (expenses) ⁽⁵⁾	
			Without the effect of derivatives	Including the effect of derivatives
	In millions of US\$		Percentages	
Foreign currency - domestic operations ⁽³⁾				
Assets ⁽⁸⁾	354.0	13.4	5.08	
Effect of ALM derivatives ⁽⁹⁾	27.6	1.1		
Total assets	381.6	14.5		5.10
Liabilities ⁽⁸⁾	320.4	(6.5)	(2.71)	
Effect of ALM derivatives ⁽⁹⁾	24.3	(0.8)		
Total liabilities	344.7	(7.3)		(2.83)
Interest differential			2.37	2.27

Remarks:

- (1) The data in this table are presented before and after the effect of ALM derivatives (including off-balance sheet effect financial instruments).
- (2) Based on monthly opening balances, except for the unlinked Israel currency segment where the average balance is computed daily, and after deducting the average balance of the specific allowances for doubtful debts
- (3) Including Israel currency linked to foreign currency
- (4) Includes gains and losses arising on sale of investments in debentures and from adjustment to fair value of marketable debentures
- (5) Annual rate of yield
- (6) Percentages are calculated on the basis of data in thousands of shekels.
- (7) Average balance sheet balances of financial derivatives (not including off-balance sheet balances of financial derivatives).
- (8) Except derivative instruments.
- (9) ALM - Derivative instruments comprising part of the Bank's system of management of assets and liabilities (except options), in respect of which income and expenses may be attributed to linkage segments.

MANAGEMENT REVIEW

EXPOSURE OF THE BANK AND ITS SUBSIDIARIES TO INTEREST RATE FLUCTUATIONS

APPENDIX B

REPORTED AMOUNTS

	September 30, 2009											
	On	From	From	From one	From	From	From ten	More	Without	Internal	Average	
	demand	one	three	to	three	five	to	than	maturity	rate of	duration	
	and up	to	months	three	to	to	to	twenty	date ⁽¹⁾	%	Years	
	to one	three	to	to	five	ten	twenty	years				
	month	months	one year	years	years	years	years	years		Total	Years	
Israel currency - non-linked												
Total assets	2,708.6	768.2	1,124.5	84.4	160.8	70.6	4.5	-	35.6	4,957.2	4.30	0.50
Total liabilities	2,517.5	457.8	584.5	164.8	126.6	8.3	-	-	-	3,859.5	2.40	0.34
Exposure of sector to changes in interest rates	191.1	310.4	540.0	(80.4)	34.2	62.3	4.5	-	36	1,097.7	1.90	0.16
Accumulated exposure in sector	191.1	501.5	1,041.5	961.1	995.3	1,057.6	1,062.1	1,062.1	1,097.7	1,097.7		
Israel currency - linked												
Total assets	67.0	171.8	701.4	965.1	533.0	676.4	204.2	4.2	-	3,323.1	5.10	3.65
Total liabilities	144.8	361.5	712.6	935.8	1,332.5	461.2	38.2	-	-	3,986.6	4.20	2.81
Exposure of sector to changes in interest rates	(77.8)	(189.7)	(11.2)	29.3	(799.5)	215.2	166.0	4.2	-	(663.5)	0.90	0.84
Accumulated exposure in sector	(77.8)	(267.5)	(278.7)	(249.4)	(1,048.9)	(833.7)	(667.7)	(663.5)	(663.5)	(663.5)		
Foreign currency ⁽²⁾												
Total assets	957.9	54.3	67.8	5.0	5.8	16.8	1.3	-	-	1,108.9	5.30	0.25
Total liabilities	520.9	175.0	251.8	18.7	13.6	0.2	1.3	-	-	981.5	1.40	0.32
Exposure of sector to changes in interest rates	437.0	(120.7)	(184.0)	(13.7)	(7.8)	16.6	-	-	-	127.4	3.90	(0.07)
Accumulated exposure in sector	437.0	316.3	132.3	118.6	110.8	127.4	127.4	127.4	127.4	127.4		

MANAGEMENT REVIEW

EXPOSURE OF THE BANK AND ITS SUBSIDIARIES TO INTEREST RATE FLUCTUATIONS

APPENDIX B

REPORTED AMOUNTS

	September 30, 2009											
	On demand and up to one month	From one to three months	From three months to one year	From one to three years	From three to five years	From five to ten years	From ten to twenty years	More than twenty years	Without maturity date ⁽¹⁾	Total	Internal rate of return %	Average duration Years
General exposure to interest rate fluctuations												
Total assets	3,733.5	994.3	1,893.7	1,054.5	699.6	763.8	210.0	4.2	35.6	9,389.2		1.58
Total liabilities	3,183.2	994.3	1,548.9	1,119.3	1,472.7	469.7	39.5	-	-	8,827.6		1.45
Total exposure to changes in interest rates	<u>550.3</u>	<u>-</u>	<u>344.8</u>	<u>(64.8)</u>	<u>(773.1)</u>	<u>294.1</u>	<u>170.5</u>	<u>4.2</u>	<u>35.6</u>	<u>561.6</u>		<u>0.13</u>
Total accumulated exposure	<u>550.3</u>	<u>550.3</u>	<u>895.1</u>	<u>830.3</u>	<u>57.2</u>	<u>351.3</u>	<u>521.8</u>	<u>526.0</u>	<u>561.6</u>	<u>561.6</u>		

(1) The column, "without maturity date," presents balance sheet balances.

(2) Domestic operations, including in Israeli currency linked to foreign currency

Remarks

1. Complete data relating to exposure to changes in interest rates in each sector, by reference to various balance sheet items, will be provided to all those requesting such information.
2. In this table, the data by period represent the present value of future cash flows, as discounted by the internal rate of return of the relevant balance sheet item. These discounted cash flows include interest accrued to the earlier of the repayment dates and the date of a change in the interest rate.
3. The above data is based on the original repayment dates and does not take into account any early repayment. In the period under review, loans were repaid in early repayment in the index linked sector in the amount of NIS 168.6 million.

MANAGEMENT REVIEW

**THE AGGREGATE CREDIT RISK TO THE PUBLIC ACCORDING TO ECONOMY SEGMENTS -
CONSOLIDATED**

APPENDIX C

REPORTED AMOUNTS

	September 30, 2009				
	Balance sheet credit risk *	Off- balance sheet credit risk **	Total credit risk in respect of public	Expense in respect of specific allowance for doubtful debts	Balances of problematic debts ***
	NIS in millions				
Agriculture	13.1	1.9	15.0	0.3	-
Industry	64.2	7.2	71.4	-	2.1
Construction and real estate	988.2	525.0	1,513.2	0.1	173.1
Electricity and water	0.8	-	0.8	-	-
Commercial	54.7	1.1	55.8	0.1	0.1
Hotels, guest services, food and beverage	9.2	0.2	9.4	0.6	-
Transportation and storage	82.6	0.2	82.8	0.2	-
Communication and computer services	12.1	0.2	12.3	-	1.1
Financial services	98.0	6.8	104.8	-	5.2
Other business services	149.1	13.0	162.1	0.2	4.7
Public and community services	50.3	7.8	58.1	-	0.5
Individuals - housing loans	5,289.4	333.1	5,622.5	1.4	246.3
Individual - other	625.4	117.5	742.9	(1.1)	-
Total	<u>7,437.1</u>	<u>1,014.0</u>	<u>8,451.1</u>	<u>1.8</u>	<u>433.1</u>

* Credit to the public, investments in debentures of the public, in the amount of NIS 7,298.5 million, NIS 138.6 million, respectively.

** Credit risk in respect of off-balance sheet financial instruments as calculated for purposes of limitation of borrowers' liability.

*** Balance of problematic debts less credit covered by collateral, deductible for purposes of limitation of liability of borrower or group of borrowers, including off-balance sheet financing components.

LOGO

Review Report of Auditors to Shareholders of Bank of Jerusalem Ltd

General

We have reviewed the attached financial data of BANK OF JERUSALEM LTD. And its subsidiaries, including the condensed consolidated balance sheet as of September 30, 2009, and the condensed consolidated statements of income, changes in shareholders' equity and cash flows for the three months and for the nine months then ended. The Board of Directors and management are responsible for preparation and presentation of the financial data for the said interim period in accordance with Accounting Standard No. 14 of the Israeli Accounting Standards Board, "Financial Reporting for Interim Periods", and in accordance with directives of the Supervisor of Banks and his instructions. Our responsibility is to express a conclusion regarding the financial data for the said interim period based on our review.

Scope of Review

Our review was made in accordance with Review Standard No. 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Data for Interim Periods Prepared by Auditor of an Entity" and in accordance with review standards for banking institutions as determined in directives of the Supervisor of Banks and his instructions. Review of financial data for interim periods is composed of clarifications, mainly with persons responsible for financial and accounting matters, and implementation of analytical and other review procedures. A review is substantially less in scope than an audit prepared in accordance with generally accepted auditing standards in Israel and therefore does not enable us to ensure that we will ascertain all material matters that could be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, we are not aware of any reason to believe that the financial data, as stated above, are not prepared, in all material respects, in accordance with Accounting Standard No. 14 of the Israeli Accounting Standards Board and in accordance with directives of the Supervisor of Banks and his instructions.

Without qualifying our conclusion, as stated above, we draw attention to the uncertainties described in Note 6C 2.A to the interim financial statements.

Tel-Aviv, Israel
November 26 , 2009

KOST FORER GABBAY & KASIERER
Certified Public Accountants (Isr.)

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

In reported amounts in millions of NIS

	<u>September 30,</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>Unaudited</u>		<u>Audited</u>
ASSETS			
Cash and bank deposits	881.9	347.0	350.7
Securities	1,173.5	1,320.1	1,291.7
Credit to general public	7,291.4	7,520.1	7,510.1
Premises and equipment	49.9	47.5	51.8
Other assets	52.7	59.5	47.0
Total assets	<u>9,449.4</u>	<u>9,294.2</u>	<u>9,251.3</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from general public	7,178.3	7,140.3	7,279.3
Deposits from banks	112.7	196.5	139.5
Deposits from the Government	0.5	3.6	3.7
Securities loaned or sold in the framework of reacquisition agreement	-	110.1	50.0
Deposit certificates and subordinated notes	1,485.6	1,279.9	1,188.3
Other liabilities	74.2	57.8	70.6
Total liabilities	8,851.3	8,788.2	8,731.4
Shareholders' equity	598.1	506.0	519.9
Total liabilities and shareholders' equity	<u>9,449.4</u>	<u>9,294.2</u>	<u>9,251.3</u>

The accompanying notes and appendices form an integral part of the condensed interim financial statements.

November 26, 2009

Date of approval of the
financial statements

JONATHAN IRONY
Chairman of the Board
of Directors

AVI BZOURA
General Manager

ARNON ZAYIT
Chief Accounting
Officer

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

In reported amounts in millions of NIS

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)		(Unaudited)		(Audited)
Earnings from financing operations before allowance for doubtful debts	30.8	24.7	139.1	114.5	171.7
Allowance for doubtful debts	(3.1)	2.2	1.6	3.4	6.8
Earnings from financing operations after allowance for doubtful debts	33.9	22.5	137.5	111.1	164.9
Operating and other income					
Operating commission	21.7	20.7	62.4	62.6	82.4
Gains (losses) from investments in shares, net	-	(0.3)	-	(0.7)	(1.0)
Other income	0.2	0.2	0.5	0.6	1.5
Total operating and other income	21.9	20.6	62.9	62.5	82.9
Operating and other expenses					
Salaries and related expenses	25.2	22.2	77.8	75.6	102.6
Maintenance and depreciation of premises and equipment	7.0	6.4	20.8	18.4	24.4
Other expenses	9.1	10.1	28.0	29.0	39.2
Total operating and other expenses	41.3	38.7	126.6	123.0	166.2
Income from ordinary operations before taxes	14.5	4.4	73.8	50.6	81.6
Taxes on income from ordinary operations	5.5	1.0	26.3	18.2	29.9
Net income	9.0	3.4	47.5	32.4	51.7
Earnings per share (in shekels)					
Earnings from ordinary operations	0.13	0.05	0.67	0.46	0.73

The accompanying notes form an integral part of the condensed interim financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In reported amounts in millions of NIS

	For the three months ended September 30, 2009 and 2008 (Unaudited)						
	Paid-up share capital	Capital reserve from premium	Total paid-up share and capital reserves	Other accumulated income (loss)		Retained earnings	Total shareholders' equity
				Presentation at fair value of securities available for sale	Earnings in respect of hedging of cash flows		
Balance as of June 30, 2009	127.3	95.3	222.6	1.1	0.4	365.2	589.3
Net income	-	-	-	-	-	9.0	9.0
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	10.7	-	-	10.7
Adjustments in respect of presentation of securities available for sale reclassified to statement of income	-	-	-	(10.3)	-	-	(10.3)
Related tax effect	-	-	-	(0.2)	-	-	(0.2)
Net loss in respect of hedging of cash flows less related tax effect	-	-	-	-	(0.4)	-	(0.4)
Balance as of September 30, 2009	127.3	95.3	222.6	1.3	-	374.2	598.1
Balance as of June 30, 2008	127.3	95.3	222.6	(8.2)	0.9	304.0	519.3
Net income	-	-	-	-	-	3.4	3.4
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	(35.2)	-	-	(35.2)
Adjustments in respect of presentation of securities available for sale reclassified to statement of income	-	-	-	10.4	-	-	10.4
Related tax effect	-	-	-	8.9	-	-	8.9
Net earnings in respect of hedging of cash flows less related tax effect	-	-	-	-	(0.8)	-	(0.8)
Balance as of September 30, 2008	127.3	95.3	222.6	(24.1)	0.1	307.4	506.0

The accompanying notes form an integral part of the condensed interim financial statements.

BANK OF JERUSALEM LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In reported amounts in millions of NIS

	For the nine months ended September 30, 2009 and 2008 (Unaudited)						
	Paid-up share capital	Capital reserve from premium	Total paid- up share and capital reserves	Other accumulated income (loss)		Retained earnings	Total share- holders' equity
				Presentation at fair value of securities available for sale	Earnings (losses) in respect of hedging of cash Flows		
Balance as of							
December 31, 2008 (Audited)	127.3	95.3	222.6	(28.0)	(1.4)	326.7	519.9
Net income	-	-	-	-	-	47.5	47.5
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	75.1	-	-	75.1
Adjustments in respect of presentation of securities available for sale reclassified to statement of income	-	-	-	(28.8)	-	-	(28.8)
Related tax effect	-	-	-	(17.0)	-	-	(17.0)
Net earnings in respect of hedging of cash flows less related tax effect	-	-	-	-	1.4	-	1.4
Balance as of September 30, 2009	127.3	95.3	222.6	1.3	-	374.2	598.1
Balance as of							
December 31, 2007 (Audited)	127.3	95.3	222.6	(3.7)	1.3	282.2	502.4
Net income	-	-	-	-	-	32.4	32.4
Dividend paid	-	-	-	-	-	(7.2)	(7.2)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	(35.5)	-	-	(35.5)
Adjustments in respect of presentation of securities available for sale reclassified to statement of income	-	-	-	3.6	-	-	3.6
Related tax effect	-	-	-	11.5	-	-	11.5
Net losses in respect of hedging of cash flows less related tax effect	-	-	-	-	(1.2)	-	(1.2)
Balance as of September 30, 2008	127.3	95.3	222.6	(24.1)	0.1	307.4	506.0

The accompanying notes form an integral part of the condensed interim financial statements.

BANK OF JERUSALEM LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In reported amounts in millions of NIS

	For the year ended December 31, 2008 (Audited)							
	Paid-up share capital	Capital reserve from premium	Total paid- up share and capital reserves	Presentation at fair value of securities available for sale	Other accumulated income (loss)	Earnings (losses) in respect of hedging of cash flows	Retained earnings	Total share- holders' equity
Balance as of								
December 31, 2007 (audited)	127.3	95.3	222.6	(3.7)		1.3	282.2	502.4
Net income	-	-	-	-		-	51.7	51.7
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	(37.2)		-	-	(37.2)
Adjustments in respect of presentation of securities available for sale reclassified to statement of income	-	-	-	(1.0)		-	-	(1.0)
Related tax effect	-	-	-	13.9		-	-	13.9
Dividend paid	-	-	-	-		-	(7.2)	(7.2)
Net losses in respect of hedging of cash flows less related tax effect	-	-	-	-		(2.7)	-	(2.7)
Balance as of								
December 31, 2008	<u>127.3</u>	<u>95.3</u>	<u>222.6</u>	<u>(28.0)</u>		<u>(1.4)</u>	<u>326.7</u>	<u>519.9</u>

The accompanying notes form an integral part of the condensed interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In reported amounts in millions of NIS

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31 2008
	2009	2008	2009	2008	(Audited)
	(Unaudited)				
Cash flows from operating activities:					
Net income	9.0	3.4	47.5	32.4	51.7
Adjustments to reconcile net income to net cash provided by operating activities:					
Allowance for doubtful debts	(3.1)	2.2	1.6	3.4	6.8
Depreciation	2.5	2.0	7.2	5.9	8.1
Loss from allowance for impairment not of a temporary nature	-	10.7	4.4	10.7	16.3
Other adjustments	(16.6)	(23.8)	(44.2)	49.1	(16.7)
Net cash provided by (used in) operating activities	(8.2)	(5.5)	16.5	101.5	66.2
Cash flows from activities relating to assets:					
Proceeds from redemption of debentures held to Maturity	-	-	-	4.6	63.1
Purchase of debentures available for sale	(485.3)	(563.4)	(1,689.7)	(1,637.6)	(1,853.7)
Proceeds from redemption and sale of debentures available for sale	511.5	436.3	1,817.1	1,598.8	1,797.8
Securities held for trading, net	12.2	18.7	57.0	25.5	(7.8)
Deposits with banks, net	(99.0)	1.2	(99.0)	1.0	1.0
Granting of credit to general public - housing	(196.2)	(247.8)	(607.4)	(722.2)	(903.5)
Repayment of credit extended to general public - housing	150.6	220.2	623.2	662.2	883.2
Credit to the public - commercial, net	176.1	30.1	302.1	(214.9)	(173.7)
Purchase of premises and equipment	(2.1)	(4.7)	(5.3)	(9.6)	(16.1)
Other assets, net	(7.0)	(17.8)	(16.9)	(32.4)	(9.7)
Net cash provided by (used in) activities relating to assets	60.8	(127.2)	381.1	(324.6)	(219.4)

The accompanying notes form an integral part of the condensed interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In reported amounts in millions of NIS

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31 2008
	2009	2008	2009	2008	(Audited)
	(Unaudited)				
Cash flows from activities relating to liabilities and shareholders' equity					
Deposits from general public, net	(233.0)	73.8	(101.0)	180.0	319.0
Deposits from banks, net	(11.4)	(72.7)	(26.8)	25.7	(31.3)
Deposits from the Government, net	(3.4)	(0.5)	(3.2)	(5.4)	(5.3)
Securities loaned or sold in framework of reacquisition agreement	(200.0)	110.1	(50.0)	110.1	50.0
Issuance of deposit certificates and subordinated liability notes	338.0	0.8	346.1	0.8	2.6
Redemption of debentures, deposit certificates and subordinated liability notes	(3.5)	(1.6)	(135.2)	(85.0)	(186.7)
Other liabilities, net	0.1	(6.0)	4.7	(17.4)	(5.7)
Dividend paid to shareholders in the Bank	-	-	-	(7.2)	(7.2)
Net cash provided by (used in) activities relating to liabilities and shareholders' equity	(113.2)	103.9	34.6	201.6	135.4
Increase (decrease) in cash and deposits with banks	(60.6)	(28.8)	432.2	(21.5)	(17.8)
Cash and deposits with banks at the beginning of the period	841.4	373.7	348.6	366.4	366.4
Cash and deposits with banks at the end of the period	780.8	344.9	780.8	344.9	348.6
Excludes information relating to operations based on extent of repayment, as follows:					
- Granting of credit for housing purposes	3.3	8.9	10.7	32.3	38.4
- Granting of standing loans and grants	1.2	2.4	2.9	8.2	9.0
- Repayment of credit granted for housing purposes	106.1	91.8	299.5	264.8	353.5

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 1:- ACCOUNTING POLICIES

A. General

These financial statements were prepared in a condensed format as of September 30, 2009 ("the interim financial statements"). The interim financial statements should be perused in conjunction with the annual audited financial statements of the Bank as of December 31, 2008 and the year then ended, and the accompanying notes.

B. Significant Accounting Policies

1. The financial statements are prepared in conformity with Accounting Standard No. 14 of the Israel Accounting Standards Board and with the directives of the Supervisor of Banks regarding publication of interim financial statements. The principal accounting policies and methods of calculation applied in preparation of the interim financial statements are the same as those applied in preparation of the last annual financial statements.
2. Disclosure regarding new accounting standards in the period prior to implementation and directives of the Supervisor of Banks:

a) Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS)

In July 2006 the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("Standard No. 29").

In accordance with the provisions of Standard No. 29, entities that are subject to the Securities Law, 1968, and are required to report according to the provisions of this Law, will prepare their financial statements in accordance with IFRS as from reporting periods beginning January 1, 2008. Banking institutions whose financial statements are prepared in accordance with directives and instructions of the Supervisor of Banks are not subject to these requirements.

Regarding implementation of the provisions of Standard No. 29 by banking institutions, the Supervisor of Banks informed the banking institutions as follows:

- 1) The Supervisor of Banks will determine, currently, provisions for implementation of Israeli standards published by the Israel Accounting Standards Board, based on IFRS, which do not relate to the core banking business.
- 2) In the second half of 2009, the Supervisor of Banks will determine the date of implementation of IFRS relating to core banking business, taking into account the results of adoption of these standards in Israel, on one hand, and the progress in convergence between IFRS and United States standards, on the other hand.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 1:- ACCOUNTING POLICIES (Cont.)

- 3) In June 2009 the Supervisor of Banks published a memorandum ("the Memorandum") regarding "Reporting by Banking Institutions and Credit Card Companies in Israel according to IFRS", which determines the expected method of adoption of International Financial Reporting Standards by banking institutions and credit card companies. In accordance with the Memorandum, the date for implementation of reporting by banking institutions according to IFRS is as follows:

Regarding subjects not related to core banking business - as from January 1, 2011. As from this date and onward, banking institutions and credit card companies will be required to update the accounting treatment currently, in accordance with the interim regulations detailed in the new international standard published in this respect, and in accordance with clarifications that will be transmitted by the Supervisor of Banks.

Regarding subjects related to core banking business - as from January 1, 2013, wherein during 2011 the Supervisor of Banks intends to reach a final decision in this respect. The final decision will be determined taking into account the timetable fixed in the United States and progress in meetings between international and United States entities relating to IFRS.

The Memorandum clarifies that after finalization of adaptation and adjustment of relevant regulations in respect of IFRS, the Supervisor of Banks will be authorized to determine required clarifications regarding the method of implementation of IFRS and to determine additional binding requirements in light of regulations issued by supervisory authorities in developed countries worldwide or regarding subjects not considered in the IFRS.

Also, the Supervisor of Banks will retain the authority to determine disclosure and reporting requirements.

Accordingly, until the effective date for adoption of IFRS, as stated above, financial statements of banking institutions will continue to be prepared in accordance with directives and guidelines issued by the Supervisor of Banks. At this stage, no guidelines have been fixed regarding interim regulations applicable concurrently with adoption of IFRS for the first time.

- b) Bank of Israel Memorandum - Measurement and Disclosure of Overdue Debts, Credit Risk and Allowance for Credit Losses

On December 31, 2008 the Supervisor of Banks issued a directive regarding "Measurement and Disclosure of Impaired Debts, Credit Risk and Allowance for Credit Losses" ("the Memorandum" or "the Regulations"). The Memorandum is based, *inter alia*, on accounting standards in the United States and on regulatory requirements of supervisory authorities of banks and of securities authorities in the United States. The basic principles stated in the New Regulations constitute a material change relative to the present requirements regarding classification of problematic debts and determination of allowances for credit losses in respect of such debts.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 1:- ACCOUNTING POLICIES (Cont.)

According to the Memorandum, a banking entity is required to record an allowance for credit losses at an appropriate level to cover estimated credit losses relating to its credit/loan portfolio. Also, according to the New Regulations, an allowance, as a separate liability account, is required to be recorded at an appropriate level to cover expected credit losses relating to off-balance sheet credit instruments, e.g. agreements for granting credit and guarantees. The required allowance to cover estimated credit losses relating to the credit/loan portfolio should be determined according to one of the following tracks: "specific allowance" or "group allowance". For this purpose, a "specific allowance for credit losses" should be recorded for any debt whose contractual balance (without deduction of accounting erasures not inherent in accounting waiver, interest not recognized, allowances for credit losses and collateral) amounts to NIS 1 million or more, and for other debts identified by the banking institution for purposes of specific estimate and for which the allowance for impairment is not included in the "specific allowance for credit losses estimated on the "group allowance" basis.

The "specific allowance for credit losses" should be estimated based on estimated future cash flows, discounted according to the effective interest rate on the debt, or in circumstances in which the debit is subject to collateral or in which the banking institution determines that foreclosure of an asset is expected, according to the fair value of the collateral recorded to secure such credit. A "specific allowance for credit losses estimated on the group basis" should be implemented to secure such credit.

A "specific allowance for credit losses estimated on the group basis" should be implemented for allowances for impairment of large groups of small homogeneous debts (e.g. credit card debts, housing loans and consumer debts payable in installments) and in respect of debts examined specifically and deemed not impaired. The "specific allowance for credit losses estimated on the group basis", except housing loans for which the minimum specific allowance was calculated according to the extent of repayment, should be calculated in accordance with the provisions of FAS 5 - Accounting for Contingences ("FAS 5"), based on an updated estimate of the rate of losses in the past in respect of each homogeneous group of debts with similar risk characteristics. The required allowance regarding off-balance sheet credit instruments should be estimated in accordance with principles determined in FAS 5.

Also, the Regulations determine definitions and classifications of balance sheet and off-balance sheet credit risks, requirements for recognition of interest income from impaired debts and requirements for accounting erasure of problematic debts, including accounting erasure of any debt estimated on a specific basis to be uncollectible and with a low value such that retention as an asset is not justified, or a debt in which the banking institution manages long-term collection efforts. Regarding debts estimated on the group basis, requirements for erasure were determined based on the period of arrears/extent of repayment, all subject to the debt's security by collateral that does not constitute a residential apartment, non-secured debts, debts of borrowers in the process of liquidation and debts derived deceitfully.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 1:- ACCOUNTING POLICIES (Cont.)

The Regulations will be applicable for financial statements of banking institutions and credit card companies, as from January 1, 2010 and onward. The Regulations will not be applicable retroactively in financial statements for previous periods.

On August 20, 2009 the Bank of Israel transmitted a letter to banking institutions according to which it intends to defer the date of implementation of the Regulations until July 1, 2010.

In all matters relating to a mortgage bank, which applies the extent of repayment method for the total credit/loan portfolio, the New Regulations adopt the Supervisor of Bank's directive of January 1, 2006 regarding allowances according to extent of repayment.

At this stage, the effect of implementation of the Regulations, when implemented, on future operating results of the Bank cannot be estimated.

c) Accounting Standard No. 23 - Accounting Treatment of Transactions between an Entity and between the Controlling Shareholder Therein

As from January 1, 2007 the Bank implements the provisions of Accounting Standard No. 23, Accounting Treatment in Transactions between an Entity and the Controlling Shareholder Therein ("Standard No. 23"), which determines the accounting treatment in transactions between an entity and its controlling shareholder. Standard No. 23 is in effect for transactions, *inter alia*, in respect of transfer of assets, imposition of liabilities, indemnification or waiver and loans, between and company and the controlling shareholder therein and between companies under the same control, implemented after January 1, 2007, and in respect of loans granted by or received from the controlling shareholder prior to January 1, 2007.

Standard No. 23 is not applicable for transactions for combination of businesses under the same control. The Securities Authority determined that, as from January 1, 2007, combination of businesses of entities controlled by the same controlling shareholder will be treated similarly to pooling transactions and not according to fair value. In the event of transactions similar in nature to shareholders' investments, Standard No. 23 may also be applicable for transactions with shareholders that are not controlling shareholders, as shareholders.

The Supervisor of Banks' letter stated that the regulations applicable for banking institutions and credit card companies in respect of treatment of transactions between an entity and the controlling shareholder therein were reexamined. As of the date of the interim financial statements, the Supervisor of Banks' regulations regarding adoption of specific regulations in this regard, including the method of implementation for the first time, have not yet been published.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 2:- SECURITIES

	September 30, 2009				
	Book value	Amortized cost (shares - cost)	Unrealized profits from adjustments to fair value (Unaudited)	Unrealized losses from adjustments to fair value	Fair value ⁽¹⁾
Securities available for sale -					
Government debentures and bonds	899.3	894.9	5.1	0.7	899.3
Of others	217.3	219.5	8.5	10.7	217.3
Total securities available for sale	1,116.6	1,114.4	13.6⁽²⁾	11.4⁽²⁾	1,116.6
			Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	
Securities held for trading -					
Government debentures and bonds	53.0	52.2	1.0	0.2	53.0
Of others	3.9	3.6	0.3	-	3.9
Total securities held for trading	56.9	55.8	1.3⁽³⁾	0.2⁽³⁾	56.9
	1,173.5	1,170.2			1,173.5

(1) Information relating to fair value is usually based on stock exchange rates, which do not necessarily reflect the price receivable on the sale of securities in large quantities.

(2) Presented under shareholders' equity and described as "adjustments arising on presentation at fair value of securities available for sale".

(3) Charged to statement of income.

N.B.: The Bank does not implement material activity in asset-backed financial instruments that may result in extensive losses in this sector.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 2:- SECURITIES (Cont.)

	September 30, 2008				
	Book value	Amortized cost (shares - cost)	Unrealized profits from adjustments to fair value (Unaudited)	Unrealized losses from adjustments to fair value	Fair value⁽¹⁾
Debentures held to redemption -					
Government	58.3	58.3	0.1	-	58.4
			Total other income		
			Gains	Losses	
Securities available for sale -					
Government debentures and bonds	959.9	967.8	0.2	8.1	959.9
Of others	231.0	260.8	-	29.8	231.0
Shares	0.1	0.1	-	-	0.1
Total securities available for sale	1,191.0	1,228.7	⁽²⁾ 0.2	⁽²⁾ 37.9	1,191.0
			Unrealized gains from adjustment to fair value	Unrealized Losses from adjustments to fair value	
Securities held for trading -					
Government debentures and bonds	62.0	62.9	-	1.0	61.9
Of others	7.4	8.9	-	1.4	7.5
Mutual funds	1.4	1.8	-	0.4	1.4
Total securities held for trading	70.8	73.6	⁽³⁾ -	⁽³⁾ 2.8	70.8
Total securities	1,320.1	1,360.6			1,320.2

(1) Information relating to fair value is usually based on stock exchange rates, which do not necessarily reflect the price receivable on the sale of securities in large quantities.

(2) Presented under shareholders' equity and described as "adjustments arising on presentation at fair value of securities available for sale"

(3) Charged to statement of income.

N.B.: The Bank does not implement material activity in asset-backed financial instruments that may result in extensive losses in this sector.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 2:- SECURITIES (Cont.)

	December 31, 2008				
	Book value	Amortized cost (re shares -	Total other income (*)		Fair value ⁽¹⁾
			Gains	Losses	
Securities available for sale -					
Government debentures and bonds	982.3	977.4	9.6	4.7	982.3
Of others	201.7	250.7	0.9	49.9	201.7
Shares	0.1	0.1	-	-	0.1
Total securities available for sale	1,184.1	1,228.2	<u><u>(2)10.5</u></u>	<u><u>(2) 54.6</u></u>	1,184.1
			Unrealized gains from adjustment to fair value	Unrealized Losses from adjustments to fair value	
Securities held for trading					
Government debentures and bonds	102.7	102.4	2.8	2.5	102.7
Of others	4.9	5.4	-	0.5	4.9
Total securities held for trading	107.6	107.8	<u><u>(3) 2.8</u></u>	<u><u>3.0</u></u>	107.6
Total securities	<u><u>1,291.7</u></u>	<u><u>1,336.0</u></u>			<u><u>1,291.7</u></u>

(1) Information relating to fair value is usually based on stock exchange rates, which do not necessarily reflect the price receivable on the sale of securities in large quantities.

(2) Presented under shareholders' equity and described as "adjustments arising on presentation at fair value of securities available for sale"

(3) Charged to statement of income.

N.B.: The Bank does not implement material activity in asset-backed financial instruments that may result in extensive losses in this sector.

(*) Restated.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 3:- ALLOWANCE FOR DOUBTFUL DEBTS

	For the three months ended September 30, 2009				
	Specific allowance				
	Housing Loans ⁽¹⁾				
	According to extent of arrears	Others ⁽²⁾	Contractors and others ⁽²⁾ (Unaudited)	Additional allowance ⁽³⁾	Total
Allowance as of beginning of period	77.7	6.8	50.3	8.3	143.1
Allowance for period	3.6	0.2	1.8	0.5	6.1
Reduction of allowance	(3.2)	(2.2)	(3.4)	(0.4)	(9.2)
Amount reflected in statement of income	0.4	(2.0)	(1.6)	0.1	(3.1)
Elimination of allowance	(0.3)	-	(1.2)	-	(1.5)
Allowance as of end of period	<u>77.8</u>	<u>4.8</u>	<u>47.5</u>	<u>8.4</u>	<u>138.5</u>
Portion of above allowance not deducted from credit granted to general public	<u>-</u>	<u>-</u>	<u>0.5</u>	<u>1.4</u>	<u>1.9</u>

	For the three months ended September 30, 2008				
	Specific allowance				
	Housing Loans ⁽¹⁾				
	According to extent of arrears	Others ⁽²⁾	Contractors and others ⁽²⁾ (Unaudited)	Additional allowance ⁽³⁾	Total
Allowance as of beginning of period	75.9	7.7	48.7	7.1	139.4
Allowance for period	8.4	-	2.3	0.7	11.4
Reduction of allowance	(6.8)	(1.8)	(0.2)	(0.4)	(9.2)
Amount reflected in statement of income	1.6	(1.8)	2.1	0.3	2.2
Elimination of allowance	(0.6)	-	-	-	(0.6)
Allowance as of end of period	<u>76.9</u>	<u>5.9</u>	<u>50.8</u>	<u>7.4</u>	<u>141.0</u>
Portion of above allowance not deducted from credit granted to general public	<u>-</u>	<u>-</u>	<u>0.5</u>	<u>1.4</u>	<u>1.9</u>

(1) Excludes interest on debts in arrears

(2) Excludes allowance for interest on doubtful debts after debts declared to be doubtful

(3) Includes general allowance for doubtful debts

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 3:- ALLOWANCE FOR DOUBTFUL DEBTS (Cont.)

	For the nine months ended September 30, 2009				
	Specific allowance				
	Housing Loans ⁽¹⁾				
	According to extent of arrears	Others ⁽²⁾	Contractors and others ⁽²⁾ (Unaudited)	Additional allowance ⁽³⁾	Total
Allowance as of beginning of period	77.3	6.7	51.5	8.6	144.1
Allowance for period	15.1	0.6	5.3	1.9	22.9
Reduction of allowance	(11.8)	(2.5)	(4.9)	(2.1)	(21.3)
Amount reflected in statement of income	3.3	(1.9)	0.4	(0.2)	1.6
Elimination of allowance	(2.8)	-	(4.4)	-	(7.2)
Allowance as of end of period	77.8	4.8	47.5	8.4	138.5
Portion of above allowance not deducted from credit granted to general public	-	-	0.5	1.4	1.9

	For the nine months ended September 30, 2008				
	Specific allowance				
	Housing Loans ⁽¹⁾				
	According to extent of arrears	Others ⁽²⁾	Contractors and others ⁽²⁾ (Unaudited)	Additional allowance ⁽³⁾	Total
Allowance as of beginning of period	76.3	6.9	48.6	7.8	139.6
Allowance for period	20.9	0.9	3.5	1.2	26.5
Reduction of allowance	(18.3)	(1.9)	(1.3)	(1.6)	(23.1)
Amount reflected in statement of income	2.6	(1.0)	2.2	(0.4)	3.4
Elimination of allowance	(2.0)	-	-	-	(2.0)
Allowance as of end of period	76.9	5.9	50.8	7.4	141.0
Portion of above allowance not deducted from credit granted to general public	-	-	0.5	1.4	1.9

(1) Excludes interest on debts in arrears

(2) Excludes allowance for interest on doubtful debts after debts declared to be doubtful

(3) Includes general allowance for doubtful debts

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)
In millions of Shekels

NOTE 3:- ALLOWANCE FOR DOUBTFUL DEBTS (Cont.)

Reported amounts in NIS millions

Method of Calculation of Specific Allowance for Housing Loans

	September 30, 2009					
	Credit	Balance of problematic debt ⁽²⁾	Overdue amount ⁽³⁾	Balance of specific allowance		
				According to extent of repayment ⁽⁴⁾	Other	Total
Housing loans in respect of which allowance for doubtful debts according to extent of repayment	3,994.2	153.0	81.5	77.8	-	77.8
"Large" loans ⁽¹⁾	1,111.1	77.7	11.9	-	4.7	4.7
Other loans	184.1	0.6	0.2	-	0.1	0.1
	<u>5,289.4</u>	<u>231.3</u>	<u>93.6</u>	<u>77.8</u>	<u>4.8</u>	<u>82.6</u>
	September 30, 2008					
	Credit	Balance of problematic debt ⁽²⁾	Overdue amount ⁽³⁾	Balance of specific allowance		
				According to extent of repayment ⁽⁴⁾	Other	Total
Housing loans in respect of which allowance for doubtful debts according to extent of repayment	4,100.4	152.1	77.2	76.9	-	76.9
"Large" loans ⁽¹⁾	921.6	50.3	9.2	-	5.8	5.8
Other loans	150.1	0.1	-	-	0.1	0.1
	<u>5,172.1</u>	<u>202.5</u>	<u>86.4</u>	<u>76.9</u>	<u>5.9</u>	<u>82.8</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 3:- ALLOWANCE FOR DOUBTFUL DEBTS (Cont.)

Reported amounts in NIS millions

Method of Calculation of Specific Allowance for Housing Loans

	December 31, 2008					
	Credit	Balance of problematic debt ⁽²⁾	Overdue amount ⁽³⁾	Balance of specific allowance		
According to extent of repayment ⁽⁴⁾				Other	Total	
Housing loans in respect of which allowance for doubtful debts according to extent of repayment	3,977.9	149.9	79.0	77.3	-	77.3
"Large" loans ⁽¹⁾	1,053.9	52.8	12.2	-	6.7	6.7
Other loans	173.6	-	-	-	-	-
	<u>5,205.4</u>	<u>202.7</u>	<u>91.2</u>	<u>77.3</u>	<u>6.7</u>	<u>84.0</u>

- (1) Housing loans, the balance of each of which exceeds NIS 0.8 million (September 30, 2008 - same).
- (2) After deduction of specific allowance for doubtful debts and without deduction of general and additional allowances.
- (3) Including overdue interest.
- (4) Including balance of special allowance for doubtful debts in excess of required allowance according to period of arrears in the amount of NIS 2.0 million (September 30, 2008 - NIS 3.8 million).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 4:- CAPITAL ADEQUACY AS REQUIRED BY DIRECTIVES OF SUPERVISOR OF BANKS

Calculated in accordance with directives 311 and 341 of the Supervisor of Banks regarding "Capital Adequacy Ratio" and "Allocation of capital in Respect of Exposure to Market Risks"

a. Capital for Purposes of Computing Capital Adequacy Ratio

	<u>September 30,</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>Unaudited</u>		<u>Audited</u>
Primary capital	596.7	530.0	547.8
Higher subordinated capital ⁽¹⁾	0.7	0.7	0.7
Subordinated capital	293.9	265.0	273.9
Total capital for purposes of computing capital adequacy ratio	<u>891.3</u>	<u>795.7</u>	<u>822.4</u>

b. Weighted Average Balances of Risk

	<u>September 30</u>		<u>September 30</u>		<u>December 31</u>	
	<u>2009</u>		<u>2008</u>		<u>2008</u>	
	<u>Balances</u>	<u>Balance of</u>	<u>Balances</u>	<u>Balance of</u>	<u>Balances</u>	<u>Balance of</u>
	<u>(2)</u>	<u>risk</u>	<u>(2)</u>	<u>risk</u>	<u>(2)</u>	<u>risk</u>
	<u>Unaudited</u>		<u>Unaudited</u>		<u>Audited</u>	
	<u>Reported amounts</u>					
Credit risk						
Assets ⁽²⁾	9,447.7	6,368.0	9,294.7	6,360.1	9,251.8	6,401.4
Off balance sheet instruments ⁽³⁾	1,041.3	419.9	763.1	589.6	868.3	521.3
Total credit risk assets	<u>10,489.0</u>	<u>6,787.9</u>	<u>10,057.8</u>	<u>6,949.7</u>	<u>10,120.1</u>	<u>6,922.7</u>
Market risk	-	84.6	-	60.7	-	51.6
Total risk assets	<u>10,489.0</u>	<u>6,872.5</u>	<u>10,057.8</u>	<u>7,010.4</u>	<u>10,120.1</u>	<u>6,974.3</u>

(1) The general allowance for doubtful debts, amounting to NIS 0.7 million is part of the higher subordinated capital and is not deducted from credit to the general public.

(2) The general allowance for doubtful debts, amounting to NIS 0.5 million in the subordinated capital is included in credit to the public.

(3) Balances weighted on the basis of credit conversion factors.

c. Ratio of capital to risk components

	<u>September 30,</u>		<u>December 31,</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>%</u>		
Ratio of primary capital to risk components	<u>8.7</u>	<u>7.6</u>	<u>7.8</u>
Ratio of inclusive capital to risk components	<u>13.0</u>	<u>11.3</u>	<u>11.8</u>
Minimum inclusive capital ratio required by Supervisor of Banks	<u>10.5</u>	<u>10.5</u>	<u>10.5</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 5:- CONSOLIDATED SCHEDULE OF ASSETS AND LIABILITIES BY LINKAGE BASIS

Reported amounts in NIS millions

	September 30, 2009					Total
	Israel currency		Foreign currency ⁽¹⁾			
	Unlinked	Linked to Consumer Price Index	U.S. dollar	Other	Nonmonetary items	
	(Unaudited)					
Assets						
Cash and deposits with banks	767.4	0.9	86.6	27.0	-	881.9
Securities	809.7	347.9	15.8	-	0.1	1,173.5
Credit to general public	3,359.4	2,956.1	800.2	175.7	-	7,291.4
Premises and equipment	-	-	-	-	49.9	49.9
Other assets	20.7	18.2	1.8	1.8	10.2	52.7
Total assets	4,957.2	3,323.1	904.4	204.5	60.2	9,449.4
Liabilities						
Deposits from general public	3,372.7	2,874.3	734.7	196.6	-	7,178.3
Deposits from banks	-	77.5	35.2	-	-	112.7
Deposits from the Government	-	0.5	-	-	-	0.5
Securities loaned or sold in framework of reacquisition agreement	-	-	-	-	-	-
Liability certificates and subordinated notes	445.3	1,034.1	6.2	-	-	1,485.6
Other liabilities	41.5	0.2	3.1	5.7	23.7	74.2
Total liabilities	3,859.5	3,986.6	779.2	202.3	23.7	8,851.3
Difference	1,097.7	(663.5)	125.2	2.2	36.5	598.1
Derivative instruments hedged						
Derivative instruments (except options)	(98.1)	98.1	-	-	-	-
Derivative instruments not hedged						
Derivative instruments (except options)	(279.6)	318.1	(40.9)	2.4	-	-
Total	720.0	(247.3)	84.3	4.6	36.5	598.1

(1) Including linked to foreign currency.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 5:- CONSOLIDATED SCHEDULE OF ASSETS AND LIABILITIES BY LINKAGE BASIS (Cont.)

Reported amounts in NIS millions

	September 30, 2008					Total
	Israel currency		Foreign currency ⁽¹⁾		Nonmonetary items	
	Unlinked	Linked to Consumer Price Index	U.S. dollar	Other		
(Unaudited)						
Cash and deposits with banks	104.0	2.1	214.4	26.5	-	347.0
Securities	952.0	343.1	23.5	-	1.5	1,320.1
Credit to general public	3,356.8	3,284.7	709.1	169.5	-	7,520.1
Premises and equipment	-	-	-	-	47.5	47.5
Other assets	30.2	13.3	3.0	2.0	11.0	59.5
Total assets	4,443.0	3,643.2	950.0	198.0	60.0	9,294.2
Liabilities						
Deposits from general public	3,434.6	2,743.7	780.0	182.0	-	7,140.3
Deposits from banks	50.0	84.1	62.4	-	-	196.5
Deposits from the Government	2.2	1.4	-	-	-	3.6
Securities loaned or sold under agreement to repurchase	110.1	-	-	-	-	110.1
Liability certificates and subordinated notes	112.2	1,161.7	6.0	-	-	1,279.9
Other liabilities	32.9	-	1.7	0.5	22.7	57.8
Total liabilities	3,742.0	3,990.9	850.1	182.5	22.7	8,788.2
Difference	701.0	(347.7)	99.9	15.5	37.3	506.0
Derivative instruments hedged						
Derivative instruments (except options)	(92.5)	92.5	-	-	-	-
Derivative instruments not hedged						
Derivative instruments (except options)	(204.2)	205.7	3.2	(4.7)	-	-
Money options, net (in terms of basis asset)	37.0	-	(37.0)	-	-	-
Total	441.3	(49.5)	66.1	10.8	37.3	506.0
Money options, net (discounted par value)	38.8	-	(38.8)	-	-	-

(1) Including linked to foreign currency.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 5:- CONSOLIDATED SCHEDULE OF ASSETS AND LIABILITIES BY LINKAGE BASIS (Cont.)

Reported amounts in NIS millions

	December 31, 2008					Total
	Israel currency		Foreign currency ⁽¹⁾			
	Unlinked	Linked to Consumer Price Index	U.S. dollar	Other	Nonmonetary items	
	(Audited)					
Assets						
Cash and bank deposits	226.4	2.0	100.3	22.0	-	350.7
Securities	753.4	523.6	14.6	-	0.1	1,291.7
Credit to general public	3,361.4	3,174.4	785.5	188.8	-	7,510.1
Premises and equipment	-	-	-	-	51.8	51.8
Other assets	30.3	2.2	5.0	0.7	8.8	47.0
Total assets	4,371.5	3,702.2	905.4	211.5	60.7	9,251.3
Liabilities						
Deposits from general public	3,386.1	2,898.2	824.5	170.5	-	7,279.3
Deposits from banks	-	78.5	61.0	-	-	139.5
Deposits from the Government	2.9	0.8	-	-	-	3.7
Securities loaned or sold in framework of reacquisition agreement	50.0	-	-	-	-	50.0
Deposit certificates and subordinated notes	106.6	1,075.2	6.5	-	-	1,188.3
Other liabilities	33.9	-	4.1	10.6	22.0	70.6
Total liabilities	3,579.5	4,052.7	896.1	181.1	22.0	8,731.4
Difference	792.0	(350.5)	9.3	30.4	38.7	519.9
Derivative instruments hedged						
Derivative instruments (except options)	(93.6)	93.6	-	-	-	-
Derivative instruments not hedged						
Derivative instruments (except options)	(57.0)	3.9	81.6	(28.5)	-	-
In the money options (in terms of basis assets)	36.6	-	(36.6)	-	-	-
Total	678.0	(253.0)	54.3	1.9	38.7	519.9
Money options, net (discounted par value)	42.7	-	(42.7)	-	-	-
Off-money options, net (discounted par value)	0.1	-	(0.1)	-	-	-

(1) Including linked to foreign currency.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

In millions of Shekels

NOTE 6:- CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

Reported amounts in NIS millions

a. Off-Balance Sheet Financial Instruments ⁽¹⁾

	September 30	December
	2009	2008
	Unaudited	Audited
Transactions the balance of which represents a credit risk:		
Irrevocable commitments approved and not yet granted	605.5	* 581.4
Guarantees for purchasers of housing	343.2	478.7
Guarantees to secure credit	79.3	71.7
Other guarantees	86.3	67.2
Unutilized credit card credit facilities	71.0	* 61.6
Unutilized overdraft and other credit facilities on demand	171.7	* 120.4
Credit frameworks utilized and not yet charged	5.1	5.1
Documentary credit	0.1	0.7

(1) The above balances are presented before adjustment for general and additional allowances for doubtful debts and are not weighted.

* Restated.

b. Other Contingent Liabilities and Special Commitments

	September 30	December
	2009	2008
	Unaudited	Audited
Long term rental agreements	12.5	10.3

c. Claims

1. General

In the regular course of business, various lawsuits were submitted against the Bank. According to management of the Bank, based on the opinion of its legal counsel regarding the chances of the claims, including requests for approval of class actions, appropriate allowances were recorded in the financial statements in accordance with generally accepted accounting principles, in respect of expected losses derived from contingent claims against the Bank.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 6:- CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (Cont.)

c. Claims (Cont.)

2. Requests for class actions were submitted against the Bank as detailed below.

- a) In July 1997, a claim against the Bank and against four other mortgage banks, for an aggregate amount in excess of NIS 1 billion, was lodged with the Tel Aviv District Court, together with a request for the claim to be recognized as a class action. The aforementioned claim and request alleged, inter alia, that the abovementioned banks unlawfully collected life and property insurance commission from borrowers, and that the borrowers are entitled to a refund of such commission. The claim and request did not stipulate the manner in which the above amount was calculated and did not specify the portion thereof attributable to the Bank.

In November 1997, the District Court's decision was handed down. Pursuant to that decision, the claim in the form of a class action was dismissed under the Banking (Customer Service) Law, 1981 and the Restrictive Trade Practices Law, 1988. The above notwithstanding, the Court ruled that a petition for declaratory relief may be heard under Regulation 29 of the Civil Procedure Regulations. In December 1997, the Bank applied to the Supreme Court for permission to appeal against the aforementioned decision, and also petitioned for a stay of proceedings pending a decision regarding the appeal. The petition for a stay of proceedings was granted by the Supreme Court, pending the decision on the request for permission to appeal. In February 2008 the claim was transmitted for hearing before Justice (retired) Theodore Or. The parties are discussing the possibility to formulate a compromise agreement.

According to management of the Bank, based on the opinion of its legal counsel, it is not possible at this stage to estimate if the claim will be recognized as a class action and the chances of the claim in the event that a compromise agreement is not consummated.

In the event that the claim is accepted, the Bank's income will decrease materially.

Income derived from bank services provided to borrowers in relation to borrowers' life assurance and property insurance as stated above, before deduction of costs, is as follows (in millions of shekels):

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	Unaudited				Audited
<u>Life assurance</u>					
Before income taxes	3.1	3.2	9.3	9.6	12.8
After income taxes	1.9	2.0	5.9	6.0	8.1
<u>Property insurance</u>					
Before income taxes	1.4	1.6	4.5	5.2	6.8
After income taxes	1.0	1.2	3.3	3.8	5.0

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**As of September 30, 2009 (Unaudited)****NOTE 6:- CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (Cont.)**

c. Claims (Cont.)

- b) On February 16, 2003, a lawsuit was filed in the Tel Aviv District Court against the Bank and two other mortgage banks. The plaintiffs also made application for the suit to be recognized as a class action suit, and estimated the total amount of damages to be sought under such an action at approximately NIS 15 million. The suit alleges that the Bank illegally received life assurance and property insurance premiums in relation to that part of the conditional grant and/or standing loan received by the plaintiffs from the State by virtue of their status as eligible borrowers.

It is hereby clarified that the claim against the bank constitutes a claim in respect of life assurance only while arguments were raised against the other banks also regarding property assurance.

On November 7, 2004 the court dismissed the approval of the request for a class action. However, the Court authorized part of the plaintiffs (plaintiffs number 1 and 2) to re-submit the claim based on the Banking Law and subject to payment in full of the relevant fees.

On February 8, 2005, the plaintiffs submitted an appeal on the decision of the District Court and on March 18, 2009 the appeal was dismissed. On October 11, 2009 the plaintiffs' request for an additional hearing on the claim was dismissed. As of the date of the interim financial statements, an additional claim was not submitted by plaintiffs 1 and 2.

According to management of the Bank, based on the opinion of its legal counsel, the chances of the request for an additional hearing are minimal.

- c) As part of the system of collateral for securing the repayment of loans, the Bank has entered into an agreement with an insurance company for the provision of life assurance for borrowers in relation to loans obtained from the Bank.

In November 1997, the Bank was informed that the insurance company that insures the lives of its borrowers had received a letter from the Director of the Capital Market, Insurance and Savings Department of the Ministry of Finance, instructing it to cease payments to the Bank in connection with life assurance as from January 1, 1998. As publicized in the media, similar letters were addressed to insurance companies providing borrower insurance for other mortgage banks.

Regarding loans granted until December 31, 2005, management of the Bank continues to operate in accordance with the provisions of the arrangement signed with the insurer. Regarding loans granted and that will be granted as from January 1, 2006, the Bank operates in accordance with new directives issued in this regard in February 2005 by the Supervisor of Banks and the Supervisor of Insurance.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES.

Reported amounts in NIS millions

a. Scope of Activity on Consolidated Basis

1. Par Value of Derivative Instruments

	September 30, 2009				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Total
	Shekel Index	Other			
	(Unaudited)				
a. Hedged derivatives					
Swaps	95.0	-	-	-	95.0
b. ALM derivatives ⁽¹⁾⁽²⁾					
Forward contracts	-	-	286.0	-	286.0
Swaps	320.0	-	3.7	-	323.7
Total	320.0	-	289.7	-	609.7
c. Other derivatives ⁽¹⁾					
Marketable options					
Options written	-	-	69.8	423.9	493.7
Options purchased	-	-	69.8	423.9	493.7
Total	-	-	139.6	847.8	987.4
d. Credit derivatives and SPOT Exchange Transactions SPOT foreign currency exchange transactions	-	-	111.7	-	111.7
Total par value	415.0	-	541.0	847.8	1,803.8

(1) Except credit derivatives and SPOT contracts (foreign currency).

(2) Derivatives constituting part of the system of management of assets and liabilities of the Bank, not intended for hedging.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**As of September 30, 2009 (Unaudited)****NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES (Cont.)**

Reported amounts in NIS millions

a. Scope of Activity on Consolidated Basis (Cont.)

2. Gross Fair Value of Derivative Instruments

	September 30, 2009				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Total
	Shekel Index	Other			
	(Unaudited)				
a) Hedged derivatives					
Positive gross fair value	4.7	-	-	-	4.7
Negative gross fair value	-	-	-	-	-
b) ALM derivatives ⁽¹⁾⁽²⁾					
Positive gross fair value	11.8	-	3.8	-	15.6
Negative gross fair value	0.2	-	6.8	-	7.0
c) Other derivatives ⁽¹⁾					
Positive gross fair value	-	-	1.8	3.1	4.9
Negative gross fair value	-	-	1.8	3.1	4.9
Total positive gross fair value	<u>16.5</u>	<u>-</u>	<u>5.6</u>	<u>3.1</u>	<u>25.2</u>
Total negative gross fair value	<u>0.2</u>	<u>-</u>	<u>8.6</u>	<u>3.1</u>	<u>11.9</u>

⁽¹⁾ Except credit derivatives and SPOT contracts (foreign currency).⁽²⁾ Derivatives constituting part of the system of management of assets and liabilities of the Bank, not intended for hedging.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES (Cont.)

Reported amounts in NIS millions

a. Scope of Activity on Consolidated Basis (Cont.)

1. Par Value of Derivative Instruments

	September 30, 2008				Total
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	
	Shekel Index	Other			
					(Unaudited)
a) Hedged derivatives					
Swaps	95.0	-	-	-	95.0
b) ALM derivatives ⁽¹⁾⁽²⁾					
Forward contracts	-	-	286.5	-	286.5
Swaps	200.0	70.8	3.4	-	274.2
Total	200.0	70.8	289.9	-	560.7
c) Other derivatives ⁽¹⁾					
Marketable options					
Options written	-	-	28.0	119.6	147.6
Options purchased	-	-	28.0	119.6	147.6
Other options					
Options written	-	-	-	-	-
Options purchased	-	-	38.8	-	38.8
Total	-	-	94.8	239.2	334.0
d) Credit derivatives and SPOT Exchange Transactions					
SPOT foreign currency exchange transactions	-	-	75.2	-	75.2
Total par value	295.0	70.8	459.9	239.2	1,064.9

(1) Except credit derivatives and SPOT contracts (foreign currency).

(2) Derivatives constituting part of the system of management of assets and liabilities of the Bank, not intended for hedging.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES (Cont.)

Reported amounts in NIS millions

a. Scope of Activity on Consolidated Basis (Cont.)

2. Gross Fair Value of Derivative Instruments

	September 30, 2008				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Total
	Shekel Index	Other			
	(Unaudited)				
a) Hedged derivatives					
Positive gross fair value	3.5	-	-	-	3.5
Negative gross fair value	-	-	-	-	-
b) LM derivatives ⁽¹⁾⁽²⁾					
Positive gross fair value	7.7	1.0	5.4	-	14.1
Negative gross fair value	-	-	1.4	-	1.4
c) Other derivatives ⁽¹⁾					
Positive gross fair value	-	-	0.7	2.1	2.8
Negative gross fair value	-	-	2.6	2.1	4.7
Total positive gross fair value	<u>11.2</u>	<u>1.0</u>	<u>6.1</u>	<u>2.1</u>	<u>20.4</u>
Total negative gross fair value	<u>-</u>	<u>-</u>	<u>4.0</u>	<u>2.1</u>	<u>6.1</u>

⁽¹⁾ Except credit derivatives and SPOT contracts (foreign currency).⁽²⁾ Derivatives constituting part of the system of management of assets and liabilities of the Bank, not intended for hedging.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES (Cont.)

Reported amounts in NIS millions

a. Scope of Activity on Consolidated Basis (Cont.)

1. Par Value of Derivative Instruments

	December 31, 2008				
	Interest contracts		Foreign currency contracts (Audited)	Contracts in respect of shares	Total
	Shekel Index	Other			
a) Hedged derivatives					
Swaps	95.0	-	-	-	95.0
b) ALM derivatives ⁽¹⁾⁽²⁾					
Forward contracts	-	-	389.6	-	389.6
Swaps	-	74.8	3.8	-	78.6
Total	-	74.8	393.4	-	468.2
c) Other derivatives ⁽¹⁾					
Marketable options					
Options written	-	-	135.6	58.2	193.8
Options purchased	-	-	135.6	58.2	193.8
Other options					
Options written	-	-	-	-	-
Options purchased	-	-	42.7	-	42.7
Total	-	-	313.9	116.4	430.3
d) Credit derivatives and SPOT Exchange Transactions					
SPOT foreign currency exchange transactions	-	-	57.0	-	57.0
Total par value	95.0	74.8	764.3	116.4	1,050.5

⁽¹⁾ Except credit derivatives and SPOT contracts (foreign currency).⁽²⁾ Derivatives constituting part of the system of management of assets and liabilities of the Bank, not intended for hedging.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**As of September 30, 2009 (Unaudited)****NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES (Cont.)**

Reported amounts in NIS millions

a. Scope of Activity on Consolidated Basis (Cont.)

2. Gross Fair Value of Derivative Instruments

	December 31, 2008				Total
	Interest contracts		Foreign currency contracts (Audited)	Contracts in respect of shares	
	Shekel Index	Other			
a. Hedged derivatives					
Positive gross fair value	0.6	-	-	-	0.6
Negative gross fair value	-	-	-	-	-
b. ALM derivatives ⁽¹⁾⁽²⁾					
Positive gross fair value	-	2.0	2.9	-	4.9
Negative gross fair value	-	-	12.9	-	12.9
c. Other derivatives ⁽¹⁾					
Positive gross fair value	-	-	10.7	1.9	12.6
Negative gross fair value	-	-	2.4	1.9	4.3
Total positive gross fair value	<u>0.6</u>	<u>2.0</u>	<u>13.6</u>	<u>1.9</u>	<u>18.1</u>
Total negative gross fair value	<u>-</u>	<u>-</u>	<u>15.3</u>	<u>1.9</u>	<u>17.2</u>

⁽¹⁾ Except credit derivatives and SPOT contracts (foreign currency).⁽²⁾ Derivatives constituting part of the system of management of assets and liabilities of the Bank, not intended for hedging.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**As of September 30, 2009 (Unaudited)****NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES (Cont.)**

Reported amounts in NIS millions

b. Credit Risk in Respect of Derivative Instruments According to Other Party to the Transaction

	September 30, 2009			
	Stock exchanges	Banks	Others	Total
	(Unaudited)			
Gross positive fair value of derivative instruments ⁽¹⁾⁽²⁾	4.9	20.3	-	25.2
Less agreements for set off	-	-	-	-
Balance sheet balance of assets derived from derivative instruments	<u>4.9</u>	<u>20.3</u>	<u>-</u>	<u>25.2</u>
Off-balance sheet credit risk in respect of derivative instruments	<u>4.4</u>	<u>81.6</u>	<u>-</u>	<u>86.0</u>
Total credit risk in respect of derivative instruments	<u>9.3</u>	<u>101.9</u>	<u>-</u>	<u>111.2</u>
	September 30, 2008			
	(Unaudited)			
Gross positive fair value of derivative instruments ⁽¹⁾⁽²⁾	2.8	17.6	-	20.4
Less agreements for set off	-	-	-	-
Balance sheet balance of assets derived from derivative instruments	<u>2.8</u>	<u>17.6</u>	<u>-</u>	<u>20.4</u>
Off-balance sheet credit risk in respect of derivative instruments	<u>-</u>	<u>73.1</u>	<u>3.9</u>	<u>77.0</u>
Total credit risk in respect of derivative instruments	<u>2.8</u>	<u>90.7</u>	<u>3.9</u>	<u>97.4</u>
	December 31, 2008			
	(Audited)			
Gross positive fair value of derivative instruments ⁽¹⁾⁽²⁾	4.3	5.5	8.3	18.1
Less agreements for set off	-	-	-	-
Balance sheet balance of assets derived from derivative instruments	<u>4.3</u>	<u>5.5</u>	<u>8.3</u>	<u>18.1</u>
Off-balance sheet credit risk in respect of derivative instruments	<u>-</u>	<u>62.0</u>	<u>4.2</u>	<u>66.2</u>
Total credit risk in respect of derivative instruments	<u>4.3</u>	<u>67.5</u>	<u>12.5</u>	<u>84.3</u>

⁽¹⁾ Of which gross positive fair value of integrated derivatives in the amount of NIS 0 million (September 30, 2008 - NIS 0 million; December 31, 2008 - NIS 8.3 million).

⁽²⁾ Of which balance sheet value of independent in the amount of derivatives NIS 25.2 million (September 30, 2008 NIS 20.4 million December 31, 2008 - NIS 9.8 million).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 7:- ACTIVITY IN DERIVATIVES - SCOPE, CREDIT RISK AND REPAYMENT DATES (Cont.)

Reported amounts in NIS millions

c. Maturity Dates (Nominal Values) - On Consolidated Basis

	September 30, 2009				
	From one to three months	From three months to one year	From one to five years	Over five years	Total
	(Unaudited)				
Interest contracts (shekel - index)	95.0	170.0	150.0	-	415.0
Interest contracts (Other)	-	-	-	-	-
Currency contracts	513.9	27.1	-	-	541.0
Contracts involving shares	847.8	-	-	-	847.8
Total	1,456.7	197.1	150.0	-	1,803.8
	September 30, 2008				
	(Unaudited)				
Interest contracts (shekel - index)	200.0	-	95.0	-	295.0
Interest contracts (Other)	-	70.8	-	-	70.8
Currency contracts	407.4	10.3	3.4	38.8	459.9
Contracts involving shares	239.2	-	-	-	239.2
Total	846.6	81.1	98.4	38.8	1,064.9
	December 31, 2008				
	(Audited)				
Interest contracts (shekel - index)	-	95.0	-	-	95.0
Interest contracts (Other)	44.4	30.4	-	-	74.8
Currency contracts	719.0	3.5	19.3	22.5	764.3
Contracts involving shares	116.4	-	-	-	116.4
Total	879.8	128.9	19.3	22.5	1,050.5

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 8:- EARNINGS FROM FINANCING OPERATIONS BEFORE ALLOWANCE FOR DOUBTFUL DEBTS

Reported amounts in NIS millions

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
In respect of assets				
Credit to general public	113.4	176.7	330.1	373.3
Deposits with Bank of Israel and cash	0.7	-	1.1	0.3
Deposits with banks	(2.5)	9.3	2.8	(23.7)
Debentures	14.1	17.2	49.4	49.8
Other assets	(0.1)	(0.1)	-	(0.3)
	<u>125.6</u>	<u>203.1</u>	<u>383.4</u>	<u>399.4</u>
In respect of liabilities				
Deposits from general public	(66.0)	(123.5)	(221.4)	(186.0)
Deposits from banks	(1.3)	(6.8)	(7.2)	(7.6)
Deposits from the Government	-	(0.1)	(0.1)	(0.3)
Securities loaned or sold in the framework of reacquisition agreement	(0.2)	(0.1)	(0.3)	(0.1)
Debentures and subordinated notes	(44.5)	(43.8)	(88.1)	(111.9)
	<u>(112.0)</u>	<u>(174.3)</u>	<u>(317.1)</u>	<u>(305.9)</u>
In respect of derivative financial instruments				
Net income from transactions in ALM derivatives ⁽¹⁾	(0.1)	0.9	26.4	(3.3)
Net income from transactions in other derivatives	0.3	(0.5)	(2.2)	4.6
	<u>0.2</u>	<u>0.4</u>	<u>24.2</u>	<u>1.3</u>
Other				
Commission from financing transactions	1.2	1.5	3.8	4.3
Realized and unrealized gains (losses) on adjustments to fair value of debentures held for trading, net	0.5	(1.4)	3.5	2.3
Gains from sale of debentures available for sale, net ⁽²⁾	10.3	(10.4)	28.8	(3.6)
Other financing income	5.0	5.8	12.5	16.7
	<u>17.0</u>	<u>(4.5)</u>	<u>48.6</u>	<u>19.7</u>
Total earnings from financing activities before allowance for doubtful debts	<u>30.8</u>	<u>24.7</u>	<u>139.1</u>	<u>114.5</u>
Of which: Exchange differences, net	<u>(3.7)</u>	<u>2.2</u>	<u>0.6</u>	<u>(22.0)</u>
Details of net effect of hedged derivatives on profit from financing activity				
Financing income in respect of liabilities	<u>3.6</u>	<u>1.5</u>	<u>6.3</u>	<u>3.2</u>
(1) ALM derivatives constituting part of the system of management of assets and liabilities of the Bank, not intended for hedging.				
(2) Including allowance for impairment that is not of a	<u>-</u>	<u>10.7</u>	<u>4.4</u>	<u>10.7</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)
temporary nature



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 9:- OPERATING SECTORS

Reported amounts in NIS millions

	Three months ended September 30, 2009					Total
	Homeowners	Private banking	Business	Financial management	Unallocated amounts and adjustments	
	(Unaudited)					
Earnings from financing operations before allowance for doubtful debts:						
From outside entities	17.9	6.5	5.9	0.5	-	30.8
Inter-segmental	1.5	-	(0.3)	(1.2)	-	-
Operating and other income:						
From outside entities	17.5	1.0	2.9	0.5	-	21.9
Total income	36.9	7.5	8.5	(0.2)	-	52.7
Allowance for doubtful debts	0.1	-	3.0	-	-	3.1
Net income (loss)	4.7	2.0	3.0	(0.7)	-	9.0
	Three months ended September 30, 2008 (*)					
	Homeowners	Private banking	Business	Financial management	Unallocated amounts and adjustments	Total
	(Unaudited)					
Earnings from financing operations before allowance for doubtful debts:						
From outside entities	22.9	7.0	10.5	(15.7)	-	24.7
Inter-segmental	2.0	0.1	(0.9)	(1.2)	-	-
Operating other income:						
From outside entities	16.5	1.1	3.3	(0.3)	-	20.6
Total income	41.4	8.2	12.9	(17.2)	-	45.3
Allowance for doubtful debts	(0.3)	0.2	(2.1)	-	-	(2.2)
Net income (loss)	10.8	3.8	2.6	(13.8)	-	3.4

(*) Reclassified.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 9:- OPERATING SECTORS (Cont.)

Reported amounts in NIS millions

	Nine months ended September 30, 2009					Total
	Homeowners	Private banking	Business	Financial management	Unallocated amounts and adjustments	
	(Unaudited)					
Earnings from financing operations before allowance for doubtful debts:						
From outside entities	57.8	18.4	20.9	42.0	-	139.1
Inter-segmental	4.9	-	(1.6)	(3.3)	-	-
Operating and other income:						
From outside entities	51.4	3.1	7.9	0.5	-	62.9
Total income	114.1	21.5	27.2	39.2	-	202.0
Allowance for doubtful debts	(4.7)	0.1	3.0	-	-	(1.6)
Net income	11.9	5.9	6.2	23.5	-	47.5

	Nine months ended September 30, 2008 (*)					Total
	Homeowners	Private banking	Business	Financial management	Unallocated amounts and adjustments	
	(Unaudited)					
Earnings from financing operations before allowance for doubtful debts:						
From outside entities	66.5	19.4	32.4	(3.8)	-	114.5
Inter-segmental	6.2	-	(3.0)	(3.2)	-	-
Operating and other income (losses):						
From outside entities	49.2	3.4	10.6	(0.7)	-	62.5
Total income	121.9	22.8	40.0	(7.7)	-	177.0
Allowance for doubtful debts	(2.7)	0.2	(0.9)	-	-	(3.4)
Net income (loss)	22.2	7.6	8.9	(6.3)	-	32.4

(*) Reclassified.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 9:- OPERATING SECTORS (Cont.)

Reported amounts in NIS millions

	Year ended December 31, 2008 (*)					Total
	Homeowners	Private banking	Business	Financial management	Unallocated amounts and adjustments	
	Audited					
Earnings from financing operations before allowance for doubtful debts:						
From outside entities	89.1	27.1	44.4	11.1	-	171.7
Inter-segmental	8.3	-	(4.0)	(4.3)	-	-
Operating and other income (losses):						
From outside entities	<u>65.2</u>	<u>4.4</u>	<u>14.3</u>	<u>(1.0)</u>	<u>-</u>	<u>82.9</u>
Total income	<u>162.6</u>	<u>31.5</u>	<u>54.7</u>	<u>5.8</u>	<u>-</u>	<u>254.6</u>
Allowance for doubtful debts	<u>(5.1)</u>	<u>0.2</u>	<u>(1.9)</u>	<u>-</u>	<u>-</u>	<u>(6.8)</u>
Net income	<u>28.3</u>	<u>9.3</u>	<u>12.3</u>	<u>1.8</u>	<u>-</u>	<u>51.7</u>

(*) Reclassified.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 (Unaudited)

NOTE 10:- EVENTS IN PERIOD UNDER REVIEW

- A. On June 17, 2009 Jerusalem Financing and Issuances (2005) Ltd published a shelf prospectus. The shelf prospectus enables immediate mobilization of liability notes through a shelf prospectus report. The shelf prospectus simplifies the process of mobilization of Bank funds and enables timely access to the capital market in order to mobilize sources in accordance with its requirements and with market conditions.

On July 7, 2009 Jerusalem Financing and Issuances (2005) Ltd, published a shelf offering in accordance with a shelf prospectus of June 17, 2009, according to which NIS 150,000,000 par value debentures (Series F), registered in name, repayable in three equal annual installments on January 1 of each of the years 2011 through 2013, bearing interest in accordance with the return on "Mimshal 817" debentures with the addition of a 1.6% margin, payable quarterly from September 1, 2009 until September 1, 2013, such that the final payment will be implemented concurrently with repayment of the principal on September 1, 2013, were offered to the public. The principal and interest are not linked to the index or to any currency. The gross consideration in the amount of NIS 150,000,000 in respect of the issuance was received in the company.

On July 28, 2009 the company issued, in accordance with a shelf offering report of July 27, 2009, additional debentures (Series F) with a par value of NIS 55,032,000, reflecting the return on "Mimshal 817" debentures with the addition of a 1% margin. The gross consideration in the amount of NIS 56,132,000 was received in the company.

On August 30, 2009 Jerusalem Financing and Issuances (2005) Ltd, published a shelf offering in accordance with a shelf prospectus of June 17, 2009, according to which NIS 130,000,000 par value debentures (Series G), registered in name, repayable in four equal annual installments on December 1 of each of the years 2013 through 2016, bearing interest in accordance with the return on "Mimshal 817" debentures with the addition of a 0.95% margin, payable quarterly from December 1, 2009 until December 1, 2016, such that the final payment will be implemented concurrently with repayment of the principal on December 1, 2016, were offered to the public. The principal and interest are not linked to the index or to any currency. The gross consideration in the amount of NIS 130,000,000 in respect of the issuance was received in the company.

- B. In June 2009 the Knesset approved an amendment to the Value Added Tax Law (Tax Rates for Non-Profit Entities and Financial Institutions (Interim Regulations)), 2009 ("the Amendment"). The Amendment determines an increase in the rate of profit tax applicable to financial institutions from 15.5% to 16.5%, in the period from July 1, 2009 until December 31, 2010. Following are the statutory tax rates to which financial institutions, including the Bank, are subject, as a result of the Amendment:

<u>Year</u>	<u>Corporate tax rate</u>	<u>Profit tax rate</u>	<u>Total tax rate</u>
		%	
2009	26	16.0(*)	36.21(*)
2010	25	16.5	35.62
2011 and thereafter	25	15.5	35.06

(*) Weighted rate.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**As of September 30, 2009 (Unaudited)****NOTE 10:- EVENTS IN PERIOD UNDER REVIEW (Cont.)**

In July 2009 the Knesset approved the Budget (Legislative Amendments for Implementation of the Budget for the Years 2009 and 2010) Law, 2009, which reduces corporate tax rates gradually. Following are the tax rates applicable for the Bank:

Year	Corporate tax rate	Profit tax rate	Total tax rate
		%	
2010 (without change)	25	16.5	35.62
2011	24	15.5	34.20
2012	23	15.5	33.33
2013	22	15.5	32.47
2014	21	15.5	31.60
2015	20	15.5	30.74
2016 and thereafter	18	15.5	29.00

Current taxes and deferred taxes were calculated in accordance with the new tax rates.

The effect of the change on deferred tax balances resulted in a decrease in net income in the amount of NIS 0.6 million and NIS 0.01 million, charged directly to shareholders' equity, for the periods of nine months and of three months ended September 30, 2009, respectively.

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