

BANK LEUMI (JERSEY) LIMITED

**Directors' report and financial statements
for the year ended 31 December 2009**

Bank Leumi (Jersey) Limited

Report and financial statements for the year ended 31 December 2009

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Bank Leumi (Jersey) Limited

Report and financial statements for the year ended 31 December 2009

Officers

Directors

D W Cooper
C E Cumberland
R J Guillaume
K A M Robinson
L J Secretan
E Sellman
L M Weiss

Secretary

Leumi Overseas Trust Corporation Limited

Registered office

2 Hill Street
St. Helier
Jersey
Channel Islands
JE2 4UA

Independent auditors

KPMG Channel Islands Limited
5 St Andrew's Place
Charing Cross
St. Helier
Jersey
Channel Islands
JE4 8WQ

Bank Leumi (Jersey) Limited

Directors' report for the year ended 31 December 2009

The directors present their report and the audited financial statements of the company for the year ended 31 December 2009.

Incorporation and principal activities

The company is incorporated in Jersey and its principal activities are deposit taking, mortgage lending in the United Kingdom, the provision of bank guarantees, foreign exchange and investment services.

Balance sheet

In the opinion of the directors, and from their knowledge of the company's affairs, the current assets shown in the balance sheet are realisable in the ordinary course of business at amounts not less than the total shown, after making allowances for all appropriate costs including realisation and financing costs.

Results for the year

The results for the year are set out on page 6. The company operates in close co-operation with its subsidiary company, Leumi Overseas Trust Corporation Limited, (LOTC).

The year's results show a reduction in profitability from the previous year, due mainly to the decrease in net interest income in 2009.

A series of reductions in UK base rates in the early part of the year coupled with historically low market interest rates throughout the year, have had the effect of significantly reducing the interest earned by the company on its capital.

Whilst the company has been moving towards more LIBOR based lending, the income on the company's lending remains principally linked to UK base rate, which reduced quickly from 5.00% to 0.50% in late 2008 and early 2009 and had a significant negative impact on interest income.

Finally, due to the need to ensure continued compliance with liquidity and interest rate mismatch limits there was an increased use of Interest Rate Swap agreements in 2009. There is a cost to using Interest Rate Swap agreements compared to covering deposits with a cash transaction and this has further reduced the company's net interest income.

In the light of the current market conditions, the Directors have, as in previous years, considered the valuation of the mortgage loans advanced by the company and none of the loans are considered to be sub-prime with all being adequately secured against property. There have been no arrears in respect of these loans and no impairment provisioning has been considered necessary. In the opinion of the directors the loans are all fairly valued at their full book amount.

During the year, as in previous years, the company has received no call on the guarantees issued. Looking forward, the risk of a net loss arising from the guarantees issued is considered small as these are secured, for the greatest part, on cash deposits.

The company has a number of undrawn commitments. This represents the difference between loan facility amounts agreed and amounts drawn. The majority of this represents amounts that cannot now be drawn as cash drawings but an allowance in case changes in exchange rates mean that the value of amounts borrowed increase in sterling terms.

The subsidiary LOTC carries on the business of trust and company administration. It also employs staff, occupies premises and owns furniture and equipment and engages various support services on its behalf and on behalf of the company. The company pays management charges to LOTC to contribute to the cost of these services.

Bank Leumi (Jersey) Limited

Directors' report for the year ended 31 December 2009

Dividends

The directors do not propose the payment of a dividend for the year under review (2008: Nil).

Directors and administration

The directors of the company at the date of this report are set out on page 1, all of whom were directors for the whole of the period except as follows:

K A M Robinson	Appointed 13 July 2009
L M Weiss	Appointed 8 June 2009
J Schilli	Resigned 19 June 2009

Leumi Overseas Trust Corporation Limited served as secretary for the whole of the year and remains secretary.

Annual General Meetings

On 8 February 2006 the shareholder resolved to dispense with the holding of Annual General Meetings as permitted by Article 87(4) of the Companies (Jersey) Law 1991.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and UK Accounting Standards.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:


- select suitable accounting policies and apply them consistently;
- make judgments and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, and the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors

PricewaterhouseCoopers CI LLP acted as auditor to the company until their resignation on 12 August 2009 and KPMG Channel Islands Limited was appointed as auditor on 4 November 2009.

by order of the Board


Authorised signatory
Leumi Overseas Trust Corporation Limited
Secretary
14 February 2010



KPMG Channel Islands Limited

P.O. Box 453
St Helier
Jersey JE4 8WQ
Channel Islands

5 St Andrew's Place
Charing Cross, St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditors' report to the members of Bank Leumi (Jersey) Limited

We have audited the financial statements of Bank Leumi (Jersey) Limited for the year ended 31 December 2009 which comprise the Profit and loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for preparation of the financial statements in accordance with applicable law and UK Accounting Standards.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, and the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.



KPMG Channel Islands Limited

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Independent auditors' report to the members of Bank Leumi (Jersey) Limited - continued

Basis of audit opinion - continued

It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Accounting Standards, of the state of the company's affairs as at 31 December 2009 and of its profit for the year ended 31 December 2009; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, and the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007.

KPMG Channel Islands Limited

Chartered Accountants

4 February 2010

Bank Leumi (Jersey) Limited

Profit and loss account For the year ended 31 December 2009

	Notes	2009 £	2008 £
Interest income		5,471,627	12,861,054
Interest expense		<u>(4,111,531)</u>	<u>(10,985,875)</u>
Net interest income		1,360,096	1,875,179
Other operating income			
Guarantee commission		48,349	71,552
Fees and commissions receivable		301,439	257,259
Gain on foreign exchange		<u>224,471</u>	<u>270,763</u>
Total operating income		1,934,355	2,474,753
Expenses			
Administration expenses	3	<u>(1,486,247)</u>	<u>(1,340,706)</u>
Profit on ordinary activities before taxation	2	448,108	1,134,047
Tax on profit on ordinary activities	4	<u>(44,787)</u>	<u>(112,863)</u>
Profit for the year		<u>403,321</u>	<u>1,021,184</u>

Continuing operations: all the items dealt with in arriving at the profit on ordinary activities before taxation for 2009 and 2008 relate to continuing activities.

The company has no recognised gains and losses other than those included in the profit on ordinary activities above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation stated above and its historical cost equivalent.

Bank Leumi (Jersey) Limited

Balance sheet

As at 31 December 2009

	Notes	2009 €	2008 €
Assets			
Balances due from other banks	5	39,636	93,182
Balances due from parent company	5	178,375,081	219,764,707
Advances to customers	6	142,325,653	150,648,996
Investment securities	7	11,495,454	14,711,187
Investment in subsidiary company	8	676,167	676,167
Debtors and other accounts	9	<u>362,818</u>	<u>756,170</u>
Total assets		<u>333,274,809</u>	<u>386,650,409</u>
Liabilities			
Deposits from customers	10	300,607,681	352,036,659
Deposits from parent	10	60,063	456,539
Deposits from fellow subsidiary	10	8,575,339	9,441,316
Deposits from subsidiary undertaking	10	1,310,731	952,369
Creditors and other accounts	11	<u>857,987</u>	<u>2,303,839</u>
		311,411,801	365,190,722
Capital and reserves			
Called up share capital	12	15,461,457	15,461,457
Share premium	12	114,710	114,710
Reserves		<u>6,286,841</u>	<u>5,883,520</u>
Total capital and reserves	13	<u>21,863,008</u>	<u>21,459,687</u>
Total liabilities and shareholder's funds		<u>333,274,809</u>	<u>386,650,409</u>

Commitments and contingent liabilities outstanding at the balance sheet date are included in note 17 on page 15.

The financial statements on pages 6 to 17 were approved and authorised for issue by the board of directors on 4 February 2010 and signed on its behalf by:


Director


Director

Bank Leumi (Jersey) Limited

Notes to the financial statements For the year ended 31 December 2009

1 ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling using the rates of exchange at the balance sheet date. Foreign currency transactions during the year are translated into sterling at the rates of exchange at the date of the transaction or at the exchange rate prevailing at the end of the month in which the transaction occurred. Any foreign exchange gains and losses are included in the profit and loss account.

Loans and advances

Loans and advances are included at the principal amount outstanding, net of any specific provisions which are considered by the directors to be appropriate.

Specific provisions are made against loans and advances when, in the opinion of the directors, credit risks or political factors make recovery doubtful. No general provisions are made.

Consolidation

The financial statements contain information about the company as an individual company and do not contain consolidated information as a parent of a group. The company is exempt from the requirement to prepare consolidated financial statements as it, and its subsidiaries, are consolidated into the consolidated financial statements of its parent company, Bank Leumi (UK) plc, and the other conditions set out in Financial Reporting Standard No. 2 'Accounting for subsidiary undertakings' have been met.

Cash flow statement

As permitted by Financial Reporting Standard No. 1, Cash Flow Statements, the company has not prepared a cash flow statement as it is a wholly owned subsidiary of Bank Leumi (UK) plc, which publishes consolidated financial statements in which the company is included, and is therefore exempt from the requirement to prepare a cash flow statement.

Accruals basis

Interest income and expense are accrued for on a daily basis. Income from custody services is accounted for on an accruals basis. Administrative expenses are accounted for on an accrued basis.

Taxation

Provision is made for Jersey income tax which will be assessed on the profits of the company.

Deferred tax

Full provision is made for deferred tax liabilities arising from timing differences between recognition of gains and losses in the financial statements and their recognition in tax computations. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Bank Leumi (Jersey) Limited

Notes to the financial statements For the year ended 31 December 2009

1 ACCOUNTING POLICIES (continued)

Income from loan and guarantee fees

Fee and commission income is accounted for in the period when receivable, except where it is charged to cover the costs of a continuing service to, or risk borne for, a customer or is interest in nature. In these cases it is recognised on an appropriate basis over the relevant period of the loan or guarantee.

Investment securities

Investment securities which comprise floating rate notes, are included in the balance sheet of the company at cost, as adjusted for unamortised premiums /discounts less provision for impairment.

Investment in subsidiary undertaking

The investment in subsidiary undertaking is stated at cost less impairment.

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging:	2009 £	2008 £
Auditors' remuneration – current year	22,200	25,000
Auditors' remuneration – non-audit work	4,000	4,500
Directors' fees	<u>10,838</u>	<u>-</u>
	<u>37,038</u>	<u>29,500</u>

The amount shown above is the estimated portion of the auditors' costs and directors' fees recharged to the company. All such costs are charged to and paid by the subsidiary company.

3 RELATED PARTIES

(a) Transactions, arrangements and agreements involving Directors and others

The table below sets out particulars of transactions, arrangements and agreements entered into by the bank with Key Management Personnel and their connected persons.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the bank and includes members of the Board of Directors.

Transactions were made in the ordinary course of business on terms which would be available to other persons of similar business stature and financial circumstance. The terms were agreed by the Credit Committee of the Board.

		2009 £	2008 £
Key management personnel and connected persons			
Description	Number of persons		
Loan	2	<u>1,599,596</u>	<u>-</u>

Bank Leumi (Jersey) Limited

Notes to the financial statements
For the year ended 31 December 2009

3 RELATED PARTIES (continued)

(b) Transactions with other related parties of the bank

Many of the company's transactions are with other group companies and a summary of these is given below. The additional disclosures required by Financial Reporting Standard No. 8 in respect of transactions with group companies have not been provided as the company has taken advantage of the exemption available to subsidiaries where the parent company publishes consolidated financial statements.

Bank Leumi (UK) plc (BLUK) is the parent company, which has received interest on deposits and paid interest on placements to the company. In addition the company has paid management charges to the parent company which also holds securities for customers on behalf of the company.

The company has operated together with its subsidiary, Leumi Overseas Trust Corporation Limited (LOTC). Management fees were paid to and banking services provided to this company.

The company has also received deposits from a fellow subsidiary Leumi Re Limited, a Guernsey registered company providing reinsurance.

The following is a summary of amounts included in the financial statements in respect of related parties:

	2009	2008
	£	£
Advances / Debtors and other accounts		
Accrued interest receivable (BLUK)	226,914	492,803
Prepaid management charges (LOTC)	4,611	4,615
	<u>231,525</u>	<u>497,418</u>
	2009	2008
	£	£
Creditors and other accounts		
Accrued interest payable (BLUK)	26,238	16,218
Accrued interest payable other group companies	6,735	63,427
Management fees (LOTC)	-	90,000
	<u>32,973</u>	<u>169,645</u>
	2009	2008
	£	£
Interest income / expense		
BLUK income	2,557,984	4,557,439
BLUK expense	(290,349)	(225,286)
LOTC expense	(20,583)	(63,444)
Leumi Re Limited	(105,489)	(306,437)
	<u>2,141,563</u>	<u>3,962,272</u>
	2009	2008
	£	£
Administrative expenses		
LOTC	1,363,004	1,217,996
BLUK	115,718	121,213
	<u>1,478,722</u>	<u>1,339,209</u>

Bank Leumi (Jersey) Limited

Notes to the financial statements For the year ended 31 December 2009

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

The company is liable to Jersey Income Tax at 10% on its profits adjusted for tax purposes.

The basis of assessment of trading income to Jersey tax changed from a prior year basis to a current basis from 2009. The 2008 trading profits shown in these financial statements are subject to transitional provisions under the Income Tax (Amendment No. 28) (Jersey) Law 2007.

The profits chargeable to tax for the Year of Assessment 2008 was the average of the adjusted profits for the 2007 and 2008 accounting periods.

Previously the company accrued for current tax based on the taxable profit (or loss) for that accounting period notwithstanding that tax was charged to the company on a prior year basis. The accounting impact of the transition to an actual basis from 2009 is that only half of the year's profits for 2007 and 2008 year ends suffered tax at 20%.

To recognise the impact of the transition, the company is no longer accruing tax on a prior year basis and, for 2007 and 2008 year ends, provided for tax at 10% on the taxable profits arising in those years.

With effect from the 2009 year end the company has made full provision for tax, based on the tax rate applicable to the company, on its current year taxable profits.

	2009 £	2008 £
Profit on ordinary activities before taxation	<u>448,108</u>	<u>1,134,047</u>
Effective tax charge at 10% (2008: 20%)	44,811	226,809
Adjustments to prior years	(24)	(541)
Effect of transitional provisions	<u>-</u>	<u>(113,405)</u>
Current tax charge	<u>44,787</u>	<u>112,863</u>

5 BALANCES DUE FROM PARENT COMPANY AND OTHER BANKS

	2009 £	2008 £
Balances due from parent company	178,375,081	219,764,707
Balances due from other banks	<u>39,636</u>	<u>93,182</u>
	<u>178,414,717</u>	<u>219,857,889</u>
Repayable:		
Up to one month	104,430,470	89,370,746
From one month to three months	64,783,387	123,485,688
From three months to one year	<u>9,200,860</u>	<u>7,001,455</u>
	<u>178,414,717</u>	<u>219,857,889</u>

Bank Leumi (Jersey) Limited

Notes to the financial statements
For the year ended 31 December 2009

6 ADVANCES TO CUSTOMERS

	2009	2008
	£	£
Repayable:		
Up to one month	3,110,170	4,717,156
From one month to three months	-	14,297,056
From three months to one year	12,301,944	3,401,830
From one year to three years	83,509,393	29,878,968
From three years to five years	43,404,146	92,347,994
From five years to seven years		6,005,992
	<u>142,325,653</u>	<u>150,648,996</u>

7 INVESTMENT SECURITIES

	2009	2008
	£	£
Floating Rate Note		
Issuer	Maturity	Nominal, all USD
Crédit Suisse, USA	15/08/10	2,600,000
Den Danske Bank	17/11/11	3,000,000
Goldman Sachs Group	22/03/16	3,000,000
Lloyds TSB Bank	17/04/14	2,850,000
Citigroup	18/05/10	7,250,000
	<u>4,469,198</u>	<u>4,972,571</u>
	<u>11,495,454</u>	<u>14,711,187</u>
Market value	<u>11,374,263</u>	<u>13,616,933</u>

The difference between the carrying amount of the investment securities and their market value at the year end is not considered to represent an impairment in value. During the year USD 11,600,000 of the Crédit Suisse USA Floating Rate Note previously held was sold.

8 INVESTMENT IN SUBSIDIARY COMPANY

	2009	2008
	£	£
Investment in Leumi Overseas Trust Corporation Limited	<u>676,167</u>	<u>676,167</u>

Leumi Overseas Trust Corporation Limited is incorporated in Jersey and is a wholly owned subsidiary. Its principal activity involves the provision of corporate trustee services. The directors consider the recoverable amount of the investment to be not less than the value stated above.

The investment consists of all of the 924,352 ordinary £1 shares issued.

Bank Leumi (Jersey) Limited

Notes to the financial statements
For the year ended 31 December 2009

9	DEBTORS AND OTHER ACCOUNTS	2009 £	2008 £
	Accrued interest receivable	351,739	751,555
	Other	<u>11,079</u>	<u>4,615</u>
		<u>362,818</u>	<u>756,170</u>
10	DEPOSIT AND CALL ACCOUNTS	2009 £	2008 £
	Deposits from customers	300,607,681	352,036,659
	Deposits from parent	60,063	456,539
	Deposits from fellow subsidiary	8,575,339	9,441,316
	Deposits from subsidiary undertaking	<u>1,310,731</u>	<u>952,369</u>
		<u>310,553,814</u>	<u>362,886,883</u>
	Repayable:		
	Up to one month	171,912,690	172,702,935
	From one month to three months	113,406,594	177,276,104
	From three months to one year	<u>25,234,530</u>	<u>12,907,844</u>
		<u>310,553,814</u>	<u>362,886,883</u>
11	CREDITORS AND OTHER ACCOUNTS	2009 £	2008 £
	Accrued interest payable	370,410	1,202,578
	Tax payable	44,787	263,507
	Others	<u>442,790</u>	<u>837,754</u>
		<u>857,987</u>	<u>2,303,839</u>
12	CALLED UP SHARE CAPITAL AND SHARE PREMIUM	2009 £	2008 £
	Share capital: shares of £1 each		
	Authorised	<u>20,000,000</u>	<u>20,000,000</u>
	At 31 December	<u>15,461,457</u>	<u>15,461,457</u>
	Share premium		
	At 31 December	<u>114,710</u>	<u>114,710</u>

Bank Leumi (Jersey) Limited

Notes to the financial statements For the year ended 31 December 2009

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2009	2008
	£	£
Profit for the year	403,321	1,021,184
Share capital subscribed	-	5,000,000
Opening shareholders' funds	<u>21,459,687</u>	<u>15,438,503</u>
Closing shareholders' funds	<u>21,863,008</u>	<u>21,459,687</u>

14 GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES

	2009	2008
	£	£
Assets		
United Kingdom & Channel Islands	284,053,357	332,265,363
Other EU	-	100,435
West Indies	27,118,191	21,554,463
Israel	628,124	423,874
Rest of world	<u>21,475,137</u>	<u>32,306,274</u>
	<u>333,274,809</u>	<u>386,650,409</u>

	2009	2008
	£	£
Liabilities and shareholders' funds		
United Kingdom & Channel Islands	220,912,637	257,598,148
Other EU	10,113,054	18,246,439
West Indies	49,718,502	39,697,035
Israel	19,910,355	20,139,368
Rest of world	<u>32,620,261</u>	<u>50,969,419</u>
	<u>333,274,809</u>	<u>386,650,409</u>

15 CURRENCY EXPOSURE

The currency exposure as at year end is stated in the sterling equivalent.

	2009	2008
	£	£
Assets		
Sterling	114,174,031	121,406,341
US Dollars	61,564,094	77,490,805
Euros	142,051,179	150,881,152
Other	<u>15,485,505</u>	<u>36,872,111</u>
	<u>333,274,809</u>	<u>386,650,409</u>

	2009	2008
	£	£
Liabilities and shareholders' funds		
Sterling	114,169,179	121,569,245
US Dollars	61,760,227	77,233,007
Euros	141,985,918	150,882,521
Other	<u>15,359,485</u>	<u>36,965,636</u>
	<u>333,274,809</u>	<u>386,650,409</u>

Bank Leumi (Jersey) Limited

Notes to the financial statements For the year ended 31 December 2009

16 ULTIMATE HOLDING COMPANY

The company's immediate holding company is Bank Leumi (UK) plc, a company incorporated in England. In the opinion of the directors, the ultimate holding company is Bank Leumi le-Israel B.M., a company incorporated in Israel.

17 MEMORANDUM ITEMS

In the normal course of business there are various outstanding commitments and contingent obligations that are not reflected elsewhere in the financial statements. Outstanding amounts at the balance sheet date are summarised below.

	2009 £	2008 £
Commitments and contingent items		
Guarantees	20,895,787	32,127,289
Undrawn loan commitments	<u>26,328,246</u>	<u>16,036,915</u>
	<u>47,224,033</u>	<u>48,164,204</u>

The company enters into interest rate swaps with Bank Leumi (UK) plc to offset the interest rate risk arising from certain fixed rate loans advanced.

During the year the company has entered into a number of forward foreign exchange contracts with its customers. These transactions were matched with equal and opposite contracts with Bank Leumi (UK) plc.

The notional principal amounts of these contracts are summarised below.

	2009 £	2008 £
Financial instruments		
Interest rate swaps	42,174,408	8,233,621
Forward foreign exchange contracts	<u>28,122,851</u>	<u>34,174,488</u>
	<u>70,297,259</u>	<u>42,408,109</u>
Fair value of interest rate swaps	<u>(354,086)</u>	<u>(306,454)</u>

As described in note 18 below the interest rate swaps are undertaken to hedge interest risk arising from deposits accepted and loans advanced in the ordinary course of business. As at 31 December 2009 these swaps had a negative fair value of £354,086 (2008: £306,454). In the opinion of the directors this negative fair value is offset by unrecorded gains on the underlying deposits and loans being hedged, and for this reason the loss is not recorded in the company's profit and loss account.

Bank Leumi (Jersey) Limited

Notes to the financial statements For the year ended 31 December 2009

18 FINANCIAL RISK MANAGEMENT

The company's financial instruments comprise deposits, money market assets, cash and other liquid resources.

The main risks arising from the company's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees the policies for managing each of these risks and these are summarised below. These policies have remained unchanged during the year.

Credit risk

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment, either in part or in full, that it has entered into with the company. The company manages its credit risk by investing the majority of deposit funds received by the company with its parent company, Bank Leumi (UK) plc. Investment of funds can only be undertaken with other financial institutions or in other instruments that have been approved by the board. In addition, limits are set as to the maximum exposure to any financial institution that may exist at any one time and these limits are reviewed on a regular basis.

The greatest part of the company's loan portfolio is secured against residential property in the United Kingdom. Limits are set for the loan to value levels that are accepted as security. In addition the largest loans are covered by a Loan Take Out Agreement which transfers the risk of impairment to the parent company.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The company's foreign exchange exposure arises from providing services to customers, as a substantial portion of the company's liabilities are denominated in currencies other than sterling. The company's policy to manage foreign exchange risk is to run a matched book both by currency and term, therefore ensuring that there are no material net open currency positions. In addition any foreign exchange deals, both forward and spot, must be matched immediately to ensure that no open positions are taken. The company's management receives daily reports on any net foreign currency open positions.

The table in note 15 shows the company's exposure to major currencies as at the year end.

Liquidity risk

Liquidity risk can be defined as the risk that the bank could encounter difficulty in realising assets or otherwise raising funds in order to meet commitments.

The bank's policy is to hold sufficient cash and marketable assets to match future cash flows from maturing liabilities and to comply with Jersey Financial Services Commission guidelines with regard to liquidity. The company's senior management receive daily maturity ladder reports for all currencies. The bank monitors maturity ladders on a daily basis to ensure assets cover the expected net cash outflow of the forthcoming month. Liquidity requirements are monitored on a monthly basis in conjunction with the parent company Market Risk Management Committee. The company uses its customer deposit base as the main source of funding and also accepts deposits from other group companies.

The maturity analysis of the assets and liabilities are disclosed in notes 5, 6 and 10 above.

Interest rate risk

Interest rate risk is the risk of exposure to adverse movements in interest rates that arises when there is an imbalance between rate and non-rate sensitive assets and liabilities. The company's policy is to maintain the interest rate risk at a minimal level by running a broadly matched deposit book both by currency and term, except that management may invest the shareholder's funds in fixed or floating rate instruments in response to market conditions. The company also uses interest rate swaps, with the parent Bank Leumi (UK) plc as counterparty, to manage interest rate exposures and these are the off balance sheet items shown in the table below. The company's management receives daily interest risk mismatch reports for all currencies.

Bank Leumi (Jersey) Limited

Notes to the financial statements For the year ended 31 December 2009

18 FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity gap analysis

Part of the company's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which instruments mature.

The table below summarises the repricing mismatches on the company's non-trading book as at the year end and is representative of the whole year. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

	3 months or less £'000	More than 3 but not more than 6 months £'000	More than 6 but not more than 12 months £'000	More than 1 but not more than 3 years £'000	More than 3 but not more than 5 years £'000	Non interest bearing £'000	Total £'000
Assets							
Balances due from:							
other banks	40	-	-	-	-	-	40
parent company	169,174	1,591	7,610	-	-	-	178,375
Advances to customers	122,279	9,964	2,216	4,600	3,267	-	142,326
Investment securities	11,495	-	-	-	-	-	11,495
Other assets	-	-	-	-	-	1,039	1,039
Total assets	302,988	11,555	9,826	4,600	3,267	1,039	333,275
Liabilities and shareholders' funds							
Deposits from:							
customers	275,773	5,846	18,989	-	-	-	300,608
parent company	60	-	-	-	-	-	60
group companies	9,486	400	-	-	-	-	9,886
other banks	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	858	858
Shareholder's funds	-	-	-	-	-	21,863	21,863
Total liabilities	285,319	6,246	18,989	-	-	22,721	333,275
Off balance sheet items	5,017	(6,850)	9,700	(4,600)	(3,267)	-	-
Interest rate sensitivity gap	22,686	(1,541)	537	-	-	(21,682)	-
Cumulative gap	22,686	21,145	21,682	21,682	21,682	-	-
Cumulative gap 2008	26,558	25,706	22,331	22,331	22,331	-	-