Isracard Ltd. and its Consolidated Companies

Annual Report

For the year ended December 31, 2011

ISRACARD

ISRACARD

Report as of December 31, 2011

Table of Contents

Isracard Ltd. and its Consolidated Companies

Board of Directors' Report

For the Year Ended December 31, 2011

Board of Directors' Report on the Financial Statements as of December 31, 2011

At the meeting of the Board of Directors held on February 27, 2012, it was resolved to approve and publish the audited consolidated financial statements of Isracard Ltd. ("**the Company**" or "**Isracard**") and its consolidated companies for the year 2011.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1975 as a private company. The Company is owned by Bank Hapoalim B.M. ("**Bank Hapoalim**").

The Company is a credit-card company operating in three main segments of activity, constituting the core of its operations: credit-card issuing, credit-card clearing, and credit. The Company is an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 1981 ("**auxiliary corporation**"). The Company issues, clears, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay (Eurocard) Israel Ltd. ("**Europay**"), which combine the Isracard and MasterCard brands ("**MasterCard cards**"). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are cleared by Europay. Issuance and clearing of MasterCard cards are performed under a license granted to Europay by MasterCard International Incorporated ("the **MasterCard Organization**").

Credit-card operations consist of an issuer, a clearer, a merchant, and a customer (the cardholder). In some cases, the clearer is also the issuer of the credit card, whereas in other cases the clearer and the issuer are not the same entity.

The Company offers its customers unique credit products based on the nature of the customer's activity. The Company's other activities, each of which does not constitute a reportable segment, are concentrated under the "Other" operating segment.

Holding Structure of the Company

The Company has five consolidated companies: Isracard Mimun Ltd., Isracard (Nechasim) 1994 Ltd., Europay (Eurocard) Israel Ltd., Tzameret Mimunim Ltd., and Global Factoring Ltd.

- **Isracard Mimun Ltd. (“Isracard Mimun”)** was established in 2004, and is a wholly owned and controlled subsidiary of the Company. Isracard Mimun provides credit to holders of non-bank credit cards in the Isracard Group, extends loans to merchants clearing transactions through the Group, and provides non-credit-card consumer credit.

  The net balance of credit at Isracard Mimun to clients and merchants totaled approximately NIS 817 million on December 31, 2011, compared with approximately NIS 805 million at the end of 2010. In addition, Isracard granted advances to merchants with a balance of approximately NIS 483 million as of December 31, 2011, compared with approximately NIS 255 million at the end of 2010.

- **Isracard (Nechasim) 1994 Ltd. (“Isracard Nechasim”)** was established in 1994, and is a wholly owned and controlled subsidiary of the Company. Isracard Nechasim is the joint owner with N.T.M. Nichsei Tachbura Ltd. in equal nonspecific parts of the ownership rights to a property located on Hamasger Street in Tel Aviv, where the Company’s offices are situated, among other things. Isracard Nechasim rents most of the property to Isracard, and the remainder of the property to Bank Hapoalim and to a sister company. An additional non-material activity of Isracard Nechasim includes the management of deposits that contain the proceeds from the sale of gift cards by Isracard, from the date on which the funds are received until the date of payment to the merchant.

- **Global Factoring Ltd. ("Global")**– In August 2009, an agreement was signed between the Company and Global, a private factoring company, and its shareholders, pursuant to which 51% of the issued capital of Global (after the allocation) was allocated to Isracard. With the signing of the agreement, Global became an auxiliary banking corporation.

  In April 2011, an agreement was signed between the Company and other shareholders of Global with regard to the acquisition of their remaining holdings in the company. As of the reporting date, the Company holds 100% of the share capital.

- **Europay (Eurocard) Israel Ltd.**– Europay was established and incorporated in Israel in 1972 as a private company. The Company holds 98.2% of the issued and paid-up common share capital and 100% of the issued and paid-up special share capital of Europay. The remaining issued and paid-up common share capital of Europay (1.8%) is held by Mizrahi-Tefahot Bank Ltd. ("Mizrahi Bank").

Europay is a credit-card company and an "auxiliary corporation," according to the definition of this term in the Banking Law (Licensing), 1981. Europay issues MasterCard cards, jointly with the Company. The cards are issued by Europay for use abroad and by the Company for use in Israel, under a license granted to Europay by the MasterCard Organization. In addition, Europay clears transactions with merchants that have agreements with it in Israel in foreign currency, using MasterCard cards issued abroad by companies in the MasterCard Organization, and paid to the merchant in foreign currency. In accordance with an agreement between the companies, the Company manages and operates issuance and clearing activities of the aforesaid credit cards for Europay.

- **Tzameret Mimunim Ltd. ("Tzameret Mimunim")**– In March 2010, the Company cleared the full holdings (100%) from Hapoalim Nechasim (Menayot) Ltd. ("Hapoalim Nechasim), a subsidiary of Bank Hapoalim, in the shares of Tzameret Mimunim. Tzameret Mimunim is engaged in discounting of credit-card sales. The objective of the acquisition was to centralize the credit card sales discounting inthe Company. The consideration paid by the Company for the acquisition was determined according to an valuation assessment performed of Tzameret Mimunim.

In addition, the Company has holdings in the following companies:

- 20% of the paid-up share capital of **Kidum Mivne Iguach 1 Ltd.**
- 20% of the paid-up share capital of I.M.T. - The Central Vehicle Distribution Company Ltd.
- 15% of the issued share capital of Life Style Customer Loyalty Club Ltd. and Life Style Financing Ltd.
- Approximately 13% of the issued share capital of **Store Alliance.com Ltd. ("Store Alliance").**

Dividend distribution – The Company has not distributed dividends to its shareholders since April 2008.

Holding Structure of the Company as of December 31, 2011

- The Company
  - Isracard Mimun Ltd. – 100%
  - Isracard Nechasim (1994) Ltd. – 100%
  - Tzameret Mimunim Ltd. – 100%
  - Global Factoring Ltd. – 100%
  - Europay (Eurocard) Israel Ltd. – 98.2%
  - Kidum Mivne Iguach 1 Ltd. – 20%
  - IMT - The Central Vehicle Distribution Company Ltd. – 20%
  - Life Style Customer Loyalty Club Ltd. – 15%
  - Life Style Financing Ltd. – 15%
  - Store Alliance.Com Ltd. – ~13%

Economic Environment and the Effect of External Factors on the Company's Operations

Developments in the Global Economy

Global economic activity slowed in the second half of 2011, against a backdrop of numerous issues confronted by the global economy, most notably the sovereign debt crisis in Europe. The global economy grew by 3.8%, with the developing economies contributing most of this growth. The developed economies posted a moderate growth rate of 1.6% and continued to show large internal differences: growth was 1.8% in the United States and 3.0% in Germany, whereas Japan experienced GDP contraction of 0.9%, mainly due to the immense economic damage inflicted by the earthquake and tsunami in the first quarter. The Eurozone economy achieved an average growth rate of 1.6%, but the countries in crisis – primarily Greece, Portugal, Spain, and Italy – experienced negative or very low growth. The developing economies grew by 6.2%, led by China and India, at 9.2% and 7.4% respectively. The slowdown in global activity was accompanied by high unemployment rates; unemployment in the Eurozone climbed to 10.4% by the end of the year, while in the United States the economy began to create jobs again, as unemployment lessened somewhat to 8.5%.

The recovery of the global economy is threatened by the mounting risks in the Eurozone and by the fragility of growth in other regions. A crisis of credibility of economic policies and leadership emerged in almost all of the developed countries and served as a key factor in the downgrade of credit ratings of the United States, France, and additional European countries. Financial conditions globally have continued to deteriorate, and the debt crisis in Europe has not yet been resolved; meanwhile, the Eurozone is expected to see a recession in 2012. The high debt financing needs of the Eurozone economies, first and foremost Italy and Spain, which have had to refinance debt at high yields, are jeopardizing the Eurozone's stability. Despite the establishment and expansion of the European bailout fund as well as support for the countries in crisis from the ECB and the heads of the European Union, yields and insurance premiums (CDS) for debts of these countries remain high. Inflationary pressures globally have lessened with the decrease in commodity prices, enabling central banks to adopt or maintain expansionary monetary policies.

The Israeli Economy

Economic Activity in Israel

The Israeli economy continued to grow in 2011, at a rate of 4.8%, but growth began to slow at the midyear mark. The deceleration was initially mainly apparent in exports, but in the later months of the year the slowdown was felt in demand for consumption as well. The Bank of Israel's composite state-of-the-economy index rose by 2.5% in annualized terms during the second half of the year, versus 4.5% in the first half. In comparison to economic conditions in Europe and the United States, the performance of the Israeli economy was still strong; this can be attributed to the robust condition of households, to the fact that the government was not forced to make budget cuts, and to the stability of the financial sector. The unemployment rate continued to fall during the year, reaching 5.6% in the third quarter, down from 6.5% in the last quarter of 2010. The housing market experienced a turnaround over the last year, with sales of new homes dropping by 29% year-on-year in the second half. Housing starts increased, reaching 42,000 units. As a result, the supply of unsold homes is trending up. According to the Central Bureau of Statistics (CBS) survey on prices of homes, prices began to decrease moderately during the last few months of 2011. Social protests over the cost of living in Israel broke out during the third quarter of 2011. The Committee for Socio-Economic Change was established, headed by Prof. Trachtenberg; the committee released its recommendations in late September 2011. Some of these recommendations, mainly concerning taxation, have already been implemented, as of the beginning of 2012; in the area of education, some of the recommendations have been approved, and a gradual implementation process is planned.

As of the beginning of 2012, the economy is still growing, though at a more moderate pace. The European debt crisis is a significant risk factor, as about one-third of Israel's exports of goods are designated for EU countries. Another risk factor is the financing problems facing the business sector: the volume of offerings in the capital market dropped sharply in the second half of 2011, either as a result of an increase in risk levels or due to regulation affecting institutional entities.

Inflation and Exchange Rates

Prices rose at an annualized rate of 4.4% in the first half of the year as a result of increases in prices of housing, commodities, and energy. The trend reversed in the second half as the consumer price index remained unchanged. Overall for the year, the CPI rose by 2.2%. The change in trend resulted from the slowdown in economic growth, as well as the social protests, which contributed to reductions in prices of food products and held back price hikes in other areas. Prices of homes, which are not included in the CPI, rose by 6.9% in the twelve months through November; however, the last three surveys indicate a cumulative decrease in prices of 1.5%.

Fluctuations in the exchange rate of the NIS against the major currencies were influenced by global trends. During the year, the NIS depreciated by 7.7% against the US dollar and appreciated by 4.2% against the euro. The Bank of Israel continued to purchase foreign currency during the first half, at a volume of USD 4.6 billion. During the year, the Bank of Israel took several steps aimed at reducing speculative activity by foreign investors in the currency market, such as a liquidity requirement for transactions in foreign-currency derivatives by non-residents, a reporting requirement applied to these transactions, and taxation of non-residents' investments in short-term notes (Makams). During the second half, foreign investors' holdings in Makams decreased by a cumulative NIS 20 billion.

Fiscal and Monetary Policy

The slowdown in economic growth was reflected in government tax revenues. Starting in the middle of the second quarter, indirect tax collection decreased; in the third quarter, direct taxes began to decline as well. Overall for the year, tax revenues were lower than planned by NIS 6 billion, and the budget deficit reached NIS 28.6 billion, or 3.3% of GDP, versus the target of 3.0%. The decline in tax revenues and the slowdown in economic growth have increased the probability of an above-target budget deficit in 2012; estimates by the Ministry of Finance predict a deficit of 3.2% of GDP.

The Bank of Israel interest rate trended up during the first half of 2011, as a result of the rapid growth of the economy, the increase in housing prices, and expectations that inflation would exceed the target range. The downturn in economic growth and the global economic conditions caused a halt to the increase in the interest rate in the third quarter, and the rate was lowered again in the fourth quarter. The interest rate stood at 2.0% at the beginning of 2011 and 2.75% at the end of the year, and was lowered to 2.5% in February 2012. On the annual level, monetary policy was expansionary with respect to economic growth and inflation.

The Credit-Card Industry in Israel

As of the reporting date, the following companies operate in the area of credit-card issuance and clearing in Israel: (1) the Company and Europay (Eurocard) Israel Ltd. (“**Europay**”), which issue and clear Isracard and MasterCard credit cards, respectively; (2) Poalim Express Ltd., a sister company, which issues and clears American Express credit cards; (3) Aminit Ltd. ("**Aminit**"), a sister company, which issues and clears Visa credit cards; (4) Leumi Card Ltd. ("**Leumi Card**"), which, to the best of the Company's knowledge, issues and clears Visa and MasterCard credit cards; (5) Cartisei Ashrai Leisrael Ltd. ("**CAL**"), which, to the best of the Company's knowledge, issues and clears Visa and MasterCard credit cards; and (6) Diners Club Israel Ltd. ("**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and clears Diners credit cards.

The credit-card companies in Israel issue and clear the international credit cards noted above (American Express, MasterCard, Visa, and Diners) under licenses granted by the relevant international organizations.

In recent years, two notable trends have been evident in the credit-card issuance sector in Israel: (1) issuance of non-bank credit cards by credit-card companies, usually linked to customer clubs or consumer or other entities; (2) expansion of the range of services offered by credit-card companies in the area of credit and financing to cardholders and merchants, including through the issuance of "revolving credit" credit cards, which allow cardholders to determine debit amounts and dates according to their needs and ability.

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 1986 (the "**Charge Cards Law**") and the derived regulations; the Banking Law (Customer Service), 1981 (the "**Banking Law (Customer Service)**"); and the Anti-Money Laundering Law, 2000 (the "**Anti-Money Laundering Law**") and the order issued under its power by the Bank of Israel. In addition, various directives of the Supervisor of Banks apply to credit-card companies in Israel, including Proper Conduct of Banking Business Directive No. 470, which regularizes the activity of credit-card companies, as well as guidelines derived from the Basel II Accord, which establish risk-management standards aimed at reinforcing the financial robustness and stability of banking systems worldwide.

For further details, and with regard to various directives in the area of cross-clearing of Visa and MasterCard credit cards imposed on credit-card companies in Israel by the Antitrust Commissioner, the opening of the credit-card market, and the Antitrust Commissioner's declaration of Isracard as the holder of a monopoly in clearing Isracard and MasterCard credit cards in May 2005 – see the section "Restrictions and Supervision of the Company's Operations," below.

Operational Data

Number of Credit Cards (in thousands)

Number of valid credit cards as of December 31, 2011

	Active cards	Inactive cards	Total
Bank cards	1,976	314	2,290
Non-bank cards –			
Credit risk on the Company	469	108	577
Credit risk on others	63	53	116
	532	161	693
Total	**2,508**	**475**	**2,983**

Number of valid credit cards as of December 31, 2010

	Active cards	Inactive cards	Total
Bank cards	1,919	296	2,215
Non-bank cards –			
Credit risk on the Company	400	88	488
Credit risk on others	87	56	143
	487	144	631
Total	**2,406**	**440**	**2,846**

Volume of Transactions in Credit Cards Issued by the Company (in NIS millions)

	For the year ended December 31	
	2011	**2010**
Bank cards	71,757	68,433
Non-bank cards –		
Credit risk on the Company	10,829	8,638
Credit risk on others	1,898	2,090
	12,727	10,728
Total	**84,484**	**79,161**

Definitions:

Valid credit card: A card issued and not cancelled by the last day of the reported period.

Active credit card: A credit card valid at the end of the reported period, which was used to execute transactions during the last quarter of the reported period.

Bank credit card: A card for which customer debits are performed in accordance with the Company's agreements with banks; debits related to the card are the responsibility of the relevant bank.

Non-bank credit card: A card for which customer debits are performed other than in accordance with the Company's agreements with banks; the card is not the responsibility of a bank.

Transaction volume: The volume of transactions executed in the Company's cards during the reported period.

Profit and Profitability in the Consolidated Report

The Company's net profit totaled NIS 195 million, compared with NIS 185 million in 2010, an increase of 5.4%. The increase in net profit resulted from an update of the rate of deferred taxes, pursuant to the Law for Change in the Tax Burden.

Net return on average equity reached 14.8%, compared with 16.4% in 2010.

Developments in Income and Expenses

Income totaled NIS 1,429 million, compared with NIS 1,328 million in 2010, an increase of 7.6%.

Income from credit-card transactions totaled NIS 1,239 million, compared with NIS 1,194 million in 2010, an increase of 3.8%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 948 million, compared with NIS 926 million in 2010. The 2.4% increase resulted from an increase in the volume of the Company's transactions in the areas of clearing and issuing.

- Income in respect of credit-card holders totaled NIS 291 million, compared with NIS 268 million in 2010, an increase of 8.6%, which mainly resulted from an increase in the volume of transactions using the Company's cards in Israel cleared by other clearers.

Profit from financing activity before provisions for credit losses totaled NIS 134 million, compared with NIS 98 million in 2010, an increase of 36.7%, which mainly resulted from the first-time consolidation of a subsidiary starting in March last year, and an increase in the interest rate.

Other income totaled NIS 56 million, compared with NIS 36 million in 2010, an increase of 55.6%. The increase mainly resulted from income in respect of the sale of shares of MC.

Expenses before payments to banks, write-downs, and impairment of goodwill totaled NIS 798 million, compared with NIS 680 million in 2010, an increase of 17.4% (for an explanation of this increase, see the operating expenses item below).

Expenses including payments to banks, write-downs, and impairment of goodwill totaled NIS 1,180 million, compared with NIS 1,074 million in 2010, an increase of 9.9% (for an explanation of this increase, see the operating expenses item below).

Provisions for credit losses totaled NIS 49 million, compared with NIS 38 million in 2010. On January 1, 2011, the Company adopted the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit loss, and provisions for credit losses, for the first time. Comparitives for previous years were not restated; the data as of December 31, 2011 are therefore not comparable.

Operating expenses totaled NIS 502 million, compared with NIS 467 million in 2010, an increase of 7.5%. The increase resulted from the following factors:

- An increase in salary expenses, mainly due to an agreement signed in September with the employees' union, as well as the senior executives' remuneration plan.
- An increase in depreciation and data processing expenses, due to an increase in the Company's investments and expenses, mainly in the area of computer systems and software.
- Payments for the operation of customer clubs.

Sales and marketing expenses totaled NIS 182 million, compared with NIS 109 million in 2010, an increase of 67%. The increase resulted from gift offers for cardholders. Expenses for 2010 are after calculation of the provision for the loyalty program, in accordance with the Company's announcement of the termination of this offer during 2011, and the restatement for this item last year.

General and administrative expenses totaled NIS 65 million, compared with NIS 66 million in 2010, a decrease of 1.5%.

Payments to banks under agreements with the banks totaled NIS 372 million, compared with NIS 392 million in 2010, a decrease of 5.1%.

Write-downs and impairment of goodwill totaled NIS 10 million, compared with NIS 2 million in 2010. During the second quarter of 2011, the Company performed a write-down of approximately NIS 7 million in respect of the investment in Global; during the fourth quarter, the Company performed a write-down of approximately NIS 3 million in respect of the investment in Store Alliance.

The ratio of expenses to income before payments to banks and before write-downs and impairment of goodwill reached 55.8%, compared with 51.2% in 2010.

Operating profit before taxes totaled NIS 249 million, compared with NIS 254 million in 2010, a decrease of 2%.

The return of operating profit before taxes on average equity reached 18.9%, compared with 22.5% in 2010.

The provision for taxes on operating profit totaled NIS 52 million, compared with NIS 68 million in 2010. The effective rate of tax of total operating profit before taxes reached 20.9%, compared with 26.8% in 2010 (at the subsidiary that is a financial institution, as defined in the Value Added Tax Law, 1975, the statutory tax rate in 2011 was 34.5%, compared with 35.3% in 2010).

The Law for Change in the Tax Burden (Legislative Amendments), 2011 was passed by the Knesset on December 5, 2011. Pursuant to this law, the tax reduction established in the Economic Efficiency Law will be cancelled, as noted above, and the rate of corporation tax will be 25% from 2012 forward. Current taxes for the periods reported in these financial statements are calculated according to the tax rates established in the Economic Efficiency Law.

The balances of deferred taxes as of December 31, 2011 were calculated according to the new tax rate established in the Law for Change in the Tax Burden, based on the expected tax rate at the date of reversal. The effect of the change in the tax rate on the financial statements as of December 31, 2011 is reflected in an increase in the balance of deferred taxes, in the amount of NIS 16 million, against deferred tax income.

Developments in Balance-Sheet Items in the Consolidated Report

The balance sheet as of December 31, 2011 totaled NIS 13,125 million, compared with NIS 12,498 million on December 31, 2010.

Developments in the principal balance-sheet items:

	December 31			
	2011	2010	Change	
	NIS millions		NIS millions	%
Total balance sheet	13,125	12,498	627	5
Debtors in respect of credit-card activity, net	12,132	11,865	267	2
Cash on hand and deposits with banks	378	76	302	397
Securities	96	74	22	30
Creditors in respect of credit-card activity	10,967	10,819	148	1
Shareholders' equity	1,433	1,263	170	13

Debtors in respect of credit-card activity, net, totaled NIS 12,132 million on December 31, 2011, compared with NIS 11,865 million at the end of 2010. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The increase resulted from an increase in the volume of activity in the cards issued by the Company, and an increase in credit extended to cardholders and merchants.

Cash on hand and deposits with banks totaled NIS 378 million on December 31, 2011, compared with NIS 76 million at the end of 2010. The increase mainly resulted from a loan received from a sister company.

Securities totaled NIS 96 million on December 31, 2011, compared with NIS 74 million at the end of 2010. The increase resulted from an increase in the value of securities held by the Company.

Buildings and equipment totaled NIS 262 million on December 31, 2011, compared with NIS 268 million at the end of 2010. The decrease mainly resulted from depreciation expenses during the period.

Creditors in respect of credit-card activity totaled NIS 10,967 million on December 31, 2011, compared with NIS 10,819 million at the end of 2010. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date.

Shareholders' equity totaled NIS 1,433 million on December 31, 2011, compared with NIS 1,263 million at the end of 2010. The change in equity in comparison to the end of 2010 resulted from the profit for the year and from the cumulative effect, net of tax, of the initial implementation on January 1, 2011 of the directive concerning the measurement of impaired debts and provisions for credit losses; the initial implementation of IFRS (International Financial Reporting Standards); the implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal controls over financial reporting on employee benefits (see Note 1.E.17. to the Financial Statements); and adjustments in respect of securities available for sale at fair value, net of tax.

The ratio of shareholders' equity to the balance sheet reached 10.9% on December 31, 2011, compared with 10.1% on December 31, 2010.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 14.0% on December 31, 2011, compared with 13.7% at the end of 2010.

The minimum capital ratio required by the Bank of Israel is 9%.

Pursuant to the instructions of the Bank of Israel, the risk appetite of the Company as a part of the Bank Hapoalim Group has been defined as a ratio of total capital to risk-adjusted assets at a rate of 12.5%, in effect as of the first quarter of 2011.

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

A credit-card company issues credit cards to its customers (credit-card holders). Credit-card holders use the card as a means of payment to merchants, and the merchants provide the credit-card holders with goods or services. Customers join the credit-card system by signing a credit-card contract with the issuer and receiving the credit card. Credit-card holders make a commitment to repay amounts owed arising from their use of the credit card.

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services. As of the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Europay, Poalim Express, Aminit, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

Bank cards issued by the Company are distributed to owners of accounts at banks with which the Company and Europay have agreements, including Bank Hapoalim (the parent company), Mizrahi Bank, Bank Yahav for Government Employees Ltd. ("Bank Yahav"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., and Union Bank Ltd. (jointly, the "**Banks Under Arrangement**"). See also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under an international license; (2) the collaboration with Bank Hapoalim in the distribution and issuance of credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card with the credit card issued to the customer; (3) the image of the Company's private brand, Isracard, as a leading brand in Israel; (4) high-quality, experienced human capital; (5) quality of customer service; (6) an operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a system of risk management and credit controls; (9) the ability to recruit and retain customers through a targeted marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency and preservation of size advantage.

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card issuance services are the following: (1) the need to obtain a license from an international organization to issue the brand and receive the right to use its logo, which may involve high monetary costs; (2) compliance with certain qualifications as a condition of receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and the investments in technological infrastructures, including an operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the structure of the credit-card industry in Israel, which has a high penetration rate; and (5) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment. payment methods such as cash, direct debits, electronic bank transfers, checks and gift cards are substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

Products and Services

As noted above, the Company issues and operates Isracard credit cards (a private brand) and MasterCard cards. The cards are issued both as bank cards and as non-bank cards, and used as means of payment for transactions and to withdraw cash, locally and internationally.

The Company also issues and operates a variety of products and services, including More brand revolving credit cards, allowing cardholders to determine the terms of repayment; fuel cards and refueling devices; gift certificates and cards; rechargeable cards; various credit plans based on Isracredit; various types of all-purpose loans based on credit limits of credit cards; various options for spreading payments; and provision of information and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling, including customer-club management, are allocated to the Issuance Segment. The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) interchange fees paid by clearers to issuers in respect of transactions executed using credit cards issued by the issuer and cleared by the clearer; (2) card fees – payments collected from cardholders according to a list of charges, varying based on the type of card and on various promotional campaigns and exemptions; (3) deferred-debit fees – fees collected from cardholders in respect of transactions in which the merchant spreads the amount of the purchase into installments, or when the merchant defers the charge for the transaction beyond the nearest debit date; and (4) fees from transactions overseas – fees collected for transactions executed overseas in currencies other than NIS, for which cardholders are debited in NIS.

The main expenses associated with this segment are expenses for customer-club marketing, advertising, and management; various benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 19 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Contractual Arrangements with Banking Corporations

The various agreements of the Company and Europay with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company/Europay, and to recommend the customer's registration for the card arrangement to the Company/Europay. As a rule, each such bank is responsible for accepting all sales slips and debits executed by the customer on the day of presentation of the sales slips or debits to the bank. The aforesaid various agreements also include payment arrangements and the relevant terms with each of the Banks Under Arrangement.

Customers – Cardholders

The credit cards issued by the Company serve customers in various sectors, such as private customers, corporate employees, and corporate purchasing, including B2B (business-to-business payment transfers).

As of the date of the report, there are no cardholders (bank and/or non-bank) whose share of the volume of transactions executed using the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2011.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, joint activity with customer clubs with regard to the issuance of both bank cards and non-bank cards, and marketing and sales promotion, including through large-scale marketing campaigns, joint offers with leading entities in the various sectors, the operation of a telemarketing center, direct mail, salespeople, the Company's website, and more.

Within the activity of customer clubs, the Company customarily enters into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (the "**Club Members**"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as Hever cards for career military personnel and retirees, Life-Style club cards, Ashmoret cards for members of the Israel Teachers Union, Hot cards for members of the Union of Engineers and Technicians in Israel, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, cards for Rafael Advanced Defense Systems Ltd., cards of retail chains, and more.

The Company operates a website at the address: www.isracard.co.il, designed for cardholders, among others. The website provides information, including about products and services offered to cardholders, the Company's rates, special offers, and benefits.

As part of the enhancement of its communication with its cardholders and enrichment of the range of benefits offered to them, the Company has launched a new benefit plan, the Tracks program, which allows customers to receive benefits according to their interests. The goal of this program is to make the benefits offered to customers more relevant, while building a community of customers with which regular communications can be maintained.

The program included the launch of an upgraded website and a mobile application that offer simple, easy access to the full range of benefits of the Company. With regard to the termination of the Points program, see "Critical Accounting Policies," below.

Competition

The credit-card issuance field is characterized by a very high level of competition, which has intensified in recent years, encompassing all areas of activity and population segments relevant to this sector.

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not own credit cards or who own credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; (2) competition for cardholders' "wallet" (which may hold credit cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company, while increasing the mix of products issued by the Company and/or increasing the volume of use of such products; and (3) offering non-bank credit services through revolving credit cards or through loans to cardholders constituting an addition and/or substitute to credit granted by banks and other financial entities.

For details regarding the credit-card companies operating in Israel, see the section "The Credit-Card Industry in Israel," above.

In order to cope with the competition in this sector, the Company takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) reinforcement of the Company's status and image through advertising, benefits, and various offers for cardholders; (3) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and (4) innovation – response to customers' needs by developing new products and services to supply the requirements of the Company's customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the Company and Europay are the leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) professional, skilled, experienced human capital; (5) the Company has long-term agreements with the Banks Under Arrangement for the issuance of credit cards; (6) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; and (9) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others: significant regulatory changes; technological improvements that create the possibility of development of alternative means of payment in areas such as cellular phones, which may cause a decline in the demand for credit-card issuance; and the entry of retail and other entities into the issuance field and/or expansion of activity of existing competitors, including through strategic ventures and collaborations for card issuance.

The Credit-Card Clearing Segment

General

In clearing services, the clearing credit-card company makes a commitment to merchants that , subject to compliance with the terms of the agreement between them, the debits incurred by holders of cards cleared by the clearer when purchasing goods or services from the merchants will be settled by the clearer. The clearer accumulates debits for transactions executed in the credit cards cleared by the clearer with a particular merchant that has signed a clearing agreement with it, in return for a fee (called the "merchant fee"), and secures and transfers to the merchant the payments incurred by the credit-card holders who executed transactions using credit cards with that merchant.

As of the date of the report, several credit-card companies operate in the credit-card clearing segment in Israel: the Company, Europay, Poalim Express, Aminit, Leumi Card, CAL, and Diners. Competition in this field is intense, encompassing all areas of activity within the segment.

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, such as loans, advances, discounting, and marketing and operational services, including an option for payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

In response to a request by the Economics Committee, in April 2011, the Company lowered fees for approximately 10,000 small businesses in peripheral regions, by 10% to 15% of the basic fee for the full year.

As of June 2007, following the Cross-clearing Arrangement and the opening of a common local technical interface, all credit-card companies authorized to issue MasterCard and Visa cards and clear transactions executed in the said cards are able to clear MasterCard and Visa cards, each according to its authorizations. Merchants may switch clearers of these brands at their discretion. With regard to the reduction of the interchange fee, as of November 1, 2011, to an average rate not to exceed 0.875%, and with regard to the extension of the Temporary Arrangement until February 29, 2012, see Note 16.C to the Financial Statements. With regard to the government bill passed by the Knesset plenum in August 2011, see Note 16.D.14 to the Financial Statements.

Critical success factors in the operating segment, and changes therein. In the opinion of the Company, the main critical success factors in the Clearing Segment are the following: (1) the ability to clear credit cards under an international license; (2) available sources of financing for investment in new technological infrastructures necessary in order to provide clearing services and upgrades of existing infrastructures; (3) specification and development of suitable clearing systems and maintaining a high technological level; (4) high-quality, experienced human capital; (5) quality of service to customers of the Clearing Segment – merchants – and the ability to recruit and retain merchants through a targeted sales and marketing system; (6) provision of related services to merchants, including various marketing, financial, and operational services; (7) operational efficiency and utilization of size advantage; (8) accumulated experience in the area of clearing of credit cards; and (9) a robust capital structure and available sources of financing.

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card clearing services are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary large investments in technological infrastructures, an operational system, and large-scale advertising and marketing; (2) the need to obtain a license from international organizations to clear the brands under their ownership, while continually complying with the terms stipulated in each license and with the rules of the relevant organization; (3) deployment of a communications system to allow clearing, or an agreement with Automatic Bank Services, which operates such a system in Israel; (4) the need to perform clearing services on a large scale in order to recover the investment in infrastructures, clearing systems, and other costs; (5) development of a reliable information system for account settlement; and (6) a sales, recruitment, and customer service system.

Substitutes for the products of the operating segment. Alternative means of payment such as cash, direct debits, bank transfers, and checks constitute substitutes for payment by credit card. Bank credit, discounting, and credit from additional non-bank sources in its various forms constitute substitute products to the financial services provided by the Company.

ISRACARD

Products and Services

As a clearer, the Company has agreements with various merchants, under which it clears transactions, including domestic transactions and transactions by incoming tourists, executed using credit cards (issued by the Company and/or by other credit-card companies) with merchants with which the Company has entered into clearing agreements. In consideration for the clearing services, the Company mainly collects a merchant fee.

In addition to clearing services, the Company offers flexible crediting dates and options for payment in installments. The Company also offers marketing and operational services, such as the incorporation of coupons and personal messages in debit statements for cardholders, sales-promotion campaigns, information regarding credits of the merchant, business cards, joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures. In addition, the Company offers clearing of gift certificates and gift cards which it issues.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants are allocated the Clearing Segment. The main income items in the Clearing Segment are fees from merchants, net of interchange fees, which are allocated to the Issuance Segment, as well as net financing income attributed to the segment. The main expenses associated with the Clearing Segment include expenses for recruitment and retention of merchants, joint advertising with merchants, clearing of transactions and production and delivery of credit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 19 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Customers

The Company's customers in the Clearing Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries. As of the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2011.

Marketing and Sales

The Company's marketing and sales activity in the Credit-Card Clearing Segment is based on the principle of focusing on merchants' needs, and is conducted through a targeted sales and support system.

The Company's key objectives in its marketing activity in this area are: (1) to retain merchants as customers by strengthening its ties with the merchants and providing marketing, financial, and operational services, including the incorporation of coupons and personal messages in debit statements for cardholders, information regarding past and future credits of the merchant, advertising campaigns and unique marketing information, benefits, and programs at a high level of service; (2) to strengthen the Company's image; and (3) to recruit new merchants and expand the Company's operations through new business activities, including the granting of credit.

The Company operates a website at the address: www.isracard.co.il, designed for merchants that have clearing agreements with it, among others. The website provides information, including about products and services offered to merchants, the Company's rates, special offers, and benefits.

Competition

The credit-card clearing field is characterized by a very high level of competition, due to factors including the operation of the local interface for cross-clearing of transactions in MasterCard and Visa credit cards in June 2007, which led to a reduction in fees and heightened competition.

For a list of credit-card companies operating in this area in Israel, see "The Credit-Card Industry in Israel," above.

In the opinion of the Management of the Company, the Company is the leader in this area in Israel. As of the date of the report, the Company is the only company to clear, in Israel, transactions in Isracard cards, a private brand owned by the Company. For further details on this matter, see the section “Restrictions and Supervision of the Company,” below. Competition in the clearing sector is focused on recruiting new merchants for clearing agreements with the Company, retaining existing merchants as customers of the Clearing Segment, and preventing desertion to competitors, which requires the investment of extensive efforts and resources and high sales and marketing expenses.

Another aspect of competition in the clearing sector is focused on the development of financial and operational products and services for merchants, to increase the volume and/or amounts of transactions executed with each merchant. Credit-card companies have expanded the mix of products and services offered to merchants by offering marketing and financial services, such as flexible crediting dates and joint sales-promotion campaigns for the credit-card company and the merchant.

In order to cope with the competition in this sector, the Company takes the following main actions: (1) a competitive, prudent rate policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to each merchant's unique needs; (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems. The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the clearing service provider, and in formulating the overall perception of the Company by merchants.

Positive factors affecting the Company's competitive standing include the following, among others: (1) a marketing, sales, and service system specializing in providing suitable solutions to merchants while maintaining regular contact with them, and containing professional, skilled, experienced human capital; (2) a brand with presence and power; (3) an advanced technological infrastructure allowing response to the needs of the various merchants; (4) a wide range of services, such as marketing and operational services; and (5) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others, regulation, technological improvements that create the possibility of development of alternative means of payment in areas such as cellular phones, which may cause a decline in credit-card clearing; and merchants' ability to switch clearers in MasterCard and Visa brands at their discretion. For details regarding regulatory restrictions applicable to the Company under antitrust laws, see the section "Restrictions and Supervision of the Company's Operations."

The Financing Segment

General

In the last few years, the Company has entered the financing business. The Financing Segment serves the customers of the Company, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability.

The Financing Segment comprises two sub-groups divided according to the nature of the customer's activity: consumer credit for private customers, usually with relatively low volumes of financial activity; and corporate credit for businesses, whose credit needs are usually related to financing of their business operations. The types of credit products offered to these two groups naturally differ.

Consumer credit activity is primarily conducted through proactive marketing and advertising, offering the range of credit products for private customers. Products such as financing of vehicle purchases are usually marketed by related companies and/or through collaborations with other companies.

Activities in this sector also include the financing of credit for transactions such as discounting and factoring, which are also performed through the Company's subsidiaries.

Legislative Restrictions, Regulation, and Special Constraints Applicable to the Segment

The Company operates under laws, standards, and regulatory directives applicable to the banking system and to credit-card companies in Israel, such as directives of the Supervisor of Banks, the Antitrust Commissioner, and more. Several such directives, which have (or had at the time of publication) material implications for the segment, are listed below.

The following limits apply to the volume of credit pursuant to the Proper Conduct of Banking Business Directives:

Transactions with related persons – Pursuant to Proper Conduct of Banking Business Directive No. 312, "Business of a Banking (Auxiliary) Corporation with Related Persons," among other matters, a limit applies to the Company such that the total "indebtedness to a banking (auxiliary) corporation," as this term is defined in the aforesaid directive, excluding certain amounts, of all "related persons" of the Company, as defined in the directive, shall not exceed a total equal to 10% of the capital of the auxiliary banking corporation (as defined in Proper Conduct of Banking Business Directive No. 202 concerning capital components).

Limit on indebtedness of borrowers and borrower groups – Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of Borrowers and of Borrower Groups," among other matters, a limit applies to the Company such that the rate of the "indebtedness" of a "borrower" and of a "borrower group," as defined in the directive, after deducting the deductible amounts from the indebtedness, in accordance with the directive, shall not exceed 15% and 25% respectively of the capital of the Company, calculated according to Proper Conduct of Banking Business Directive No. 202 concerning capital components.

In addition to the limits described above, pursuant to the Proper Conduct of Banking Business Directives, from time to time the Board of Directors of the Company establishes limits on credit concentration in certain sectors of the economy, and a limit on the maximum exposure to a single borrower, as well as according to the credit risk of the borrower, as expressed in the internal rating system.

The Company's credit policy is approved annually by the Board of Directors.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Financing Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) matching of a relevant product offering to customers; (2) available sources of financing and the ability to raise capital; (3) management and development of a retail system that is available and accessible to customers, with an emphasis on the direct channels, in order to improve service in the areas of professional expertise, response times, etc.; (4) a system of risk management and credit controls; (5) an adequate system of controls in order to reduce risks; (6) collaborations with various business partners in the Israeli economy in the provision of financial services; (7) experienced, high-quality human capital; and (8) an operational system including advanced information systems, technologies, and infrastructures

Key entry barriers in the operating segment. The key entry barriers in the Financing Segment are the following: (1) the need for financial resources, sources of financing, experience, and extensive knowledge in order to perform the required investments in the operational system, financing, advertising, and marketing, and extensive investments in technological infrastructures; (2) development and management of a credit rating and control system, and the collection of information allowing a risk level to be assigned to each customer; (3) the need for shareholders' equity in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets; (4) a broad system of sales and collaborations; and (5) training professional, skilled personnel.

Substitutes for the products of the operating segment. Credit services and loans provided by various parties in the economy, either through banks or through other financial operators, serve as substitutes for the credit and financing services provided by the Company.

Products and Services

The Company offers financial services to merchants, mainly including loans, discounting of credit-card payments, advances, credit facilities for business cards, purchasing cards and B2B, and factoring services. In addition, the Company offers credit to private customers, including revolving credit (More cards), which allow cardholders to determine the repayment terms; special-purpose loans; various credit plans based on the Isracredit program; various general-purpose loans based on credit-card credit facilities; and loans that do not require a card, all at a high level of service.

Segmentation of Income from Products and Services

All income and expenses attributed to the interest-bearing credit activity of the Company were assigned to the Financing Segment, including discounting, advances, factoring, revolving credit (More), and loans of various types. For details regarding the segmentation of income from transactions of the Financing Segment, see Note 20 to the Financial Statements.

Customers

The Company's customers in the Financing Segment include numerous merchants and private customers. The group of customers of this segment in the consumer sector mostly consists of households with low to medium net worth.

Customers are segmented by risk ratings assigned based on an internal risk-rating model of the Company designed for private customers. The group of customers of this segment in the business sector consists of merchants in a broad range of industries who use the Company's clearing services, as well as non-clearing customers who use one of the various types of corporate cards of the Company.

These customers are also segmented by risk ratings assigned based on an internal risk-rating model of the Company designed for business customers.

Marketing and Sales

Sales and marketing activities of the Company in the Financing Segment are based on the principle of focusing on the needs of merchants and on the changing needs of private cardholding and non-cardholding customers. The Company operates on several levels: joint activities with customer clubs and business partners in granting credit, including marketing and sales promotion, among other means, through large-scale marketing campaigns, advertising in newspapers, on television, on the radio, and on the Company's website, as part of its commercial activity with the merchants.

Competition

The Financing Segment is characterized by a high level of competition, encompassing banking institutions and other financial entities, such as insurance companies, other credit-card companies, factoring companies, and discounting companies. The competition in this industry is reflected in the level of service and in the range of products, prices, conditions for providing the required financing, and speed of response.

Seasonality

Given that credit-card transactions are primarily based on private consumption in Israel, seasonality in the areas of credit-card issuance, clearing, and financing is mainly derived from the seasonality of private consumption in Israel.

The Other Segment

This segment includes all of the Company's other activities that do not belong to the Issuance Segment, the Clearing Segment, and/or the Financing Segment, each of which does not constitute a reportable segment. This includes the credit-card system operation services which the Company provides to subsidiaries of Bank Hapoalim in relation to credit cards which those companies are licensed to issue and clear (Poalim Express, which issues and clears American Express cards; and Aminit, which issues and clears Visa cards); the activity of Isracard Nechasim; and the Company's activity in the area of check settlement assurance and check discounting. This segment also includes income from the sale of shares of MC.

Financial Information on the Company's Operating Segments – Consolidated

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2011				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from external customers	288	949	-	2	1,239
Intersegmental fees	713	(713)	-	-	-
Total	**1,001**	**236**	**-**	**2**	**1,239**
Profit (loss) from financing activity before provision for credit losses	53	6	75	(*-)	134
Other income	3	2	1	50	56
Total income	**1,057**	**244**	**76**	**52**	**1,429**
Expenses					
Provisions for credit losses	23	3	16	7	49
Operations	373	113	11	5	502
Sales and marketing	138	37	4	3	182
General and administrative	42	19	3	1	65
Payments to banks	372	-	-	-	372
Write-down and impairment of goodwill	-	-	7	3	10
Total expenses	**948**	**172**	**41**	**19**	**1,180**
Operating profit before taxes	**109**	**72**	**35**	**33**	**249**
Provision for taxes on operating profit	23	15	7	7	52
Operating profit after taxes	**86**	**57**	**28**	**26**	**197**
The Company's share in operating (losses) after tax effects of investee companies (in the consolidated report: associates)	-	-	-	(2)	(2)
Net operating profit					
Before attribution to non-controlling interests	86	57	28	24	195
Attributed to non-controlling interests	-	-	*-	-	*-
Attributed to shareholders of the Company	86	57	28	24	195
Return on equity (percent net profit out of average capital)	6.6	4.3	2.1	1.8	14.8
Average balance of assets	10,352	448	1,585	139	12,524
Of which: investments in associated companies	-	-	-	3	3
Average balance of liabilities	577	10,450	51	130	11,208
Average balance of risk-adjusted assets	7,733	576	1,119	195	9,623

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

Financial Information on the Company's Operating Segments – Consolidated (cont.)

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2010				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from external customers	265	928	-	1	1,194
Intersegmental fees	727	(727)	-	-	-
Total	**992**	**201**	**-**	**1**	**1,194**
Profit from financing activity before provisions for doubtful debts	27	5	65	1	98
Other income	3	1	1	31	36
Total income	**1,022**	**207**	**66**	**33**	**1,328**
Expenses					
Provisions for doubtful debts	6	3	27	2	38
Operations	350	103	9	5	467
Sales and marketing	70	31	5	3	109
General and administrative	43	19	3	1	66
Payments to banks	388	4	-	-	392
Write-down and impairment of goodwill	**-**	**-**	**2**	**-**	**2**
Total expenses	**857**	**160**	**46**	**11**	**1,074**
Operating profit before taxes	**165**	**47**	**20**	**22**	**254**
Provision for taxes on operating profit	44	13	5	6	68
Operating profit after taxes	**121**	**34**	**15**	**16**	**186**
The Company's share in operating profits after tax effects of investee companies (in the consolidated report: associates)	-	-	-	*-	*-
Net operating profit					
Before attribution to non-controlling interests	121	34	15	16	186
Attributed to non-controlling interests	-	-	(1)	-	(1)
Attributed to shareholders of the Company	**121**	**34**	**14**	**16**	**185**
Return on equity (percent net profit out of average capital)	10.7	3.0	1.2	1.3	16.2
Average balance of assets	9,074	990	1,387	272	11,723
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	433	9,841	197	122	10,593
Average balance of risk-adjusted assets	6,391	866	1,174	240	8,671

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

Financial Information on the Company's Operating Segments – Consolidated (cont.)

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2009				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from external customers	249	855	-	1	1,105
Intersegmental fees	717	(717)	-	-	-
Total	**966**	**138**	**-**	**1**	**1,105**
Profit from financing activity before provisions for doubtful debts	20	9	39	*-	68
Other income	2	2	-	26	30
Total income	**988**	**149**	**39**	**27**	**1,203**
Expenses					
Provisions for doubtful debts	5	*-	23	1	29
Operations	293	88	4	4	389
Sales and marketing	**111	26	2	3	142
General and administrative	45	22	1	1	69
Payments to banks	**371	1	-	-	372
Total expenses	**825**	**137**	**30**	**9**	**1,001**
Operating profit before taxes	**163**	**12**	**9**	**18**	**202**
Provision for taxes on operating profit	**45	**3	2	5	55
Operating profit after taxes	**118**	**9**	**7**	**13**	**147**
The Company's share in operating profits after tax effects of investee companies (in the consolidated report: associates)	-	-	-	*-	*-
Net operating profit					
Before attribution to non-controlling interests	118	9	7	13	147
Attributed to non-controlling interests	-	-	1	-	1
Attributed to shareholders of the Company	**118**	**9**	**8**	**13**	**148**
Return on equity (percent net profit out of average capital)	12.3	1.0	0.6	1.3	15.2
Average balance of assets	8,453	1,202	841	457	10,953
Of which: investments in associated companies	-	-	-	19	19
Average balance of liabilities	356	9,561	3	57	9,977
Average balance of risk-adjusted assets	2,844	452	1,190	155	4,641

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 to the Financial Statements.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment’s net profit totaled NIS 86 million, compared with NIS 121 million in 2010, a decrease of 28.9%.

Net return on average equity reached 6.6%, compared with 10.7% in 2010.

Developments in Income and Expenses

The segment's income totaled NIS 1,057 million, compared with NIS 1,022 million in 2010, an increase of 3.4%.

Income from fees totaled NIS 1,001 million, compared with NIS 992 million in 2010, an increase of 0.9%.

Profit from financing activity before provisions for credit losses totaled NIS 53 million, compared with NIS 27 million in 2010, an increase of 96.3%, which mainly resulted from an increase in the interest rate.

The segment's expenses before payments to banks totaled NIS 576 million, compared with NIS 469 million in 2010, an increase of 22.8%.

The segment's expenses including payments to banks totaled NIS 948 million, compared with NIS 857 million in 2010, an increase of 10.6%.

Provisions for credit losses totaled NIS 23 million, compared with NIS 6 million in 2010, an increase of 283.3%. On January 1, 2011, the Company adopted the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit losses, and provisions for credit losses, for the first time. Comparitive figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable.

Operating expenses totaled NIS 373 million, compared with NIS 350 million in 2010, an increase of 6.6%. The increase resulted from the following factors:

- An increase in salary and related expenses, mainly due to an agreement signed in September with the employees' union.

- An increase in depreciation expenses, due to an increase in the Company's investments, mainly in the area of computer systems and software.

Sales and marketing expenses totaled NIS 138 million, compared with NIS 70 million in 2010, an increase of 97.1%, which mainly resulted from gift offers for credit-card holders. The expenses in 2010 were recorded after the calculation of the provision for the loyalty program, in accordance with the Company's announcement of the termination of this offer during 2011.

General and administrative expenses totaled NIS 42 million, compared with NIS 43 million in 2010, a decrease of 2.3%.

Payments to banks under agreements with the banks totaled NIS 372 million, compared with NIS 388 million in 2010, a decrease of 4.1%.

The ratio of expenses to income in the segment, before payments to banks, reached 54.5%, compared with 45.9% in 2010.

The segment's operating profit before taxes totaled NIS 109 million, compared with NIS 165 million in 2010, a decrease of 33.9%.

The provision for taxes on operating profit in the segment totaled NIS 23 million, compared with NIS 44 million in 2010. The 47.7% decrease also resulted from an update of the rate of deferred taxes, pursuant to the Law for Change in the Tax Burden.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 57 million, compared with NIS 34 million in 2010, an increase of 67.6%. The increase resulted from an increase in activity and a decrease in the rate of the interchange fee.

Net return on average equity reached 4.3%, compared with 3.0% in 2010.

Developments in Income and Expenses

The segment's income totaled NIS 244 million, compared with NIS 207 million in 2010, an increase of 17.9%.

Income from fees totaled NIS 236 million, compared with NIS 201 million in 2010, an increase of 17.4%. The increase resulted from an increase in activity and a decrease in the rate of the interchange fee.

Profit from financing activity before provisions for credit losses totaled NIS 6 million, compared with NIS 5 million in 2010, an increase of 20%.

The segment's expenses before payments to banks totaled NIS 172 million, compared with NIS 156 million in 2010, an increase of 10.3%.

The segment's expenses including payments to banks totaled NIS 172 million, compared with NIS 160 million in 2010, an increase of 7.5%.

Provisions for credit losses totaled NIS 3 million, similar to 2010. On January 1, 2011, the Company adopted the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit losses, and provisions for credit losses, for the first time. Comparitive figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable.

Operating expenses totaled NIS 113 million, compared with NIS 103 million in 2010, an increase of 9.7%.

The increase resulted from the following factors:

- An increase in salary and related expenses, mainly due to an agreement signed in September with the employees' union.

- An increase in depreciation expenses, due to an increase in the Company's investments, mainly in the area of computer systems and software.

Sales and marketing expenses totaled NIS 37 million, compared with NIS 31 million in 2010, an increase of 19.4%, which mainly resulted from an increase in advertising expenses.

General and administrative expenses totaled NIS 19 million, similar to 2010.

Payments to banks under agreements with the banks: the segment had no expenses in respect of payments to banks in 2011. In the preceding year, these expenses totaled NIS 4 million.

The ratio of expenses to income in the segment, before payments to banks, reached 70.5%, compared with 75.4% in 2010.

The segment's operating profit before taxes totaled NIS 72 million, compared with NIS 47 million in 2010.

The provision for taxes on operating profit in the segment totaled NIS 15 million, compared with NIS 13 million in 2010.

Profit and Profitability – Financing Segment

The segment’s net profit totaled NIS 28 million, compared with NIS 14 million in 2010, an increase of 100%.

The increase mainly resulted from a subsidiary consolidated for the first time in 2010, and from an increase in the interest rate.

Net return on average equity reached 2.1%, compared with 1.2% in 2010.

Developments in Income and Expenses

The segment's income totaled NIS 76 million, compared with NIS 66 million in 2010, an increase of 15.2%. The increase mainly resulted from a subsidiary consolidated for the first time in 2010, and from an increase in the interest rate.

Profit from financing activity before provisions for credit losses totaled NIS 75 million, compared with NIS 65 million in 2010, an increase of 15.4%.

The segment's expenses before write-downs and impairment of goodwill totaled NIS 34 million, compared with NIS 44 million in 2010, a decrease of 22.7%.

Provisions for credit losses totaled NIS 16 million, compared with NIS 27 million in 2010, a decrease of 40.7%.On January 1, 2011, the Company adopted the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit losses, and provisions for credit losses, for the first time. Comparitive figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable.

Operating expenses totaled NIS 11 million, compared with NIS 9 million in 2010, an increase of 22.2%.

Sales and marketing expenses totaled NIS 4 million, compared with NIS 5 million in 2010, a decrease of 20%.

General and administrative expenses totaled NIS 3 million, similar to 2010.

Write-downs and impairment of goodwill totaled NIS 7 million, compared with NIS 2 million in 2010. During the second quarter of 2011, the Company performed a write-down of approximately NIS 7 million in respect of an investment in Global.

The ratio of expenses to income in the segment reached 53.9%, compared with 69.7% in 2010.

The segment's operating profit before taxes totaled NIS 35 million, compared with NIS 20 million in 2010, an increase of 75%.

The provision for taxes on operating profit in the segment totaled NIS 7 million, compared with NIS 5 million in 2010, an increase of 40%.

Profit and Profitability – Other Segment

The segment’s net operating profit totaled NIS 24 million, compared with NIS 16 million in 2010, an increase of 50%. The increase mainly resulted from income in respect of the sale of shares of MC.

Net return on average equity reached 1.8%, compared with 1.3% in 2010.

Developments in Income and Expenses

The segment's income totaled NIS 52 million, compared with NIS 33 million in 2010, an increase of 57.6%.

Operating and other income totaled NIS 50 million, compared with NIS 31 million in 2010, an increase of 61.3%.

The segment's expenses totaled NIS 19 million, compared with NIS 11 million in 2010.

The ratio of expenses to income in the segment reached 36.5%, compared with 33.3% in 2010.

The segment's operating profit before taxes totaled NIS 33 million, compared with NIS 22 million in 2010.

The provision for taxes on operating profit in the segment totaled NIS 7 million, compared with NIS 6 million in 2010.

Fixed Assets and Facilities

The Company's headquarters are located in an office building on Hamasger Street, Tel Aviv. As noted, this office building is owned by Isracard Nechasim and N.T.M. Nichsei Tachbura Ltd. in equal nonspecific parts. Isracard Nechasim rents most of the property to the Company, and the remainder of the property to a sister company and to Bank Hapoalim. In addition, the Company rents additional offices for its routine needs, offices used as backup sites for its operations, and regional offices mainly used as offices of sales representatives.

The Company's material fixed assets also include computers, information systems and infrastructures, communications equipment, and peripheral equipment used in the areas of credit-card issuance and clearing. These systems include mainframe computers (including for backup), open systems, hardware, and software used by the Company in its routine operations in the areas of issuance and clearing and in operating credit-card arrangements. These systems are in line with the technical specifications defined by the international organizations.

Intangible Assets

The Company owns the trademark "Isracard." In addition, the Company has rights to several trademarks related to credit cards which it issues, cleares, and/or operates. Most of the trademarks to which the Company has rights are related to the appearance or names of credit cards; imprints, images, or logos appearing on credit cards; the Company's publications; documents used as means of payment and collection; etc.

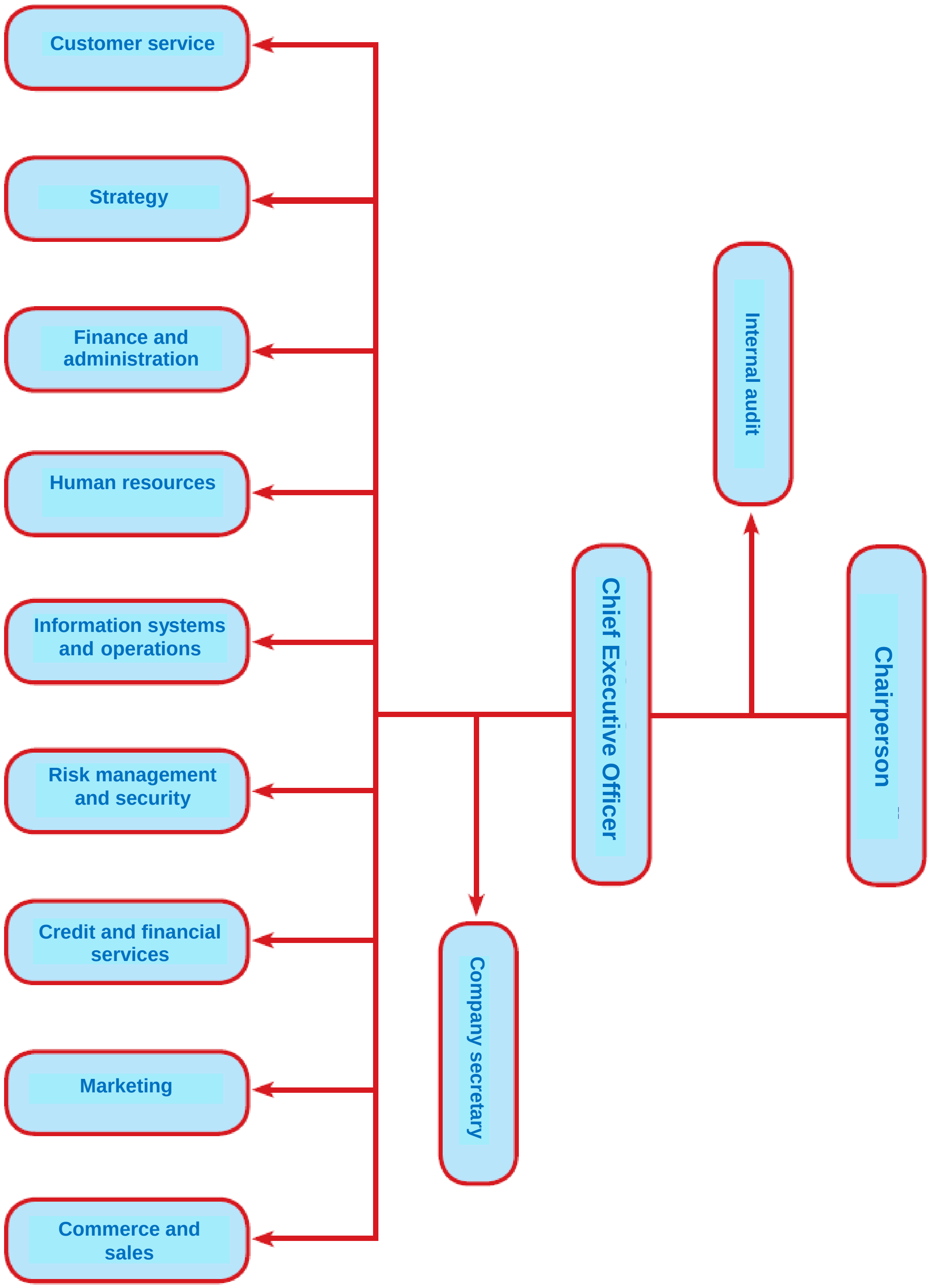
In the course of its operations, the Company is subject to the provisions of the Protection of Privacy Law, 1981, and the regulations enacted under that law, including the duty to register a database (as defined in the Protection of Privacy Law) in accordance with the requirements of the law and in accordance with its agreements.

Human Capital

Organizational Structure

The organizational structure of the Company consists of nine functional units, each headed by an officer reporting directly to the CEO of the Company. Each such unit contains divisions, subdivisions, and sections, according to the nature of its activity, which report to the head of the unit.

Units of the Company



Personnel

Total employee positions at the Company include:

(1) Employees employed under collective agreements and/or personal employment contracts signed with the Company or with Europay. Also see the “Other Matters” section below.

(2) Employees who are part of the manpower of Bank Hapoalim, on loan to the Company – in addition to labor laws and expansion orders, the terms of employment of the majority of the aforesaid employees on loan are regularized in the Labor Constitution for Workers of Histadrut Institutions, in collective agreements, and in various agreements concerning wage terms and other benefits.

(3) External personnel.

The number of employee positions decreased by 39 in 2011, compared to the number of positions at the end of 2010. Most of the decrease occurred in employee positions in the area of customer service.

	2011	**2010***
Average positions on a monthly basis	1,239	1,315
Total positions at year end	1,249	1,288

* Restated.

In calculating the number of positions, overtime for which overtime wages are paid based on specific reports (not on a global basis) was taken into account.

During the year, a thinking process was carried out with regard to improvement of the efficiency of work processes at the Group, with an emphasis on improved customer service; this process led to the reduction in the number of positions. Concurrently, numerous measures were taken in response to the changing needs expressed by the various departments, according to the key projects in the Group, with changes and adjustments made in order to provide efficient, high-quality solutions.

Trends in Human Resources

Human resources strategy emphasizes organizational stability, with the integration and cultivation of the values of openness and transparency, along with innovation and achievement.

In 2011, the Company continued to maintain this policy, through:

1. Encouragement of employees’ efforts to develop innovation, excellence, professional expertise, and success.

2. Cultivation of employees' sense of belonging at the Company, with an emphasis on values such as mutual trust and respect, and on creating the feeling that "we are all one family." These values, which strengthen employees' connection and identification with the Company, are reinforced by means including a range of activities for the well-being of employees and their families throughout the year.

3. Encouragement of volunteering through organizational units, individual activities, and recurring activities, in order to promote the value of giving back to the community.

4. Occupational stability in the area of service, designed to increase the experience of service representatives at the customer-service centers.

5. Leading organization-wide processes in response to changes and in support of the Group's strategy, including support and guidance for the process of consolidation of call centers, including adaptation of recruitment and training processes, and guidance of the change with support for managers and advice on communication of the messages related to the change; development of a computerized learning environment and improved efficiency of the training program.

6. Training sessions at banks that market the Group's cards, aimed at encouraging the Group's partners to market its cards.

7. Instillation of a culture of intra-organizational surveys, for the purposes of learning, growth, and improvement of performance.

8. Examination of changes in human-resources policy aimed at achieving improved efficiency and cost savings.

9. Employee unions – see Note 13.G to the Financial Statements.

Ethical Code

During 2010, the Isracard Group celebrated the introduction of its ethical code. The code reflects the core values of the Group and the proper course of action which is its aim in its relationships with all of its stakeholders.

During 2011, a senior ethics committee was established and worked to instill and encourage dialogue regarding ethics and the absorption of the code.

Professional Training

Key objectives in 2011 were to support and aid the promotion of the business goals and objectives of the organization, employee and executive development, and improvement of the service and sales skills of service representatives. Activity during the year focused on training and on increasing the depth of professional knowledge of employees and executives in various roles within the Company; continued absorption of a winning service culture – the customer as a guest; increasing professional knowledge in the area of credit and sales; and encouragement of employees to acquire higher education. During the year, training sessions were held for targeted employee groups to support the absorption of new products and services and the structural and organizational changes in the various divisions.

Instilling a Culture of Surveys

Based on the philosophy that feedback and a reflection of the condition of the organization can provide a foundation for learning and growth, several intra-organizational surveys were conducted during the year. Following the surveys, the findings were communicated and served as the basis for managerial decisions and for plans for improvement throughout the organization.

Occupational Stability

Employee retention in general, and at the call centers in particular, was a focus of joint work by the business units and the human resources units. The duration of employment of service representatives at the various call centers increased as a result of this joint effort and of the personal and group guidance of team leaders, which also included training and retention work by human resources.

Promotion of Diversity

The Group has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups. In 2011, we expanded diversity while creating a supportive, open work environment with acceptance of differences and aid for social integration and professional and personal fulfillment, concurrently learning to be open to others and to those who are different from us, and to create a more tolerant community of employees, with respect and appreciation for others.

Community Involvement and Contribution

As a leader in its field in Israel, Isracard is committed to giving back to the community, with a special emphasis on supporting disadvantaged groups and those in need in Israeli society, serving Israel's youth, and empowering women. The Company continually strives to increase its employees' awareness of community involvement and encourages them to volunteer, with the philosophy that the added value of giving back to the community is a reinforced sense of pride and cohesion of employees and stronger identification with the Company.

Contribution to the community takes the form of a wide range of community involvement activities and monetary donations sponsored by the Company, as well as volunteering activities by employees.

Notable Contributions to the Community

Education and Advancement of Youth

Investment in activities that advance youth and support youth well-being in various locations throughout Israel; support for technology implementation programs allowing the use of innovative learning methods for the creation of an advanced, optimal teaching and learning environment accessible to all students and teachers in several schools in peripheral regions; support for programs for youth education and promotion; aid for students preparing for matriculation examinations; a computer class at the Company's training center.

Donations and Aid for Children in Need

Caring for children in need from families living in poverty; aid for school supplies and food products; preparing meals for students; packing food baskets; and more.

Health and Advancement of Children at Risk

Sponsorships for various community activities and funding of cultural events to support organizations operating in the areas of health care and advancement of children at risk.

"Adopt a Soldier"

This is the seventh year in which we have adopted the Nahal Patrol Regiment, as part of the "Adopt a Soldier" project, and provided ongoing support for the well-being of the regiment and its soldiers. In addition, the Group supports Beit Kobi – financing of housing for "lone soldiers" (IDF soldiers without parents living in Israel).

Remembrance

Financing of a journey to Poland for disabled persons; financing for the Gideonites program, in which young people travel to Poland to renovate Jewish cemeteries; donation to the Witness Theater program; and more. Group employees are exposed to and participate in various activities, including tours of Yad Vashem, volunteering with Holocaust survivors, and more.

Empowerment of Women

The Group supports and aids various foundations engaged in the empowerment of women, and is committed to the advancement of women in Israel.

Annual contributions by employees and by the Management of the Company to activities related to giving back to the community are performed through the “Matan – Your Way to Give” foundation.

Service Providers

The Company's main service providers include:

Automatic Bank Services Ltd. ("ABS") – ABS serves as a communications channel between merchants and clearers. To the best of the Company's knowledge, ABS operates a system for collecting transactions executed using credit cards in Israel, collates information regarding transactions executed with the various merchants, sorts the transactions by the identity of the relevant clearer with which the merchant has an agreement, and transmits electronic messages to the clearers for approval of execution of the transaction. In addition, ABS operates transactions between credit-card companies on their behalf in connection with cross-transactions and clearing transactions. The Company, like the other credit-card companies in Israel, is materially dependent upon the services provided by ABS. Failure to receive such services from ABS could cause significant damage to the Company's operations.

Beeri Printers – The Company has contracted with Beeri Printers for the provision of production, printing, and binding services of the statement of debits and credits sent by the Company to cardholders and merchants on a monthly basis. In the event of cancellation of the agreement with Beeri Printers for an unforeseen reason, it would be temporarily difficult for the Company to obtain this service at the level currently provided. However, in the opinion of the Company, it would be possible to arrange to receive similar services from other companies.

Financing

The Company mainly finances its operations through its own means and through daily short-term credit in on-call loans from banks.

Among other matters, the directives of the Supervisor of Banks include restrictions affecting the ability of banking corporations in Israel to extend credit beyond certain volumes, including limits referring to the total indebtedness of a "single borrower" or of a "group of borrowers" (as these terms are defined in the directives), and to the total indebtedness of the six largest borrowers of a banking corporation. The Company, as part of the Bank Hapoalim Group, may be limited from time to time in receiving credit from other banking corporations due to these directives. According to the Company's estimates as of the date of the report, it has no effective restriction in receiving credit under the aforesaid directives.

Taxation

Changes in Tax Rates

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from the tax year 2016 forward.

In accordance with the aforesaid amendments, the corporation tax rates applicable from the tax year 2009 forward are as follows: 26% in the tax year 2009, 25% in the tax year 2010, 24% in the tax year 2011, 23% in the tax year 2012, 22% in the tax year 2013, 21% in the tax year 2014, 20% in the tax year 2015, and 18% from the tax year 2016 forward.

The Law for Change in the Tax Burden (Legislative Amendments), 2011 was passed by Knesset on December 5, 2011. Pursuant to this law, the tax reduction established in the Economic Efficiency Law will be cancelled, as noted above, and the rate of corporation tax will stand at 25% from 2012 forward. For further details, see Note 5.25 to the Financial Statements.

Other Matters

1. In May 2011, the Company transferred its backup site from the Bank Hapoalim backup site to a new backup site. The Company carries out routine synchronized backups of data from the production systems, which are stored at its new backup site. The Company is prepared to set up its critical systems within twelve hours of a catastrophic event. Other systems will be implemented incrementally, within three to six months of the occurrence of a catastrophic event.

2. With regard to the agreement with the employees' union, see Note 13.G to the Financial Statements, below.

3. With regard to the bonus plan for senior executives, see Note 13.B.5 to the Financial Statements, below.

Restrictions and Supervision of the Company's Operations

As a company engaged in issuing and clearing charge cards, operating a charge-card system, and extending credit, laws and directives related to its activity in these areas apply to the Company. These laws impose duties and restrictions on the operation of credit-card companies, including the Company, in the areas of the issuance and clearing of charge cards. In addition, various directives issued by the Supervisor of Banks and applicable to credit-card companies apply to the Company, such as Proper Conduct of Banking Business Directive No. 470 (Charge Cards), which regularizes the operation of credit-card companies that are auxiliary banking corporations and of banking corporations with regard to the operation of charge-card systems. Additional Proper Conduct of Banking Business Directives also apply to credit-card companies.

In addition, the Company is an "auxiliary corporation" under the Banking Law (Licensing). As a credit-card company and as an auxiliary corporation, a further system of rules, orders, and regulations applies to the Company, including: the Banking Law (Licensing); the Bank of Israel Law, 1954; the Banking Ordinance; the Banking Law (Customer Service), 1981 and the derived secondary legislation; and a system of directives, guidelines, and position statements of the Supervisor of Banks at the Bank of Israel.

The aforesaid laws and directives extensively affect the conduct of the Company's business (similar to other credit-card companies), including the services it provides, its contractual engagements, its manner of conduct, and the management of its financial resources.

In addition to the laws relevant to the Company's activity as an auxiliary corporation and as a credit-card company, various items of legislation apply to the Company which regularize its routine operations, including the Restrictive Trade Practices Law, 1988 (the "**Restrictive Trade Practices Law**"); the Interest Law, 1957; the Agency Law, 1965; the Control of Prices of Commodities and Services Law, 1957; the Control of Commodities and Services Law, 1996; and the Protection of Privacy Law, 1981 and the subsequent regulations.

Antitrust Issues

In May 2005, the Antitrust Commissioner (the "**Commissioner**") declared the Company a holder of a monopoly in clearing Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes that it has strong arguments against the aforesaid declaration of monopoly, and the Company has filed an appeal of the declaration with the court. In any case, an agreement exists with the Commissioner according to which the Commissioner's aforesaid declaration of monopoly will be cancelled subject to the fulfillment of the "Arrangement" described below.

In August 2005, the Israel Antitrust Authority notified the Company that the Commissioner intended to impose directives upon it under Section 30 of the Restrictive Trade Practices Law. The main points of the directives, of which the Company received a draft, are as follows:

A. A directive instructing the Company to allow local clearing of MasterCard credit cards by additional clearers, as well as of Isracard cards (the brand owned by the Company), subject to compliance with the license terms specified by the Commissioner, as described below.

B. A directive instructing the Company to sign a domestic agreement regularizing the interaction between clearers and issuers for the purposes of clearing in Israel of the aforesaid cards, under temporary interchange-fee terms (the fee paid by clearers of credit-card transactions to the credit-card issuers), as approved by the Antitrust Tribunal for other clearers, and a permanent interchange fee, to be approved, for the clearing of the aforesaid cards, and for clearing by the Company of Visa cards issued by the other clearers (the "**Domestic Agreement**").

C. A directive instructing the Company to implement a common technical interface for the execution of local clearing.

The terms stipulated by the Commissioner for the granting of a license to clear Isracard cards include the Company's right to receive monetary remuneration for the license, and the obligation of the other clearers who apply for a license for such clearing to issue a minimum number of Isracard cards.

Based on the opinion of its legal advisors, the Company believes that it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, the Company communicated this position to the Commissioner. In any case, as noted, an agreement exists with the Commissioner according to which the Commissioner's declaration of monopoly will be cancelled subject to the fulfillment of the "Arrangement" described below, and consequently no directives will be issued.

Following talks held between the Company, the credit-card companies Leumi Card and CAL (the three companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Commissioner, the Credit-Card Companies reached an arrangement among themselves (the "**Arrangement**"), with the Commissioner's support, under which the Credit-Card Companies and the banks that control them will enter into a detailed Domestic Agreement among themselves regarding full local clearing in Israel, including the operation of an appropriate technical interface (the "**Technical Interface**"), of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a restrictive arrangement from the Antitrust Tribunal.

The Credit-Card Companies, together with the banks that control them – Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of its approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted several temporary permits for the Arrangement.

The terms of the Arrangement include, *inter alia*: the establishment of interchange-fee rates, which gradually decrease during the term of the Arrangement; a commitment by the parties to petition the Tribunal for approval of an interchange fee for the period following the end of the Arrangement, should the parties wish to continue cross-clearing; the obligation of the Company, under certain conditions, to set identical fees for the same merchant for clearing transactions in Isracard and MasterCard cards; and various rules of conduct to apply to the Credit-Card Companies in their agreements with merchants to enter into clearing arrangements with them, including a prohibition on ligation of different cards and various prohibitions on discrimination; and in addition, a commitment by the banks listed above to apply the aforesaid rules of conduct to themselves as well, and to undertake rules of conduct in their relationships with credit-card holders and with merchants that accept credit cards, essentially prohibitions on discrimination, ligation, or influence in manners prohibited in the Arrangement with regard to transferring to a particular credit card or clearing with any of the Credit-Card Companies.

The Arrangement also includes a directive under which the Commissioner will cancel the declaration of the Company as the holder of a monopoly in clearing Isracard and MasterCard cards, under the conditions stipulated in the Arrangement, which include approval of the Arrangement by the Tribunal and the execution of cross-clearing of transactions through the Technical Interface. The Domestic Agreement was signed in May 2007 between the Credit Card Companies, Aminit, Bank Leumi LeIsrael B.M., Discount Bank Ltd., and First International Bank of Israel Ltd. In June 2007, the Credit Card Companies began direct clearing in Israel, through the Technical Interface, of transactions executed in MasterCard and Visa credit cards, according to the credit cards in which each company operates.

In November 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it ruled on the petition, an expert would be appointed to establish the components included in the principles set forth with regard to the calculation of interchange fees by the Tribunal in a different proceeding between some of the Credit Card Companies, to which Isracard was not a party. Subsequent to this determination, an expert was appointed. The expert submitted his interim report to the Tribunal in January 2009. The expert was to have continued to formulate a final opinion, but before he completed the preparation of the final opinion, the Commissioner gave notice that due to an appointment undertaken by the expert, he would be unable to complete the opinion. In May 2010, the Commissioner gave notice of her intention to appoint the chief economist of the Antitrust Authority as a new expert, replacing the previous expert Dr. Bachar. On August 12, 2010, despite the objection of the petitioners for the approval, due to their argument that the expert should be independent, the Tribunal ruled that Dr. Parizat, the chief economist of the Antitrust Authority, would be appointed to complete the opinion of Dr. Bachar.

Dr. Parizat submitted his opinion on May 23, 2011. In a decision of the Tribunal of August 7, 2011, the temporary permit was extended to December 31, 2011, provided that the average rate of the interchange fee would not exceed 0.875% starting November 1, 2011. The petitioners for the approval, including the Company, submitted counteropinions of experts.

On December 28, 2011, an amended cross-clearing arrangement was submitted to the Tribunal, amending the previous agreements with regard to the rates of interchange fees and the extension of the agreement through the end of 2018. The Tribunal granted a temporary permit to the arrangement, until February 29, 2012.

The decision of the Tribunal may have a material negative effect on the financial results of the Company in the future; however, at this stage the Company is unable to estimate the actual extent of such an effect.

The Company cannot estimate whether or when the request for permanent approval of the amended arrangement will be granted.

Additional Regulation

1. In April 2009, a private bill was submitted to the Knesset, in advance of a preliminary discussion, concerning the separation of ownership of credit-card companies from banks. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, the implications of such legislation for the Company, if any.

2. A private bill was submitted to the Knesset in May 2009, in advance of a preliminary discussion, concerning the right of a credit-card holder to instruct the credit-card company to cease debits due to a flaw in the basic transaction between the cardholder and the merchant with which the transaction was executed. The Company estimates that this bill, if it results in legislation, will have no material impact on the Company.

3. In May 2009, a private bill was submitted to the Knesset, in advance of a preliminary discussion, according to which the establishment of a minimum linkage rate constitutes a depriving condition in a uniform contract. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

4. A private bill was submitted to the Knesset in February 2010 according to which credit-card companies must note extensive details of merchants in their reports to cardholders. On June 6, 2010, a ministerial committee made the decision to promote this bill through secondary legislation.

   A private bill was submitted to the Knesset in March 2010, according to which credit-card companies must note in their reports to cardholders whether a transaction performed by the cardholder constitutes a transaction without sight of all the card details. This bill was passed in a preliminary reading on May 26, 2010, and transferred to the Economics Committee to be prepared for a first reading. On May 23, 2010, a ministerial committee made the decision to promote this bill through regulations, in coordination with the Ministry of Justice.

   In accordance with these decisions, following discussions of this matter with the Ministry of Justice, an agreement was reached regarding the execution of the amendments under both of the aforesaid bills in Proper Conduct of Banking Business Directive No. 470, Charge Cards (hereinafter: the "**Directive**"). A draft amendment of the directive was distributed in June 2011.

   The private bill on reporting of transactions without sight of all the card details passed in the first reading in August 2011. If the matters addressed by the bill are included in a Directive, as noted above, it is likely that formal legislation on this matter will not be passed.

   In November 2011, the matters addressed by the aforesaid bills were formulated into binding directives, through amendments to Directive 470, as noted above. The Company estimates that the amendment of the Directive will have no effect on the Company.

5. In March 2010, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 432 concerning the transfer of activity and closure of accounts of customers, and an amendment to Proper Conduct of Banking Business No. 470, Charge Cards, concerning the transfer of ongoing transactions in charge cards. Proper Conduct of Banking Business Directive No. 432 primarily aims to facilitate customers' transition among banks, in order to allow increased competition in the banking system. Towards that end, the circular amends the existing directive on this matter, to regularize the transfer of standing orders of customers switching from one bank to another, while also replacing their credit cards in the course of the transition. In particular, the amended directive aims to create the technological and legal infrastructure for the transfer of activity in ongoing transactions among different charge cards. This is achieved through the formation of a mechanism for the transfer

of debits and the imposition of a duty upon the issuer of any credit card to perform the transfer of the activity for the customer, while communicating with the new issuer and with any merchants which were granted debiting authorizations by the customer. These directives will apply, with the necessary changes, to all transfers of activity in credit cards, including the transfer of activity in a card not issued by a bank, and the transfer of activity other than in the course of the closure of an account. Concurrently with the aforesaid amendment of Directive No. 432, appropriate amendments were made to Proper Conduct of Banking Business Directive No. 470 concerning charge cards, in order to apply the arrangement regarding the transfer of activity to credit-card companies, by including Directive No. 432 in the list of Proper Conduct of Banking Business Directives applicable to credit-card companies. The directives took effect as of September 1, 2010. The Company estimates that the amendment of the directive will have no effect on the Company.

6. In June 2010, an amendment to the Uniform Contracts Law was published, concerning the duty to note approvals of uniform contracts, and granting authority to the Governor of the Bank of Israel, through an amendment to the Banking Law (Customer Service), to establish rules regarding font sizes and the notation of material terms. The Company estimates that if such rules are established, there will be an effect on the Company, but not of a material volume.

7. In July 2010, an amendment to the Consumer Protection Law was published, concerning the postponement of debits for cardholders who enter into ongoing transactions for medical services or emergency medical care. The Company estimates that this amendment has no material effect on the Company.

8. In July 2010, the Fuel Industry Law (Promotion of Competition) was amended, with regard to the promotion of competition in the area of automatic refueling. The amendment authorizes the Minister of National Infrastructures to enact regulations with the aim of promoting competition. This amendment may have a bearing on the Company due to the fact that the Company issues refueling devices and cards that constitute “charge cards” pursuant to the Charge Cards Law, 1986. At this stage, the Company cannot estimate the implications of this amendment for the activity of the Company in the area of refueling devices/cards, if any.

9. In July 2010, the Supervisor of Banks issued a letter on “Social Networks,” which lists the risks involved in the use of social networks, including operational, legal, regulatory, and reputation risks. These risks may arise from factors such as customer identification (recording of customers’ information that may expose the credit-card company, including reliance on personal information of the customer in order to unblock passwords); publication of information (including information that is misleading, erroneous, hostile, etc.); information security; and monitoring and controls. In addition to the provisions of Proper Conduct of Banking Business Directive No. 357 concerning information technology management, the letter requires credit-card companies to act to reduce the risks derived from the use of social networks, among other means by applying the measures established therein.

10. In September 2010, consumer-protection regulations were issued granting customers the right to cancel a transaction for the purchase of goods and receive a refund, in the manner in which the payment was performed, under the conditions specified in the regulations. Note that bills related to this matter were submitted to the Knesset in March 2010 and in June 2010. The Company estimates that this amendment and/or these bills, if they result in legislation, will not have a material effect on the Company.

11. In November 2010, a government bill was submitted to the Knesset which concerns, among other matters, the establishment of conditions in uniform contracts that constitute depriving conditions, as well as the examination of a uniform contract and the results of such examination. At this stage, the Company cannot estimate whether this bill will result in legislation. The Company estimates that if the bill results in legislation, it will have an effect on the Company, but not to a material extent.

12. In December 2010, the Bank of Israel issued a circular concerning Proper Conduct of Banking Business Directive No. 301, The Board of Directors. The circular is aimed at updating Proper Conduct of Banking Business Directive No. 301 with regard to the instructions of the Supervisor concerning the functioning, authority, composition, types and functions of committees, and efficient practices of the board of directors. The aim of the proposal is to ensure the existence of a high-quality, effective board of directors that fulfills its functions, with a clear understanding of its function and with the exercise of independent, appropriate judgment on matters concerning the credit-card company. The circular is in effect as of January 1, 2012.

    Two additional legislative amendments in this context are Amendment No. 14 and Amendment No. 16 to the Companies Law, which were published in January 2011 and March 2011, respectively. Among other matters, these amendments concern the disclosure duties applicable to directors, the qualification to act as a director, the exercise of independent judgment by directors, and the service of external directors. Amendment No. 16 also concerns matters not directly related to the board of directors, such as various directives pertaining to the audit committee, derived claims, and the approval of transactions concerning terms of salary and service.

    The Company prepared and is preparing to implement the aforesaid directives.

13. In January 2011, a circular was distributed entitled “Management of risks involved in the execution of illegal transactions through credit cards.” The circular updates Proper Conduct of Banking Business Directive No. 411, Prevention of Money Laundering and Terrorism Financing, and Customer Identification. Main updates: A limit of the volume of exposure of issuance and clearing activity overseas, particularly in countries where the Company does not have an incorporated, supervised presence; and a limit of the exposure to contractual engagements with merchants operating in high-risk sectors. In addition, criteria for the examination of the legality of the area of activity of merchants were tightened, in cases in which credit-card companies contract with merchants overseas for the clearing of transactions with missing documents, either over the Internet or by other means, in which no credit card is presented. It was further clarified that suitable procedures should be established in order to ensure compliance with the requirements established throughout the period of the contractual engagement. This directive has no effect on the activity of the Company.

In December 2011, the Supervisor of Banks issued a circular concerning the prohibition of money laundering and terrorism financing, which details the Supervisor's final instructions in connection with the struggle against parties aiding the Iranian nuclear program and related plans. The circular amends the directives of Proper Conduct of Banking Business Directive No. 411, Prevention of Money Laundering and Terrorism Financing, and Customer Identification.

The circular requires the board of directors of a credit-card company to establish a policy on the management or risks involved in contractual engagement with or execution of customers' transactions for parties declared on international lists to be aiding the Iranian nuclear program and related plans. This policy must address controls and due-diligence tests designed to identify such declared parties. The circular references a legislative amendment and the international lists of such declared entities.

In addition, the circular requires credit-card companies to perform an initial survey to examine the extent of their exposure to such parties, and to submit the survey to the Supervisor of Banks no later than March 30, 2012.

The amendments to Proper Conduct of Banking Business No. 411 take effect on March 31, 2012.

14. A government bill approved by the Knesset plenum and published in the Official Gazette of the Government of Israel in August 2011 concerns, among other matters, the area of discounting, as well as a directive whereby an issuer that issues ten percent or more of the number of charge cards issued in Israel, or an issuer of charge cards used to execute at least ten percent of the amount of transactions executed in Israel, shall be required to contract with a clearer for cross-clearing of transactions in the charge card which it issues. The inception of this directive will be nine months after the law takes effect. The Company estimates that this law will have a material negative effect on the Company; however, at this stage the Company cannot estimate the actual extent of this effect.

15. In October 2011, a private bill was submitted to the Knesset according to which a banking corporation shall not hold more than 26% of the means of control of an issuer of charge cards; and an issuer shall not make use of customers' information or transfer it to another party, except for the purpose of debiting the customer's bank account. At this stage, the Company cannot estimate whether this bill will result in legislation. If this bill results in legislation, the Company estimates that it may have an effect on the Company; however, at this stage the Company cannot estimate the extent of this effect.

16. In November 2011, the Knesset plenum passed a private bill in a preliminary reading according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the bill. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

17. Pursuant to an instruction published by the Bank of Israel in November 2011, banking corporations and credit-card companies must provide disclosure in their board of directors' reports of any group of borrowers whose net indebtedness on a consolidated basis (after the permitted deductions) exceeds 15% of the capital of the banking corporation or credit-card company, as detailed in the instruction. This instruction shall apply from the financial statements as of September 30, 2011, to the financial statements as of September 30, 2012. As of the reporting date, the Company is not required to make such disclosure in practice.

18. Pursuant to a bill submitted to the Knesset in November 2011 and passed in a preliminary reading in December 2011, limits shall be applied to businesses and to charge card issuers that offer benefit programs to their customers, including limits regarding the change or cancellation of such programs. In the discussion of this bill held by the Economics Committee in January 2012, an agreement was reached to split the bill into two parts, such that the part concerning the obligations applicable to businesses shall be promoted after the acceptance of an alternative phrasing of the bill that does not damage consumers and commerce, while the part concerning issuers is not promoted, subject to the regularization of benefits granted through charge cards by the Bank of Israel. When this matter is regularized in the aforesaid manner, the bill concerning issuers will be removed from the agenda.

19. A government bill passed in a first reading and transferred to the Constitution, Law, and Justice Committee to be prepared for a second and third reading in December 2011 sets forth several amendments to the Law for the Prohibition of Money Laundering and the Law for the Prohibition of Terrorism Financing, including with regard to reporting duties and the duty to receive identifying information. In addition, a discussion is scheduled for February 2012 concerning an amendment to the Money Laundering Prohibition Order applicable to banking corporations, which concerns the examination of information in order to identify activities by declared terrorist organizations and terrorist operatives. The Company estimates that the aforesaid directives will have no effect on the Company.

20. A discussion is planned for February 2012 concerning an amendment to the Charge Card Regulations, pursuant to which the Supervisor will be able to issue directives that differ from the current text of the regulations with regard to the delivery of statements to customers. The Company estimates that this amendment will have no effect on the Company.

Legal Proceedings and Pending Claims

1. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 3 million. Based on the opinion of its legal advisors, the Company estimates that the financial statements include adequate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

2. In February 2010, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The amount of the personal claim is not stated, and the amount of the class-action suit is estimated at NIS 32.4 million. According to the claimant, the Company overcharges for the production of copies of debit statements for cardholders. The Company has filed its response to the petition for certification. The parties have reached an arrangement according to which the petitioner will withdraw from the petition in return for reimbursement of expenses. The court approved the petitioner's withdrawal from the petition without an expense order.

3. In July 2011, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 98, and the amount of the class-action suit is estimated at NIS 14.7 million. According to the claimant, in transactions in installments, the Company illegally charges a deferred-debit fee in respect of the first installment. At this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

4. It has come to the attention of the Company, through publications in the media during the reported period, that a petition to certify a class action has been filed against three credit-card companies, including the Company, and against banks including Bank Hapoalim B.M. (hereinafter: the "**Bank**").

   According to these publications, the claim is in the amount of NIS 4.9 billion, and concerns the rates of fees collected by the credit-card companies. The Company and the Bank did not receive the aforesaid petition by the date of approval of the financial statements of the Company; the Company therefore does not know the amount of the claim attributed to it and to the Bank, and cannot formulate a position with regard to the petition.

5. In November 2011, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 6.90, and the amount of the class-action suit is estimated at NIS 6.7 million. According to the claimant, the Company and others charge a payment for travel in a taxicab that is higher than the amount indicated by the meter at the end of the ride. At this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

   However, even at this preliminary stage, it can be noted that the Company's exposure, inasmuch as the petition may be accepted, is remote.

6. In January 2012, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 5,000, and the class-action suit is in an estimated amount of NIS 75 million. According to the petitioners, the Company was negligent in failing to supervise or audit shopping websites approved by credit-card companies, or in that its supervision is lacking. According to the petitioners, the Company has a heightened duty to ensure that websites used as clearing firms which it authorizes operate according to standards that secure the sensitive information transferred to such sites during the execution of online transactions, and that it failed to do so. At this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

7. During the reported period, the Board of Directors of the Company approved the granting of a letter of indemnification to consolidated companies (Isracard Mimun, Isracard Nechasim, Tzameret Mimunim, and Global) in respect of all of their liabilities, without limit, pursuant to Proper Conduct of Banking Business Directive No. 313 (Limits on the Indebtedness of a Single Borrower) and Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy). In addition, Aminit received a letter of indemnification from the Company with regard to compliance with the ICAAP rules.

8. In July 2010, Europay filed an appeal of its income-tax assessment for 2006. The dispute between Europay and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of Europay, the sale should be treated as an event requiring capital-gains tax, rather than as an event of redemption of shares, which carries a different taxation rate. A preliminary discussion was held at the District Court of Tel Aviv, in which it was determined that because a legal case without factual disputes is involved, the parties would submit written summaries of their positions. Europay submitted the summaries of its position on December 26, 2011. The respondent (the Tax Assessment Officer) was scheduled to submit a summary by February 26, 2012. In the opinion of its legal advisors, the probability of winning this case is high.

9. **Indemnification of directors and other officers:** The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its equity, according to most recent (annual or quarterly) financial statements known before the actual payment.

ISRACARD

Objectives and Business Strategy

The Company's key objectives and strategies are the following:

1. Maintaining the level of revenues and profitability and generating value for its shareholders.
2. Long-term contractual engagements with the Banks Under Arrangement.
3. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.
4. Continued implementation of the customer club strategy.
5. Expansion in the area of credit and financing for private and business customers.
6. Maintaining differentiation and uniqueness of the private brand Isracard; maintaining the Company's image and continued positioning as a market leader.
7. Extending collaborations with merchants.
8. Ongoing improvement in quality of service to banks, clubs, merchants, and cardholders.
9. Maintaining a high technological level: innovation and support for product and service development and for improvements in efficiency.
10. Targeted actions to create customer preference for the credit cards issued by the Company and make these cards customers' first choice.
11. High-quality systems of risk management, credit control, and fraud prevention.
12. Working in accordance with the ethical code of the Company.

Risk Management Policy

The Company's activity involves various financial risks: credit risks, which represent the risk that a borrower client or merchant will default on scheduled payments as defined in the agreement with the borrower; market risks deriving from exposure to changes in interest rates, exchange rates, and inflation; and liquidity risks. In addition, the Company is exposed to operational risks, which refer to losses arising from faulty processes, human errors, system failures, and external events.

The Company is also exposed to various qualitative risks, such as reputation risk, strategic risk, regulatory risk, legal risk, and compliance risk.

Risks are managed pursuant to Proper Conduct of Banking Business Directive No. 339 and in compliance with Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy).

According to a decision of Management, each member of Management manages operational risks in the area of activity for which he or she is responsible. In addition, the Head of Finance and Administration is responsible for market and liquidity risks, the Head of Credit and Financial Services is responsible for credit risks, and the Head of Strategy is responsible for strategic risk and regulatory risk. The Company has a Head of Risk Management with the status of a member of Management. In addition, the organizational structure of the Risk Management Department was updated in the format outlined by the Bank of Israel. Among other matters, the functions of the department include independent supervision of the manner of management of risks at the Company, monitoring of risks, reports to Management and to the Board of Directors, validation of risk-measurement systems, involvement in the establishment of risk-management policies, and examination of the effectiveness of the Company's risk-management processes. In order to manage and minimize risks, the Company makes use of supporting computerized systems, among other means.

Operational Risks

The Company has established a policy for the management of operational risks, as required by the Bank of Israel.

Within operational risk management, the organizational structure supporting the management of operational risks has been defined, including the roles of the Board of Directors and the Management Committee on Risk Management headed by the CEO. In addition, the Subcommittee on Operational Risk Management has been established, headed by the Chief Risk Officer; members of the committee include controllers from all departments of the Company and other officers such as the Compliance Officer, the officer responsible for money-laundering prevention, and the Head of Information Security.

As part of the management and control of operational risks, and as part of the compliance with Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy) in this area, the following steps have been taken:

- Operational risks identified in new processes and products.
- Appropriate controls established.
- Operational risk management and control system updated routinely.
- Business continuity plan and emergency preparedness plan established.
- Emergency procedures at the Company updated.

Market and Liquidity Risks

1. Market Risk Exposure and Management

The business activity of the Company is exposed to market risks arising from volatility in interest rates, exchange rates, the consumer price index, and the value of securities.

The Company does not actively create exposure to market risks. Ongoing management of these risks is therefore aimed at monitoring of the risks in relation to the policies established by the Company.

The Company's market risk management policy is based on common practices in the banking system in Israel and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy) regarding market risk management, adjusted to the unique risk profile of the Company. This policy was approved by the Board of Directors of the Company in March 2011. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and in rates of interest, foreign currency, the CPI, and shares. The Board of Directors of the Company updates these limits from time to time.

The market risk management philosophy is congruent with the policy described in the Company's infrastructure document on risk management.

In addition, the Company has a designated function for the management and control of risks independently of the business functions. The Risk Management Department performs control over material risks at the Company; its role is defined in the infrastructure document on risk management.

The Company manages market risks based on a comprehensive, integrative view, for the Company and its subsidiaries on a consolidated basis, ensuring the optimal utilization of the capital and assets of each of the companies in order to achieve their strategic and business objectives while maintaining their stability.

Market risks at the Company are managed by the Head of Finance and Administration.

In order to implement the requirements of its market risk management policy, the Company uses a targeted automated asset and liability management system. The Company believes that its exposure to market risks is immaterial.

A. Linkage Base Risk

This risk is defined as exposure to currencies and to the consumer price index, expressed as the loss that may occur as a result of the effect of changes in currency exchange rates and in rates of the consumer price index on the difference between the value of assets and liabilities.

The Company applies a comprehensive policy for the management of market risks in Israeli and foreign currency, designed to support the achievement of business objectives while assessing and limiting the losses that may arise from exposure to market risks.

B. Interest-Rate Exposure

Interest-rate risk is the exposure to damage to the capital of the Company as a result of changes in interest rates in the various markets.

Among other factors, this exposure arises from the gap between maturity dates and dates of interest calculations for assets and liabilities in each of the linkage segments. For the purposes of interest rate risk management, gaps between assets and liabilities in future periods are examined, and comparisons of terms to maturity of assets, liabilities, and capital are performed on a monthly basis.

Interest-rate exposure exists primarily in the shekel segment, as this segment contains assets at fixed interest rates.

(1) Fair value of financial instruments of the Company and its consolidated subsidiaries, excluding non-monetary items

	December 31, 2011				
	In NIS millions				
	Israeli currency		Foreign currency*		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	12,444	69	152	16	12,681
Amounts receivable in respect of derivative financial instruments	99	-	24	-	123
Financial liabilities	11,398	51	62	17	11,528
Amounts payable in respect of derivative financial instruments	123	-	-	-	123
Net fair value of financial instruments	**1,022**	**18**	**114**	**(1)**	**1,153**

	December 31, 2010				
	In NIS millions				
	Israeli currency		Foreign currency*		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	11,914[(1)]	78	132	1	12,125
Amounts receivable in respect of derivative financial instruments	110	-	10	-	120
Financial liabilities	10,902[(1)]	61	60	8	11,031
Amounts payable in respect of derivative financial instruments	120	-	-	-	120
Net fair value of financial instruments	**1,002**	**17**	**82**	**(7)**	**1,094**

* Including Israeli currency linked to foreign currency.

(1) Restated; see Note 1.E.17 to the Financial Statements.

(2) Effect of hypothetical changes in interest rates on the net fair value of financial instruments of the Company, excluding non-monetary items

	December 31, 2011							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	1,022	18	114	(1)	-	1,153	*-	-
Immediate parallel increase of 0.1%	1,022	18	114	(1)	-	1,153	*-	-
Immediate parallel decrease of 1%	1,022	18	114	(1)	-	1,153	*-	-

	December 31, 2010							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency(1)		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	1,001(1)	17	82	(7)	-	1,093	(1)	(0.1)
Immediate parallel increase of 0.1%	1,002(1)	17	82	(7)	-	1,094	*-	-
Immediate parallel decrease of 1%	1,003(1)	17	82	(7)	-	1,095	1	0.1

* Amount lower than NIS 0.5 million.

** "Net fair value of financial instruments" presented in each linkage segment is the net fair value in that segment assuming that the change noted has occurred in all interest rates in that linkage segment. The total net fair value of financial instruments is the fair value of all financial instruments (excluding non-monetary items), assuming that the change noted has occurred in all interest rates in the entire linkage segment.

*** Including Israeli currency linked to foreign currency.

(1) Restated; see Note 1.E.17 to the Financial Statements.

C. Exposure to the value of securities

The Company's policy states that no activity for the purpose of trading in securities shall be conducted. For details regarding securities held by the Company, see Note 5 to the Financial Statements.

D. Derivative financial instruments

In general, the Company's policy states that no activity for the purpose of trading in derivative financial instruments shall be conducted.

The only activity in derivative financial instruments permitted to the Company is for the purposes of economic or accounting hedging. The Company purchases IRS and FRA transactions, from time to time, in order to hedge interest-rate exposures. In addition, the Company uses forward contracts to hedge US dollar exposure against the shekel.

2. Liquidity Risk Exposure and Management

The goal of the liquidity risk management process is to ensure, taking into account the risk tolerance that has been established, the Company's ability to finance the increase in its assets and to settle its liabilities on time, without falling into difficulties and without incurring material losses, including losses that may result from damage to reputation caused by an inability to finance the Company's business operations. Liquidity risk includes the following risks: Liquidity raising risk – Risk arising from damage to the ability of the Company to raise liquidity, as a result of a loss of confidence in the Company by the market, which may result from events of damage to its reputation or damage to the market in which the Company operates.

Market liquidity risk – Risk arising from a comprehensive crisis in the markets, leading to a credit crunch, without connection to the Company's performance. Risk of impairment of liquid assets – Exposure to risk as a result of erosion of the value of liquid assets, which may damage the ability of the corporation to finance liquidity gaps.

The Company implements a comprehensive liquidity risk management policy, which was approved by the Board of Directors in November 2011. The policy is based on the prevalent sound practices in the Israeli banking system and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy) and Proper Conduct of Banking Business Directive No. 342 (2011 Draft on Liquidity Risk Management).

This policy is achieved by maintaining routine monitoring of the liquidity position of the Company through the use of an internal liquidity risk management model, monitoring of the indicator system for the identification of liquidity pressures, examination of extreme scenarios, and the use of an auxiliary system for current flow management. The disposable capital of the Company is given as credit to cardholders and merchants, and invested in deposits with banks in NIS. Liquidity risks at the Company are managed by the Head of Finance and Administration.

Credit Risk

Credit risk is the possibility that borrowers or counterparties may default on their obligations under the agreed terms.

The Company’s credit policy is approved each year by the Board of Directors of the Company.

The credit policy addresses principles for granting credit, the type of exposure in each segment of activity, quantitative and qualitative exposure limits, credit concentration, pricing and collateral, handling customers experiencing difficulties, and the hierarchy of credit authorizations.

The credit-management system relies on the delegation of credit authority at different levels. The overall responsibility for direct handling of customers rests with several authorized parties, leading to improved capability to manage credit risks and monitor and control the credit-granting process. The Company routinely monitors and tracks borrowers through control reports generated at various cross-sections and frequencies.

The Company regularly invests resources in training employees responsible for making decisions and assessing risks in the area of credit, and in improving the computerized control tools and information systems available to them.

The Company also carries out routine control of internal and regulatory limits on the level of indebtedness of a single borrower and of a group of borrowers, in accordance with the requirements of Proper Conduct of Banking Business Directive No. 313 of the Bank of Israel.

The Company monitors and supervises transactions with related persons, in accordance with Proper Conduct of Banking Business Directive No. 312, and files reports pursuant to Directive No. 815.

The Company's credit-risk management is based on several statistical models, which are used to establish a score for each customer or merchant. This score is used to support decisions regarding the type of credit, volume of credit, and interest rate set for the customer or merchant. The models are tested periodically for quality and calibration and are established in accordance with internal and regulatory requirements.

Credit Control Unit

The Credit Risk Control and Management Unit is the central unit of the Credit and Financial Services Division. The unit is part of the first level of controls, and performs overarching control within the credit risk management process.

The unit is responsible for writing policies and procedures for credit risk management and control. The unit is independent and characterized by independence from the business of the division.

The activity of the unit includes:

- Control over the various types of diversification of the credit portfolio.
- Control over returns versus risks.
- Checking compliance with credit limits, credit authority, and regulatory restrictions.
- Periodic examinations of transactions with high risk ratings and sample examinations of the overall portfolio.
- Evaluation of the level of risk at the level of the consumer/corporate credit portfolio.
- Monitoring and reporting on the Group's exposures to financial institutions.
- Monitoring developments in interest-rate risk arising from credit granting.

Measurement and Disclosure of Impaired Debts, Credit Losses, and Provision for Credit Losses

The Company has implemented the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit losses, and provisions for credit losses (hereinafter: the "Directive") as of January 1, 2011. Because the new directive was implemented prospectively, without restatement of comparitive figures, in order to provide comparative disclosure. Data for the current period are presented below in comparison with the appropriate balances as of December 31, 2010 (pro-forma data), as they would have been if the directive had been implemented for the first time in that year.

The pro-forma data were published for the first time in the Financial Statements for 2010. The data were adjusted following examinations performed by the Company during the period.

Nonperforming Assets, Impaired Debts Accruing Interest Income, Problematic Commercial Credit Risk, and Unimpaired Debts in Arrears of 90 Days or More

	Balance as of December 31, 2011	Balance as of December 31 2010 (pro-forma data)
	Reported amounts	
Consolidated	In NIS millions	
1. Non-performing assets		
Impaired credit to the public not accruing interest income:		
Examined on an individual basis	3	8
Examined on a group basis	11	16
Total impaired debts not accruing interest income	14	24
Total nonperforming assets	**14**	**24**
2. Problematic commercial credit risk(1)		
Balance-sheet credit risk in respect of the public	2	1
Total problematic commercial credit risk in respect of the public	2	1
Total problematic commercial credit risk	**2**	**1**
3. Unimpaired debts in arrears of 90 days or more	-	-

(1) Balance-sheet credit risk (credit and other debts recognized in the balance sheet), excluding balance-sheet credit risk in respect of private individuals.

Summary of the Effect on Retained Earnings as of December 31, 2010 (Pro-Forma Data)

	Balance as of December 31, 2010 (pro-forma data)
Balance of retained earnings as of Dec. 31, 2010 included in the financial statements	1,223[1]
Cumulative effect net of tax of initial implementation of the new directives as of Jan. 1, 2011	(49)
Of which:	
Change in provision for credit losses	(60)
Related tax effect	11
Balance of retained earnings as of Jan. 1, 2011 under the new directives	**1,174**

(1) Restated; see Note 1.E.17 to the Financial Statements.

Risk and Credit Indices*

		Balance as of December 31, 2011
		%
(A)	Balance of impaired debtors in respect of credit-card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit-card activity	0.11
(B)	Balance of unimpaired debtors in respect of credit-card activity in arrears of 90 days or more, as a percentage of the balance of debtors in respect of credit-card activity	-
(C)	Balance of provision for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of debtors in respect of credit-card activity	0.53
(D)	Balance of provision for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of impaired debtors in respect of credit-card activity not accruing interest income	[1]-
(E)	Problematic commercial credit risk, as a percentage of the total credit risk	6.9
(F)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.42
(G)	Net write-offs for debtors in respect of credit-card activity as a percentage of the average balance of debtors in respect of credit-card activity	0.38
(H)	Net write-offs for debtors in respect of credit-card activity as a percentage of allowance for credit losses for debtors in respect of credit-card activity	67.69

(1) Higher than 100%.

* In 2010, provisions for credit losses were calculated before the adoption of the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provision for credit losses; accordingly, they are not comparable with the data for December 2011.

ISRACARD

Credit Exposure to Foreign Financial Institutions and Foreign Countries

The Company has immaterial exposure to the international organization MasterCard International Incorporated in respect of balances of volumes of transactions executed by tourists in Israel, less balances of volumes of transactions executed by Israelis abroad in respect of which the Company has not yet been credited by the international organization.

Capital Measurement and Adequacy

The Company assesses its capital adequacy. Starting with the financial statements as of December 31, 2009, the Company uses the standardised approach to calculate capital adequacy, in accordance with Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy).

The assessment is performed by a summation of capital and sorting of assets by risk rates and market-risk evaluations, with the addition of operational risk. Capital adequacy is determined by calculating the rate of capital out of total assets, weighted by the risk rate, as noted above, plus the market risk and the operational risk.

The Basel II guidelines were published in July 2006 by the Basel Committee. The objectives of these guidelines are, among other things, to define capital-adequacy requirements in relation to the level of the various risks at companies; to establish a system of risk management and control; and to expand disclosure requirements, in order to help bring regulatory capital closer to the economic capital necessary in order to absorb losses and ensure the robustness and resilience of the corporation.

Towards that end, the Bank of Israel issued a directive according to which banking corporations were required to implement the Basel II recommendations for the first time in 2009. In August 2007, the Bank of Israel applied the Basel II directives to credit-card companies as well, for the first time. During 2008, the Bank of Israel issued more detailed directives with regard to the implementation of the first two pillars of Basel II.

The Basel II recommendations consist of three pillars:

- Pillar I: Minimum capital adequacy, with reference to levels of credit risks, market risks, and operational risks.
- Pillar II: Establishment of a system for management and control of the various risks, including supporting systems, risk management policy documents, and internal assessment of capital adequacy against the aggregate risks involved in the activity of the corporation.
- Pillar III: Disclosure requirements under the Basel II directives.

On December 31, 2009, the Company adopted the working framework for capital measurement and adequacy published by the Supervisor of Banks, which is based on the Basel II directives. There were no material changes during the reported period relative to the qualitative reports given under Pillar III of the Basel II directives in the Board of Directors' Report as of December 31, 2010. Steps are being taken to comply with the reporting terms according to Pillar II.

On June 20, 2010, the Supervisor of Banks announced that the Basel II directives, which were published in July 2006 as a temporary order on the working framework for capital measurement and adequacy, and implemented for the first time in December 2009, had been defined as Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy."

The Supervisor of Banks issued a letter entitled "Capital Policy for Interim Periods" on June 30, 2010. The letter clarifies the Supervisor of Banks' expectations of banking corporations in the periods until the adjustment of the directives to the instructions included in the draft recommendations document entitled "Reinforcing the Resilience of the Banking Sector." During this interim period, banking corporations were required to:

- Adopt a target core capital ratio, as of December 31, 2010, of no less than 7.5%, after all of the required deductions from Tier I capital.
- Submit a work plan for compliance with this target to the Supervisor of Banks by the end of August 2010.
- Credit-card companies shall not distribute dividends, without advance approval by the Supervisor of Banks, if they do not meet the aforesaid target or if the dividend distribution would cause a failure to meet the target.

On May 20, 2010, the Supervisor of Banks issued a letter entitled "Examination of the Fairness of Reporting to the Supervisor on Capital Adequacy." According to the letter, banking corporations and credit-card companies are required to contract with their external auditors, in a letter of contractual engagement, for the performance of an examination of the fairness of reporting to the Supervisor on capital adequacy as of December 31, 2010. The findings of this audit were submitted to the Supervisor of Banks in early May 2011.

Risk Appetite

The Board of Directors of the Company has defined its risk appetite and risk capacity, in line with the strategy and future business plans of the Company. Risk appetite reflects and defines the risk level to which the Company is willing to be exposed, or which it is willing to accept or sustain, during the ordinary course of business. Risk appetite serves as the basis for the allocation of resources and capital.

Risk capacity reflects the risk level which the Company will not exceed even in the event of the materialization of extreme scenarios. In light of the above, the maximum risk level undertaken by the Company during the ordinary course of business is lower than its risk capacity.

The Management of the Company is responsible for routine monitoring, and ensures through the definition and enforcement of appropriate risk limits that the Company operates within its declaration regarding risk appetite and risk capacity, as defined, through the use of risk limits, among other means.

Capital Adequacy Target

The capital target of the Company is the appropriate level of capital required in respect of the various risks to which the Company is exposed, as identified, estimated, and evaluated by the Company. This target is higher than the minimum regulatory capital requirement, and includes the capital requirements with respect to tier I risks, in addition to capital with respect to Pillar II risks and a capital “cushion” enabling the Company to withstand losses in the event of external crisis events (extreme scenarios), while complying with the minimum regulatory capital requirement. This target takes into account actions by the Management of the Company aimed at reducing the risk level and/or enlarging the capital base.

The following are the Company's capital-adequacy targets:

The Company’s target ratio of core capital to risk-adjusted assets is 7.5%.

The Company’s target ratio of total capital to risk-adjusted assets is 12.5%.

Capital Management

The goal of capital management is to achieve compliance with the detailed risk-appetite definitions and the objectives of the Company, as established by the Board of Directors of the Company, subject to regulatory directives in the area of capital requirements, while striving to allocate capital efficiently. Accordingly, capital management shall:

- Ensure the existence of a capital base serving as protection against unexpected risks to which the Company is exposed, supporting business strategy, and allowing compliance at all times with the minimum regulatory capital requirement (refers to the mix and amount of capital backing the strategy and risks of the Company).
- Also address future developments in the capital base and capital requirements.
- Strive for efficient allocation of capital during the ordinary course of business of the Company.

Guiding Principles in Capital Management

Capital management is an annual process with a rolling planning horizon of three years.

Capital management is considered an integral part of the Company's strategic and financial plan. Capital management is based on the growth plans of the various business units, with the aim of assessing capital requirements during the period of the plan, and is used in the strategic planning process, in connection with feasibility and capital allocation to units.

Basel III

On October 26, 2011, the Supervisor of Banks issued a letter entitled "Preparation for the Adoption of the Basel III Recommendations."

According to the letter, the banking system in Israel will adopt the recommendations of "Basel III: A global regulatory framework for more resilient banks and banking systems," published in December 2010, after formulation and with adjustments. Accordingly, work teams were established at the Supervisor of Banks to submit professional recommendations regarding the manner of adoption.

The following table lists the required disclosures under Pillar III.

Capital Adequacy

Consolidated data

1. Capital for the calculation of the capital ratio

	December 31, 2011	December 31, 2010
	NIS millions	
Tier I capital, after deductions	**1,402	*1,254
Tier II capital, after deductions	20	4
Total overall capital	**1,422**	**1,258**

2. Weighted balances of risk-adjusted assets

	December 31, 2011		December 31, 2010	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	8,560	770	*7,752	697
Market risks – foreign currency exchange rate risk	92	8	75	7
Operational risk	1,495	135	1,324	119
Total weighted balances of risk-adjusted assets	**10,147**	**913**	**9,151**	**823**

3. Ratio of capital to risk-adjusted assets

	December 31, 2011	December 31, 2010
	Percent	
Ratio of core capital and Tier I capital to risk-adjusted assets	13.8	*13.7
Ratio of total capital to risk-adjusted assets	14.0	*13.7
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

* Restated; see Note 1.E.17 to the Financial Statements.

** The effect on capital due to the implementation of the directive on impaired debts is a reduction of retained earnings in the amount of NIS 49 million.

Applicability of Implementation

Requirements regarding capital measurement and adequacy apply to the Company. In addition, the Company is consolidated by Bank Hapoalim, which is also subject to these requirements.

The Company has five consolidated companies: Isracard Mimun, Isracard Nechasim, Europay, Tzameret Mimunim, and Global Factoring.

For details regarding the indemnification letter, see the section “Legal Proceedings and Pending Claims” in the Board of Directors’ Report.

In general, the capital requirements of the Company are based on its consolidated financial statements, which are prepared according to Proper Conduct of Banking Business Directives 201-

211 (Capital Measurement and Adequacy). However, as of December 31, 2011, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

Structure of Capital

Structure of Regulatory Capital

Pursuant to the directives of the Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy), banking corporations and credit-card companies must maintain a ratio of capital to risk-adjusted assets of no less than 9% of the weighted average total of their balance-sheet and off-balance-sheet risk-adjusted assets .

Capital measurement for the purposes of this directive is based on the division of capital into Tier I capital and Tier II capital, deducting the balance of goodwill in the Company's books.

Tier I capital includes equity (not including unrealized profits in respect of securities available for sale at fair value), and non-controlling interests' rights to the capital of consolidated companies, deducting goodwill.

Limits on the Capital Mix

The directive establishes limits on the capital mix in the various tiers; the main limits relevant to the Company are the following:

- Total core capital shall constitute at least 70% of Tier I capital, after the required deductions from the capital in this tier only.

- Total Tier II capital and Tier III capital shall not exceed 100% of total Tier I capital, after the required deductions for the capital in this tier only.

Structure of Capital

Set out below is the composition of capital for the purpose of calculating the capital ratio.

	December 31, 2011	December 31, 2010
	NIS millions	
Tier I capital		
Paid-up common share capital	*-	*-
Retained earnings	1,360(1)	**1,223
Other capital instruments	39	32
Non-controlling interests	3	6
Less: Goodwill	-	7
Total core capital and Tier I capital	1,402	1,254
Tier II capital		
45% of total net profits before related tax effect in respect of fair-value adjustments of securities available for sale	20	4
Total eligible capital	**1,422**	**1,258**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 to the Financial Statements.

(1) The effect on capital due to the implementation of the directive on impaired debts is a reduction of retained earnings in the amount of NIS 49 million.

Capital Adequacy

The Company applies the standardised approach to the assessment of its regulatory capital adequacy (with respect to credit risks, market risks, and operational risks).

The Company performs an internal process of assessment of its capital adequacy, within which a multi-year plan has been created for attainment of the capital-adequacy objectives. This plan takes into consideration the Company's present and future capital needs, according to its strategic plans, as compared to its available sources of capital. The plan addresses all present and future risk-adjusted assets of the Company, according to the required allocation under Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy), with reference to the capital-adequacy targets and risk appetite.

Risk-Adjusted Assets and Capital Requirement

Set out below are risk-adjusted assets and capital requirements in respect of credit risk, market risk, and operational risk.

	December 31, 2011		December 31, 2010	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Sovereign	-	-	-	-
Public-sector entities	1	*-	5	*-
Banking corporations	4,564	411	4,502	405
Corporations	1,311	118	843	76
Retail loans to individuals	2,020	182	1,832	165
Small businesses	163	14	166	15
Other assets	501	45	**404	36
Total credit risk	8,560	770	7,752	697
Market risks – foreign currency exchange rate risk	92	8	75	7
Operational risk	1,495	135	1,324	119
Total weighted balances of risk-adjusted assets / capital requirements	10,147	913	9,151	823

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 to the Financial Statements.

	December 31, 2011	December 31, 2010
Total capital ratio and Tier I capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	1,422	*1,258
Ratio of core capital and Tier I capital to risk-adjusted assets	13.8	*13.7%
Ratio of total capital to risk-adjusted assets	14.0	*13.7%
Minimum capital ratio required by Supervisor of Banks – Pillar I	8.0%	8.0%
Minimum capital ratio required by Supervisor of Banks – Pillar II	1.0%	1.0%
Total minimum capital ratio required by Supervisor of Banks	9.0%	9.0%

* Restated; see Note 1.E.17 to the Financial Statements.

Credit Risk – General Disclosure Requirements

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provisions for credit losses, and the amendment of the directives on the treatment of problematic debts, as of January 1, 2011, the Company has implemented the United States accounting standards in this area (ASC 310) and the position statements of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives. In addition, as of that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts.

Debtors in Respect of Credit Card Activity and Other Debt Balances

The directive is implemented with regard to all debt balances, such as deposits with banks, debtors in respect of credit-card activity (including credit to merchants and credit to cardholders), and other credit to non-cardholders. Debtors in respect of credit-card activity and other debt balances are reported in the Company's books according to the recorded debt balance. The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses in respect of that debt. The Company applies rules according to which the balance of the debt in the Company's books includes the component of interest accrued before the classification of the debt as a non-income-bearing problematic debt.

Provisions for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the provision for credit losses, in order to maintain a provision at an appropriate level to cover estimated credit losses in respect of its credit portfolio. In addition, the Company has established the necessary procedures in order to maintain a provision, in a separate liability account, at an appropriate level to cover estimated credit losses in connection with off-balance-sheet credit instruments (such as unutilized credit facilities and guarantees).

The provision to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: “individual provision” and “group provision.” The Company also examines the overall fairness of the provision for credit losses.

Individual provision for credit losses – The Company individually examines all debts with a contractual balance (excluding provisions for credit losses, and without deducting accounting write-offs that do not involve an accounting waiver) of NIS 500 thousand or more. Individual provisions for credit losses are recognized for all debts classified as impaired. Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. In any case, debt is classified as impaired debt when the principal or interest in respect of the debt is in arrears of 90 days or more. Such debts that are examined individually, are not in arrears, and if found to be sound are provided for on a group basis. In addition, any debt the terms of which have been changed in the course of the restructuring of problematic debt is classified as impaired debt, and is examined individually. The individual provision for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards of the debtor.

Group provision for credit losses – Applied to provisions for impairment of large groups of homogeneous small debts, and in respect of debts examined individually and found to be unimpaired. The group provision is assessed in accordance with the rules established in ASC 450, Contingencies (FAS 5, Accounting for Contingencies), based on a current estimate of the rate of past losses in respect of each of the defined groups. The formula for the calculation of the group provision is detailed in the temporary order issued by the Supervisor of Banks, in effect up to and including December 31, 2012. The formula is based on historical rates of loss in 2008, 2009, and 2010, and on actual rates of net accounting write-offs recorded as of January 1, 2011. The calculation differentiates between consumer credit and commercial credit, sound debts (separately for debts under the responsibility of banks and debts under the responsibility of the Company) and problematic debts, the international MasterCard organization, and credit-card companies.

The provision required with respect to off-balance-sheet credit instruments is estimated according to the rules established in FAS 5 (ASC 450). The provision assessed on a group basis for off-balance-sheet credit instruments is based on the provision rates established for balance-sheet credit (as described above), taking into consideration the expected rate of conversion of the credit for off-balance-sheet credit risk. The conversion rate of credit is calculated by the Company based on coefficients for conversion into credit, as specified in Proper Conduct of Banking Business Directive No. 203, Capital Measurement and Adequacy – Credit Risk – The Standard Approach.

The Company classifies all of its debts and items of off-balance-sheet credit into the categories: sound, under special supervision, substandard, or impaired.

Bad Debts

From time to time, the Company classifies impaired debts as bad debts, when all collection processes have been exhausted, including legal process, following approval by the authorized parties within the Company.

Loans in arrears – Loans where a period of more than thirty days has elapsed from the date when the Company was entitled to receive payment. Debts are in arrears when the principal or interest has not been paid. The status of a loan in arrears is determined according to the type of instrument.

Impaired loans – Debts examined on an individual basis, in arrears of more than ninety days, except if the loan is in collection proceedings; and any other debt the collection of which has been determined to be in doubt by the Company.

Credit Risk Management

Credit risk is one of the risks managed, monitored, and controlled by the Company, as a necessary characteristic of its activity as a company engaged in granting credit. The credit risk management process aids the Company in viewing risk according to the component product mix.

Activity of the Company in the area of credit-risk management:

- The Company sets limits on credit granting, by risk rating, with segmentation by credit products (according to the products' risk weighting), in order to prevent damage to the quality of the Company's credit portfolio, thereby reducing credit risk arising from borrower quality.

- The Company conducts internal controls of credit-risk management by assigning a risk weighting to each type of credit product, according to its derived risk. For example, in certain cases, references are made to the type of product sold by the merchant and to its supply times; the longer the supply time of the product, the higher the probability of a failure to deliver the product to the customer.

- The Company sets sectoral limits in order to prevent sectoral concentration in the credit portfolio.

- The Company acts in accordance with the guidelines of the Bank of Israel in Directive No. 313, Limits on the Indebtedness of a Single Borrower and of a Group of Borrowers. Working according to this directive and setting internal limits reduces borrower concentration risk.

- The Company has set internal limits on its exposure to financial institutions, in congruence with the risk appetite approved by the Board of Directors.

- The Company monitors and supervises transactions with related persons, in accordance with Proper Conduct of Banking Business Directive No. 312, and files reports pursuant to Directive No. 815.

Principles of Credit Concentration Risk Management

- In accordance with the second pillar of Basel II, the Company calculates an internal capital allocation, as required, against concentration risks.

- Borrower concentration – routine monitoring of the major borrowers of the Company; compliance with limits required in Proper Conduct of Banking Business Directive No. 313 (Single Borrowers and Borrower Groups) of the Bank of Israel. In addition, the Company reports to the Bank of Israel on a quarterly basis, in accordance with the directive.

- Diversification over a range of credit products – the Company's credit portfolio consists of a variety of credit products with differing risk levels. Credit products are: credit through credit cards, loans through credit cards, loans for the purchase of motor vehicles, loans to private individuals, loans to merchants, advance payments to merchants, check settlement assurance and check discounting, and factoring.

Assigning Risk Ratings to Customers Based on Statistical Models

- The Company routinely invests in models for rating the credit risk of private and business customers. The models are matched to the credit products, economic conditions, and target population to grant the credit.

- Models are divided as follows:

  1. AS (application scoring) model for new customers;

2. BS (behavior scoring) model – a behavioral model for customers of the Company;

3. SME (small-medium enterprise) model – a model for business clients.

♦ The risk rating models are used to support decisions regarding the type of credit, amount of credit, and interest rate set for the customer or merchant.

♦ The development of risk ratings in the credit portfolio is routinely controlled and monitored.

♦ The models are tested periodically for quality and calibration by the Model Development Unit in the Credit and Financial Services Division, and validated by the Risk Management Department (the second level of controls).

Establishing the Hierarchy of Credit Granting Authority

The establishment of the hierarchy is aimed at maintaining the quality of the Company's credit portfolio, while supervising credit approvals, according to the appropriate professional authority. Credit is granted at the Company according to a hierarchy of authority, including:

♦ Authorization for maximum exposure according to the authority of the responsible party (in accordance with the risk-rating model).

♦ Defined authorizations for deviations for exceptional transactions, according to the authority of the responsible party.

♦ Defined hierarchy of authority for the establishment of the interest rate for the credit.

Exposure to Financial Institutions

The Company's operations involve exposure to financial institutions, in Israel and globally:

♦ Credit-card companies in Israel and globally – Cross-clearing activity occurs between the Company and credit-card companies in Israel. In addition, exposure to global credit-card companies.

♦ Banks in Israel – Credit-card activity under the responsibility of banks is conducted with customers' accounts at Israeli banks. In addition, deposits and hedging transactions create exposure to the bank with which the transaction was executed.

♦ Foreign financial institutions – Activity with overseas entities or activity by foreigners in Israel; deposits of foreign currency with financial institutions overseas. The Company's exposure is immaterial.

♦ The Company routinely monitors these exposures and reports exceptions from limits.

Credit exposure to financial institutions results from:

- Transactions in credit cards issued by banks with which the Company has arrangements – the exposure is created when the Company uses its own funds to finance the time gap between the date of crediting the merchant and the date of transfer of the payments by the Banks Under Arrangement. If a bank becomes insolvent, there is a risk that the funds may not be transferred to the Company, which would then absorb the losses in its capital.

- Deposits with banks – deposits performed by the Company with banks create an automatic exposure to such banks.

Independent Supervision

The Chief Risk Officer maintains independent supervision of the manner in which credit risks are managed at the Company. This supervision includes:

- Checking compliance with credit policy directives and with the instructions of the Bank of Israel.

- Active involvement in establishing credit policy, including credit limits. Control over the implementation of credit policy.

- Identifying new risks and emerging risks.

- Reporting the results of the monitoring to senior management and to the Board of Directors.

- Monitoring risk-assessment models.

Reports to Management and the Board of Directors and Compliance with Policies and Procedures

- The Company's credit policy is updated and approved by the Board of Directors each year, according to developments at the Company, in the industry, and in the economy.

- The Company's Management is provided with data on the Company's credit-portfolio mix each month. The mix presents the segmentation of the portfolio in terms of credit products, sectors, risk ratings, geographical distribution, compliance with regulatory and internal limits, a risk-return analysis, and more.

- The credit-portfolio mix is presented to the Board of Directors of the Company on a quarterly basis.

- The Chief Risk Officer submits an independent report to Management on the control over credit-risk management each month.

- The Chief Risk Officer submits an independent report to the Board of Directors each quarter.

- Working procedures at the Company are updated routinely by the various departments.

Off-Balance-Sheet Exposures

The Company uses a credit conversion factor (CCF) to convert its off-balance-sheet credit exposures into credit exposures under Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy), as described below:

- Unutilized credit facilities of credit cards for holders of retail cards – 10%*.
- Other off-balance-sheet exposures, including unutilized credit facilities of credit cards for non-retail cardholders and check guarantees, for a period of up to one year – 20%.
- Other off-balance-sheet exposures, including unutilized credit facilities of credit cards for non-retail cardholders and check guarantees, for a period of more than one year – 50%.

* With regard to unutilized credit facilities of credit cards for holders of retail cards issued by the Company, the repayment capability of retail cardholders is effectively monitored through various control tools, including the use of behavioral rating models and monitoring activities performed routinely by the Security Department. With regard to unutilized credit facilities of credit cards for holders of retail cards issued by the Banks Under Arrangement, approvals were received from the banks with regard to the existence of effective monitoring of the repayment capability of the holders of the retail cards.

Credit Exposures

The following tables present details of credit exposure by risk weightings, with segmentation of the exposure by counterparty (segment), before and after credit-risk mitigation.

Gross credit risk exposures, by principal type of credit exposure (before deducting the provision for credit losses):

	December 31, 2011						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Transactions in derivative financial instruments	Credit facilities	Other	Total overall credit exposure
	NIS millions						
Banking corporations	657	378	1,035	2	29	-	1,066
Corporations	1,011	-	1,011	-	1,193	13	2,217
Retail to individuals	9,520	-	9,520	-	30,793	75	40,388
Small businesses	1,120	-	1,120	-	2,634	-	3,754
Public sector	3	-	3	-	*-	-	3
Government	*-	-	*-	-	6	-	6
Other assets(1)	-	502	502	-	-	-	502
Total exposures	**12,311**	**880**	**13,191**	**2**	**34,655**	**88**	**47,936**

The comparitive figures are not comparable, due to changes in this table after the adoption of the directive on impaired debts.

Gross credit risk exposures, by principal type of credit exposure (after deducting the provision for doubtful debts):

	December 31, 2010						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Transactions in derivative financial instruments	Credit facilities	Other	Total overall credit exposure
	NIS millions						
Banking corporations	**664	92	756	1	25	*-	782
Corporations	769	-	769	-	648	8	1,425
Retail to individuals	9,415	-	9,415	-	29,547	60	39,022
Small businesses	1,117	-	1,117	-	2,545	-	3,662
Public sector	9	-	9	-	*-	-	9
Government	*-	-	*-	-	3	-	3
Other assets(1)	-	**425	425	-	-	-	425
Total exposures	**11,974**	**517**	**12,491**	**1**	**32,768**	**68**	**45,328**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 to the Financial Statements.

(1) Includes fixed assets, investments in companies, and others.

Average gross credit exposures, by principal type of credit exposure (before deducting the provision for credit losses):

	December 31, 2011						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Transactions in derivative financial instruments	Credit facilities	Other	Total overall credit exposure(2)
	NIS millions						
Banking corporations	660	285	945	2	28	-	975
Corporations	889	-	889	-	899	13	1,801
Retail to individuals	9,403	-	9,403	-	30,349	70	39,822
Small businesses	1,103	-	1,103	-	2,600	-	3,703
Public sector	5	-	5	-	*-	-	5
Government	*-	-	*-	-	8	-	8
Other assets(1)	-	480	480	-	-	-	480
Total exposures	**12,060**	**765**	**12,825**	**2**	**33,884**	**83**	**46,794**

The comparitive figures are not comparable, due to changes in this table after the adoption of the directive on impaired debts.

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets, investments in companies, and others.

(2) Average exposure calculated on a quarterly basis.

Average gross credit exposures, by principal type of credit exposure (after deducting the provision for doubtful debts):

	December 31, 2011						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ bonds/other	Total balance-sheet credit risk	Transactions in derivative financial instruments	Credit facilities	Other	Total overall credit exposure(2)
	NIS millions						
Banking corporations	**558	200	758	*-	13	-	771
Corporations	792	-	792	-	624	6	1,422
Retail to individuals	8,914	-	8,914	-	31,088	40	40,042
Small businesses	1,052	-	1,052	-	2,766	-	3,818
Public sector	9	-	9	-	-	-	9
Government	3	9	12	-	4	-	16
Other assets(1)	-	**440	440	-	-	-	440
Total exposures	**11,328**	**649**	**11,977**	***-**	**34,495**	**46**	**46,518**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 to the Financial Statements.

(1) Includes fixed assets, investments in companies, and others.

(2) Average exposure calculated on a quarterly basis.

Segmentation of the Portfolio by Remaining Contractual Term to Maturity

The following table shows details of gross credit exposure (before deducting the provision for credit losses) by contractual term to maturity (the last period), according to the principal types of financial instruments.

	December 31, 2011					
	Classified by term to maturity, in NIS millions					
	Up to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	5 years to 10 years
Cash on hand and deposits with banks	372	6	-	-	-	-
Credit:						
Debtors in respect of credit cards	9,732	390	92	-	-	-
Credit to cardholders and merchants	1,077	185	77	20	5	1
Companies and international credit-card organization	588	28	7	-	-	-
Income receivable	20	-	-	-	-	-
Other assets	137	*-	*-	-	3	-
Non-monetary assets	-	-	-	-	-	-
Transactions in derivative financial instruments	2	*-	-	-	-	-
Off balance sheet – credit facilities and other	34,111	244	-	-	-	-
Total assets	**46,039**	**853**	**176**	**20**	**8**	**1**

Gross credit exposure (after deducting the provision for doubtful debts) by contractual term to maturity (the last period), according to the principal types of financial instruments.

	December 31, 2010					
	Classified by term to maturity, in NIS millions					
	Up to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	5 years to 10 years
Cash on hand and deposits with banks	87	-	5	-	-	-
Credit:						
Debtors in respect of credit cards	9,750	353	70	-	-	-
Credit to cardholders and merchants	864	147	36	9	1	-
Companies and international credit-card organization	587	27	4	-	-	-
Income receivable	18	-	-	-	-	-
Other assets	**99	**38	-	-	3	-
Non-monetary assets	-	-	-	-	-	-
Transactions in derivative financial instruments	-	1	-	-	-	-
Off balance sheet – credit facilities and other	32,180	-	3	-	-	-
Total assets	**43,585**	**566**	**118**	**9**	**4**	**-**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 to the Financial Statements.

	10 years to 20 years	Over 20 years	Total cash flows	Balance-sheet balance No maturity period	Non-monetary assets	Total
	-	-	378	-	-	378
	-	-	10,214	1	-	10,215
	-	-	1,365	2	-	1,339
	-	-	623	-	-	623
	-	-	20	-	-	20
	-	-	140	75	-	215
	-	-	-	-	401	401
	-	-	2	-	-	2
	-	-	34,355	388	-	34,743
	-	**-**	**47,097**	**466**	**401**	**47,936**

	10 years to 20 years	Over 20 years	Total cash flows	Balance-sheet balance No maturity period	Non-monetary assets	Total
	-	-	92	-	-	92
	-	-	10,173	12	-	10,176
	-	-	1,057	3	-	1,053
	-	-	618	-	-	618
	-	-	18	-	-	18
	-	-	140	**109	-	245
	-	-	-	-	289	289
	-	-	1	-	-	1
	-	-	32,183	653	-	32,836
	-	**-**	**44,282**	**777**	**289**	**45,328**

Information regarding loans and provisions for credit losses in respect of debts and off-balance-sheet credit instruments, by counterparty:

		December 31, 2011						
		NIS millions						
			Amount of unimpaired loans in arrears					
Exposure – credit	Credit risk	Amount of impaired loans	Over 30 days to 90 days	Over 90 days	Individual allowance for credit losses	Group allowance for credit losses	Net provision for credit losses recognized in statement of profit and loss	Net accounting write-offs recognized in statement of profit and loss
Retail to individuals	Balance sheet	13	12	-	2	49	3	35
Small businesses	Balance sheet	1	1	-	*-	5	*-	4
Corporations	Balance sheet	2	*-	-	2	7	1	5
Banking corporations	Balance sheet	-	-	-	-	2	*-	-
Public sector	Balance sheet	-	-	-	-	*-	*-	-
Government	Balance sheet	-	-	-	-	*-	*-	-
Other assets	Balance sheet	-	-	-	-	-	-	-
Credit facility & other	Off-balance-sheet	-	-	-	-	15	1	-
Total		**16**	**13**	**-**	**4**	**78**	**5**	**44**

* Amount lower than NIS 0.5 million.

The comparitive figures are not comparable, due to changes in this table after the adoption of the directive on impaired debts.

Information regarding loans and provisions for doubtful debts, by counterparty:

		December 31, 2010		
		NIS millions		
Exposure – credit	Credit risk	Problematic debt(1)	Debt in arrears(2)	Provision for doubtful debts
Retail to individuals	Balance sheet	2	2	23
Small businesses	Balance sheet	*-	*-	4
Corporations	Balance sheet	61	-	52
Banking corporations	Balance sheet	-	-	*-
Public sector	Balance sheet	-	-	*-
Government	Balance sheet	-	-	*-
Total		**63**	**2**	**79**

(1) Problematic debt – More than 90 days in arrears.
(2) Debt in arrears – More than 60 days in arrears.
* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM)

Amounts of exposure, before/after credit-risk mitigation, according to the standard approach

Credit Risk Weighting

The following table presents details of credit exposure (after deduction of the provision for credit losses, by risk weights).

Before credit-risk mitigation

		December 31, 2011						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
		NIS millions						
Retail to individuals	Unrated	-	-	-	40,320	6	-	40,326
Small businesses	Unrated	-	-	-	3,749	*-	-	3,749
Corporations	Unrated	-	-	-	-	2,111	-	2,111
	Rated	-	-	-	-	93	-	93
Banking corporations	Unrated	-	415	239	-	-	-	654
	Rated	-	366	44	-	-	-	410
Public sector	Unrated	-	-	3	-	-	-	3
Government	Rated	6	-	-	-	-	-	6
Other assets	Unrated	1	-	-	-	501	-	502
Total		**7**	**781**	**286**	**44,069**	**2,711**	**-**	**47,854**

After credit risk mitigation

		December 31, 2011						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Net credit exposure**
		NIS millions						
Retail to individuals	Unrated	-	-	-	11,161	6	-	11,167
Small businesses	Unrated	-	-	-	570	*-	-	570
Corporations	Unrated	-	-	-	-	1,674	-	1,674
	Rated	-	-	-	-	92	-	92
Banking corporations	Unrated	-	1,556	6,213	-	-	-	7,769
	Rated	-	3,619	22,452	-	-	-	26,071
Public sector	Unrated	-	-	3	-	-	-	3
Government	Rated	6	-	-	-	-	-	6
Other assets	Unrated	1	-	-	-	501	-	502
Total		**7**	**5,175**	**28,668**	**11,731**	**2,273**	**-**	**47,854**

* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM) (cont.)

Amounts of exposure, before/after credit-risk mitigation, according to the standard approach

Credit Risk Weighting

The following table presents details of credit exposure (after deduction of the provision for doubtful debts, by risk weights).

Before credit-risk mitigation

		December 31, 2010						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
		NIS millions						
Retail to individuals	Unrated	-	-	-	39,020	-	2	39,022
Small businesses	Unrated	-	-	-	3,662	-	*-	3,662
Corporations	Unrated	-	-	-	-	1,386	13	1,399
	Rated	-	-	-	-	26	-	26
Banking corporations	Unrated	-	422(1)	243	-	-	-	665
	Rated	-	68	50	-	-	-	118
Public sector	Unrated	-	-	9	-	-	-	9
Government	Rated	3	-	-	-	-	-	3
Other assets	Unrated	20	-	-	-	404(1)	-	424
Total		**23**	**490**	**302**	**42,682**	**1,816**	**15**	**45,328**

The amount deducted from capital is NIS 7 million, in respect of goodwill.

After credit risk mitigation

		December 31, 2010						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Net credit exposure**
		NIS millions						
Retail to individuals	Unrated	-	-	-	9,851	-	2	9,853
Small businesses	Unrated	-	-	-	555	-	*-	555
Corporations	Unrated	-	-	-	-	1,010	13	1,023
	Rated	-	-	-	-	26	-	26
Banking corporations	Unrated	-	1,592(1)	6,168	-	-	-	7,760
	Rated	-	3,400	22,275	-	-	-	25,675
Public sector	Unrated	-	-	9	-	-	-	9
Government	Rated	3	-	-	-	-	-	3
Other assets	Unrated	20	-	-	-	404(1)	-	424
Total		**23**	**4,992**	**28,452**	**10,406**	**1,440**	**15**	**45,328**

The amount deducted from capital is NIS 7 million, in respect of goodwill.

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.17 to the Financial Statements.

Use of Eligible Collateral for Credit Risk Mitigation

The following table lists the types of exposures used and the exposures covered (after deduction of the provision for credit losses)

			December 31, 2011			
Exposure	Credit risk	Type of exposure	Gross credit risk exposure	Exposure covered under the responsibility of the Banks Under Arrangement		Net credit risk exposure
				Total amounts subtracted	Total amounts added	
			NIS millions			
Retail to individuals	Balance sheet	Credit	9,469	(7,731)	-	1,738
	Off balance sheet	Credit facility	30,783	(21,428)	-	9,355
	Off balance sheet	Other	74	-	-	74
Small businesses	Balance sheet	Credit	1,115	(936)	-	179
	Off balance sheet	Credit facility	2,634	(2,243)	-	391
Corporations	Balance sheet	Credit	1,002	(86)	-	916
	Off balance sheet	Credit facility	1,189	(352)	-	837
	Off balance sheet	Other	13	-	-	13
Banking corporations	Balance sheet	Credit	655	-	8,753	9,408
	Balance sheet	Deposits	378	-	-	378
	Transactions in derivative financial instruments		2	-	-	2
	Off balance sheet	Credit facility	29	-	24,023	24,052
Public sector	Balance sheet	Credit	3	(*-)	-	3
	Off balance sheet	Credit facility	*-	-	-	*-
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	6	-	-	6
Other assets	Balance sheet	Other assets	502	-	-	502
Total			**47,854**	**(32,776)**	**32,776**	**47,854**

* Amount lower than NIS 0.5 million.

Use of Eligible Collateral for Credit Risk Mitigation (cont.)

The following table lists the types of exposures used and the exposures covered (after deduction of the provision for doubtful debts)

			December 31, 2010			
Exposure	**Credit risk**	**Type of exposure**	**Gross credit risk exposure**	**Exposure covered under the responsibility of the Banks Under Arrangement**		**Net credit risk exposure**
				Total amounts subtracted	**Total amounts added**	
			NIS millions			
Retail to individuals	Balance sheet	Credit	9,415	(7,808)	-	1,607
	Off balance sheet	Credit facility	29,547	(21,361)	-	8,186
	Off balance sheet	Other	60	-	-	60
Small businesses	Balance sheet	Credit	1,117	(934)	-	183
	Off balance sheet	Credit facility	2,545	(2,173)	-	372
Corporations	Balance sheet	Credit	769	(84)	-	685
	Off balance sheet	Credit facility	648	(292)	-	356
	Off balance sheet	Other	8	-	-	8
Banking corporations	Balance sheet	Credit	665[(1)]	-	8,826	9,491
	Balance sheet	Deposits	92	-	-	92
	Transactions in derivative financial instruments		1	-	-	1
	Off balance sheet	Credit facility	25	-	23,826	23,851
Public sector	Balance sheet	Credit	9	(*-)	-	9
	Off balance sheet	Credit facility	*-	-	-	*-
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	3	-	-	3
Other assets	Balance sheet	Other assets	424[(1)]	-	-	424
Total			**45,328**	**(32,652)**	**32,652**	**45,328**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.17 to the Financial Statements.

Credit Risk Weighting

The Company implements the standardised approach to determine risk weightings to apply to the counterparty. The standardised approach requires the use of independent ratings by international rating agencies.

Credit rating agencies used:

Credit rating agency	Used for
Moody's	Corporations, banks
S&P	Corporations, banks
Fitch	Banks

Adjustment of each agency's scale to risk groups: The Company uses standard mapping.

Credit Risk Mitigation (CRM)

The Company has repayment sources (means of repayment of customers' debts) which are not recognized under Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy) for the purpose of minimizing credit risks, in the calculation of the capital allocation required according to the standardised approach. However, in its routine operations the Company considers these repayment sources as existing permanent flows, and uses them to manage credit risks (for risk management purposes, rather than for capital allocation).

No collateral exists against non-bank credit to cardholders (such credit is granted according to the rating of the applicant).

Corporate credit is mainly based on the turnover of the merchant, and the credits owed to it serve as the repayment source for cases in which the credit is not repaid.

This activity is conducted in accordance with credit policies. The amount of the credit is established according to the rating of the merchant, the type of credit product, and the turnover of the merchant. In addition, loans to merchants are conditional upon the receipt of a personal guarantee from the owner.

The situation is different in private credit for the purchase of motor vehicles. The credit extended for the purchase of a motor vehicle is backed by a lien on the motor vehicle in favor of the Company. Default on payments allows realization of the motor vehicle and repayment of the liability.

In order to calculate the capital allocation of the Company against credit risks, the Company uses agreements signed with the Banks Under Arrangement as a means of credit risk mitigation (CRM), using the simple approach, such that the credit risk of the cardholder is replaced by the credit risk of the bank under the arrangement.

General Disclosure Regarding Exposures Related to Counterparty Credit Risk – OTC Derivatives

From time to time the Company uses derivatives with banks for the purpose of economic hedging, as part of its market and liquidity risk management policy, rather than for investment or other purposes.

Hedging Interest-Rate Exposures

The financial activity of the Company is usually characterized by a parallel between the average duration of assets and liabilities (mainly short-term); i.e. customers' activity ("debtors in respect of credit cards") versus liabilities to merchants ("creditors in respect of credit-card activity"). However, the Company also extends credit for the medium term (usually up to one year, and sometimes up to three years). In addition, activity in credit at fixed interest rates is conducted, which creates a gap in durations and generates exposure to changes in interest rates during the routine course of the Company's operations.

The Company uses IRS (interest rate swap) and FRA (forward rate agreement) hedging instruments for economic hedges of interest-rate positions to which it is exposed. These contracts are purchased in order to reduce the risk that unexpected changes in interest rates may damage the fair value of the assets and liabilities of the Company, and consequently its financial condition.

As of December 31, 2011, FRA contracts exist at face value of NIS 100 million. These contracts are presented in the balance sheet at a negative gross fair value in the amount of approximately NIS 1 million.

Hedging Foreign Currency Exposures

The Company's currency exposure is managed through daily matching of assets and liabilities in foreign currency (and linked to foreign currency) through foreign currency current accounts with banks, where the goal is to bring the net position to zero at the end of each day.

The Company uses forward contracts to hedge currency risk in long-term purchasing transactions.

As of December 31, 2011, forward transactions that have not yet matured are presented in the balance sheet at a positive gross fair value in the amount of approximately NIS 1 million.

Disclosure by Companies Using the Standardised Approach

General

The Company accounts for all of its assets and liabilities using the standardised measurement approach, as defined in Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy).

The Company does not have a trading portfolio, and all of its assets and liabilities are part of the banking book.

Strategy and Processes

The Board of Directors of the Company approves the market risk management policy of the Company on an annual basis. The Board of Directors is involved in risk management, particularly in setting limits and restrictions for the volume of activity and exposures.

The Company's strategy in the management of market risks is to minimize risks arising from its main areas of activity (issuance, clearing, and credit); the Company has a very low "risk appetite" for market risks.

Within this strategy, the Board of Directors and Management of the Company approve the Company's policy document, on an annual basis. The policy document is based on the following key principles:

- **Organization and control** – A central market and liquidity risk management function headed by the Head of Finance and Administration; an internal investment committee headed by the Chief Risk Controller; the Audit Committee; the Risk Management Committee of the Board of Directors, established on December 21, 2011; and the Board of Directors.

- **Procedures and policies** – The areas of responsibility and authority in the area of risk management assigned to Management, the Board of Directors, the Audit Committee, the Risk Management Committee, and specialized functions such as the Risk Manager are formalized in clear, accessible documentation, with the aim of ensuring uniform implementation in the organization.

- **Risk management processes** – Processes are in place for the routine identification of exposures, risk assessment, examination of controls, and risk minimization processes (including limits).

- **Tools and technologies** – A computerized system supporting risk assessment, risk management, reporting, monitoring, and planning.

- **Reporting and monitoring of risks –** Reports from each business line of the Company to the central Market and Liquidity Risk Management Unit in a structured process, in which exposures are reported to Management and to the Board of Directors; proper intra-organizational communication channels ensure timely reporting of issues that need to be addressed.

For the purpose of the control and management of market and liquidity risk, the Financial Management Unit in the Finance and Administration Division, under the authority of the Head of Market and Liquidity Risk, works to identify, measure, monitor, and report on market and liquidity risks, in practice, on a routine basis.

Structure and Organization of Market Risk Management Function

The market risk management system of the Company is based on an integrative system for the management of exposures, composed of the following functions:

Market Risk Manager

The Head of Finance and Administration is the manager of market risks at the Company. Within this framework, he is responsible for the formulation, implementation, and absorption of a comprehensive policy for the management of all market and liquidity risks to which the Company is exposed (currency, CPI, interest rate, securities, liquidity), including:

- Responsibility for financial exposures at the Company, subject to limits approved by the Board of Directors.
- Procedures for monitoring and control on matters related to exposure management.
- Conducting a biweekly financial meeting to formulate activity in the area of market and liquidity risks (the investment committee).
- Monthly reports on market and liquidity risk to the Board of Directors.
- Management of foreign currency risks, including decisions regarding hedging of long-term foreign currency exposures.
- Asset and liquidity management (ALM).
- Routine measurement and control of the market and liquidity risk indices of the Company.
- Preparation of reports on interest-rate risks.
- Analysis of results and preparation of findings for discussion by Management and the Board of Directors.

Chief Risk Officer

The Chief Risk Officer of the Company is responsible, as part of his duties, among other matters, for control of the market and liquidity risks of the Company.

Within this framework, he is responsible for controlling the Company's market risk management policies and processes.

The Chief Risk Officer assists the Board of Directors of the Company in approving and examining the market risk management strategy and the policy rules in this area, with reference to new products and processes at the Company.

The Chief Risk Officer assists Management in the control of the market risk strategy approved by the Board of Directors by examining compliance with policies and procedures for the identification, measurement, monitoring, and control of market risks. The Chief Risk Officer reports directly to the CEO of the Company and performs independent control of the exposure to market risks.

Nature and Volume of Risk Reporting and Measurement Systems

An RMS (Risk Management System) has been acquired, and has been in use since the first quarter of 2010. The RMS serves as a strategic instrument for the management of market risks to which the Company is exposed as a result of gaps between the nature of assets and liabilities.

Risks are measured in the following reports:

ALM reports – Fair value, duration, internal rate of return, interest rate gap, cash flows.

Stress reports – Tests of the sensitivity of the portfolio to changes in risk factors.

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

Exposure is monitored through reports on the effect of changes in interest rates. In the event that an exception from the limits established is identified, the exposure is reduced by considering fixed-rate credit granting activity and considering the purchase of interest-rate hedging transactions.

Foreign Currency Exposure Management

Transactions are hedged using derivative and other financial instruments at banks. The Company's policy is to bring foreign currency exposure to zero. However, immaterial exposures form as a result of differences in timing between the dates of calculation and the dates of accounts settlement in foreign-currency transactions. The Company monitors these differences and buys and sells foreign currency in order to hedge the exposure.

Capital requirements in respect of foreign currency exchange rate risk

	Capital requirement	
	December 31, 2011	December 31, 2010
	In NIS millions	
Market risks – Foreign currency exchange rate risk*	8	7

* Specific risk arising from the surplus of assets over liabilities in the foreign-currency-linked segment, weighted by the percentage of the capital requirement (9%).

Operational Risk

Operational risk is managed by the members of Management at the Company, each with regard to the area for which he or she is responsible. The Head of Risks and Security at the Company is responsible for independent supervision of the manner of management of risks at the Company (second level). The management of operational risks at the Company is intended to minimize losses by establishing orderly processes aimed at reducing the operational risks to which the Company is exposed. In this process, authority and responsibility frameworks are established, and a culture of operational risk management is instilled in all managers and employees.

Capital Requirement in Respect of Operational Risk

	Capital requirement	
	December 31, 2011	December 31, 2010
	In NIS millions	
Operational risk	135	119

The Company has a policy for the management of operational risks, which includes the following objectives:

- To manage operational risks as an integral part of the working processes of the Company, including the introduction of new products and processes.
- To maintain effective controls of risks according to risk ratings.
- To ensure effective identification of operational risks in all of the main processes at the Company.
- To create a work culture that encourages an organizational culture of risk management.

- To report loss events on a regular basis, according to the rules defined in the policy.
- To comply with legal and regulatory requirements regarding operational risks.
- To manage and allocate capital optimally in respect of operational risks.
- To establish a business continuity and emergency preparedness plan.

Within its operational risk management policy, the Company has defined the supporting organizational structure in detail, including the duties and responsibilities of the Board of Directors, Management, the Chief Risk Officer, the Information Systems Division, the departmental risk controllers, and the various business units.

Once every three years, the Company performs a survey of operational risks, as follows:

- Full mapping of all operational processes at the Company.
- Classification of the processes into groups, according to the classification methodology in Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy).
- Mapping of all controls relevant to each risk, including residual risk, and additional recommended controls if necessary.
- Rating of risk levels in each process on a scale of the level of damage / expected frequency.
- Implementation of a multi-year action plan to reduce material risks and increase controls where necessary.

Each quarter, the Chief Risk Officer reports to Management and the Board of Directors on operational risks, as follows:

- Material damage events and consequent actions taken.
- New operational processes at a high level of risk and actions taken to increase controls and minimize risk.
- Approval of changes in operational risk policy.

All events of damage at the Company are collected into a single database. All material events (the materiality threshold as of December 2011 is NIS 10,000) are reported on a quarterly basis to Management and the Board of Directors. The events are analyzed in order to ensure that a relevant operational process exists and that the existing controls are sufficient in order to reduce the risk of an additional event. If necessary, additional controls are added to the process.

Material operational risks are mitigated by:

- Adding controls for identification and prevention, according to risk level.
- Acquiring appropriate insurance, including property insurance, professional liability insurance, and insurance against fraud, embezzlement, and computer crimes.

Disclosure Regarding Positions in Shares in the Banking Book

From time to time, the Company invests in areas of activity synergetic with its operations and/or complementary to its core activity. These investments are of a strategic nature, and are not performed as financial holdings. According to the Company's policies, no activity is to be performed for the purpose of trading in securities.

	December 31, 2011			
	NIS millions			
	Balance-sheet balance	**Fair value**	**Nature of investment**	**Capital requirements**
Store Alliance.Com Ltd.	8	-	Private	1
Life Style Customer Loyalty Club Ltd.	3	-	Private	*-
Life Style Financing Ltd.	*-	-	Private	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	*-	-	Private	*-
Kidum Mivne Iguach 1 Ltd.	2	-	Private	*-
MasterCard Incorporated (MC)	84	84	Marketable	8
Walla! Communications Ltd.	1	1	Marketable	*-
Total	**98**	**85**		**9**

	December 31, 2010			
	NIS millions			
	Balance-sheet balance	Fair value	Nature of investment	Capital requirements
Store Alliance.Com Ltd.	11	-	Private	1
Life Style Customer Loyalty Club Ltd.	3	-	Private	*-
Life Style Financing Ltd.	-	-	Private	-
I.M.T. - The Central Vehicle Distribution Company Ltd.	1	-	Private	*-
Kidum Mivne Iguach 1 Ltd.	2	-	Private	*-
MasterCard Incorporated (MC)	59	59	Marketable	5
Walla! Communications Ltd.	1	1	Marketable	*-
Total	**77**	**60**		**6**

* Amount lower than NIS 0.5 million.

Store Alliance.Com Ltd.

The Company holds approximately 13% of the issued share capital of Store Alliance.Com Ltd. The investment in Store Alliance.Com Ltd. is stated on the basis of the historical cost, after write-down due to impairment. The holding in Store Alliance.Com is the result of an agreement synergetic with the Company's B2B activity.

Life Style Customer Loyalty Club Ltd. and Life Style Financing Ltd.

The Company holds 15% of the issued share capital of Life Style Customer Loyalty Club Ltd. and of Life Style Financing Ltd.

Life Style Customer Loyalty Club Ltd. operates the Lifestyle customer club, jointly with the Company. Within the activity of the club, Lifestyle Multi Purpose credit cards are issued, including More cards, which operate based on the revolving credit method. In addition, Life Style Financing provides sources of financing for interest-bearing transactions. The investment in Life Style Customer Loyalty Club Ltd. is stated in the financial statements according to the historical cost. Starting in 2011, the investment in Life Style Financing is stated in the financial statements according to the equity method. This is a strategic investment, as part of the expansion of the joint activity with the club.

I.M.T. - The Central Vehicle Distribution Company Ltd.

IMT leases motor vehicles to its customers through financing and operational leasing, while providing financing sources.

The Company holds 20% of the issued share capital of IMT. The investment in IMT is stated in the financial statements based on the equity method and is a strategic investment, as part of the expansion of the Company's financing activity.

Kidum Mivne Iguach 1 Ltd.

Kidum extends loans to the general public for the purchase of second-hand motor vehicles with a manufacturing year no more than five years prior to the date of granting of the loan. In addition, subject to specific approvals, Kidum is permitted to provide financing for the purchase of new taxicabs.

The Company holds 20% of the issued share capital of Kidum. The investment in Kidum is stated in the financial statements based on the equity method and is a strategic investment, as part of the Company's financing activity.

Shares of MasterCard Incorporated ("MC")

The Company holds less than 1% of the shares of MC. The shares are Class B shares. For further details, see Note 5 to the Financial Statements.

Walla! Communications Ltd.

The Company holds less than 1% of the shares of Walla. The investment is stated in the financial statements in the available-for-sale portfolio. Profit (loss) is allocated to a capital reserve. The shares were received as a result of a settlement agreement between the companies.

Prohibition of Money Laundering and Financing of Terror

The legislation applicable to credit-card companies in Israel with regard to the prohibition of money laundering and financing iof terror is the following:

- The Money Laundering Prohibition Law, 2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 2001.

- Proper Conduct of Banking Business No. 411 of the Bank of Israel, Prevention of Money Laundering and Terrorism Financing and Identification of Customers (this directive has recently been updated). Also see the section "Restrictions and Supervision of the Company's Operations," Additional Regulation, Section 13.

The Company operates in accordance with the requirements in the area of control with regard to customers and merchants defined as high risk.

The Company routinely operates controls to ensure that it has all of the information and documents required by the directives, and acts to remedy and eliminate any gaps discovered.

All employees, without exception, are required to maintain current knowledge in this area through computerized tutorials. In addition, specific training sessions were held for the various departments concerned with the prohibition of money laundering and financing of terror.

The Company's procedures have been updated and expanded in order to fully cover all topics in accordance with the requirements.

The Compliance Officer coordinates the Compliance Committee, the Compliance Trustees Forum, and the Money Laundering Prohibition Team.

Routine reports are submitted to the Israel Money Laundering Prohibition Authority regarding ordinary transactions (pursuant to the directives of the Order) and unusual transactions. In addition, monthly reports are submitted to the Bank of Israel.

Critical Accounting Policies

The financial statements of the Company are prepared in conformity with generally accepted accounting principles and in accordance with the directives of the Supervisor of Banks, the main points of which are described in Note 1 to the Financial Statements, "Significant Accounting Policies," in the section concerning the implementation of accounting principles. When preparing the financial statements, the Management of the Company uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Company.

Some of these estimates and evaluations involve uncertainty, and may be affected by possible future changes.

The Management of the Company is of the opinion that the estimates and evaluations applied during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment, as of the date of preparation of the financial statements.

The following are the main areas in which estimates and evaluations were used, and which accordingly are considered by the Company to be critical accounting matters.

Provision for Gift Offers (the Stars Loyalty Program) for Credit-Card Holders

The provision made in the books represents a provision at a rate of approximately 48% of the balance of unutilized Stars as of the end of 2011. This rate takes into consideration the Company's announcement of the termination of the loyalty program.

In January 2011, the Company notified its customers of the extension of the loyalty program until May 2011. In March 2011, customers were notified of the termination of the program and were offered the possibility of accumulating Stars until the aforesaid debiting date; the accumulated Stars could be used until December 31, 2011. In December 2011, the Company extended the deadline for use of accumulated Stars to June 30, 2012.

The calculation of the provision for the loyalty program is based on the following assumptions:

1. The Company engaged a statistics expert to determine the rate of the provision in respect of the future use of Stars (prior to the termination of the program). The Company adopted a conservative approach, which also takes into account heightened usage due to the termination of the loyalty program.

2. Price per Star – factoring in the price of gifts given to cardholders, according to the mix of gift types offered up to the end of 2011.

Some of the foregoing information constitutes forward-looking information.

Stars inventory and movements:

	Consolidated	
	December 31	
	2011	2010
	In thousands of Stars	
Opening balance	**1,037,655**	**1,006,125**
Stars created	101,165	268,421
Stars used	(172,843)	(205,658)
Stars canceled	(37,043)	(31,233)
Closing balance	**928,934**	**1,037,655**

The provision made in the books in respect of unutilized Stars as of December 31, 2011 is NIS 90 million (December 31, 2010: NIS 78 million).

Sensitivity analysis for the assumptions underlying the estimate of the provision for Stars:

	Change in expected rate of use	Change in price per Star
	NIS thousands	
Immediate increase of 1%	1,870	898
Immediate decrease of 1%	(1,870)	(898)

Provisions for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the provision for credit losses, in order to maintain a provision at an appropriate level to cover estimated credit losses in respect of its credit portfolio. In addition, the Company has established the necessary procedures in order to maintain a provision, in a separate liability account, at an appropriate level to cover estimated credit losses in connection with off-balance-sheet credit instruments (such as unutilized credit facilities and guarantees).

The provision to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual provision" and "group provision." The Company also examines the overall fairness of the provision for credit losses.

Individual provision for credit losses – The Company individually examines all debts with a contractual balance (excluding provisions for credit losses, and without deducting accounting write-offs that do not involve an accounting waiver) of NIS 500 thousand or more. Individual provisions for credit losses are recognized for all debts classified as impaired. Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. In any case, debt is classified as impaired debt when the principal or interest in respect of the debt is in arrears of 90 days or more. Such debts that are examined individually, are not in arrears, and are found to be sound are provided for on a group basis. In addition, any debt the terms of which have been changed in the course of the restructuring of problematic debt is classified as impaired debt, and is examined individually. The individual provision for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards by the debtor.

Group provision for credit losses – Applied to provisions for impairment of large groups of homogeneous small debts, and in respect of debts examined individually and found to be unimpaired. The group provision is assessed in accordance with the rules established in ASC 450, Contingencies (FAS 5, Accounting for Contingencies), based on a current estimate of the rate of past losses in respect of each of the defined groups. The formula for the calculation of the group provision is detailed in the temporary order issued by the Supervisor of Banks, in effect up to and including December 31, 2012. The formula is based on historical rates of loss in 2008, 2009, and 2010, and on actual rates of net accounting write-offs recorded as of January 1, 2011. The calculation differentiates between consumer credit and commercial credit, sound debts (separately for debts under the responsibility of banks and debts under the responsibility of the Company) and problematic debts, the international organization, and credit-card companies.

The provision required with respect to off-balance-sheet credit instruments is estimated according to the rules established in FAS 5 (ASC 450). The provision assessed on a group basis for off-balance-sheet credit instruments is based on the provision rates established for balance-sheet credit (as described above), taking into consideration the expected rate of conversion of the credit for off-balance-sheet credit risk. The exercise rate of credit is calculated by the Company based on coefficients for conversion into credit, as specified in Proper Conduct of Banking Business Directive No. 203, Capital Measurement and Adequacy – Credit Risk – The Standardised Approach.

The Company classifies all of its debts and items of off-balance-sheet credit into the categories: sound, under special supervision, substandard, or impaired.

Contingent Liabilities

The Management of the Company includes sufficient provisions in the financial statements, to the extent necessary, to cover possible damages arising from all legal claims, based on legal opinions. In most legal proceedings, external legal counsel is obtained. These assessments by legal advisors are based on the best of their judgment, taking the stage reached by the proceedings into consideration.

It should be taken into account that in the legal field, “certain” or “near certain” estimates cannot be performed, not only in the initial stages of the claim, but until a ruling is handed down. Accordingly, the outcome of the proceedings may differ from the estimates performed. In light of the foregoing, the actual outcomes of legal claims may differ from the provisions made.

ISRACARD

Discussion of Risk Factors

The main risk factors to which the Company is exposed have been mapped. This mapping and the assessment of the risks and of the effects thereof are subjective estimates by the Management of the Company.

Risk factor		Brief description	Degree of effect of risk factor
1.	Overall effect of credit risks	Risk arising from borrowers' failure to fulfill their obligations to the Company. Deterioration in the stability of the various borrowers may have an adverse effect on the Company's asset value and profitability. To minimize this risk, the Company has a defined credit policy and exposure limits with regard to borrowers/sectors in the various segments of activity, by risk level.	Medium
1.1.	Risk in respect of the quality of borrowers and collateral	Deterioration in the quality of borrowers and in the value of collateral provided to the Company to secure credit may have an adverse effect on the probability of collecting the credit. The Company has a credit policy and exposure limits with regard to different types of borrowers in the various segments of activity and products, and a process is in place for the control of compliance with these limits.	Medium
1.2.	Risk in respect of sectoral concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Low
1.3.	Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and a routine process is in place for the control of compliance with these limits.	Low

Risk factor		Brief description	Degree of effect of risk factor
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's revenue and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in revenues.	Low
3.	Liquidity risk	Present or future risk to the Company's revenue and capital arising from an inability to supply its liquidity needs. In exceptional demand and supply situations in the financial markets, unplanned costs may be incurred in raising resources. The Company has taken action to diversify its liquidity sources.	Low
4.	Operational risk	Present or future risk to the Company's revenue and capital that may arise from failed or faulty internal processes, human actions, system malfunctions, or external events. This includes the risk of embezzlement and fraud as well as legal risk, but does not include strategic risk and risk to reputation. Failures related to one of the aforesaid factors may cause possible damage to profitability. The Company has an operational risk management policy, and operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	Medium
5.	Legal risk	Present or future risk to the Company's revenue and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability.	Low
6.	Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Low

Risk factor		Brief description	Degree of effect of risk factor
7.	Competition	The credit-card industry in Israel is characterized by a high level of competition, both in the area of bank cards and in the area of non-bank cards, as reflected in the loss of customers or reduction of customers' activity, or the termination of the contractual engagement with one of the Banks Under Arrangement, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants).	Medium
8.	Regulation and legislation	Present or future risk to the Company's revenue and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, revenue, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	High
9.	Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage the standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate in the Israeli economy. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results.	Medium
10.	Political / security risk	Deterioration in the political and security situation in Israel may, among other effects, cause a slowdown in economic activity, damage infrastructures, affect the level of private consumption (the quantity of products and/or services purchased, and/or revenues), and exert an adverse impact on the Company's activity and results.	Medium

Risk factor		Brief description	Degree of effect of risk factor
11.	Cessation of operation of a bank in Israel	The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Medium
12.	Cessation of operation of an international credit-card organization	The cessation of operation of an international credit-card organization, in particular the MasterCard organization, may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the Associate Members of Europay (a Principal Member) could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium

Disclosure Regarding the Internal Auditor

The Company receives internal audit services from Bank Hapoalim B.M. (hereinafter: “the Bank”).

Information regarding the Internal Auditor – Mr. Jacob Orbach has served as Chief Internal Auditor of the Company from January 1, 2010. Mr. Orbach has worked at the Bank Hapoalim Group since 1980, and is employed full-time. He holds a B.A. degree in Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mr. Orbach meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: the “Internal Audit Law”). The Internal Auditor is not an interested party of the Company or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of Bank Hapoalim and of some of the subsidiaries in the Bank Group (including the Isracard Group), as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law.

The appointment and termination of internal audit employees are subject to approval by the Internal Auditor; internal audit employees receive instructions on audit-related matters only from the Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; employees of the Internal Auditor Bureau are authorized to sign on behalf of the Company only documents related to audit work, as required under the directives of Section 8 of the Banking Rules (Internal Audit), 1992 (hereinafter: the “**Audit Rules**”). The Internal Auditor is a full-time employee of Bank Hapoalim, with the rank of a Member of the Board of Management, Deputy to the General Manager.

Appointment method – The appointment of the Internal Auditor was approved by the Board of Directors of the Company on December 29, 2009, following the recommendation and approval of the Audit Committee on December 29, 2009.

Superior officer of the Internal Auditor – The Chief Internal Auditor reports organizationally to the Chairperson of the Board of Directors.

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2011 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; embezzlement and fraud survey; updated organizational structure of the Company; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairperson of the Board of Directors and the CEO of the Company.

The audit work plan also includes examination of the approval processes of material transactions, if any, all based on a comprehensive perspective with a focus on risks.

Following the formulation of the audit work plan by Internal Audit, the plan was submitted for discussion by the Audit Committee; subsequently, taking the committee's recommendations into consideration, the plan was discussed and approved by the Board of Directors.

The Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. The work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Company management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

The Internal Audit work plan also addresses the activity of subsidiaries.

Auditing resources – Approximately 3 auditor positions were invested at the Company and its subsidiaries in 2011. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

Remuneration – Mr. Orbach was not remunerated by the Company. Auditing is supplied through outsourcing, and the Company pays the Bank for the internal auditing services based on the number of work days of the auditors. In the opinion of the Board of Directors, the aforesaid payments are not such that would affect the professional judgment of the Internal Auditor.

Performing audits – Internal Audit at the Company operates under laws, regulations, Audit Rules, directives and guidelines of the Supervisor of Banks, professional standards, professional guidelines of the Institute of Internal Auditors in Israel, and guidelines of the Audit Committee and of the Board of Directors.

Having examined the Internal Audit work plan and the actual execution of said plan, the Board of Directors and the Audit Committee believe that the Company's internal auditing complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

Access to information – Internal Audit has unrestricted access to all information at the Company, including constant unmediated access to the Company's information systems, including financial data, as necessary to perform its duties.

Internal Auditor's report – Internal Audit reports, including periodic reports, are submitted in writing. Audit reports are submitted to the Chairperson of the Board of Directors, the Chairperson of the Audit Committee, and the CEO of the Company, and are also distributed to the members of the Audit Committee. Audit reports are discussed by the Audit Committee.

Summary of Internal Audit activity – A summary of audit activities for 2010 was submitted to the Audit Committee on April 10, 2011, and discussed by the committee on July 19, 2011. A summary of audit activities for 2011 is expected to be submitted to the Audit Committee during the first quarter of 2012.

Evaluation of the activity of the Internal Auditor by the Board of Directors – In the opinion of the Board of Directors and of the Audit Committee, the volume, nature, continuity of activity, and work plan of Internal Audit are reasonable under the circumstances, and are sufficient to realize the Company's internal auditing objectives.

Disclosure Regarding the Procedure for Approval of the Financial Statements

The Board of Directors of the Company is the organ charged with overarching control at the Company. As part of the procedure for approval of the Company's financial statements by the Board of Directors, a draft of the financial statements and a draft of the Board of Directors' report are delivered for perusal by the members of the Board of Directors several days prior to the meeting scheduled for the approval of the reports. The CEO of the Company reviews the ongoing activity of the Company and the effect of this activity on its results, and highlights material issues for the members of the Board of Directors.

During the meeting of the Board of Directors in which the financial statements are discussed and approved, the Head of Finance and Administration reviews main items in the financial statements, material issues in financial reporting, material evaluations and critical estimates implemented in the financial statements, the plausibility of the data, including an analysis of the results in relation to the results of the corresponding period in the previous year and in relation to the budget, and material changes in the accounting principles applied.

This meeting is attended by representatives of the Company's external auditors, who add their comments and insights with regard to the financial statements and with regard to any clarification required by the members of the Board of Directors.

Any significant flaws discovered in the establishment or operation of the internal control of financial reporting are also presented to the Audit Committee and to the Board of Directors.

The reports are signed by the Chairperson of the Board of Directors, the CEO of the Company, and the Chief Accountant.

The Board of Directors

In 2011, the Board of Directors of the Company continued to set forth the Company's policy and the guiding principles for its activity and establish directives on various matters.

14 meetings of the Board of Directors, 14 meetings of the Audit Committee, 9 meetings of the IT Committee, and 2 meetings of the Credit Committee were held during 2011. In addition, a training workshop was held for directors.

Directors with Accounting and Financial Expertise

Pursuant to the Public Reporting Directives of the Supervisor of Banks, the Company must specify the minimum number of directors with "accounting and financial expertise" which it has determined should serve on the Board of Directors and the Audit Committee. The Board of Directors of the Company has determined that the appropriate minimum number of directors with accounting and financial expertise on the Board of Directors and the Audit Committee is two.

Note that at the reporting date, the number of directors with accounting and financial expertise, according to their education, qualifications, and experience, is seven.

Members of the Board

Irit Izakson

Chairperson of the Company as of the beginning of October 2008. Chairperson of the Credit Committee of the Board of Directors of the Company.

Also serves as Chairperson of Europay, Aminit, and Poalim Express; Chairperson of the Credit Committee of the Board of Directors of Poalim Express; and member of the Credit Committee of the Board of Directors of Aminit.

Member of the Board of Directors of Bank Hapoalim from December 27, 1999.

Chairperson of the following Board Committees at Bank Hapoalim: the Finance and Prospectus Committee, and the Committee for Risk Management and Control and Implementation of Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy). Member of the following Board Committees at Bank Hapoalim: the Credit Committee and the New Products Committee.

Also a member of the board of directors of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Housing and Construction Holdings Ltd.

Member of the Board of Trustees of Ben-Gurion University and of the Van Leer Jerusalem Institute; member of the Executive Board of the Association of Public Companies.

In the last five years, or during part of that period, served as a director at the following companies: Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd.; however, she no longer serves at these companies.

Also served on the Board of Directors of IDB Development Ltd. until January 2, 2012.

MSc. in Operational Research, School of Business Administration, Tel Aviv University;

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Ms. I. Izakson, she is not a family member of another interested party of the corporation.

Avi Idelson

Senior human-resources consultant for mergers and acquisitions and global systems, and a director of companies.

External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks.

Member of the Board of Directors of the Company since January 31, 2010. Member of the Audit Committee of the Board of Directors of the Company; Chairperson of the Committee since February 28, 2011. Member of the following committees of the Board of Directors of the Company: IT Committee, Credit Committee, Wage and Remuneration Committee.

Also a member of the board of directors of the following companies: Europay, Poalim Express, Aminit, Mehadrin Ltd., Avi Idelson Management and Consulting Ltd.

Chairperson of the Board of Directors of Aminit; member of the Credit Committee of the Board of Directors of Aminit; member of the Audit Committee and the Credit Committee of the Board of Directors of Poalim Express.

In the last five years or during part of that period, served as head of human resources and special consultant at the BSG Investments Group;

member of the governing board of the Bank of Israel and head of human resources and administration; and a consultant to companies in the area of human resources for mergers and acquisitions and global systems.

Previously served as VP of human resources at Amdocs, and served in a series of positions at Bank Hapoalim B.M.: head of the Planning, Research, and Development Department; head of the Human Resources

Management Department; and various positions in the areas of training, operations, and human resources.

B.A. in Sociology and Education Administration, Tel Aviv University;

M.A. studies in the Department of Labor Studies at Tel Aviv University, specialized in human resources management and organizational development.

Courses in banking and management at Bank Hapoalim.

Various courses and seminars in the areas of option plans, mergers and acquisitions, integration processes, and strategy, at E&Y, Mercer, and Harvard University.

To the best of the knowledge of the Company and of Mr. A. Idelson, he is not a family member of another interested party of the corporation.

Lilach Asher-Topilsky

Member of the Board of Management of Bank Hapoalim B.M. and Head of Retail Banking at the Bank as of October 1, 2010.

Member of the Board of Directors of the Company from November 18, 2003.

Chairperson of the board of directors of the following companies: Poalim Mortgages Insurance Agency (2005) Ltd., Poalim Ofakim Ltd., and Teuda Hevra Finansit Ltd.

Also serves as a director at Europay.

From December 2007 to October 2009, member of the Board of Management of Bank Hapoalim B.M. and Head of the Strategic Management Center at the Bank.

From October 2006 to November 2007, Head of the Marketing and Strategic Planning Division at Bank Hapoalim B.M.

From March 2005 to October 2006, Head of the Central Region at Bank Hapoalim B.M.

From March 2001 to March 2005, Head of the E-Banking Division in the Retail Area at Bank Hapoalim B.M.

M.B.A., Kellogg School, Northwestern University, U.S.; B.A. in Economics and Management, Tel Aviv University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Ms. L. Asher-Topilsky, she is not a family member of another interested party of the corporation.

Yair Ben-David

Attorney, owner of a legal practice.

Member of the Board of Directors of the Company from May 1, 2006.

External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks.

Member of the Audit Committee of the Board of Directors of the Company from April 26, 2009.

Also a member of the board of directors of the following companies: Timna Copper Mines Ltd., Haagam Haneelam Timna Ltd., Dan Shiraz Investments Ltd., Yair Ben-David and Associates law firm, and Europay; and a member of the Audit Committee of Europay.

L.L.B., Tel Aviv University.

To the best of the knowledge of the Company and of Mr. Y. Ben-David, he is not a family member of another interested party of the corporation.

Ilan Grinboim

CEO of Eurocom Cellular Communications Ltd. as of 2004.

Member of the Board of Directors of the Company as of May 26, 2010; member of the Wage and Remuneration Committee of the Board of Directors of the Company as of December 21, 2011.

External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks.

Also a member of the board of directors of the following companies: Dash Apax Holdings Ltd., Europay, and Aminit.

M.B.A., Tel Aviv University;

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. I. Grinboim, he is not a family member of another interested party of the corporation.

Jacky Wakim

Served as an external director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks from

September 28, 2005 to September 27, 2011. Also served as a member of the Audit Committee and the IT Committee of the Board of Directors of the Company.

Eldad Kahana	Attorney, Head of Central Legal Counsel Division, Bank Hapoalim B.M. Member of the Board of Directors of the Company from August 8, 1979. Member of the Audit Committee of the Board of Directors of the Company; member of the Wage and Remuneration Committee of the Board of Directors of the Company from December 21, 2011. Also a member of the board of directors and audit committees of the following companies: Europay and Aminit. L.L.B., Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. E. Kahana, he is not a family member of another interested party of the corporation.
Shmuel Lachman	Member of the Board of Directors of the Company from May 21, 2009. External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. Chairperson of the IT Committee of the Board of Directors of the Company, and member of the following committees of the Board of Directors of the Company: the Audit Committee and the Risk Management Committee. CEO of Shiral 10 Ltd. Also a member of the board of directors of the following companies: Europay, Aminit, Poalim Express, the Association for the Wellbeing of Israel's Soldiers Ltd., Shiral 10 Ltd., and the Computer Direct Group Ltd. Chairperson of the Finance Committee and Member of the Governing Board of Shenkar College. Also serves as Chairperson of the Credit Committee of the Board of Directors of Aminit, and as a member of the audit committees of the board of directors of the following companies: Aminit, Poalim Express, and Europay. In the last five years or during part of that period, served as a member of the board of directors of the following companies: Pangaea Israel (T.R.) Ltd., Dafron Ltd., One System Integration Ltd., IDB Holdings Ltd.; however, he no longer serves at these companies.

M.Sc., Industry and Management, Technion;

B.Sc., Industry and Management, Technion.

Courses abroad, mainly at the IBM training center in Brussels, on management, marketing, balance-sheet analysis, and strategic management of companies.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. S. Lachman, he is not a family member of another interested party of the corporation.

David Luzon

Served as a member of the Board of Management of Bank Hapoalim B.M. from April 1, 2000 to March 31, 2011.

Served as Head of Information Technology at Bank Hapoalim B.M.

Member of the Board of Directors of the Company from July 19, 2000.

Member of the IT Committee of the Board of Directors of the Company from November 19, 2009; member of the Risk Management Committee of the Board of Directors of the Company from December 21, 2011.

Also a member of the board of directors of Europay.

In the last five years or during part of that period, served as a member of the board of directors of the following companies: Automated Banking Services Ltd., Bank Clearing Center Ltd., Mishkan – Bank Hapoalim Mortgage Bank Ltd., Poalit, and Malam-Team Ltd.; however, he no longer serves at these companies.

B.Sc. in Mathematics and Computer Sciences, Bar Ilan University.

To the best of the knowledge of the Company and of Mr. D. Luzon, he is not a family member of another interested party of the corporation.

Ran Oz

Member of the Board of Management of Bank Hapoalim B.M., Head of Finance, CFO, as of April 16, 2009.

Member of the Board of Directors of the Company as of June 25, 2009. Chairperson of the Wage and Remuneration Committee of the Board of Directors of the Company from December 21, 2011; member of the Risk Management Committee of the Board of Directors from December 21, 2011.

Also serves as chairperson of the board of directors of the following companies: Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., Diur B.P. Properties (1993) Ltd.

Member of the board of directors of the following companies: Europay, Poalim Express, Aminit, Poalim Capital Markets Investments Ltd., Poalim Capital Markets and Investment Holdings Ltd., Sure-Ha International Ltd.

In the last five years or during part of that period, served in the following positions:

CFO of Intouch Insurance BV; Deputy CFO at Bezeq the Israel Telecommunications Corp. Ltd.; CFO and Corporate VP at NICE Systems Ltd.; however, he no longer serves at these companies.

Also served, in the last five years or during part of that period, on the board of directors of the following companies: Bezeq International, Pelephone Communications, DBS Satellite Services (1998) Ltd., Bezeq Zahav Holdings Ltd., Walla, NICE Systems GmbH, NICE CTI Systems UK Ltd., NICE Systems Canada Ltd., NICE Technologies Ltd., IEX Corp BV, FAST Video Security (UK) Ltd., NICE Switzerland AG, NICE Systems Asset Management LLC, NICE APAC Ltd., NICE Interactive Solutions India Private Ltd., NICE Systems (Singapore) PTE Ltd., NICE Systems Australia PTY, NICEeye Ltd., NICE Systems Inc., IEX Corp., and NICE Systems Latin America Inc.; however, he no longer serves at these companies.

M.A. in Economics and Business Administration, Hebrew University of Jerusalem;

B.A. in Accounting and Economics, Hebrew University of Jerusalem.

C.P.A.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. R. Oz, he is not a family member of another interested party of the corporation.

Ruth Arad

Member of the Board of Directors of the Company from March 1, 2011.

External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks.

Also a member of the board of directors of the following companies: Europay, from March 2011; and Aminit, from September 2011.

Also serves as Chairperson of the Risk Management Committee of the Board of Directors of the Company and as a member of the Audit Committee of the Board of Directors of the Company.

Risk management advisor at HMS as of the beginning of 2011.

In the last five years or during part of that period, served as chief risk controller at the Leumi Group, as a director at the Israel-United States Commerce and Industry Bureau, and at the Fisher Institute for Air and Space Strategic Studies; however, she no longer serves in these positions.

Ph.D. and M.A. in Financing and Statistics, Princeton University.

B.A. in Mathematics and Economics, Tel Aviv University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Dr. R. Arad, she is not a family member of another interested party of the corporation.

Moshe Amit

Member of the boards of directors of various companies.

Member of the Board of Directors of the Company from May 20, 2004.

Member of the Credit Committee of the Board of Directors of the Company.

Chairperson of the board of directors of the following companies: Delek Israel Fuel Company Ltd., Global Factoring Ltd.

Also a member of the board of directors of the following companies: Europay; Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets Investment Bank Ltd.; Mega Retail Ltd. (formerly Blue Square Chain Properties & Investments Ltd.); AFI Development Plc, Cyprus.

Until December 2003, member of the Board of Management of Bank Hapoalim.

In the last five years or during part of that period, served on the board of directors of the following companies: The Phoenix Israel Insurance Company Ltd., Matav Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Signature Bank New York Ltd.; and as Chairperson of the Board of Continental Bank Ltd. and Tempo Beer Industries Ltd.; however, he no longer serves at these companies.

B.A. in Social Sciences, Bar Ilan University.

Director with accounting and financial expertise.

To the best of the knowledge of the Company and of Mr. M. Amit, he is not a family member of another interested party of the corporation.

Itzhak Amram

Member of the Board of Directors of the Company from September 25, 2011; member of the Risk Management Committee of the Board of Directors of the Company as of the establishment of the committee on December 21, 2011.

External director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks.

Also a member of the Board of Directors of Europay.

LL.B.; member of the Israel Bar Association.

To the best of the knowledge of the Company and of Mr. I. Amram, he is not a family member of another interested party of the corporation.

Ronny Shaten

Served as an external director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks from February 15, 2005 to February 14, 2011. Also served as Chairperson of the Audit Committee of the Board of Directors of the Company and as a member of the IT Committee of the Board of Directors of the Company.

Ron Weksler

Served on the board of directors of Isracard and Europay from March 1, 2004 to the end of September 2011, and as a member of the audit committees of these companies from March 12, 2009 to the end of September 2011, at which time he was appointed as a member of management of the Company.

Senior Members of Management

Dov Kotler

Chief Executive Officer of the Company from February 1, 2009.

Also serves from February 1, 2009 as CEO of the following credit-card companies: Europay, Aminit, and Poalim Express.

Chairperson of the board of directors of the following companies: Tzameret Mimunim Ltd., Isracard (Nechasim) 1994 Ltd., and Isracard Mimun Ltd.

Member of the board of directors of Amir Marketing and Investments in Agriculture Ltd. and H.E.O.H. Management Services Ltd.

In the last five years or during part of that period, served as CEO of Union Bank Ltd. and as CEO of Prisma Investment House, and was self-employed.

M.B.A., Financing Section, Tel Aviv University;

B.A. in Economics, studies in International Relations, Tel Aviv University;

AMP (Advanced Management Program), Harvard University.

To the best of the knowledge of the Company and of Mr. D. Kotler, he is not a family member of another interested party of the corporation.

Yigal Bareket

Member of the Management of the Company from September 1, 2010.

Head of Marketing.

In the last five years or during part of that period, served as head of the private marketing division and the products and services division at Bezeq, and as head of marketing in the Internet sector at 013 Barak.

B.A. in Communications and Management, College of Management.

To the best of the knowledge of the Company and of Mr. Y. Bareket, he is not a family member of another interested party of the corporation.

Ronen Zaretsky

Member of the Management of the Company from December 18, 2005.

Head of Information Technology and Operations.

Served in the computer unit of the IDF, most recently as commander of the IDF Manpower Computing Center, and held the rank of Colonel.

M.A. in Public Administration, Bar Ilan University;

B.A. in Computer Science, Economics, and Criminology, Bar Ilan University.

Computer technician and computer practical engineer degree, Technological Training Center.

Graduate of the IDF Command and Staff College.

Member of management of Project Management Institute P.M.I. Israel (R.A.)

Founder and active participant in Bridge of Light – A shared activity of high-tech industry workers, IDF soldiers, and the blind.

Founder and treasurer of the Elul Gemach (charity organization), within the non-profit association of the Shaarey Tikvah synagogue and community Torah center.

To the best of the knowledge of the Company and of Mr. R. Zaretsky, he is not a family member of another interested party of the corporation.

Amir Kushilevitz-Ilan

Member of the Management of the Company from February 2011.

Head of Risk Management and Security and Chief Risk Officer (CRO).

In the last five years or during part of that period, served as head of the Risk Management Department of the Company, and as head of the Credit Risk Model Section in the Risk Management Area at Bank Hapoalim.

B.Sc. in Aeronautics and Space Engineering, Technion; M.B.A., Ben-Gurion University.

To the best of the knowledge of the Company and of Mr. A. Kushilevitz-Ilan, he is not a family member of another interested party of the corporation.

Ami Alpan

Member of the Management of the Company from February 27, 2007.

Head of Strategic Planning.

Serves as a member of the board of directors of the following companies: I.M.T. – The Central Vehicle Distribution Company Ltd., Life Style Customer Loyalty Club Ltd., Life Style Financing Ltd., and Store Alliance.Com Ltd.

Also serves from February 28, 2011 as a director at Tzameret Mimunim Ltd.

M.B.A., Tel Aviv University;

B.A. in Management and Economics, Tel Aviv University.

To the best of the knowledge of the Company and of Mr. A. Alpan, he is not a family member of another interested party of the corporation.

Ron Cohen

Member of the Management of the Company from February 27, 2007.

Head of Credit and Financial Services.

Serves as a member of the board of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Kidum Mivne Iguach Ltd.

In the last five years or during part of that period, served as Head of Customer Relations at the Corporate Area, Bank Hapoalim B.M.

M.A. in Business Administration, Marketing, and Financing, Hebrew University of Jerusalem;

B.A. in Economics and International Relations, Hebrew University of Jerusalem.

To the best of the knowledge of the Company and of Mr. R. Cohen, he is not a family member of another interested party of the corporation.

Oren Cohen Butansky

Member of Management of the Company from June 2011.

Head of Customer Service.

Previously served as head of sales at the sales company of MIRS Communications, SDM, and as head of Internet support centers at 012.

M.A. in Business and Marketing, Darby University.

B.A. in Economics and Social Sciences, Bar Ilan University.

B.A. in Psychology, Open University.

To the best of the knowledge of the Company and of Mr. A. Cohen Butansky, he is not a family member of another interested party of the corporation.

Ram Gev

Member of the Management of the Company from the end of March 2011.

Head of Finance and Administration.

Served as head of finance at Harel Finance until March 2011. Previously served as deputy manager of the corporate department at the Israel Securities Authority.

C.P.A.

M.B.A. (specialized in financing), Hebrew University of Jerusalem;

B.A. in Accounting and Economics, Hebrew University of Jerusalem.

To the best of the knowledge of the Company and of Mr. R. Gev, he is not a family member of another interested party of the corporation.

Meora Shalgi

Member of the Management of the Company from May 1, 2011.

Head of Human Resources.

M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University.

B.A. in Social Sciences and Liberal Arts, Open University.

To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party of the corporation.

Ron Weksler

Member of the Management of the Company from October 2, 2011.

Head of Commerce and Sales.

Served as a director (with accounting and financial expertise) of Isracard and Europay, and as a member of the audit committees of these companies, until the end of September 2011.

Served in various positions at Bank Hapoalim B.M. as of 2002.

Doctor of Philosophy and Ph.D. in Public Administration, Bar Ilan University.

M.B.A., Bar Ilan University;

LL.B., Tel Aviv University;

B.A. in Accounting, Tel Aviv University.

To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party of the corporation.

Controls and Procedures Regarding Disclosure and the Company's Internal Control of Financial Reporting

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Company must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Company's internal control of financial reporting, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States. The provisions of these two sections of the law were merged by the Supervisor of Banks in the Proper Conduct of Banking Business Directive (Directive No. 309) in September 2008, and the Public Reporting Directives were adjusted accordingly in June 2009.

The two directives of the aforesaid law have been implemented at the Company since their inception dates:

- The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been implemented quarterly as of the financial statements for June 30, 2007.

- The directive in Section 404 regarding the responsibility for the Company's internal control of financial reporting has been implemented at year end, as of the financial statements for December 31, 2008.

The Company routinely updates and documents existing processes; including material new processes; and examines the effectiveness of the procedures for internal control of financial reporting through renewed examinations of the main controls.

The Board of Directors and the Management of the Company estimate that the controls identified as noted above are effective in achieving the control objectives with regard to maintaining execution, precision, and completeness. These control objectives meet the criteria established in the COSO integrated framework of internal controls.

Evaluation of Controls and Procedures Regarding Disclosure

The Management of the Company, in cooperation with the Chief Executive Officer and the Chief Accountant of the Company, has assessed the effectiveness of the controls and procedures regarding disclosure at the Company at the end of the period covered by this report. Based on this assessment, the Chief Executive Officer and the Chief Accountant of the Company have concluded that, as of the end of this period, the controls and procedures regarding disclosure at the Company are effective in order to record, process, summarize, and report the information which the Company is required to disclose in its annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Internal Control of Financial Reporting

During the fourth quarter ended on December 31, 2011, there was no change in the Company's internal controls over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal control of financial reporting. Note that following the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risks, and credit loss provisions, a computerized system has been in place as of the first quarter of 2011 to generate data for accounting purposes; in addition, the Company has adjusted its work processes and established the appropriate controls.

Wages and Benefits of Officers[(1)]

The following table lists the salaries, compensation, value of benefits, employer contributions, and provisions for the five recipients of the highest wages among the senior officers of the Company, in thousands of NIS.

Wages of Senior Officers for the Year Ended December 31, 2011

	Salary	Other payments[(3)]	Share-based payment transactions	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Dov Kotler[(5)]	1,301	1,962	1,048	115	605
Irit Izakson[(5)]	1,097	1,474	658	129	334
Ron Cohen[(4)]	782	485	113	39	243
Ronen Zaretsky	788	493	-	78	293
Yigal Bareket	514	347	-	19	220

Wages of Senior Officers for the Year Ended December 31, 2010

	Salary	Other payments[(3)]	Share-based payment transactions	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Dov Kotler	1,263	1,722	2,515	96	427
Irit Izakson	1,248	1,326	1,609	105	211
Pinhas Shalit[(6)]	562	2,251	-	74	160
Ron Cohen	703	274	448	37	285
Eliezer Burg (deceased)	613	274	362	172	166

For explanations of these tables, see pages 130-132.

ISRACARD

	Loans granted under benefit terms					
Total salaries and related expenses	Balance as of Dec. 31, 2011	Average term to maturity (in years)	Benefit granted during the year(7)	Loans granted under ordinary terms(8)	Payments by controlling shareholders
5,031	-	-	-	48	-
3,692	-	-	-	34	165
1,662	-	-	-	51	-
1,652	-	-	-	14	-
1,100	-	-	-	14	-

	Loans granted under benefit terms				
Total salaries and related expenses	Balance as of Dec. 31, 2010	Average term to maturity (in years)	Benefit granted during the year(7)	Loans granted under ordinary terms(8)	Payments by controlling shareholders
6,023	-	-	-	34	-
4,499	-	-	-	52	158
3,047	-	-	-	40	-
1,747	-	-	-	53	-
1,587	55	3	1	31	-

Explanations of Tables on P. 128-129

1. Pursuant to an agreement with companies in the Isracard Group, those companies are debited with some operational costs, which include wages of senior officers, among other things. The table shows the full wages paid to such officers.

2. The profitability and rate of return on equity of the Bank Hapoalim Group were taken into consideration in determining the amounts of bonuses of employees on loan from the Bank. The profits of the Company and the rate of return on equity of Bank Hapoalim were taken into consideration in determining the amounts of bonuses of employees of the Company.

3. Bonuses, as described in Note 13B to the Financial Statements.

4. The benefit is in the form of phantom unit options, which impart a monetary grant based on the difference between the price of the Bank Hapoalim share on the TASE and the base price.

5. As described in Note 13F to the Financial Statements as of December 31, 2011.

   5.1. Pursuant to the employment agreement of the Chairperson of the Board of Directors of the Company, which expired on December 31, 2011, she was allocated 6,293 non tradable options exercisable into 6,293 common shares of the Company at an exercise price of NIS 3,410 each. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 6,588 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The vesting period of the options is as follows: One-third of the options vest on January 1 of each of the years 2010, 2011, and 2012. The Chairperson will be able to exercise the options into shares (after vesting) until January 1, 2013. As a rule, the Chairperson will not be permitted to sell shares until one of the following events occurs: the end of her employment, the listing of the shares of the Company for trading on the stock market, or a change in the control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

   The Company has first proposal right and first refusal right with regard to any transfer of shares by the Chairperson of the Company. The Chairperson has the right to join sales of shares of the Company by Bank Hapoalim, under certain conditions.

   The agreement also includes directives pertaining to the options in the event of the end of the term of service of the Chairperson. In addition, in the event of the termination of the term of service of the Chairperson prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares arising from the exercise of the options.

The options shall be allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 1961.

Because the Chairperson of the Board of Directors of the Company serves as a director at Bank Hapoalim, the terms of her employment were also approved by the general meeting of Bank Hapoalim B.M. convened in January 2010.

The Chairperson of the Board of Directors, Ms. Irit Izakson, serves as the Chairperson of the Board of Directors of the Company as of October 1, 2008. Ms. Izakson is employed under a personal contract, which expired on December 31, 2011.

The Board of Directors of the Company extended the term of service of Ms. Izakson as Chairperson of the Board of Directors for a period of four additional years. The Supervisor of Banks approved her continued concurrent service as Chairperson of the Board of Directors of the Company and as a member of the Board of Directors of Bank Hapoalim, until December 31, 2013.

The terms of employment of Ms. Izakson as Chairperson of the Board of Directors of the Company as of January 1, 2012, will be formulated and presented for discussion and approval by the authorized entities at the Company and at Bank Hapoalim.

5.2. Pursuant to his employment agreement, which expired on January 31, 2012, 7,404 non tradable options exercisable into 7,404 common shares of the Company at an exercise price of NIS 3,410 each were allocated to the CEO of the Company. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 7,545 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

The vesting period of the options is as follows: One-third of the options vest on March 1 of each of the years 2010, 2011, and 2012. The CEO of the Company will be entitled to exercise the options into shares (after vesting) until four years have elapsed from the allocation date.

As a rule, the CEO of the Company is not permitted to sell shares until one of the following events occurs: the termination of his employment, listing of the Company's shares for trading on the stock exchange, or a change in control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

The Company has first proposal right and first refusal right with regard to any transfer of shares by the current CEO of the Company. The CEO has the right to join sales of shares by Bank Hapoalim, under certain conditions.

The agreement also includes directives pertaining to the options in the event of the end of the term of service of the CEO. In addition, in the event of the end of the term of service of the CEO prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares.

The options were allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 1961.

The CEO of the Company, Mr. Dov Kotler, was appointed on February 1, 2009, and is employed under a personal contract, for a period of three years, which ended on January 31, 2012.

On January 25, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of the Company, the Board of Directors approved the extension of the term of service of Mr. Dov Kotler as CEO of the Company by three additional years, from February 1, 2012 to January 31, 2015, subject to the formulation of a new employment agreement with Mr. Kotler, by April 30, 2012, which shall be based, among other matters, on a new remuneration plan, congruent with the remuneration plan approved for the senior executives of the Company and consistent with the remuneration principles practiced at Bank Hapoalim, and subject to the approval of the aforesaid new agreement by the Board of Directors. Upon approval of the new employment agreement with Mr. Kotler, the agreement shall apply to his employment as of February 1, 2012.

6. Pinhas Shalit concluded his service at the end of the first quarter of 2011, at his request.

7. Loans granted under terms similar to those offered to all employees of the Company; amounts determined based on uniform criteria.

8. Data represent credit-card balances arising during the ordinary course of business as of December 31.

Remuneration of Auditors[1][2]

	Consolidated		The Company	
	2011	2010	2011	2010
	(NIS thousands)			
For audit activities[3]:				
Joint auditors	1,436	1,713	1,313	1,651
Other auditor	-	50	-	-
Total	1,436	1,763	1,313	1,651
For audit-related services[4]:				
Joint auditors	-	-	-	-
Other auditor	-	2	-	-
For tax services[5]:				
Joint auditors	75	106	66	106
For other services[6]:				
Joint auditors	260	451	260	450
Total	335	559	326	556
Total remuneration of auditors	**1,771**	**2,322**	**1,639**	**2,207**

(1) Report by the Board of Directors to the annual general assembly on the remuneration of auditors for audit activities and for services in addition to the audit, pursuant to sections 165 and 167 of the Companies Law, 1999.

(2) Includes remuneration paid and remuneration accrued .

(3) Audits of annual financial statements and reviews of interim reports; also includes an audit of the internal controls over financial reporting (SOX 404).

(4) Audit-related fees – mainly includes prospectuses, special approvals, and guidance in the adjustment of the format of the financial statements to the Public Reporting Directives of the Bank of Israel.

(5) Includes tax adjustment reports, tax assessment law, and tax consulting.

(6) Mainly includes routine processes.

Irit Izakson
Chairperson of the Board of Directors

Dov Kotler
Chief Executive Officer

Tel Aviv, February 27, 2012

Isracard Ltd. and its Consolidated Companies

Management's Review

For the Year Ended December 31, 2011

Table of Contents

Consolidated Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2011	2010	2009	2008	2007
Assets					
Cash on hand and deposits with banks	378	76(4)	482(4)	924(4)	1,301(4)
Debtors in respect of credit-card activity	12,197	11,944(1)(2)	10,575(1)(2	9,289(1)(2	8,754(1)(2
Provisions for credit losses	(65)	(79)(1)(2)	(60)(1)(2)	(38)(1)(2)	(27)(1)(2)
Debtors in respect of credit-card activity, net	12,132	11,865	10,515	9,251	8,727
Securities	96	74	178	212	113
Investments in associated companies	2	3	2	21	21
Buildings and equipment	262	268	254	224	195
Goodwill	-	7(2)	10(2)	-(2)	-(2)
Other assets	255	205(3)(4)	185(3)(4)	106(3)(4)	84(3)(4)
Total assets	**13,125**	**12,498**	**11,626**	**10,738**	**10,441**
Liabilities					
Credit from banking corporations	6	76	47	6	13
Creditors in respect of credit-card activity	10,967	10,819	10,274	9,429	9,178
Other liabilities	716	334(3)	239(3)	406(3)	429(3)
Total liabilities	**11,689**	**11,229**	**10,560**	**9,841**	**9,620**
Shareholders' equity	1,433	1,263	1,061	897	821
Non controlling interests	3	6	5	-	-
Total capital	1,436	1,269(3)	1,066(3)	897(3)	821(3)
Total liabilities and capital	**13,125**	**12,498**	**11,626**	**10,738**	**10,441**

(1) On January 1, 2011, the Company adopted the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provisions for credit losses, for the first time. Comparison figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable with the data marked (1). For further explanations of the effect of the initial adoption of this directive, see Note 1.E.4. to the Financial Statements.

(2) The data were reclassified in order to match the item headings and presentation method for the current period. See Note 1.C.5 to the Financial Statements.

(3) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 to the Financial Statements.

(4) Reclassified; see Note 2 to the Financial Statements.

ISRACARD

Consolidated Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31				
	2011	2010	2009	2008	2007
Income					
From credit-card transactions	1,239	1,194	1,105	1,092	1,033
Profit from financing activity before provision for doubtful debts	134	98	68	74	57
Others	56	36	30	48	18
Total income	**1,429**	**1,328**	**1,203**	**1,214**	**1,108**
Expenses					
Provision for credit losses	49	38	29	14	7
Operating expenses	502	**467	**389	351	312
Sales and marketing expenses	182	109	142	145	209
General and administrative expenses	65	66	69	51	44
Payments to banks	372	392	372	416	359
Write-downs and impairment of goodwill	10	**2	**;*-	-	-
Total expenses	**1,180**	**1,074**	**1,001**	**977**	**931**
Operating profit before taxes	**249**	**254**	**202**	**237**	**177**
Provision for taxes on operating profit	52	68	55	64	48
Operating profit after taxes	**197**	**186**	**147**	**173**	**129**
The Company's share in operating profits (losses) of associated companies (in the consolidated report: investee companies), after tax effects	(2)	*-	*-	*-	*-
Net operating profit					
Before attribution to non controlling interests	195	186	147	173	129
Attributed to non controlling interests	*-	(1)	1	-	-
Attributed to shareholders of the Company	**195**	**185**	**148**	**173**	**129**
Basic and diluted net profit per common share (in NIS)	**266**	**253**	**201**	**235**	**191**

* Amount lower than NIS 0.5 million.

** The data were reclassified in order to match the item headings and presentation method for the current period. See Note 1.C.5 to the Financial Statements.

Rates of Income and Expenses on a Consolidated Basis

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)	11,972	132	1.10	
Effect of derivatives				
ALM derivatives	93	4		
Total	**12,065**	**136**		**1.13**
Liabilities(3)	10,763	(15)	(0.14)	
Effect of derivatives				
ALM derivatives	127	(19)		
Total	**10,890**	**(34)**		**(0.31)**
Interest-rate gap			**0.96**	**0.82**

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, before deducting the average balance-sheet balance of the provision for credit losses.

(3) Excluding derivative instruments.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets[3]	71	-	-	
Effect of derivatives				
ALM derivatives	-	-		
Total	**71**	**-**		**-**
Liabilities[3]	55	-	-	
Effect of derivatives				
ALM derivatives	-	-		
Total	**55**	**-**		**-**
Interest-rate gap			**-**	**-**

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, before deducting the average balance-sheet balance of the provision for credit losses.

(3) Excluding derivative instruments.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	89	8	8.99	
Effect of derivatives				
ALM derivatives	34	16		
Total	**123**	**24**		**19.51**
Liabilities(3)(4)	82	8	9.76	
Effect of derivatives				
ALM derivatives	-	-		
Total	**82**	**8**		**9.76**
Interest-rate gap			**18.75**	**29.27**

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, before deducting the average balance-sheet balance of the provision for credit losses.

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Monetary assets generating financing income(3)	12,132	140	1.15	
Effect of derivatives				
ALM derivatives	127	20		
Total	**12,259**	**160**		**1.31**
Monetary liabilities generating financing expenses(3)	10,900	(7)	(0.06)	
Effect of derivatives				
ALM derivatives	127	(19)		
Total	**11,027**	**(26)**		**(0.24)**
Interest-rate gap			**1.09**	**1.07**
Fees from financing business and other financing income		-		
Other financing expenses		-		
Profit from financing activity before provision for credit losses		134		
Provision for credit losses		(49)		
Profit from financing activity after provision for credit losses		**85**		

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, before deducting the average balance-sheet balance of the provision for credit losses.

(3) Excluding derivative instruments.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2011
	Average balance(1)(2)
	NIS millions
Monetary assets generating financing income(3)	12,132
Assets arising from derivative instruments(4)	127
Other monetary assets	68
Provision for credit losses	(81)
Total monetary assets	**12,246**
Monetary liabilities generating financing expenses(3)	10,900
Liabilities arising from derivative instruments(4)	127
Other monetary liabilities	291
Total monetary liabilities	**11,318**
Total surplus of monetary assets over monetary liabilities	928
Non-monetary assets	405
Non-monetary liabilities	17
Total capital means	**1,316**

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, before deducting the average balance-sheet balance of the provision for credit losses.

(3) Excluding derivative instruments.

(4) Average balances of derivative instruments (excluding average off-balance-sheet balances of derivative instruments).

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	USD millions		Percent	
Domestic activity				
Assets(3)	25	2	8.00	
Effect of derivatives				
ALM derivatives	10	5		
Total	**35**	**7**		**20.00**
Liabilities(3)	23	2	8.70	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**23**	**2**		**8.70**
Interest-rate gap			**16.70**	**28.70**

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, before deducting the average balance-sheet balance of the provision for credit losses.

(3) Excluding derivative instruments.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	11,143(5)	98	0.88	
Effect of derivatives				
ALM derivatives	50	-		-
Total	**11,193**	**98**	**0.88**	**0.88**
Liabilities(3)	10,151	(12)	(0.12)	
Effect of derivatives				
ALM derivatives	52	(*-)		-
Total	**10,203**	**(12)**	**(0.12)**	**(0.12)**
Interest-rate gap			**0.76**	**0.76**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

(5) Restated; see Note 1.E.17 to the Financial Statements.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	106	*-	-	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**106**	***-**	**-**	**-**
Liabilities(3)	55	-	-	-
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**55**	**-**	**-**	**-**
Interest-rate gap			**-**	**-**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Assets(3)(4)	95	6	6.32	
Effect of derivatives				
ALM derivatives	2	(*-)		-
Total	**97**	**6**	**6.32**	**6.19**
Liabilities(3)(4)	89	6	6.74	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**89**	**6**	**6.74**	**6.74**
Interest-rate gap			**13.06**	**12.93**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance[(1)(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	NIS millions		Percent	
Monetary assets generating financing income[(3)(4)]	11,344	104	0.92	
Effect of derivatives				
ALM derivatives	52	(*-)	-	-
Total	**11,396**	**104**	**0.92**	**0.92**
Monetary liabilities generating financing expenses[(3)]	10,295	(6)	(0.06)	
Effect of derivatives				
ALM derivatives	52	-	-	-
Total	**10,347**	**(6)**	**(0.06)**	**(0.06)**
Interest-rate gap			**0.86**	**0.86**
Fees from financing business and other financing income		-		
Other financing expenses		-		
Profit from financing activity before provision for doubtful debts		98		
Provision for doubtful debts		(38)		
Profit from financing activity after provision for doubtful debts		**60**		

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2010
	Average balance[(1)(2)]
	NIS millions
Monetary assets generating financing income[(3)(4)]	11,344
Assets arising from derivative instruments[(5)]	52
Other monetary assets	37[(6)]
Group provision for doubtful debts	(17)
Total monetary assets	**11,416**
Monetary liabilities generating financing expenses[(3)]	10,295
Liabilities arising from derivative instruments[(5)]	52
Other monetary liabilities	211[(6)]
Total monetary liabilities	**10,558**
Total surplus of monetary assets over monetary liabilities	858
Non-monetary assets	359
Non-monetary liabilities	87
Total capital means	**1,130**

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(3) Excluding derivative instruments.

(4) The average balance of unrealized profits from adjustments to fair value of bonds, in an amount lower than NIS 0.5 million, was added to the average balance of bonds available for sale.

(5) Average balances of derivative instruments (excluding average off-balance-sheet balances of derivative instruments).

(6) Restated; see Note 1.E.17 to the Financial Statements.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2010			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	USD millions		Percent	
Domestic activity(4)				
Assets(3)	25	2	8.00	
Effect of derivatives				
ALM derivatives	1	(*-)		-
Total	**26**	**2**	**8.00**	**7.69**
Liabilities(3)	24	2	8.33	
Effect of derivatives				
ALM derivatives	-	-	-	-
Total	**24**	**2**	**8.33**	**8.33**
Interest-rate gap			**16.33**	**16.02**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments.

(2) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates

as of December 31, 2011

Addendum 4

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	7,289	2,373	2,261	521	-
Derivative financial instruments	-	-	99	-	-
Total fair value	**7,289**	**2,373**	**2,360**	**521**	**-**
Financial liabilities:					
Financial liabilities	6,434	2,290	2,136	509	*-
Derivative financial instruments	4	-	56	63	-
Total fair value	**6,438**	**2,290**	**2,192**	**572**	***-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	851	83	168	(51)	(*-)
Cumulative exposure in the segment	851	934	1,102	1,051	1,051
Linked Israeli currency					
Financial assets:					
Financial assets	12	19	28	7	3
Total fair value	**12**	**19**	**28**	**7**	**3**
Financial liabilities:					
Financial liabilities	10	16	24	1	-
Total fair value	**10**	**16**	**24**	**1**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	2	3	4	6	3
Cumulative exposure in the segment	2	5	9	15	18

* Amount lower than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	*-	-	12,444	3.05	0.18
	-	-	99		0.46
	*-	**-**	**12,543**		**0.18**
	-	29	11,398	2.57	0.19
	-	-	123		1.16
	-	**29**	**11,521**		**0.20**
	*-	(29)	1,022		
	1,051	1,022			
	-	*-	69	1.31	0.53
	-	*-	**69**		**0.53**
	-	-	51	0.83	0.29
	-	**-**	**51**		**0.29**
	-	*-	18		
	18	18			

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates

as of December 31, 2011 (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	57	27	-	-	-
Derivative financial assets	4	-	17	3	-
Total fair value	**61**	**27**	**17**	**3**	**-**
Financial liabilities:					
Financial liabilities	67	7	4	-	-
Total fair value	**67**	**7**	**4**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(6)	20	13	3	-
Cumulative exposure in the segment	(6)	14	27	30	30
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	7,358	2,419	2,289	528	3
Derivative financial instruments	4	-	116	3	-
Total fair value	**7,362**	**2,419**	**2,405**	**531**	**3**
Financial liabilities:					
Financial liabilities	6,511	2,313	2,164	510	*-
Derivative financial instruments	4	-	56	63	-
Total fair value	**6,515**	**2,313**	**2,220**	**573**	***-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	847	106	185	(42)	3
Cumulative exposure in the segment	847	953	1,138	1,096	1,099

* Amount lower than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	84	168	1.91	0.03
	-	-	24		0.78
	-	**84**	**192**		**0.19**
	*-	1	79	0.92	0.06
	***-**	**1**	**79**		**0.06**
	(*-)	83	113		
	30	113			
	*-	84	12,681	3.02	0.18
	-	-	123		0.52
	***-**	**84**	**12,804**		**0.19**
	*-	30	11,528	2.55	0.19
	-	-	123		1.16
	***-**	**30**	**11,651**		**0.20**
	*-	54	1,153		
	1,099	1,153			

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates

as of December 31, 2010

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	6,827(1)	2,342	2,228	485	*-
Derivative financial instruments	20	-	50	40	-
Total fair value	**6,847**	**2,342**	**2,278**	**525**	*-
Financial liabilities:					
Financial liabilities	6,179(1)	2,371	1,957	390	*-
Derivative financial instruments	24	-	-	96	-
Total fair value	**6,203**	**2,371**	**1,957**	**486**	*-
Financial instruments, net					
Exposure to changes in interest rates in the segment	644	(29)	321	39	*-
Cumulative exposure in the segment	644	615	936	975	975
Linked Israeli currency					
Financial assets:					
Financial assets	13	21	32	9	3
Total fair value	**13**	**21**	**32**	**9**	**3**
Financial liabilities:					
Financial liabilities	11	18	28	4	*-
Total fair value	**11**	**18**	**28**	**4**	*-
Financial instruments, net					
Exposure to changes in interest rates in the segment	2	3	4	5	3
Cumulative exposure in the segment	2	5	9	14	17

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.17 to the Financial Statements.

Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
			In percent	In years
-	32	11,914	2.95	0.18
-	-	110		0.74
-	**32**	**12,024**		**0.19**
-	5	10,902	2.58	0.18
-	-	120		1.32
-	**5**	**11,022**		**0.19**
-	27	1,002		
975	1,002			

-	*-	78	0.42	0.62
-	***-**	**78**		**0.62**
-	-	61	0.14	0.37
-	**-**	**61**		**0.37**
-	*-	17		
17	17			

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates

as of December 31, 2010 (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	60	11	4	*-	-
Derivative financial assets	4	-	-	6	-
Total fair value	**64**	**11**	**4**	**6**	**-**
Financial liabilities:					
Financial liabilities	48	13	2	*-	-
Total fair value	**48**	**13**	**2**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	16	(2)	2	6	-
Cumulative exposure in the segment	16	14	16	22	22
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	6,900	2,374	2,264	494	3
Derivative financial instruments	24	-	50	46	-
Total fair value	**6,924**	**2,374**	**2,314**	**540**	**3**
Financial liabilities:					
Financial liabilities	6,238	2,402	1,987	394	-
Derivative financial instruments	24	-	-	96	-
Total fair value	**6,262**	**2,402**	**1,987**	**490**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	662	(28)	327	50	3
Cumulative exposure in the segment	662	634	961	1,011	1,014

* Amount lower than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	58	133	0.44	0.05
	-	-	10		0.96
	-	**58**	**143**		**0.16**
	-	5	68	0.63	0.08
	-	**5**	**68**		**0.08**
	-	53	75		
	22	75			
	-	90	12,125	2.89	0.18
	-	-	120		0.76
	-	**90**	**12,245**		**0.19**
	-	10	11,031	2.55	0.18
	-	-	120		1.32
	-	**10**	**11,151**		**0.19**
	-	80	1,094		
	1,014	1,094			

Consolidated Balance Sheets as of the End of Each Quarter – Multi-Quarter Data

Addendum 5

Reported amounts

In NIS millions

	2011			
	Q4	Q3	Q2	Q1
Assets				
Cash on hand and deposits with banks	378	362[(2)]	82[(2)]	268[(2)]
Debtors in respect of credit-card activity	12,197	12,576	11,734	11,413
Provisions for credit losses	(65)	(66)	(67)	(69)
Debtors in respect of credit-card activity, net	12,132	12,510	11,667	11,344
Securities	96	102	91	80
Investments in associated companies	2	3	2	2
Buildings and equipment	262	270	274	277
Goodwill	-	-	-	7
Other assets	255	220[(2)]	174[(2)]	180[(1)(2)]
Total assets	**13,125**	**13,467**	**12,290**	**12,158**
Liabilities				
Credit from banking corporations	6	32	48	45
Creditors in respect of credit-card activity	10,967	11,402	10,630	10,539
Other liabilities	716	649	301	318[(1)]
Total liabilities	**11,689**	**12,083**	**10,979**	**10,902**
Shareholders' equity	1,433	1,381	1,308	1,253
Non controlling interests	3	3	3	3
Total capital	1,436	1,384	1,311	1,256[(1)]
Total liabilities and capital	**13,125**	**13,467**	**12,290**	**12,158**

(1) Restated; see Note 1.E.17 to the Financial Statements.

(2) Reclassified; see Note 2 to the Financial Statements.

Consolidated Balance Sheets as of the End of Each Quarter – Multi-Quarter Data (cont.)

Addendum 5 (cont.)

Reported amounts

In NIS millions

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	76(2)	68(2)	70(2)	483(2)
Debtors in respect of credit-card activity	11,944	11,368	10,926	11,130
Provisions for credit losses	(79)	(78)	(67)	(64)
Debtors in respect of credit-card activity, net	11,865	11,290	10,859	11,066
Securities	74	76	72	124
Investments in associated companies	3	2	2	2
Buildings and equipment	268	264	267	264
Goodwill	7	7	8	9
Other assets	205(1)(2)	206(1)(2)	217(1)(2)	215(1)(2)
Total assets	**12,498**	**11,913**	**11,495**	**12,163**
Liabilities				
Credit from banking corporations	76	105	106	611
Creditors in respect of credit-card activity	10,819	10,201	9,886	10,149
Other liabilities	334(1)	395	350	282(1)
Total liabilities	**11,229**	**10,701**	**10,342**	**11,042**
Shareholders' equity	1,263	1,207(1)	1,148(1)	1,116(1)
Non-controlling interests	6	5	5	5
Total capital	1,269(1)	1,212	1,153	1,121
Total liabilities and capital	**12,498**	**11,913**	**11,495**	**12,163**

(1) Restated; see Note 1.E.17 to the Financial Statements.

(2) Reclassified; see Note 2 to the Financial Statements.

Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

Reported amounts

In NIS millions

	2011			
	Q4	Q3	Q2	Q1
Income				
From credit-card transactions	299	332	311	297
Profit from financing activity before provision for credit losses	36	36	33	29
Others	25	11	11	9
Total income	**360**	**379**	**355**	**335**
Expenses				
Provision for credit losses	8	4	19	18
Operating expenses	132	127	122	121
Sales and marketing expenses	63	46	36	37
General and administrative expenses	21	14	16	14
Payments to banks	89	102	92	89
Write-downs and impairment of goodwill	3	-	7	-
Total expenses	**316**	**293**	**292**	**279**
Operating profit before taxes	**44**	**86**	**63**	**56**
Provision for taxes on operating profit	(3)	23	18	14
Operating profit after taxes	**47**	**63**	**45**	**42**
The Company's share in operating profits (losses) of investee companies (in the consolidated report: associated companies), after tax effects	(1)	*-	-	(1)
Net operating profit				
Before attribution to non-controlling interests	46	63	45	41
Attributed to non-controlling interests	-	*-	*-	*-
Attributed to shareholders of the Company	**46**	**63**	**45**	**41**
Basic and diluted net profit per common share (in NIS)	**63**	**86**	**61**	**56**

* Amount lower than NIS 0.5 million.

Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data (cont.)

Addendum 6 (cont.)

Reported amounts

In NIS millions

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	308	313	289	284
Profit from financing activity before provision for doubtful debts	28	28	25	17
Others	12	9	8	7
Total income	**348**	**350**	**322**	**308**
Expenses				
Provision for doubtful debts	12	13	7	6
Operating expenses(1)	127	115	113	112
Sales and marketing expenses(1)	3	40	36	30
General and administrative expenses(1)	17	18	15	16
Payments to banks	111	95	94	92
Write-downs and impairment of goodwill	*-	*-	*-	2
Total expenses	**270**	**281**	**265**	**258**
Operating profit before taxes	**78**	**69**	**57**	**50**
Provision for taxes on operating profit	22	17	17	12
Operating profit after taxes	**56**	**52**	**40**	**38**
The Company's share in operating profits (losses) of investee companies (in the consolidated report: associated companies), after tax effects	-	-	-	-
Net operating profit				
Before attribution to non-controlling interests	56	52	40	38
Attributed to non-controlling interests	(1)	*-	(*-)	*-
Attributed to shareholders of the Company	**55**	**52**	**40**	**38**
Basic and diluted net profit per common share (in NIS)	**81**	**71**	**54**	**53**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.17 to the Financial Statements.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2011 (hereinafter: the "**Report**").

2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company, in all material aspects, for the dates and periods covered in the Report.

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure and internal control of financial reporting; furthermore:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Company, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, in particular during the preparation of the Report;

   B. We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;

   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Company, and we have presented our conclusions with regard to the effectiveness of the controls and procedures concerning disclosure, as of the end of the period covered in the Report, based on our assessment; and

   D. We have disclosed in the Report any change in the internal control of financial reporting at the Company that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Company.

5. I, and others at the Company making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Company, based on our most current assessment of the internal control of financial reporting:

   A. Any significant deficiencies and material weaknesses in the establishment or application of internal controls over financial reporting that can reasonably be expected to impair the Company's ability to record, process, summarize, or report financial information; and

B. Any fraud, whether material or immaterial, in which Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Company.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

[1] As defined in the Public Reporting Directives, “Board of Directors’ Report.”

Dov Kotler

Chief Executive Officer

Tel Aviv, February 27, 2012

Certification

I, Sigal Barmac, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2011 (hereinafter: the "**Report**").

2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company, in all material aspects, for the dates and periods covered in the Report.

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure and internal control of financial reporting; furthermore:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Company, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, in particular during the preparation of the Report;

   B. We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;

   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Company, and we have presented our conclusions with regard to the effectiveness of the controls and procedures concerning disclosure, as of the end of the period covered in the Report, based on our assessment; and

   D. We have disclosed in the Report any change in the internal control of financial reporting at the Company that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Company.

5. I, and others at the Company making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Company, based on our most current assessment of the internal control of financial reporting:

A. Any significant deficiencies and material weaknesses in the establishment or application of internal controls over financial reporting that can reasonably be expected to impair the Company's ability to record, process, summarize, or report financial information; and

B. Any fraud, whether material or immaterial, in which Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Company.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

[1] As defined in the Public Reporting Directives, "Board of Directors' Report."

Sigal Barmac

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 27, 2012

Report of the Board of Directors and Management on the Internal Control of Financial Reporting

The Board of Directors and the Management of Isracard Ltd. (hereinafter: the "Company") are responsible for the establishment and application of adequate internal controls over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Company was designed to provide a reasonable degree of confidence to the Board of Directors and Management of the Company with regard to the adequate preparation and presentation of the financial statements, which are published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if it is determined that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial statements.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal controls over financial reporting as of December 31, 2011, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as of December 31, 2011, the Company's internal control of financial reporting is effective.

The effectiveness of the Company's internal control of financial reporting as of December 31, 2011 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 172. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as of December 31, 2011.

Irit Izakson	**Dov Kotler**	**Sigal Barmac**
Chairperson of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 27, 2012

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2011

Table of Contents

Somekh Chaikin

ZIV HAFT

Auditors' Report to the Shareholders of Isracard Ltd.

Pursuant to the Public Reporting Directives of the Supervisor of Banks on the Internal Control of Financial Reporting

We have audited the internal control over financial reporting of Isracard Ltd. and its subsidiaries (hereinafter, jointly: "the Company") as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) concerning audits of internal control over financing reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control over financial reporting of a credit-card company is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a credit-card company includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the company (including the removal of assets from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the company are made only in accordance with authorizations of the board of directors and management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets (including removal of assets from its possession) that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks, the accompanying consolidated financial statements of the Company as of December 31, 2011 and 2010, and for each of the years in the three-year period ended on December 31, 2011. Our report dated February 27, 2012, expressed an unqualified opinion on the said financial statements, while drawing attention to Note 16C to the financial statements concerning antitrust issues, and Note 16E4 and 16E6 concerning petitions to certify certain legal claims as class-action suits against the Company.

Somekh Chaikin

Certified Public Accountants (ISR)

Ziv Haft

Certified Public Accountants (ISR)

Tel Aviv, February 27, 2012

Somekh Chaikin

Auditors' Report to the Shareholders of Isracard Ltd. – Annual Financial Statements

We have audited the accompanying balance sheets of Isracard Ltd. (hereinafter: "the Company") as of December 31, 2011 and 2010 and the consolidated balance sheets as of those dates, and the statements of profit and loss, reports on changes in equity, and statements of cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2011. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Company, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, of the Company and consolidated, as of December 31, 2011 and 2010, and the results of operations, changes in shareholders' equity, and cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2011, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforesaid opinion, we draw attention to Note 16C to the financial statements regarding antitrust issues, and to Note 16E4 and 16E6 concerning petitions to certify certain legal claims as class-action suits against the Company.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB) concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as of December 31, 2011, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2012, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Somekh Chaikin	**Ziv Haft**
Certified Public Accountants (ISR)	Certified Public Accountants (ISR)

Tel Aviv, February 27, 2012

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

ZIV HAFT
IS A MEMBER OF BDO

Balance Sheets

Reported amounts

In NIS millions

		Consolidated		The Company	
		December 31		December 31	
	Note	2011	2010	2011	2010
Assets					
Cash on hand and deposits with banks	2	378	76(2)	369	65
Debtors in respect of credit-card activity	3, 4	12,197	*;**11,944	10,885	*;**10,625
Provisions for credit losses		(65)	*;** (79)	(28)	*;** (21)
Debtors in respect of credit-card activity, net		12,132	11,865	10,857	10,604
Securities	5	96	74	96	74
Investments in investee companies (consolidated: in associates)	6	2	3	375	365
Buildings and equipment	7	262	268	175	180
Goodwill		-	**7	-	-
Other assets	8	255	**205(1)(2)	1,706	1,578(1)
Total assets		**13,125**	**12,498**	**13,578**	**12,866**
Liabilities					
Credit from banking corporations	9	6	76	2	15
Creditors in respect of credit-card activity	10	10,967	10,819(1)	11,272	11,094(1)
Other liabilities	11, 16	716	334(1)	871	494(1)
Total liabilities		**11,689**	**11,229**	**12,145**	**11,603**
Contingent liabilities and special agreements	16				
Equity holders of the parent		1,433	1,263(1)	1,433	1,263(1)
Non-controlling interests		3	6	-	-
Total capital		1,436	1,269	1,433	1,263
Total liabilities and capital		**13,125**	**12,498**	**13,578**	**12,866**

* On January 1, 2011, the Company adopted the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risks, and provisions for credit losses, for the first time. Comparitive figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable with the data marked ** in 2010. For further explanations of the effect of the initial adoption of this directive, see Note 1.E.4. below.

** The data were reclassified in order to match the item headings and presentation method for the current period. See Note 1.C.5 below.

(1) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 below.

(2) Reclassified; see Note 2 below.

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

Irit Izakson	**Dov Kotler**	**Sigal Barmack**
Chairperson of the Board of Directors	Chief Executive Officer	Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 27, 2012

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	Consolidated For the year ended December 31			The Company For the year ended December 31		
		2011	2010	2009	2011	2010	2009
Income							
From credit-card transactions	19	1,239	1,194	1,105	1,241	1,196	1,106
Profit from financing activity before provision for credit losses	20	134	98	68	59	34	31
Others	21	56	36	30	52	32	27
Total income		**1,429**	**1,328**	**1,203**	**1,352**	**1,262**	**1,164**
Expenses							
Provision for credit losses	3	49	38(3)	29(3)	35	11(3)	6(3)
Operating expenses	22	502	467(1)(2)	389(1)(2)	492	459(1)	388(1)
Sales and marketing expenses	23	182	109(1)	142(1)	178	104(1)	140(1)
General and administrative expenses	24	65	66(1)	69(1)	62	63(1)	68(1)
Payments to banks	16H	372	392(1)	372(1)	372	392(1)	372(1)
Write-downs and impairment of goodwill		10	2(2)	*-(2)	3	-	-
Total expenses		**1,180**	**1,074**	**1,001**	**1,142**	**1,029**	**974**
Operating profit before taxes		**249**	**254**	**202**	**210**	**233**	**190**
Provision for taxes on operating profit	25	52	68(1)	55(1)	43	59(1)	51(1)
Operating profit after taxes		**197**	**186**	**147**	**167**	**174**	**139**
The Company's share in operating profits (losses) of investee companies (consolidated: asociates), after tax effects		(2)	*-	*-	28	11	9
Net operating profit							
Before attribution to non-controlling interests		195	186	147	195	185	148
Attributed to non-controlling interests		*-	(1)	1	-	-	-
Attributed to shareholders of the Company		195	185	148	195	185	148
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)		**266**	**253(1)**	**201(1)**	**266**	**253(1)**	**201(1)**
Number of common shares used in calculation		733,198	733,198	733,198	733,198	733,198	733,198

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.17 below

(2) The data were reclassified in order to match the item headings and presentation method for the current period. See Note 1.C.5 below.

(3) On January 1, 2011, the Company adopted the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risks, and provisions for credit losses, for the first time. Comparitive figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable. For further explanations regarding the effect of the initial adoption of this directive, see Note 1.E.4 below.

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

Reports on Changes in Equity

Reported amounts

In NIS millions

	For the year ended December 31, 2011									
	Capital reserves					Accumulated other comprehensive income (loss)				
	Paid-up share capital	Premium on shares	From benefit in respect of share-based payment transactions	Capital reserves from controlling shareholder	Total paid-up share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total	Non-controlling interests	Total capital
Balance as of Dec. 31, 2010 (audited)	***-**	**14**	**12**	**6**	**32**	**8**	****1,223**	**1,263**	**6**	**1,269**
Cumulative effect, net of tax, of initial implementation of directive on measurement of impaired debts and provisions for credit losses on Jan. 1, 2011	-	-	-	-	-	-	(49)	(49)	-	(49)
Cumulative effect of initial implementation of IFRS	-	-	-	-	-	-	(9)	(9)	(3)	(12)
Annual net profit	-	-	-	-	-	-	195	195	*-	195
Adjustments and changes due to:										
Benefits received from controlling shareholder	-	-	-	*-	*-	-	-	*-	-	*-
Benefit for share-based payment transactions		-	2	-	2	-		2	-	2
Adjustments in respect of presentation of securities available for sale at fair value		-	-	-	-	45	-	45	-	45
Effect of related tax		-	-	-	-	(11)	-	(11)	-	(11)
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss		-	-	-	-	(10)	-	(10)	-	(10)
Effect of related tax		-	-	-	-	2	-	2	-	2
Benefit due to share allocation	-	5	-	-	5	-	-	5	-	5
Balance as of Dec. 31, 2011 (audited)	***-**	**19**	**14**	**6**	**39**	**34**	**1,360**	**1,433**	**3**	**1,436**

* Amount lower than NIS 0.5 million.

** Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 below. As a result of the effect of the retroactive implementation, the opening balance of retained earnings decreased by a total of approximately NIS 14 million.

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

Reports on Changes in Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2010									
	Capital reserves					Accumulated other comprehensive income (loss)				
	Paid-up share capital	Premium on shares	From benefit in respect of share-based payment transactions	Capital reserves from controlling shareholder	Total paid-up share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total	Non-controlling interests	Total capital
Balance as of Dec. 31, 2009 (audited)	***-**	**9**	**8**	**5**	**22**	***-**	****1,039**	**1,061**	**5**	**1,066**
Annual net profit	-	-	-	-	-	-	**185	185	1	186
Benefits granted to controlling shareholder	-	-	-	-	-	-	(1)	(1)	-	(1)
Adjustments and changes due to:										
Benefits received from controlling shareholder, net			-	1	1	-	-	1	-	1
Benefit for share-based payment transactions		-	4	-	4	-	-	4	-	4
Adjustments in respect of presentation of securities available for sale at fair value		-	-	-	-	9	-	9	-	9
Effect of related tax		-	-	-	-	(1)	-	(1)	-	(1)
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss		-	-	-	-	(*-)	-	(*-)	-	(*-)
Effect of related tax		-	-	-	-	*-	-	*-	-	*-
Benefit due to share allocation	-	5	-	-	5	-	-	5	-	5
Balance as of Dec. 31, 2010 (audited)	***-**	**14**	**12**	**6**	**32**	**8**	**1,223**	**1,263**	**6**	**1,269**

* Amount lower than NIS 0.5 million.

** Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 below. As a result of the effect of the retroactive implementation, the opening balance of retained earnings decreased by a total of approximately NIS 14 million.

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

Reports on Changes in Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2009									
	Capital reserves					Accumulated other comprehensive income (loss)				
	Paid-up share capital	Premium on shares	From benefit in respect of share-based payment transactions	Capital reserves from controlling shareholder	Total paid-up share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total	Non-controlling interests	Total capital
Balance as of Dec. 31, 2008 (audited)	***-**	**5**	**-**	**3**	**8**	**(2)**	****891**	**897**	**-**	**897**
Annual net profit	-	-	-	-	-	-	**148	148	(1)	147
Initial consolidation of non-controlling interests	-	-	-	-	-	-	-	-	6	6
Adjustments and changes due to:										
Benefits received from controlling shareholder, net			-	2	2	-	-	2	-	2
Benefit for share-based payment transactions		-	8	-	8	-	-	8	-	8
Adjustments in respect of presentation of securities available for sale at fair value		-	-	-	-	1	-	1	-	1
Effect of related tax		-	-	-	-	(*-)	-	(*-)	-	(*-)
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss		-	-	-	-	2	-	2	-	2
Effect of related tax		-	-	-	-	(1)	-	(1)	-	(1)
Benefit due to share allocation	-	4	-	-	4	-	-	4	-	4
Balance as of Dec. 31, 2009	***-**	**9**	**8**	**5**	**22**	***-**	**1,039**	**1,061**	**5**	**1,066**

* Amount lower than NIS 0.5 million.

** Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 below. As a result of the effect of the retroactive implementation, the opening balance of retained earnings decreased by a total of approximately NIS 14 million.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
Cash flows from operating activity						
Annual net profit	**195**	**186(1)**	**147(1)**	**195**	**185(1)**	**148(1)**
Adjustments required to present operating cash flows:						
The Company's share in undistributed profits (losses) of investee companies (consolidated: associates)	2	(*-)	(*-)	(28)	(11)	(9)
Depreciation of buildings and equipment	84	71	55	81	68	54
Write-downs and impairment of goodwill	10	3	*-	3	-	-
Provision (income) for credit losses	49	19	22	35	(2)	3
Profit from realization and adjustment of securities available for sale	(10)	*-	(11)	(10)	*-	(11)
Loss from realization of buildings and equipment	-	*-	*-	-	*-	*-
Deferred taxes, net	(35)	*-(1)	(15)(1)	(30)	5(1)	(8)(1)
Retirement compensation – increase (decrease) in surplus of provision over amount funded	18	1(1)	(10)(1)	18	1(1)	(10)(1)
Revaluation of deposits with banking corporations	(1)	1	*-	(1)	1	*-
Benefit due to share-based payment transactions	2	5	10	2	5	10
Benefit due to share allocation	5	5	4	5	5	4
Decrease (increase) in other assets	24	11(1)(2)	(34)(1)(2)	(88)	(704)(1)	(270)(1)
Increase (decrease) in other liabilities	340	92(1)	21(1)	343	93(1)	18(1)
Net cash generated by (used for) operating activity	**683**	**394**	**189**	**525**	**(354)**	**(71)**

* Amount lower than NIS 0.5 million.

** For an original period of more than 3 months.

(1) Restated; see Note 1.E.17 below.

(2) Reclassified; see Note 2 below.

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
Cash flows from activity in assets						
Deposits with banks**	(17)	(11)	(18)	(17)	(11)	(18)
Withdrawal of deposits from banks**	11	13	21	11	13	21
Decrease (increase) in credit to cardholders and merchants, net	(279)	(30)	(367)	(228)	79	(130)
Increase in debtors in respect of credit-card activity, net	(75)	(960)	(919)	(78)	(902)	(907)
Increase in debtors in respect of factoring	(23)	(29)	(12)	-	-	-
Purchase of securities available for sale	-	-	(285)	-	-	(285)
Acquisition of buildings and equipment	(70)	(83)	(85)	(68)	(83)	(85)
Proceeds of realization of securities available for sale	-	77	333	-	77	333
Proceeds of redemption of securities available for sale	-	35	-	-	35	-
Proceeds of realization of buildings and equipment	-	*-	*-	-	*-	*-
Proceeds of realization of investments in associated companies	-	-	15	-	-	15
Acquisition of consolidated companies consolidated for the first time (Appendix A)	-	(71)	(182)	-	-	-
Investment in capital note of investee company (consolidated: associate)	-	-	-	-	(65)	-
Maturity of capital note of investee company	-	-	-	-	2	9
Investment in associated companies (Company: investees)	(1)	(1)	(2)	(1)	(6)	(192)
Net cash used for activity in assets	**(454)**	**(1,060)**	**(1,501)**	**(381)**	**(861)**	**(1,239)**

* Amount lower than NIS 0.5 million.

** For an original period of more than 3 months.

(1) Restated; see Note 1.E.17 below.

(2) Reclassified; see Note 2 below.

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
Cash flows from activity in liabilities and capital						
Short-term credit from banking corporations, net	(70)	(538)	28	(13)	(10)	20
Increase in creditors in respect of credit-card activity, net	148	801	845(1)	178	820	845(1)
Settlement of a liability for a forward contract	-	-	(1)	-	-	(1)
Realization of put option for holders of non-controlling interests	(12)	-	-	(12)	-	-
Net cash generated by activity in liabilities and capital	66	263	872	153	810	864
Increase (decrease) in cash and cash equivalents	**295**	**(403)**	**(440)**	**297**	**(405)**	**(446)**
Balance of cash and cash equivalents at beginning of year	**61**	**464(2)**	**904(2)**	**50**	**455**	**901**
Balance of cash and cash equivalents at end of year	**356**	**61**	**464**	**347**	**50**	**455**

(1) Restated; see Note 1.E.17 below.

(2) Reclassified; see Note 2 below.

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Appendix A						
Acquisition of subsidiaries consolidated for the first time						
Assets and liabilities of the consolidated subsidiaries at the acquisition date:						
Assets, excluding cash in the amount of NIS 10 million in 2009	-	(380)	(11)	-	-	-
Liabilities of the Company at initial consolidation:						
Liabilities	-	309	(166)	-	-	-
Non-controlling interests	-	-	5	-	-	-
Goodwill	-	-	(10)	-	-	-
Cash flow for acquisition of subsidiaries consolidated for the first time	**-**	**(71)**	**(182)**	**-**	**-**	**-**

Appendix B						
Activity in assets and liabilities not involving cash flows						
Acquisition of buildings and equipment against liabilities to suppliers	8	-	-	8	-	-
Proceeds of realization of securities available for sale against other debtors	20	-	-	20	-	-

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

Note 1 – Significant Accounting Policies

A. General

1. Isracard Ltd. (hereinafter: the "**Company**") is a corporation incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

   The Company is primarily engaged in issuing and clearing Isracard and MasterCard brand credit-card transactions, as well as operating the credit-card systems of its subsidiary Europay (Eurocard) Israel Ltd., and of its sister companies Poalim Express Ltd. and Aminit Ltd. The financial statements as of December 31, 2011, include those of the Company and of its subsidiaries (hereinafter: the "**Group**").

   The financial statements of the Company were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with the directives and guidelines of the Supervisor of Banks with regard to the preparation of annual financial statements of credit-card companies.

   The notes to the financial statements refer to the financial statements of the Company and to the consolidated financial statements of the Company and its consolidated subsidiaries, except where the note states that it refers only to the Company or only to the consolidated statements.

2. The annual financial statements were approved for publication by the board of directors of the Company on February 27, 2012.

B. Definitions

In these financial statements:

- **International Financial Reporting Standards** (hereinafter: "IFRS") – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including IFRSs and International Accounting Standards (IAS), and interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC), respectively.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

- **Generally accepted accounting principles (GAAP) for US banks** – Accounting principles which American banks traded in the United States are required to implement. These rules are established by the bank supervision agencies in the United States, the Securities and Exchange Commission in the United States, the Financial Accounting Standards Board in the United States, and other entities in the United States, and implemented according to the hierarchy established in FAS 168 (ASC 105-10), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which replaced FAS 162. In addition, as established by the Supervisor of Banks, despite the hierarchy established in FAS 168, it has been clarified that any position stated to the public by the bank supervision agencies in the United States or by the staff of the bank supervision agencies in the United States with regard to the manner of implementation of US GAAP constitutes GAAP for US banks.

1. The Company – Isracard Ltd.
2. The Group – The Company and its consolidated companies.
3. The Parent Company – Bank Hapoalim B.M.
4. Subsidiaries – Companies controlled by the Company.
5. Consolidated companies – Companies whose statements are consolidated with the Company's statements.
6. Associated companies – Companies other than consolidated companies, the Company's investment in which is included in the financial statements based on the equity method.
7. Investee companies – Consolidated or associated companies.
8. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel, excluding interested parties.
9. Interested parties – As defined in Paragraph 1 of the definition of an "interested party" of a corporation in Section 1 of the Securities Law, 1968.
10. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.
11. CPI – The consumer price index in Israel published by the Central Bureau of Statistics.
12. USD – United States dollar.
13. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements No. 23 and 36 of the Institute of Certified Public Accountants in Israel.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

14. Adjusted financial reporting – Financial reporting in values adjusted to changes in the general purchasing power of Israeli currency, in accordance with the directives of the Opinion Statements of the Institute of Certified Public Accountants in Israel.

15. Reported amount – Amount adjusted to the transition date (December 31, 2003), plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.

16. Cost – Cost in reported amounts.

17. Nominal financial reporting – Financial reporting based on reported amounts.

18. Functional currency – The currency of the main economic environment in which the company operates; the functional currency of banking corporations and credit-card companies in Israel is the NIS (New Israeli Shekel).

19. Presentation currency – The currency in which the financial statements are presented.

C. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the Company are prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. In preparing the financial statements, the Company implements, among other matters, certain IFRS and GAAP for US banks, in the following manner:

♦ **On matters related to the core business of banking** – Accounting treatment in accordance with the directives and guidelines of the Supervisor of Banks, and in accordance with GAAP for US banks that have been adopted as part of the Public Reporting Directives of the Supervisor of Banks.

♦ **On matters not related to the core business of banking** – Accounting treatment in accordance with Israeli GAAP and IFRS. International standards are implemented according to the following principles:

- In cases in which a material issue arises that is not resolved in the IFRS or in the implementation instructions of the Supervisor, the Group treats the issue according to GAAP for US banks specifically applicable to these matters;

- In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Group acts according to specific implementation guidelines established by the Supervisor;

- Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Group acts in accordance with the IFRS;

Note 1 – Significant Accounting Policies (cont.)

C. Basis for Preparation of the Financial Statements (cont.)

- Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Bank acts in accordance with the Reporting Directives and with Israeli GAAP;

- Where an IFRS that has been adopted contains a reference to a definition of a term defined in the Public Reporting Directives, a reference to the definition in the Directives shall replace the original reference.

2. Functional Currency and Presentation Currency

The currency representing the primary economic environment in which the Company operates is the NIS. The financial statements are presented in NIS and rounded to the nearest million, unless otherwise noted.

3. Measurement Base

The financial statements were prepared on the basis of historical cost, with the exception of the assets and liabilities listed below:

- Derivative financial instruments and other financial instruments measured at fair value;
- Liabilities in respect of share-based payment to be settled in cash;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in associates accounted for using the equity method.

The value of non-monetary assets and items of capital measured on the basis of historical cost was adjusted to changes in the CPI up to December 31, 2003, because the Israeli economy was considered a hyper-inflationary economy until that date. From January 1, 2004, the Company has prepared its financial statements in reported amounts.

4. Use of Estimates

Note 1 – Significant Accounting Policies (cont.)

C. Basis for Preparation of the Financial Statements (cont.)

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidelines of the Supervisor of Banks requires the Management of the Company to exercise judgment in the use of estimates, evaluations, and assumptions that affect the application of policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements of the Company, the Management of the Company is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Management of the Company bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate.

The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

5. Change in Classification

Due to the first-time implementation of certain accounting standards and directives of the Supervisor of Banks (see Sections D and E below), certain items in the financial statements and certain comparative figures were reclassified, in order to match the item headings and reporting requirements for the current period.

Items included in the balance sheet:

- Goodwill in the amount of NIS 7 million, which was included in the item “other assets” in the consolidated balance sheet as of December 31, 2010, was presented in the consolidated balance sheet as of December 31, 2011 in a separate line.

- Debtors in respect of credit-card activity, net, as of December 31, 2010 were reclassified to match presentation in gross amounts as of January 1, 2011.

Items included in the statement of profit and loss:

- Expenses in respect of depreciation of goodwill in the amount of NIS 2 million in the consolidated statement of profit and loss of the Company were reclassified, from “operating expenses” to presentation in a separate line in the consolidated statement of profit and loss of the Company. for each of the years ended December 31, 2010 and 2009.

D. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks

During 2011, the Company commenced implementation of the following accounting standards and directives:

1. Directives of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk, and credit loss provisions, and amendment of the directives regarding the treatment of problematic debts;

2. Certain IFRS, listed below:

   - IFRS 2, Share-Based Payment;
   - IFRS 3 (2008), Business Combinations;
   - IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations;
   - IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
   - IAS 10, Events After the Reporting Period;
   - IAS 16, Property, Plant and Equipment;
   - IAS 17, Leases;
   - IAS 20, Accounting for Government Grants and Disclosure of Government Assistance;
   - IAS 21, The Effects of Changes in Foreign Exchange Rates;
   - IAS 27 (2008), Consolidated and Separate Financial Statements;
   - IAS 28, Investments in Associates;
   - IAS 29, Financial Reporting in Hyperinflationary Economies;
   - IAS 31, Interests In Joint Ventures;
   - IAS 33, Earnings Per Share;
   - IAS 34, Interim Financial Reporting;
   - IAS 36, Impairment of Assets;
   - IAS 38, Intangible Assets;
   - IAS 40, Investment Property.

Note 1 – Significant Accounting Policies (cont.)

D. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks (cont.)

3. FAS 157 (ASC 820-10), Fair Value Measurements (hereinafter: "FAS 157"); FAS 159 (ASC 825-10), The Fair Value Option for Financial Assets and Financial Liabilities (hereinafter: "FAS 159"); and ASU 2010-06, Improving Disclosures about Fair Value Measurements;

4. Instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits;

5. ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.

The accounting policies of the Company, as detailed in Section E below, include the new accounting policies resulting from the implementation of the accounting standards, accounting standard updates, and directives of the Supervisor of Banks, and present the manner and effect, if any, of the initial implementation thereof.

E. Accounting Policies Implemented in the Preparation of the Financial Statements

1. Foreign Currency and Linkage

Transactions in Foreign Currency

Transactions in foreign currency are translated into the relevant functional currency of the Company according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency according to the exchange rate in effect at that date. Exchange-rate differences in respect of monetary items are the difference between the depreciated cost in the functional currency at the beginning of the year, adjusted for payments during the year, and the depreciated cost in foreign currency translated according to the exchange rate at the end of the year.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined. Exchange-rate differences arising from translation into the functional currency are recognized in profit and loss, with the exception of differences arising from translation into the functional currency of non-monetary equity financial instruments classified as available for sale.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

Assets and liabilities linked to the consumer price index are included according to the linkage terms established for each balance.

Initial Implementation of IAS 21, The Effects of Changes in Foreign Exchange Rates

The initial implementation of this standard had no effect on the financial statements of the Company.

Set out below are details regarding representative exchange rates and the CPI (2010 base = 100), and the rates of change therein:

	December 31		
	2011	**2010**	**2009**
Consumer price index (in points)	104.0	101.8	99.2
United States dollar exchange rate (in NIS per 1 USD)	3.821	3.549	3.775

	Percent change in the year ended December 31		
	2011	**2010**	**2009**
Consumer price index	2.2	2.7	3.9
USD exchange rate	7.7	(6.0)	(0.7)

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

2. Basis for Consolidation

Due to the initial implementation of IFRS 3 (2008), IAS 27 (2008), and IAS 28, the Group changed the accounting policy applied to business combinations, transactions with non-controlling interests, and investments in associates.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date of attainment of control to the date of cessation of control. Control is the power to determine the financial and operational policy of a company in order to derive benefit from its operations. Potential voting rights that can be exercised immediately are taken into consideration in examining the existence of control. The Company exercised judgment in determining the acquisition date and in determining whether control has been attained.

Accounting policies of subsidiaries were changed, where necessary, in order to adjust them to the accounting policies adopted by the Group.

Non-controlling Interests

Non-controlling interests constitute the capital of a subsidiary that cannot be directly or indirectly attributed to the parent company.

Non-controlling interests that are instruments granting a current ownership interest, and that grant the holder a share of the net assets in the event of liquidation (e.g. common shares), are measured at the date of the business combination at fair value.

Allocation of Items of Profit and Other Comprehensive Income Among Shareholders

Profit or loss and any component of other comprehensive income are attributed to the owners of the Company and to non-controlling interests. Total profit and other comprehensive income are attributed to the owners of the Company and to non-controlling interests, even if as a result the balance of non-controlling interests is negative.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Transactions with Non-controlling Interests with Retention of Control

Transactions with non-controlling interests where control is retained are treated as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is allocated to the share of the owners of the Company, directly in capital.

The amount of the adjustment of the non-controlling interests is calculated in the following manner:

- In an increase in the rate of holdings, according to the proportion of the acquired part to the balance of non-controlling interests in the consolidated financial statements immediately prior to the transaction.

- In a decrease in the rate of holdings, according to the proportional share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

In addition, in the event of changes in the rate of holdings in a subsidiary with the retention of control, the Company reattributes the accumulated amounts recognized in other comprehensive income between the owners of the Company and the non-controlling interests.

Investments in Associates

Associates are entities in which the Group has material influence on financial and operational policy, but has not obtained control.

Investments in associates are treated according to the equity method and recognized for the first time at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group’s share in income and expenses, profit or loss, and other comprehensive income of equity-basis investees, after the necessary adjustments to the accounting policy of the Group, from the date on which the material influence exists, to the date when the material influence ceases to exist. It is hereby clarified that the Company does not adjust accounting policies on matters related to the core business of banking (where IFRS have not yet been adopted in the Public Reporting Directives) implemented by non-financial associates.

When the Group's share of losses exceeds the value of the Group's interests in an equity-basis investee company, the book value of such interests (including all long-term investments) is written down to zero, and the Group does not recognize additional losses, unless the Group has an obligation to support the investee company, or has paid sums on its behalf.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Loss of Material Influence

The Group discontinues the use of the equity method as of the date of the loss of its material influence, and treats the investment as a financial asset.

At that date, the Group measures any remaining investment in the associate, at fair value, and recognizes, in profit or loss, under the item "profit from extraordinary transactions after taxes," any difference between the fair value of any remaining investment and any consideration from the realization of part of the investment in the associate, and the book value of the investment at that date.

Amounts recognized in capital reserves through other comprehensive income in respect to that associate are reclassified into profit or loss or retained earnings, in the same manner that would be required if the associate had realized the relevant assets or liabilities on its own behalf.

Change in Rates of Holdings in Associates with the Retention of Material Influence

In an increase in the rate of holdings in an associate accounted for using the equity method, when material influence is retained, the Group applies the acquisition method only in respect of the additional percentage of holdings, with no change to the preexisting holding.

In a decrease in the rate of holdings in an associate accounted for using the equity method, when material influence is retained, the Group subtracts a relative share of its investment, and recognizes profit or loss from the sale in the item "profit from extraordinary transactions after taxes." The cost of the interests sold for the purpose of the calculation of profit or loss from the sale is established according to a weighted average.

In addition, at that date, a proportional share of the amounts recognized in capital reserves through other comprehensive income in respect to that associate are reclassified into the statement of profit or loss or retained earnings, in the same manner that would be required if the associate had realized the relevant assets or liabilities on its own behalf.

Inter-Company Transactions

Mutual balances in the Group and unrealized income and expenses arising from inter-company transactions were canceled during the preparation of the consolidated financial statements. Unrealized profits arising from transactions with associates were canceled against the investment, according to the Group's interests in such investments. Unrealized losses were canceled in the same manner as unrealized profits, as long as there was no evidence of impairment.

ISRACARD

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Business Combinations

The Group applies the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree.

Treatment of Business Combinations Executed After January 1, 2011

For acquisitions performed after January 1, 2011, the Group recognizes goodwill at the acquisition date according to the fair value of the consideration transferred, including amounts recognized in respect of any interests that do not grant control of the acquiree, and the fair value at the acquisition date of equity interests in the acquiree previously held by the acquirer, with the deduction of the net amount attributed in the acquisition to identifiable assets acquired and liabilities undertaken.

The acquirer recognizes a contingent liability undertaken in a business combination, at the acquisition date, if a present obligation exists arising from past events and its fair value can be measured reliably.

If the Group performs an acquisition at a bargain price (an acquisition that includes negative goodwill), it recognizes the resulting profit in the statement of profit and loss, at the acquisition date, following an additional examination of the attribution to assets and liabilities of the acquired entity.

The consideration transferred includes the fair value of assets transferred to the former owner of the acquiree, liabilities incurred by the acquirer to the former owner of the acquiree, and equity interests issued by the Group. In a business combination achieved in stages, the difference between the fair value at the acquisition date of the equity interests in the acquiree previously held by the Group, and the book value at that date, is allocated to the statement of profit and loss, under the item "profit from extraordinary transactions." The consideration transferred also includes the fair value of contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of the contingent consideration classified as a financial liability in the statement of profit and loss.

Initial implementation of IFRS 3 (2008), Business Combinations; IAS 27 (2008), Consolidated and Separate Financial Statements; and IAS 28, Investments in Associates

Business Combinations Performed Prior to January 1, 2011

Pursuant to the directives of the Supervisor of Banks, the Group has adopted the exemption established in Sections 4C and 5C of IFRS 1, First-Time Adoption of IFRS. Accordingly, the Group has not retroactively implemented IFRS 3 (2008) with regard to business combinations and acquisitions of associates performed before January 1, 2011. Therefore, for acquisitions performed before January 1, 2011, the goodwill recognized and surplus costs generated represent the amounts recognized in accordance with Israeli GAAP.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

As a result of the initial implementation of this standard, the Company recognized a liability in respect of a put option for non-controlling interests at a subsidiary against the balance of retained earnings, in the amount of approximately NIS 9 million, and against the balance of non-controlling interests, in the amount of approximately NIS 3 million.

Investments in Associates

According to Israeli GAAP, as adopted in the directives of the Supervisor of Banks, potential voting rights shall not be taken into consideration in establishing the existence of material influence. By contrast, under the international standards, certain potential voting rights are to be taken into consideration when establishing the existence of material influence. The standard will be implemented prospectively, starting with financial statements for periods beginning January 1, 2011.

The implementation of this standard had no effect.

3. Basis for Recognition of Revenue

(1) Income from clearing fees is included in the statement of profit and loss at the date of capture of the transaction at the Company, on a cumulative basis, upon completion of the service. In transactions in installments funded by the merchants, income is allocated as a separate transaction for each payment.

(2) The Company applies the directives of Clarification No. 8 of the Israel Accounting Standards Board, "Reporting Income on a Gross or Net Basis," and accordingly presents income from clearing fees on a net basis.

(3) Income from card fees and deferred-debit fees collected from cardholders are included in the statement of profit and loss on a cumulative basis.

(4) Income from interest is recorded on a cumulative basis and recognized according to the interest method, with the exception of income from interest on debts in arrears; such interest is allocated to the statement of profit and loss based on actual collection.

(5) Securities – see Section 5 below.

(6) Other income and expenses – recognized on an accrual basis.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

4. Impaired Debts, Credit Risk, and Credit Loss Provisions

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provisions for credit losses, and the amendment of the directives on the treatment of problematic debts, as of January 1, 2011, the Company has implemented the American accounting standards in this area (ASC 310) and the position statements of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives. In addition, as of that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts.

Debtors in Respect of Credit Card Activity and Other Debt Balances

The directive is implemented with regard to all debt balances, such as deposits with banks, debtors in respect of credit-card activity (including credit to merchants and credit to cardholders), and other credit to non-cardholders. Debtors in respect of credit-card activity and other debt balances are reported in the Company's books according to the recorded debt balance. The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses in respect of that debt. The Company applies rules according to which the balance of the debt in the Company's books includes the component of interest accrued before the classification of the debt as a non-income-bearing problematic debt.

Provisions for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the provision for credit losses, in order to maintain a provision at an appropriate level to cover estimated credit losses in respect of its credit portfolio. In addition, the Company has established the necessary procedures in order to maintain a provision, in a separate liability account, at an appropriate level to cover estimated credit losses in connection with off-balance-sheet credit instruments (such as unutilized credit facilities and guarantees).

The provision to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: “individual provision” and “group provision.” The Company also examines the overall fairness of the provision for credit losses.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Individual provision for credit losses – The Company individually examines all debts with a contractual balance (without deducting accounting write-offs that do not involve an accounting waiver and provisions for credit losses) of NIS 500 thousand or more. Individual provisions for credit losses are recognized for all debts classified as impaired. Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. In any case, debt is classified as impaired debt when the principal or interest in respect of the debt is in arrears of 90 days or more. Such debts that are not in arrears and are found to be sound are provided for on a group basis. In addition, any debt the terms of which have been changed in the course of the restructuring of problematic debt is classified as impaired debt, and is examined individually. The individual provision for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards of the debtor.

Group provision for credit losses – Applied to provisions for impairment of large groups of homogeneous small debts, and in respect of debts examined individually and found to be unimpaired. The group provision is assessed in accordance with the rules established in ASC 450, Contingencies (FAS 5, Accounting for Contingencies), based on a current estimate of the rate of past losses in respect of each of the defined groups. The formula for the calculation of the group provision is detailed in the temporary order issued by the Supervisor of Banks, in effect up to and including December 31, 2012. The formula is based on historical rates of loss in 2008, 2009, and 2010, and on actual rates of net accounting write-offs recorded as of January 1, 2011. The calculation differentiates between consumer credit and commercial credit, sound debts (separately for debts under the responsibility of banks and debts under the responsibility of the Company) and problematic debts, the international organization, and credit-card companies.

The provision required in respect of off-balance-sheet credit instruments is assessed according to the rules established in FAS 5 (ASC 450). The provision assessed on a group basis for off-balance-sheet credit instruments is based on the rates of provisions established for balance-sheet credit (as detailed above), taking into consideration the expected rate of realization as credit of off-balance-sheet credit risk. The rate of realization as credit is calculated by the Company based on coefficients for conversion into credit, as specified in Proper Conduct of Banking Business Directive No. 203, Capital Measurement and Adequacy – Credit Risk – The Standardised Approach.

The Company classifies all of its debts and items of off-balance-sheet credit into the categories: sound, under special supervision, substandard, or impaired.

Revenue Recognition

Upon classification of a debt as impaired or substandard, the Company defines the debt as a debt not accruing interest income, and ceases accruing interest income in respect of the debt.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Restructuring of Problematic Debt

A debt that has undergone restructuring of problematic debt is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Company has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (postponement of cash payments required of the borrower). In order to determine whether a debt arrangement executed by the Company constitutes restructuring of problematic debt, the Company performs a qualitative examination of the terms and circumstances of the arrangement in aggregate, to establish whether: (1) the borrower is in financial difficulties; and (2) the Company granted a concession to the borrower as part of the arrangement.

In order to determine whether the borrower is in financial difficulties, the Company determines whether there are signs indicating that the borrower was in difficulties at the time of the arrangement, or whether there is a reasonable probability that the borrower will fall into financial difficulties without the arrangement. Among other factors, the Company examines the existence of one or more of the following circumstances: at the date of the debt arrangement, the borrower is in default, including when any other debt of the borrower is in default; with regard to debts that at the date of the arrangement are not in arrears, the Company estimates whether, based on the borrower's current repayment capability, it is likely that the borrower will default in the foreseeable future and will fail to comply with the original contractual terms of the debt; the debtor has been declared bankrupt, is in a receivership proceeding, or there are significant doubts regarding the continued survival of the borrower as a going concern; and, if there is no change in the terms of the debt, the borrower will be unable to raise funds from other resources at the prevalent interest rate in the market for borrowers who are not in default.

The Company concludes that a concession was granted to the borrower in the arrangement, even if the contractual interest rate was raised as part of the arrangement, if one or more of the following occurs: as a result of the restructuring, the Company is not expected to collect the full amount of the debt (including interest accrued according to the contractual terms); the debtor does not have the ability to raise resources at the prevalent market rate for debt with terms and characteristics such as those of the debt granted in the arrangement.

Restructured debts, including those examined on a group basis prior to restructuring, shall be classified as impaired debt and shall be assessed on an individual basis for the purpose of the provision for credit losses or accounting write-off. In light of the fact that a debt that has undergone problematic debt restructuring will not be repaid according to its original contractual terms, the debt continues to be classified as impaired, even after the borrower resumes repayment according to the new terms.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Accounting Write-Offs

The Company performs accounting write-offs for any debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Company has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). With regard to debts evaluated on a group basis, write-off rules were established based on the period of arrears (in most cases more than 150 consecutive days). It is hereby clarified that accounting write-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base in the Company's books.

Policy on Provisions for Doubtful Debts Before the Implementation of the Directives on Impaired Debts, Credit Risk, and Credit Loss Provisions, the Amendment of the Directives on the Treatment of Problematic Debts, and the Accounting Standards Update ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring

Specific provisions for doubtful debts fairly reflected, according to Management's estimates, the loss inherent in debts the collection of which was in doubt. Management established the fairness of the provision based, among other factors, on a risk assessment according to the information available to it regarding debtors' financial condition, the volume of their activity, an evaluation of the collateral received from them, and past experience. Doubtful debts which the Management of the Company believed there was no chance of collecting were written off, according to a decision by Management.

In addition, a group provision for doubtful debts was calculated, based on past experience, in respect of debts that require a specific provision but whose risk characteristics have not yet been identified.

Bad debts were written off when the Company determined that the debt was uncollectible, following legal proceedings undertaken or as a result of agreements or arrangements executed, usually in cases in which no legal proceedings were undertaken, and the debts are not collectible, or due to other reasons for which the debts are uncollectible.

Effect of Initial Implementation

Pursuant to the instructions of the Supervisor of Banks, the directive was not implemented retroactively in financial statements for previous periods. At the initial implementation date, among other matters, the Company:

- Performed accounting write-offs of all debts meeting the conditions for accounting write-offs on that date;

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

- Classified all debts meeting the conditions for such classification as sound, under special supervision, substandard, or impaired.
- Adjusted the balance of the provision for credit losses for debtors in respect of credit-card activity and off-balance-sheet credit instruments as of January 1, 2011 to the requirements of the directive; and
- Adjusted the balance of deferred taxes receivable as of January 1, 2011.

The effect of the initial implementation of the directive, in the amount of NIS 49 million (net of tax), was allocated as a reduction of the balance of retained earnings as of January 1, 2011.

After the approval of the financial statements, following discussions held by the Management and Board of Directors of the Company, a decision was made to continue to examine the implementation of the aforesaid accounting policy with regard to the directive, and to update it as necessary. The policy was updated, and a decision was made to perform a division into credit risk groups and establish a different provision rate for each group.

In addition, during April 2011 the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.

The rules established in the ASU for the identification of arrangements to be defined as problematic debt restructurings were adopted by the Supervisor of Banks and took effect on July 1, 2011. The rules apply to the determination whether a restructuring constitutes a problematic debt restructuring, for any debt arrangement executed as of January 1, 2011. The changes in the measurement method of the provision for credit losses were implemented prospectively, such that the update of the required provision calculated on an individual basis was recorded in the third quarter of 2011. The initial implementation of the ASU had no material effect on the Company's results.

5. Securities

Securities held by the Company are classified by the Company as securities available for sale. Accordingly, the securities are presented in the balance sheet at fair value, which is usually based on stock-market rates, other than shares for which no fair value is available, which are presented at cost, less impairment. Dividend income and losses from other-than-temporary impairment are allocated to profit and loss. Unrealized profits or losses from adjustment to fair value net of tax are allocated directly to a separate item within equity, and are transferred to the statement of profit and loss upon realization or redemption.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

The Company examines, in each reporting period, whether other-than-temporary impairment has occurred in its investments in other companies. This examination is performed when signs exist that may indicate the possibility that the value of the investments has been impaired, including a decline in stock-market prices, in the investee's business, or in the industry in which the investee operates, and other parameters. The deductions for the adjustments of the value of these investments, which in the opinion of Management are based on an examination of all relevant aspects, with appropriate weight granted to each, which are not of a temporary nature, are allocated to the statement of profit and loss. The cost of securities realized is calculated on a “first in - first out” basis.

6. Derivative Financial Instruments

The Company holds derivative financial instruments for the purpose of economic hedges of foreign-currency risks and interest-rate risks, and executes activity in derivatives. Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Company. Changes in the fair value of these derivatives are recognized in profit and loss when they arise.

7. Establishing the Fair Value of Financial Instruments

As of January 1, 2011, the Company has adopted the rules established in FAS 157 (ASC 820-10), which defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation.

Fair value is defined as the amount or price that would be obtained from the sale of an asset, or that would be paid to extinguish a liability, in a transaction between a willing seller and a willing buyer, at the date of measurement. Among other matters, in order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Company. FAS 157 specifies a hierarchy of measurement techniques, based on the question of whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 data: Prices quoted in active markets for similar assets or liabilities; prices quoted in inactive markets for identical assets or liabilities; prices derived from evaluation models in which all significant inputs are observed in the market or supported by observed market data.
- Level 3 data: Unobservable inputs regarding the asset or liability, arising from evaluation models in which one or more of the significant inputs is unobservable.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

The hierarchy requires the use of observable market inputs, when such information is available. When possible, the Company considers relevant observable market information in its evaluation. The volume and frequency of transactions, bid-ask spread, and size of the adjustment necessary in comparing similar transactions are all factors taken into consideration when determining the liquidity of markets and the relevance of prices observed in such markets.

The implementation of the rules set forth in FAS 157 requires the cessation of use of the blockage factor in calculating fair value, and replaces the instructions in EITF 02-3 (ASC 815-10), Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, which prohibit the recognition of day one profits and require that the fair value of derivative instruments not traded on an active market be determined according to the transaction price.

Securities

The fair value of securities held for trading and of securities available for sale is determined based on market prices quoted in the primary market. In such cases, the fair value of the Company's investment in securities is the number of units multiplied by the quoted market price. If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Derivative Financial Instruments

Derivative financial instruments with an active market were evaluated according to the market value established in the primary market, or in the absence of a primary market, according to the market price quoted on the most beneficial market. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.).

Additional Non-Derivative Financial Instruments

A "market price" cannot be obtained for the majority of financial instruments in this category (such as debtors in respect of credit-card activity and deposits with banks), because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. For that purpose, future cash flows of impaired debts and other debts were calculated after the deduction of the effects of accounting write-offs and of provisions for credit losses in respect of the debts.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Disclosure Requirements

FAS 157 expands the disclosure requirements for measurements of fair value. In addition, ASU 2010-06 requires the inclusion of additional disclosures, such as disclosure of amounts of significant transitions from Level 2 fair-value measurements to Level 1 measurements and vice versa, and the inclusion of explanations for such transitions. Disclosure is also required for gross amounts of changes in Level 3 fair-value measurements resulting from transactions of acquisition, sale, issuance, and maturation. The new disclosures are required on a quarterly basis. The aforesaid required disclosures are included in these financial statements. However, there is no requirement to apply the aforesaid disclosure requirements to financial statements for periods presented before the initial implementation of the standard. Accordingly, these financial statements do not include comparative figures for the new disclosures.

The implementation of these standards had no material effect.

8. Debtors and Creditors in Respect of Credit-Card Transactions

Upon capture of a credit-card transaction, the Company includes, in its balance sheet, a debt of the cardholder, if it is the issuing company, or a debt of another issuing company, against a liability to pay the merchant. If the merchant does not receive clearing services from the Company, the Company records a liability to pay another clearing company.

9. Offsetting Financial Instruments

Financial assets and financial liabilities are stated in the balance sheet at net amounts only when the Company has the enforceable legal right to offset them, and the intention to settle the asset and the liability on a net basis, simultaneously.

10. Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Company applies the measurement and disclosure rules set forth in the American accounting standard FAS 140 (ASC 860-10), “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” as amended by FAS 166 (ASC 860-10), “Accounting for Transfers of Financial Assets,” with regard to the accounting treatment of transfers of financial assets and extinguishment of liabilities.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Pursuant to these rules, transfers of financial assets are accounted for as sales if and only if all of the following conditions are met: (1) the financial asset transferred is isolated from the transferring party, including in situations of bankruptcy or other receivership; (2) any recipient (or, if the recipient is an entity whose sole purpose is to engage in securitization or in asset-backed financing activity, and that entity is barred from pledging or exchanging the financial assets which it receives – any third party holding beneficiary rights) may pledge or exchange the assets (or the beneficiary rights) received, and there is no term that also restricts the recipient (or the third party holding beneficiary rights) from exercising the right to pledge or exchange, and grants the transferring party a benefit that is more than trivial; (3) the transferring party, or consolidated companies included in its financial statements, or its agents, do not retain effective control of the financial assets or of the beneficiary rights referring to the transferred assets.

11. Fixed Assets (Buildings and Equipment)

Recognition and Measurement

Fixed-asset items are measured at cost, with the deduction of accrued depreciation and losses from impairment. The cost includes expenses directly attributable to the acquisition of the asset. The cost of assets created in-house includes the cost of materials and direct labor wages, as well as any additional cost directly attributable to bringing the asset to the location and condition necessary in order for it to operate in the manner intended by management.

Costs of acquired software that constitutes an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Company classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item “buildings and equipment.” With regard to the accounting treatment of software costs, see the section "Intangible Assets," below.

Subsequent Costs

Routine maintenance costs of fixed-asset items are allocated to profit or loss upon formation.

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or another amount substituted for the cost, with the deduction of the residual value of the asset.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset. Leased assets are depreciated over the shorter of the period of the lease and the period of use of the assets. Land owned by the Company is not depreciated.

Estimates related to the depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and adjusted when necessary.

Annual depreciation rates:

	%
Buildings and land	0-2
Investment property	0-2
Installations and improvements to rental properties	2-10
Computers and peripheral equipment	20-33
Software costs	20-25
Furniture and office equipment	6-20
Vehicles	15
Other	0-25

Initial Implementation of IAS 16, Property, Plant and Equipment

The initial implementation of this standard had no material effect on the financial statements of the Company.

12. Leases

Leases, including leases of land from the Israel Land Administration or from other third parties, in which the Group materially bears all of the risks and returns from the asset, are classified as financing leases. At initial recognition, leased assets are measured at an amount equal to the lower of the fair value and the present value of the minimum future leasing fees.

Other leases are classified as operational leases. The leased assets are not recognized in the balance sheet of the Group.

Payments in operational leases are allocated to profit and loss over the period of the lease.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Initial Implementation of IAS 17, Leases

The initial implementation of this standard had no material effect on the financial statements of the Company.

13. Intangible Assets

Goodwill

For information regarding the measurement of goodwill upon initial recognition, see section "Business Combinations," above. In subsequent periods, goodwill is measured at cost, with the deduction of accumulated losses from impairment.

Software Costs

Software acquired by the Company is measured at cost, with the deduction of accumulated depreciation and losses from impairment.

Costs related to software development or adaptation for in-house use are capitalized if and only if: the development costs can be measured reliably; the software is technically and commercially feasible; future economic benefits are expected; and the Company has the intention and sufficient resources to complete the development and use the software. Costs recognized as an intangible asset include direct costs of materials and services and direct labor wages for workers. Such costs are measured at cost, with the deduction of accumulated depreciation and losses from impairment. Overhead costs that cannot be directly attributed to the development of the software and research costs are recognized as expenses upon formation.

Depreciation

Depreciation is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life of intangible assets, including software assets, starting on the date when the assets are available for use.

Goodwill is not depreciated systematically, but is examined for impairment at least once a year.

Intangible assets created at the Company (such as software under development) are not depreciated systematically as long as they are not available for use. Accordingly, these intangible assets are examined for impairment at least once a year until they become available for use.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Subsequent Costs

Subsequent costs are recognized as intangible assets only when they increase the future economic benefit inherent in the asset in respect of which they were expended. Other costs, including costs related to goodwill or to brands developed in-house, are allocated to the statement of profit and loss when they arise.

Initial Implementation of IAS 38, Intangible Assets

The initial implementation of this standard had no material effect on the financial statements of the Company.

14. Investment Property

Investment property is property (land or buildings, or part of a building, or both) held (by the Company as an owner or through a financing lease) for the purpose of generating rental income or for equity appreciation or both, and not for the purpose of:

(A) Use in the delivery of services, or for administrative purposes; or

(B) Sale during the ordinary course of business.

Investment property is measured for the first time at the acquisition cost, plus transaction costs. In subsequent periods, the investment property is measured at cost, with the deduction of accumulated depreciation and losses from impairment.

Initial Implementation of IAS 40, Investment Property

The initial implementation of this standard had no material effect on the financial statements of the Company.

15. Impairment of Assets

Impairment of Non-Financial Assets

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

At each reporting date, an examination is performed to determine whether indications of impairment exist with regard to the non-financial assets of the Company, excluding deferred tax assets and including investments accounted for using the equity method. If such indications exist, an estimate of the recoverable amount of the asset is calculated. The recoverable amount of an asset is the higher of its value in use and net sale value (fair value net of selling expenses).

In determining value in use, the Group discounts the estimated future cash flows according to a pretax discounting rate reflecting market estimates regarding the time value of the money and the specific risks related to the asset.

Losses from impairment are recognized when the book value of the asset exceeds the recoverable amount, and are charged to profit and loss. Losses from impairment recognized with regard to cash-generating units are first allocated to the depreciation of the book value of the goodwill attributed to such units, and subsequently to the depreciation of the book value of the other assets in the cash-generating unit, proportionally.

With regard to cash-generating units that include goodwill, loss from impairment is recognized when the book value of the cash-generating unit, after inclusion of the goodwill, exceeds its recoverable amount.

Loss from impairment is allocated between the owners of the Company and non-controlling interests, according to the same basis of allocation as profit or loss.

Loss from the impairment of goodwill is not canceled. With regard to other assets, losses from impairment recognized in previous periods are reexamined each reporting period, in order to test for signs that the losses have decreased or no longer exist. Losses from impairment are canceled if a change has occurred in the estimates used to determine the recoverable amount, only if the book value of the asset, after cancellation of the loss from impairment, does not exceed the book value net of amortization or depreciation that would have been determined if no loss from impairment had been recognized.

Impairment of In-House Software Development Costs

In addition to the indications of impairment established in IAS 36, Impairment of Assets, tests of impairment of in-house software development costs shall also be performed when the signs listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

(1) The software is not expected to provide significant potential services;

(2) The manner or volume of use or expected use of the software has changed substantially;

(3) The software has been or will be substantially changed;

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

(4) Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;

(5) It is no longer expected that development will be completed and the software will be used.

If one or more of the signs listed above exists, an examination for impairment must be performed, in accordance with the rules set forth in IAS 36, Impairment of Assets.

Investments in Associates Accounted for Using the Equity Method

Investments in associates are examined for impairment when objective evidence of impairment exists, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, and in accordance with Ruling 4-1 of the Israel Securities Authority, Guidelines for Write-Downs of Long-Term Investments.

Goodwill constituting part of the investment in the associate is not recognized as a separate asset, and is therefore not examined separately for impairment. Impairment is examined with respect to the investment as a whole. If objective evidence exists indicating that the value of the investment may be impaired, the Group performs an estimate of the recoverable amount of the investment, which is the higher of its value in use and the net sale value.

In determining the value in use of an investment in an associate, the Group estimates its share of the current value of estimated future cash flows to be generated by the associate, including cash flows from the activities of the associate and the consideration for the final realization of the investment, or the current value of the estimated future cash flows expected to derive from dividends and from the final realization.

Loss from impairment is recognized when the book value of the investment, after application of the equity method, exceeds the recoverable amount, and is recognized under the item "the Company's share in operating profits or losses of associates, after taxes" in the statement of profit and loss. Loss from impairment is not allocated to a particular asset, including to goodwill constituting part of the investment in the associate. Loss from impairment shall be canceled only if changes have occurred in the estimates used to determine the recoverable amount of the investment since the date of the last recognition of loss from impairment. The book value of the investment, after cancellation of the loss from impairment, shall not exceed the book value of the investment that would have been determined according to the equity method if the loss from impairment had not been recognized. The cancellation of a loss from impairment shall be recognized under the item "the Company's share of operating profits or losses of associates, after taxes."

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Initial Implementation of IAS 36, Impairment of Assets

The initial implementation of this standard had no material effect on the financial statements of the Company.

16. Provision for Gift Offers for Credit-Card Holders

Gift offers for credit-card holders are detailed below.

(A) The Stars loyalty program

The financial statements include a provision for the Stars loyalty program. The provision made in the books for the Stars loyalty program is at a rate of 48% of the balance of unused Stars as of the end of 2011. This rate takes into consideration the Company's announcement of the termination of the loyalty program.

In January 2011, the Company notified its customers of the extension of the loyalty program until May 2011. In March 2011, customers were notified of the termination of the program and were offered, as noted, the possibility of accumulating Stars until a date in May 2011; the aforesaid balance of accumulated Stars could be used until December 31, 2011. In December 2011, the Company extended the deadline for use of accumulated Stars, as noted, to June 30, 2012.

The calculation of the provision for the loyalty program is based on the following assumptions:

(1) The Company engaged a statistics expert to determine the rate of the provision in respect of the future use of Stars (prior to the termination of the program). The Company adopted a conservative approach, which also takes into account heightened usage due to the termination of the loyalty program.

(2) Price per Star – factoring in the price of gifts given to cardholders, according to the mix of gift types offered up to the end of 2011.

(B) The Tracks Program

As part of the enhancement of its communication with its cardholders and enrichment of the range of benefits offered to them, in late 2011 the Company launched a new benefit plan, the Tracks program, which allows customers to receive benefits according to their interests. The goal of this program is to make the benefits offered to customers more relevant, while building a community of customers with which regular communications can be maintained. Expenses connected with the launch of this program were recorded in the financial statements.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

17. Employee Benefits

Obligations for Employee Benefits

The Company's obligations in respect of benefits after the termination of the employer-employee relationship and/or other long-term benefits, granted according to law and/or agreements and/or custom at the Company, are calculated according to the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, such calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The mortality rate is based on current directives of the Supervisor of the Capital Market, Insurance, and Savings. In addition, various statistics are taken into consideration with regard to mortality tables, rates of employees leaving, and the real rate of change of employee wages over time. The calculation also includes active employees expected to retire with preferred retirement terms, before the legal retirement age. Changes in the various actuarial characteristics would lead to results different from those obtained today.

Short-term employee benefits, such as labor wages, vacations, and bonuses, are reported on an uncapitalized basis, and the expense in respect thereof for the period is allocated when the relevant service is provided.

Instructions and Clarifications Concerning the Reinforcement of Internal Control over Financial Reporting on Employee Benefits

On March 27, 2011, the Supervisor of Banks issued instructions regarding the reinforcement of internal control over financial reporting on employee benefits. The instructions establish several clarifications regarding the assessment of the liability in respect of employee benefits and instructions regarding internal control over the process of financial reporting on employee benefits, with requirements for the involvement of a licensed actuary, identification and classification of liabilities in respect of employee benefits, maintenance of internal controls with regard to the reliance upon and validation of the actuary's assessment, and certain disclosure requirements.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

In addition, according to the circular, a banking corporation or credit-card company that expects a group of employees to be paid benefits beyond the contractual terms shall take into consideration the expected rate of employees leaving (including employees expected to retire under voluntary-retirement plans or upon receiving other preferred terms) and the benefits that these employees are expected to receive upon leaving. Following the implementation of the Supervisor's instructions, the liability in respect of severance pay for this group of employees shall be presented in the financial statements as the higher of the amount of the liability calculated on an actuarial basis, taking into consideration the additional cost expected to be incurred by the banking corporation or credit-card company due to the aforesaid benefits, and the amount of the liability calculated by multiplying the employee's monthly salary by the number of years of the employee's service, as required in Opinion Statement 20 of the Institute of Certified Public Accountants in Israel.

The instructions of the circular were implemented starting with the financial statements for periods after April 1, 2011. The effect of the initial implementation was included by retroactive implementation. The effect in the amount of NIS 14 million (net of tax) was allocated as an adjustment of the opening balance of retained earnings for the earliest period presented in these financial statements. Comparitive figures have been restated.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

The effect of the retroactive implementation on each of the previous reporting years for which data is included in the financial statements is set out below:

Reported amounts, in NIS millions

	Consolidated			The Company		
	December 31, 2010			December 31, 2010		
	Before restatement	Effect of restatement	After restatement	Before restatement	Effect of restatement	After restatement
Effect on balance sheet						
Other assets	200(1)(2)	5	205	1,573	5	1,578
Of which:						
Deferred taxes in respect of liabilities for employee benefits	-	3	-	-	3	-
Related companies	-	2	-	-	2	-
Other liabilities (employee benefits)	**315**	**19**	**334**	**475**	**19**	**494**
Shareholders' equity	1,277	(14)	1,263	1,277	(14)	1,263
Ratio of total capital to risk-adjusted assets	13.9%	(0.2%)	13.7%			
Ratio of core capital and Tier I capital	13.9%	(0.2%)	13.7%			

(1) Reclassified; see Note 1.C.5 above.

(2) Reclassified; see Note 2 below.

ISRACARD

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Reported amounts, in NIS millions

Consolidated

	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Before restatement	Effect of restatement	After restatement	Before restatement	Effect of restatement	After restatement
Effect on profit and loss items:						
Operating expenses	467(1)	*-	467	389(1)	*-	389
Sales and marketing expenses	109	*-	109	142	*-	142
General and administrative expenses	66	*-	66	69	*-	69
Payments to banks	392	*-	392	372	*-	372
Operating profit before taxes	254	*-	254	202	*-	202
Tax benefit on operating profit	68	*-	68	55	*-	55
Net profit attributed to shareholders of the Company	185	*-	185	148	*-	148
Earnings per share (in NIS)	253	*-	253	201	*-	201
Effect on statement of cash flows:						
Cash flows from operating activities	394(2)	(*-)	394	189(2)	(*-)	189
Cash flows from activity in liabilities and capital	263	*-	263	872	*-	872

* Amount lower than NIS 0.5 million.

(1) Reclassified; see Note 1.C.5 above.

(2) Reclassified; see Note 2 below.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Reported amounts, in NIS millions

The Company

	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Before restatement	Effect of restatement	After restatement	Before restatement	Effect of restatement	After restatement
Effect on profit and loss items:						
Operating expenses	459(1)	*-	459	388(1)	*-	388
Sales and marketing expenses	104	*-	104	140	*-	140
General and administrative expenses	63	*-	63	68	*-	68
Payments to banks	392	*-	392	372	*-	372
Operating profit before taxes	233	*-	233	190	*-	190
Tax benefit on operating profit	59	*-	59	51	*-	51
Net profit attributed to shareholders of the Company	185	*-	185	148	*-	148
Earnings per share (in NIS)	253	*-	253	201	*-	201
Effect on statement of cash flows:						
Cash flows from operating activities	(354)	(*-)	(354)	(71)	(*-)	(71)
Cash flows from activity in liabilities and capital	810	*-	810	864	*-	864

* Amount lower than NIS 0.5 million.

(1) Reclassified; see Note 1.C.5 above.

ISRACARD

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

18. Share-Based Payment

The fair value at the date of the grant of share-based payments to employees is allocated as a wage expense, in parallel to the increase in equity, over the period in which the unconditional eligibility for the grant is attained. The amount allocated as an expense in respect of share-based payment grants contingent upon vesting conditions, which are service conditions or execution conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are performance conditions constituting market conditions, the Group takes such conditions into consideration when estimating the fair value of the equity instruments granted. The Group therefore recognizes the expense in respect of such grants regardless of whether the conditions are fulfilled.

In transactions in which the Parent Company grants employees of the Company rights to equity instruments, where the grant is treated as a share-based payment transaction settled in equity instruments, the Company recognizes the fair value of the grant directly against a capital reserve from a controlling shareholder.

Initial Implementation of IFRS 2, Share-Based Payment

Equity grants after November 7, 2002 and before March 15, 2005 were treated retroactively, in accordance with IFRS 2. The amended measurement had no effect on the balance of retained earnings.

Until the implementation of the standard, share-based payments were included in a capital reserve from share-based payment; following the implementation of the standard, these payments were reclassified as capital reserves.

19. Contingent Liabilities

The financial statements include sufficient provisions for legal claims, according to the assessment of Management and based on the opinions of its legal advisors. The disclosure is in the format set forth in the directives of the Supervisor of Banks, such that the claims filed against the Company are classified into three groups:

(1) Probable risk – the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of claims in this risk group.

(2) Reasonably possible risk – the probability of realization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

(3) Remote risk – the probability of realization of the exposure to risk is under 20%. No provision is included in the financial statements in respect of claims in this risk group and no disclosure is given.

Legal claims regarding which the Supervisor of Banks has determined that the Company is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Company is required to reimburse.

20. Taxes on Income

Expenses for taxes on income include current and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity. In such cases, the expense for taxes on income is allocated to equity. Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws legislated or legislated in practice at the balance-sheet date, including changes in tax payments referring to previous years.

The provision for taxes on the income of a consolidated company that is a financial institution for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law. The value-added tax applied to wages at financial institutions is included in the statement of profit and loss under the item, "salaries and related expenses."

The Group recognizes deferred taxes with reference to temporary differences between the book value of assets and liabilities for the purposes of financial reporting and their value for tax purposes. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws legislated or legislated in practice at the balance-sheet date. The Company offsets deferred tax assets and liabilities in the event that an enforceable legal right exists for the offsetting of current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

Deferred tax assets in respect of losses carried forward and in respect of rights carried forward to offset tax are recognized in the books in cases in which the realization of the said tax in the foreseeable future is not in doubt. A deferred tax asset is recognized in respect of temporary differences when it is probable that a tax saving will be created in respect thereof at the reversal date. The creation of net deferred tax assets shall not exceed the current taxes in the accounting period, except in special cases in which the realization of the tax in the foreseeable future is not in doubt.

Tax benefits in respect of grants of equity instruments to employees for which no expense was recognized were allocated to equity in the period in which the deduction was recognized for tax purposes.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

21. Earnings Per Share

The Group presents data on basic earnings per share with respect to its common share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the common shares of the Group by the weighted average number of common shares in circulation during the period.

Initial Implementation of IAS 33, Earnings Per Share

The initial implementation of this standard had no effect on the manner of calculation of earnings per share.

22. Statement of Cash Flows

The statement of cash flows is presented classified into cash flows from operating activity, from activity in assets, and from activity in liabilities and capital. Cash flows from activity in assets and from activity in liabilities and capital are presented net, except for changes in non-monetary assets.

The item "cash and cash equivalents" includes cash on hand and deposits with banks for an original period of up to three months.

23. Segmental Reporting

A segment of activity is a component of the Company engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation, and with regard to which separate financial information exists. The format for reporting on the segments of activity of the Company is established in the Public Reporting Directives of the Supervisor of Banks. See also Note 26 below.

Note 1 – Significant Accounting Policies (cont.)

E. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

24. Transactions with Controlling Parties

Asset Transfers

Differences between the consideration received from the sale of assets to a controlling party and the book value of the assets in the Company's books are allocated to a capital reserve. Assets acquired from a controlling party are recorded in the financial statements at their book value in the books of the controlling party at the date of transfer to the Company, and the difference relative to the amount paid for the assets, net of related taxes, is allocated to equity.

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation

1. Directives Concerning the Format of the Statement of Profit and Loss of a Banking Corporation and the Adoption of GAAP for US Banks on Interest Income Measurement

A circular of the Supervisor of Banks was issued on December 29, 2011, with the aim of adjusting the Public Reporting Directives as follows:

- Establishing the manner of presentation of the statement of profit and loss – The directive adjusts the format of the statement of profit and loss to the prevalent manner of presentation globally and in the United States. The new format changes the manner of presentation of the components of financing profit in the statement of profit and loss itself and in the accompanying notes; changes the classification of linkage differentials on principal as part of "interest"; and changes the classification and names of other items of the statement of profit and loss. In addition, the directive cancels the item "profit from extraordinary transactions" and adopts the customary approach in the United States, according to which special items are defined as items that are "unusual" and "infrequent," and states that the classification of any event as a special item shall only be possible with advance approval of the Supervisor of Banks. The directive also establishes changes in the format of additional notes to the financial statements.

  The directives with regard to the format of the statement of profit and loss will be implemented beginning with the public report for the first quarter of 2012, retroactively. The initial implementation of the directives is expected to have no effect, other than the change in presentation.

- Adoption of the rules established in US GAAP regarding "nonrefundable fees and other costs" – The directive establishes rules for the treatment of fees from the creation of loans and direct costs of the creation of loans. The eligible fees and costs, according to the criteria established, shall not be recognized immediately in the statement of profit and loss, but shall be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of fees and costs related to commitments to allocate credit, including credit-card transactions. The directive also sets forth rules regarding the treatment of changes in the terms of debt that do not

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

constitute restructuring of problematic debt, treatment of early repayment of debts, and treatment of other credit granting transactions.

The rules established in the directive represent a significant change relative to the existing rules in the Public Reporting Directives. The preparations for the implementation of the rules established in the directive are complex; the Supervisor of Banks intends to guide the banking corporations and credit-card companies in the preparatory process, especially in the area of identifying eligible costs. The circular states that the rules on this matter will be implemented from January 1, 2013, forward. The directives concerning the change in the definition of “interest” in respect of impaired debts will be implemented, with regard to debts classified as impaired, from January 1, 2012 forward only.

The Company is examining the expected implications of the initial implementation of the directives.

2. In July 2006, the Israel Accounting Standards Board published **Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS)**. The standard stipulates that entities subject to the Securities Law, 1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting as of January 1, 2008. The aforesaid does not apply to banking corporations and credit-card companies whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks.

   In June 2009, the Supervisor of Banks issued a letter concerning reporting by banking corporations and credit-card companies in Israel in accordance with IFRS, which establishes the expected manner of adoption of IFRS by banking corporations and credit-card companies.

   It was further clarified that subsequent to the completion of the process of adjusting the directives to the international standards, the Supervisor of Banks will retain the authority to set forth binding clarifications with regard to the manner of implementation of the requirements of the international standards, and to set forth additional directives in cases in which it is necessary due to the requirements of the supervisory agencies in developed countries globally, or on matters not addressed by the international standards. In addition, the Supervisor of Banks will retain the authority to establish disclosure and reporting requirements.

   Pursuant to the circular, the deadlines for reporting according to IFRS by banking corporations and credit-card companies are as follows:

   (1) On matters related to the core business of banking – As of January 1, 2013. The Supervisor of Banks intends to reach a final decision on this matter. The final decision will be made taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards. A final decision on this matter has not yet been made.

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

(2) On matters not related to the core business of banking – January 1, 2011. However, the IFRS listed below have not yet taken effect, and will be adopted in accordance with the directives of the Supervisor of Banks, when such directives are published, with regard to the timing and manner of the initial implementation of the standards:

- IAS 7, Statement of Cash Flows;
- IAS 12, Income Taxes;
- IAS 19, Employee Benefits;
- IAS 23, Borrowing Costs;
- IAS 24, Related Party Disclosures.

A circular concerning the adoption of certain IFRSs was issued on November 30, 2011. Among other matters, the circular states that these IFRSs, with the exception of IAS 19, Employee Benefits, shall be implemented by banking corporations and credit-card companies as of January 1, 2012. Upon initial implementation of these IFRS, banking corporations and credit-card companies are required to act in accordance with the transitional directives set forth in the standards, including retroactive amendment of comparison figures if required.

Additional details regarding the standards to be adopted as of January 1, 2012 are set out below.

IAS 12, Taxes on Income

The standard establishes the accounting treatment of taxes on income. Pursuant to the standard, deferred taxes shall be recognized with reference to temporary differences between the book value of assets and liabilities and the value of the assets and liabilities for tax purposes, with the exceptions stipulated in the standard, according to which deferred taxes shall not be recognized in respect of temporary differences. The deferred taxes shall be measured in accordance with the tax rates expected to apply during the period in which the temporary differences will be realized, based on tax rates and tax laws legislated, or the legislation of which has been essentially completed, by the end of the reporting period. Current tax liabilities or assets in respect of the current period and in respect of previous periods shall be measured according to the estimated amount to be paid to the tax authorities or refunded by the tax authorities, using the tax rates and tax laws legislated, or the legislation of which has been essentially completed, by the end of the balance-sheet period.

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

The standard further states that deferred tax assets shall be recognized in the books in respect of losses carried forward, tax credits, and deductible temporary differences when it is probable that taxable income against which they can be used will exist in the future. In accordance with the rules set forth in the standard, as adopted in the Public Reporting Directives of the Supervisor of Banks, the term "probable" shall be defined consistently with the application of the phrase "more likely than not," instead of the translation of the term "probable" in the Public Reporting Directives implemented today, in which the threshold is established as "beyond any reasonable doubt."

In addition, in situations of uncertainty with regard to taxes on income, banking corporations shall be required to implement the rules set forth in FIN 48, Accounting for Uncertainty in Income Taxes, as long as these rules do not contradict IFRS, by establishing policies and procedures and implementing documentation requirements with respect to tax positions of various degrees of uncertainty.

The initial implementation of this standard is expected to have no material effect.

IAS 7, Statement of Cash Flows

The standard states that information should be provided regarding changes in cash and cash equivalents during the reporting period through the statement of cash flows. Changes have been established in the Public Reporting Directives of the Supervisor of Banks in the present format of the statement of cash flows, to adjust this format to the requirements of the standard and to the reporting requirements established in certain other IFRS. Specifically, cash flows shall be classified into cash flows from operating activities, investing activities, and financing activities. In addition, a determination was made regarding the activities that shall be considered principal revenue-producing activities for the banking corporation, and that consequently shall be classified as operating activities. Guidelines were also established with regard to the presentation of cash flows in gross and net amounts. The effect of changes in exchange rates on cash and cash equivalents held in foreign currency or due for settlement in foreign currency shall be stated separately from other changes in cash and cash equivalents. Cash flows from interest and dividends received or paid and cash flows arising from taxes on income shall be given separate disclosure.

In addition, the cash flow statement was adjusted to other changes that have occurred in the Public Reporting Directives, pursuant to the adoption of certain IFRS.

The initial implementation of this standard is expected to have no effect, other than the change in presentation.

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

IAS 23, Borrowing Costs

The standard states that entities must capitalize borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that requires a substantial period of time to prepare for its designated use or sale, including fixed assets, software assets, and other assets where a long period is necessary in order to bring the asset to a condition in which it can fulfill its designated function or be sold. However, it has been clarified in the directives of the Supervisor of Banks that banking corporations shall not capitalize borrowing costs without establishing clear policies, procedures, and controls with regard to the criteria for recognition of assets as qualifying assets and with regard to the borrowing costs that are capitalized.

Accordingly, the initial implementation of this standard is expected to have no effect.

IAS 24, Related Party Disclosures

The standard establishes the required disclosures by an entity regarding its relationship with a related party and regarding transactions and unsettled balances with a related party.

In addition, disclosure is required for compensation to key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

As part of the expected adoption of the standard by the Supervisor of Banks, the format of the required disclosure in the financial statements will be adjusted, in order to comply with the disclosure requirements of IAS 24 as well as the additional disclosures required under the Securities Regulations (Annual Financial Statements), 2010. The initial implementation of this standard is expected to have no effect, other than the change in presentation.

3. In December 2006, the Israel Accounting Standards Board issued Accounting Standard No. 23, Accounting Treatment of Transactions between an Entity and its Controlling Party. The standard replaces the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Party in Financial Statements), 1996, as adopted in the Public Reporting Directives of the Supervisor of Banks. The standard stipulates that assets and liabilities in respect of which a transaction has been executed between an entity and its controlling party shall be measured at the date of the transaction at fair value, with the difference between the fair value and the consideration allocated in the transaction to be allocated to equity. A negative difference essentially constitutes a dividend and therefore reduces the balance of retained earnings. A positive difference essentially constitutes an owner's investment, and is therefore stated in a separate item in equity entitled "capital reserve from a transaction between an entity and its controlling party."

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

The standard addresses three issues related to transactions between an entity and its controlling party, as follows: (1) transfers of assets to the entity from the controlling party, or alternatively, transfers of assets from the entity to the controlling party; (2) undertaking of a liability of the entity towards a third party, in full or in part, by the controlling party, or indemnification of the entity by its controlling party for expenses, or a waiver by the controlling party of a debt owed by the entity, in full or in part; and (3) loans given to or received from the controlling party. In addition, the standard stipulates the disclosure to be made in the financial statements with regard to transactions between an entity and its controlling party during the period.

A circular concerning the adoption of certain IFRS was issued on November 30, 2011. Among other matters, the circular states that as of January 1, 2012, for the purposes of accounting for transactions between a banking corporation and its controlling party or a company controlled by the banking corporation, GAAP for US banks should be implemented. In situations where these rules do not address the treatment method, the rules established in Standard 23 in Israel shall be applied, in a manner consistent with the principles of the adoption of IFRS on matters not related to the core business of banking.

The Company is examining the expected effect of the initial implementation of this standard.

4. A New System of New Financial Reporting Standards Concerning the Consolidation of Financial Statements and Related Matters

In May 2011, the IASB published a new system of standards, which is part of the consolidation project conducted jointly by the IASB and the FASB, and essentially replaces the existing standards concerning the consolidation of financial statements and joint transactions, and includes a number of changes with regard to associates. Pursuant to the directives of the Supervisor of Banks, banking corporations and credit-card companies shall routinely update the accounting treatment of matters adopted in the Public Reporting Directives. Such update is required prior to the inception date and according to the transitional directives established in new IFRS to be published on these matters, and in accordance with the adoption principles and clarifications of the Supervisor of Banks. In light of the foregoing, the implementation of the rules established in the new system of standards concerning the consolidation of financial statements and related matters shall be performed subject to the guidelines set forth in the Public Reporting Directives, among other matters, concerning the implementation of the standard, on matters regarding which specific rules were established or adopted in the Public Reporting Directives that differ from the rules set forth in the standard and/or in the guidelines referring to the standard.

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

IFRS 10, Consolidated Financial Statements

This standard replaces the instructions of IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities, with regard to the consolidation of financial statements, such that the instructions in IAS 27 will continue to apply only to separate financial statements.

The standard presents a new control model to be used in determining whether an investor controls an investee company and must therefore consolidate it. The standard requires application of this model to all investee entities, both those currently covered by IAS 27 and those currently covered by SIC 12. Under the model, an investor controls an investee company when the investor is exposed or entitled to variable returns deriving from the involvement in the investee company, and has the ability to influence such returns through power over the investee company.

“De facto” circumstances are to be taken into consideration in evaluating control; thus, the standard essentially provides a model of effective control. In other words, if effective control exists, the consolidation of financial statements is required. In addition, in testing for control, all significant potential voting rights shall be taken into consideration, even if they cannot be exercised immediately. With regard to potential voting rights, the structure of the rights, the reasons for the existence of the rights, and the terms of the rights should be examined.

The standard will be implemented in annual periods beginning January 1, 2013 or later, by retroactive implementation. Early implementation is possible, subject to disclosure, and subject to early adoption of the two additional standards published concurrently: IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities.

In light of the fact that at this stage the Supervisor of Banks has not established specific instructions regarding the manner of adoption of the new system of IFRS concerning the consolidation of financial statements and related matters, at this stage it is not possible to estimate the expected effect of the implementation thereof.

IFRS 11, Joint Arrangements

This standard replaces the instructions of IAS 31, Interests in Joint Ventures, and amends some of the instructions of IAS 28, Investments in Associates.

The standard defines joint arrangements as arrangements under joint control, and divides such arrangements into two categories: (1) joint activities; and (2) joint transactions.

Joint control is consensual, contractual shared control (as defined in IFRS 10) over an arrangement, and exists only when unanimous agreement of the parties sharing the control is required in order to make decisions regarding the relevant activities of the arrangement.

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

The standard will be implemented in annual periods beginning January 1, 2013 or later, by retroactive implementation. However, individual directives regarding the manner of retroactive implementation exist for certain cases. Early implementation is possible, subject to disclosure, and subject to early adoption of the two additional standards published concurrently: IFRS 10, Consolidated Financial Statements, and IFRS 12, Disclosure of Interests in Other Entities.

IFRS 12, Disclosure of Interests in Other Entities

This standard contains comprehensive disclosure requirements regarding interests in subsidiaries, joint arrangements, associates, and structured entities.

Structured entities are entities constructed such that voting rights and similar interests are not the dominant factor in determining the controlling party. The definition of interests in the standard is broad, and includes contractual and/or non contractual involvement that exposes the company to changes in returns as a result of the performance of the investee entity.

The goal of the new disclosure requirements is to enable users of financial statements to understand the essence and accompanying risks of the company’s interests in other entities, and to understand the effect of such interests on the financial condition, results of operations, and cash flows of the company. This goal is expressed in extensive, comprehensive disclosure requirements, including with regard to the judgment and significant assumptions used in establishing the essence of the interests in entities and arrangements, interests in subsidiaries, interests in joint arrangements and associates, and interests in structured entities.

The standard will be implemented in annual periods beginning January 1, 2013 or later. Early implementation is possible, subject to early adoption of the two additional standards published concurrently: IFRS 11, Joint Arrangements, and IFRS 10, Consolidated Financial Statements. However, the additional disclosure requirements under IFRS 12 can be included early without the early adoption of the additional standards.

The initial implementation of this standard is expected to have no effect, other than the change in presentation.

The Company has not yet begun its examination of the consequences of the adoption of these standards for the financial statements.

Note 1 – Significant Accounting Policies (cont.)

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

5. ASU 2011-04, Fair Value Measurement

This Accounting Standard Update updates the instructions regarding the manner of measuring fair value set forth in FAS 157 (ASU 820-10).

The updates in the ASU include clarifications by the FASB of its intentions regarding the manner of implementation of fair value measurement rules and the current disclosure requirements, as well as updates that establish principles or specific requirements regarding fair value measurement and regarding the disclosure requirements pertaining to fair value measurements.

Among other matters, these updates include additional clarifications and specific instructions with regard to the measurement of fair value of financial instruments managed within a portfolio; rules for the measurement of fair value of instruments classified in equity by the reporting entity; and clarifications regarding the application of premiums or discounts in calculating the fair value of an accounting unit of an asset or liability. In addition, the standard sets forth additional disclosure requirements, as follows:

(1) With regard to fair value measurements classified as Level 3 in the fair value hierarchy:

- ♦ The assessment process implemented by the reporting entity;
- ♦ Analysis of the sensitivity of the fair value measurement to changes in unobservable inputs and the interaction between such unobservable inputs, if any.

(2) Use of a nonfinancial asset in a manner different from the highest and best use, when the asset is measured at fair value in the balance sheet or when its fair value is included in the disclosures according to the assumption of highest and best use.

(3) Classification into levels, within the fair value hierarchy, for items not measured at fair value in the balance sheet, but for which the disclosure of fair value is required.

The standard will be implemented in annual periods beginning January 1, 2012. Early implementation is not permitted. The updates established in the ASU shall be implemented prospectively.

The initial implementation of this standard is expected to have no effect, other than the change in presentation.

Note 2 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2011	2010	2011	2010
Cash on hand[(1)]	104	50	98	50
Deposits with banks for an original term of up to 3 months[(1)]	252	**11	249	*-
Total cash and cash equivalents	**356**	**61**	**347**	**50**
Other deposits with banks[(1)]	22	15	22	15
Total	**378**	**76**	**369**	**65**

* Amount lower than NIS 0.5 million.

** Reclassified. Deposits in respect of gift cards classified into other assets.

(1) After deduction of the provision for credit losses.

Note 3 – Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

General

The Company has implemented the new directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provisions for credit losses as of January 1, 2011. These financial statements include disclosures according to the new format, adjusted to the reporting requirements of the aforesaid directive. Because the new directive was implemented prospectively, without restatement of comparitive figures, in order to provide comparative disclosure, data for the current period are presented below in comparison with the appropriate balances as of December 31, 2010 (pro-forma data), as they would have been if the directive had been implemented for the first time in that year. The pro-forma data were published for the first time in the Financial Statements for 2010. The pro-forma data were restated following examinations performed by the Company during the period.

The effect of the initial implementation of the new directive on provisions for credit losses in respect of debts and in respect of off-balance-sheet credit instruments, and the change in the allowance in the one-year period ended December 31, 2011, are set out below:

	For the year ended December 31, 2011		
	Individual provision	**Group provision**	**Total**
Allowance for credit losses as of Dec. 31, 2010*	48	31	79
Allowance for credit losses as of Dec. 31, 2010 included in “other assets” item	3	2	5
Net accounting write-offs recognized as of Jan. 1, 2011***	**-	(67)	(67)
Other changes in the allowance for credit losses as of Jan. 1, 2011 (allocated to capital)***	(40)	100	60
Provisions for credit losses, net	5	44	49
Accounting write-offs	(12)	(34)	(46)
Collection of debts written off in accounting in previous years	**-	2	2
Accounting write-offs, net	12	(32)	(44)
Allowance for credit losses as of Dec. 31, 2011	**4**	**78**	**82**

* Prior to January 1, 2011, this amount was presented under the item "provision for doubtful debts."

** Amount lower than NIS 0.5 million.

*** As a result of the initial implementation of the new directive on the measurement and disclosure of impaired debts, credit risk, and provision for credit losses.

Note 3 – Debtors in Respect of Credit-Card Activity (cont.)

Reported amounts

In NIS millions

A. Debtors in respect of credit-card activity

	2011 Average annual interest rate		Consolidated		The Company	
	For daily balance	For transactions in the last month	December 31 2011	December 31 2010	December 31 2011	December 31 2010
	%	%	In NIS millions			
Debtors in respect of credit cards[(1) (3)]	-	-	10,215	10,197	10,215	10,161
Credit to cardholders[(2) (3)]	10.66	9.92	657	731	-	-
Credit to merchants[(4)]	5.53	4.81	682	380	483	258
Total debtors and credit to credit-card holders and merchants[(5) (6)]			**11,554**	**11,308**	**10,698**	**10,419**
Less: Provision for credit losses			(63)	(79)	(28)	(21)
Total debtors and credit to credit-card holders and merchants, net			**11,491**	**11,229**	**10,670**	**10,398**
Companies and international credit-card organization[(6) (7)]			621	618	177	198
Income receivable			20	18	10	8
Others			*-	*-	*-	*-
Total debtors in respect of credit-card activity, net			**12,132**	**11,865**	**10,857**	**10,604**
(1) Of which, under the responsibility of banks			8,682	8,760	8,682	8,760
(2) Of which, under the responsibility of banks			75	66	-	-

(3) Debtors in respect of credit cards – non-interest bearing. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions. Credit to cardholders – interest bearing, including credit in installments, revolving credit transactions, direct credit, and other transactions.

(4) Includes advance payments to merchants in the amount of NIS 483 million (Dec. 31, 2010: NIS 255 million).

(5) Of which, NIS 633 million and NIS 496 million (consolidated and the Company, respectively) debts examined on an individual basis, including debts found to be unimpaired, the provision for credit losses in respect of which was calculated on a group basis. For further details, see Note 3.B below.

(6) Of which, NIS 11,564 million and NIS 10,389 million (consolidated and the Company, respectively) debts not examined individually, the provision for credit losses in respect of which was calculated on a group basis. For details, see Note 3.C below.

(7) Of which, a provision for credit losses in the amount of NIS 2 million in 2011, consolidated, and an amount lower than NIS 0.5 million at the Company.

* Amount lower than NIS 0.5 million.

Note 3 – Debtors in Respect of Credit-Card Activity (cont.)

Reported amounts

In NIS millions

A. Debtors in respect of credit-card activity (cont.)

Consolidated

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Debtors in respect of credit-card activity – debts examined on an individual basis	633	7	626	302	9	293
Debtors in respect of credit-card activity – debts examined on a group basis	11,564	58	11,506	11,575	54	11,521
Total debtors in respect of credit-card activity	**12,197**	**65**	**12,132**	**11,877**	**63**	**11,814**

The Company

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Debtors in respect of credit-card activity – debts examined on an individual basis	496	5	491	259	5	254
Debtors in respect of credit-card activity – debts examined on a group basis	10,389	23	10,366	10,264	16	10,248
Total debtors in respect of credit-card activity	**10,885**	**28**	**10,857**	**10,523**	**21**	**10,502**

Note 3 – Debtors in Respect of Credit-Card Activity (cont.)

Reported amounts

In NIS millions

B. Debtors in respect of credit-card activity – debts examined on an individual basis

1. Impaired debts examined on an individual basis include:

(A) Consolidated

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired debts*	3	3	-	8	8	-
Other unimpaired debts**	630	4	626	294	1	293
Total debts examined on an individual basis	633	7	626	302	9	293

(B) The Company

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired debts*	2	2	-	4	4	-
Other unimpaired debts**	494	3	491	255	1	254
Total debts examined on an individual basis	496	5	491	259	5	254

* Impaired debts not accruing interest income, including certain restructured debts .

** Debts examined on an individual basis and found to be unimpaired. The provision for credit losses in respect of these debts was calculated on a group basis.

Note 3 – Debtors in Respect of Credit-Card Activity (cont.)

Reported amounts

In NIS millions

Additional information regarding impaired debts examined on an individual basis[(1)]

	Consolidated		The Company	
	December 31		December 31	
	2011	2010	2011	2010
		(pro-forma data)		(pro-forma data)
2. Impaired debts in respect of which a provision for credit losses on an individual basis exists	3	8	2	4
Total impaired debts	3	8	2	4
3. Problematic restructured debts for which terms of the debt not accruing interest income were changed	3	8	2	4
Total impaired debts	3	8	2	4

(1) Restructured, examined individually and classified as impaired.

Note 3 – Debtors in Respect of Credit-Card Activity (cont.)

Reported amounts

In NIS millions

C. Debtors in respect of credit-card activity – debts examined on a group basis

1. Consolidated

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired debts	11	5	6	16	8	8
Unimpaired debts in arrears of 90 days or more	-	-	-	-	-	-
Unimpaired debts in arrears of 30 to 89 days	13	6	7	18	8	10
Other unimpaired debts	11,540	47	11,493	11,541	38	11,503
Total debts examined on a group basis	11,564	58	11,506	11,575	54	11,521

2. The Company

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired debts	7	3	4	8	2	6
Unimpaired debts in arrears of 90 days or more	-	-	-	-	-	-
Unimpaired debts in arrears of 30 to 89 days	7	3	4	9	3	6
Other unimpaired debts	10,375	17	10,358	10,247	11	10,236
Total debts examined on a group basis	10,389	23	10,366	10,264	16	10,248

Note 3A – Provisions for Credit Losses in Respect of Debts and in Respect of Off-Balance-Sheet Credit Instruments

Reported amounts

In NIS millions

A. Consolidated

	For the year ended December 31, 2011		
	Individual provision	Group provision	Total
Allowance for credit losses as of Jan. 1, 2011 (pro-forma data)	**11**	**66**	**77**
Provisions for credit losses, net	5	44	49
Accounting write-offs	(12)	(34)	(46)
Collection of debts written off for accounting purposes in previous years	*-	2	2
Accounting write-offs, net	(12)	(32)	(44)
Allowance for credit losses as of Dec. 31, 2011	**4**	**78**	**82**
Composition of allowance as of Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	3	60	63
In respect of companies and the international credit-card organization	*-	2	2
In respect of other debts	1	1	2
In respect of off-balance-sheet credit instruments	-	15	15
Composition of allowance as of Jan. 1, 2011 (pro-forma data)			
In respect of debtors and credit to credit-card holders and merchants	8	55	63
In respect of companies and the international credit-card organization	*-	*-	*-
In respect of other debts	3	1	4
In respect of off-balance-sheet credit instruments	-	10	10

* Amount lower than NIS 0.5 million.

Note 3A – Provisions for Credit Losses in Respect of Debts and in Respect of Off-Balance-Sheet Credit Instruments (cont.)

Reported amounts

In NIS millions

B. The Company

	For the year ended December 31, 2011		
	Individual provision	Group provision	Total
Allowance for credit losses as of Jan. 1, 2011 (pro-forma data)	**6**	**24**	**30**
Provisions for credit losses, net	(*-)	35	35
Accounting write-offs	(4)	(24)	(28)
Collection of debts written off for accounting purposes in previous years	*-	1	1
Accounting write-offs, net	(4)	(23)	(27)
Allowance for credit losses as of Dec. 31, 2011	**2**	**36**	**38**
Composition of allowance as of Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	2	26	28
In respect of companies and the international credit-card organization	-	*-	*-
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	10	10
Composition of allowance as of Jan. 1, 2011 (pro-forma data)			
In respect of debtors and credit to credit-card holders and merchants	4	17	21
In respect of companies and the international credit-card organization	-	*-	*-
In respect of other debts	2	1	3
In respect of off-balance-sheet credit instruments	-	6	6

* Amount lower than NIS 0.5 million.

Note 4 – Debtors[(1)] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

	December 31, 2011			
		Debtors in respect of credit-card activity		
	Number of borrowers[(2)]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[(3)]
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,104,909	1,661	1,582	231
Borrower balances over 5 and up to 10	378,450	2,273	2,102	454
Borrower balances over 10 and up to 15	167,774	1,587	1,416	468
Borrower balances over 15 and up to 20	109,851	1,101	882	823
Borrower balances over 20 and up to 30	114,209	1,297	997	1,530
Borrower balances over 30 and up to 40	93,452	900	577	2,437
Borrower balances over 40 and up to 80	100,427	1,475	863	3,478
Borrower balances over 80 and up to 150	10,908	329	179	676
Borrower balances over 150 and up to 300	782	103	60	50
Borrower balances over 300 and up to 600	250	67	29	38
Borrower balances over 600 and up to 1,200	124	68	32	37
Borrower balances over 1,200 and up to 2,000	-	-	-	-
Borrower balances over 2,000 and up to 4,000	90	113	32	76
Borrower balances over 4,000 and up to 8,000	25	75	6	50
Borrower balances over 8,000 and up to 20,000	14	112	-	53
Borrower balances over 20,000 and up to 40,000	5	106	-	23
Borrower balances over 40,000 and up to 200,000	10	614	-	268
Borrower balances over 200,000 and up to 400,000	1	296	-	-
Total	**2,081,281**	**12,177**	**8,757**	**10,692**
Income receivable and other debtors	-	20	-	-
Total	**2,081,281**	**12,197**	**8,757**	**10,692**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the provision for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and off-balance-sheet credit risk

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

ISRACARD

Note 4 – Debtors[1] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (cont.)

Consolidated

	December 31, 2010			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]*
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,056,872	1,630	1,555	244
Borrower balances over 5 and up to 10	368,680	2,328	2,172	346
Borrower balances over 10 and up to 15	165,460	1,644	1,482	370
Borrower balances over 15 and up to 20	103,750	1,115	909	700
Borrower balances over 20 and up to 30	95,883	1,245	975	1,111
Borrower balances over 30 and up to 40	80,556	807	537	2,069
Borrower balances over 40 and up to 80	94,419	1,435	846	3,149
Borrower balances over 80 and up to 150	11,762	354	186	725
Borrower balances over 150 and up to 300	870	119	71	53
Borrower balances over 300 and up to 600	260	74	31	36
Borrower balances over 600 and up to 1,200	119	55	22	45
Borrower balances over 1,200 and up to 2,000	-	-	-	-
Borrower balances over 2,000 and up to 4,000	86	130	35	47
Borrower balances over 4,000 and up to 8,000	12	49	5	15
Borrower balances over 8,000 and up to 20,000	12	109	-	25
Borrower balances over 20,000 and up to 40,000	2	63	-	-
Borrower balances over 40,000 and up to 200,000	6	351	-	47
Borrower balances over 200,000 and up to 400,000	1	339	-	-
Total	**1,978,750**	**11,847**	**8,826**	**8,982**
Income receivable and other debtors	-	18	-	-
Total	**1,978,750**	**11,865**	**8,826**	**8,982**

(1) After deducting specific provisions for doubtful debts.

(2) Number of borrowers by total debtors and off-balance-sheet credit risk

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

* Restated.

Note 5 – Securities

Reported amounts

In NIS millions

	December 31, 2011			
	Balance-sheet value	**Amortised cost (in shares – cost)**	**Unrecognized profits (losses) from adjustments to fair value********	**Fair value*** **
Securities available for sale:				
Shares of others**	96	52	44	96
Israeli government bonds	-	-	-	-
Total securities available for sale	**96**	**52**	**44**	**96**

	December 31, 2010			
	Balance-sheet value	**Amortised cost (in shares – cost)**	**Unrecognized profits (losses) from adjustments to fair value********	**Fair value*** **
Securities available for sale:				
Shares of others**	74	65	9	74
Israeli government bonds	-	-	(*-)	-
Total securities available for sale	**74**	**65**	**9**	**74**

* Amount lower than NIS 0.5 million.

** Includes shares for which no fair value is available, which are presented at cost, less impairment, in the amount of NIS 11 million as of December 31, 2011 (Dec. 31, 2010: NIS 14 million).

*** Fair-value data are based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from the sale of a large volume of securities.

**** Included in equity under the item "adjustments for presentation of securities available for sale at fair value."

Acquisition of Shares of MasterCard Incorporated ("MC")

On December 13, 2007, the Company purchased 150,380 Class B Common Stock shares of MC from Europay, in consideration for a total of approximately NIS 101 million. The amount of the purchase reflects the fair value of the investment at that date.

In June 2008, the Company sold some of these shares on the stock market. In December 2011, the Company sold an additional part of the shares; following this sale, 59,215 shares of MC remain under the ownership of the Company.

ISRACARD

Note 6 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies

Reported amounts

In NIS millions

1. Composition

A. Consolidated

	December 31, 2011			December 31, 2010		
	Associates	Consolidated companies	Total	Associates	Consolidated companies	Total
Investments in shares by equity method (including goodwill)	*-	-	*-	*-[(1)]	-	*-
Other investments						
Owners' loans	2	-	2	3[(1)]	-	3
Total investments	2	-	2	3	-	3
Of which: profits (losses) accrued since acquisition date	(2)	-	(2)	-	-	-
Items accrued in equity since acquisition date						
Details of goodwill:						
Original amount	-	10	10	-	10	10
Book balance**	-	-	-	-	7	7

B. The Company

	December 31, 2011			December 31, 2010		
	Associates	Consolidated companies	Total	Associates	Consolidated companies	Total
Investments in shares by equity method (including goodwill)	*-	375	375	*-[(1)]	364	364
Other investments						
Owners' loans	-	-	-	1[(1)]	-	1
Total investments	***-**	**375**	**375**	**1**	**364**	**365**
Of which: profits (losses) accrued since acquisition date	(2)	105	103	-	75	75
Items accrued in equity since acquisition date						
Details of goodwill:						
Original amount	-	10	10	-	10	10
Book balance**	-	-	-	-	7	7

* Amount lower than NIS 0.5 million.

** The balance of goodwill in respect of a consolidated company is presented under the item "goodwill." Includes the balance of goodwill recognized before January 1, 2011, and systematically depreciated up to that date. During the second quarter of 2011, the Company performed a write-down of goodwill in respect of the investment in Global. For further details, also see Section 3.D below.

(1) Reclassified.

Note 6 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

2. The Company's share in profits or losses of investee companies (consolidated: associates)

	Consolidated			The Company		
	2011	2010	2009	2011	2010	2009
The Company's share in operating profits of investee companies (consolidated: associates)	*-	*-	*-	39	20	14
Losses from impairment of investee companies (consolidated: associates)	(2)	-	-	(2)	-	-
Provision for taxes:						
Current taxes	*-	*-	*-	14	14	12
Deferred taxes	*-	*-	*-	(5)	(5)	(7)
Total provision for taxes	*-	*-	*-	9	9	5
The Company's share in operating profits (losses) after taxes of investee companies (consolidated: associates)	**(2)**	***-**	***-**	**28**	**11**	**9**

* Amount lower than NIS 0.5 million.

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

3. Details

A. Consolidated subsidiaries

Company name and activity[1]	Share in capital granting the right to receive profits		Share in voting rights		Investment in shares	
					By equity method[2]	
	2011	2010	2011	2010	2011	2010
	In percent				In NIS millions	
Isracard Mimun Ltd.						
Activity: Granting Credit	100%	100%	100%	100%	14	11
Isracard Nechasim Ltd.						
Activity: Asset holding company	100%	100%	100%	100%	95	90
Global Factoring Ltd.						
Activity: Factoring	100%	51%	100%	51%	5	10
Europay (Eurocard) Israel Ltd.						
Activity: Banking auxiliary corporation	98.2%	98.2%	98.2%	98.2%	181	180
Tzameret Mimunim Ltd.						
Activity: Credit-card discounting	100%	100%	100%	100%	80	73

B. Associates

Kidum Mivne Iguach Ltd.						
Activity: Granting vehicle loans	20%	20%	20%	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.						
Activity: Granting vehicle loans	20%	20%	20%	20%	*-	-[4]
Life Style Financing Ltd.						
Activity: Granting credit	15%	-	15%	-	*-	-

* Amount lower than NIS 0.5 million.

(1) Details in accordance with Section 32G of the Public Reporting Directives, Annual Financial Statements.

(2) Including balances of surplus attributed costs and goodwill, net of cumulative losses from impairment.

(3) Balance of goodwill, net of cumulative losses from impairment of goodwill; included in the column, "investment in shares by equity method."

(4) Reclassified.

Investments in shares		Goodwill balances[3]		Other capital investments		Contribution to net operating profit attributed to shareholders of the Company		Loss from impairment	
By market value									
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
In NIS millions									
-	-	-	-	-	-	23	8	-	-
-	-	-	-	-	-	6	7	-	-
-	-	-	7	-	-	(1)	(7)	(7)	-
-	-	-	-	-	-	2	-	-	-
-	-	-	-	-	-	7	3	-	-
-	-	-	-	2	2	*-	-	-	-
-	-	-	-	*-	1[4]	-	-	(2)	-
-	-	-	-	-	-	-	-	-	-

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates

1. Condensed information on financial position

	Ownership rate	Total assets	Total liabilities	Capital attributed to owners of the Company
		In NIS millions		
2011				
Kidum Mivne Iguach Ltd.	20%	24	24	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	68	72	(4)
Life Style Financing Ltd.[1]	15%	60	59	1

(1) The Company accounts for Life Style Financing Ltd. based on the equity method, despite the fact that its holding is at a rate of less than 20%, due to the existence of qualitative indicators of material influence.

	Ownership rate	Total assets	Total liabilities	Capital attributed to owners of the Company
		In NIS millions		
2010				
Kidum Mivne Iguach Ltd.	20%	18	18	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	36	41	(5)

* Amount lower than NIS 0.5 million.

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates (cont.)

2. Condensed information on results of operations

	Ownership rate	Annual net profit (loss)	Profit (loss) attributed to owners of the Company
		In NIS millions	
2011			
Kidum Mivne Iguach Ltd.	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(*-)	(*-)
Life Style Financing Ltd.	15%	*-	*-
2010			
Kidum Mivne Iguach Ltd.	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(3)	(3)
2009			
Kidum Mivne Iguach Ltd.	20%	(*-)	(*-)
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(1)	(1)

* Amount lower than NIS 0.5 million.

D. Changes in rates of holdings in subsidiaries without loss of control

In April 2011, an agreement was signed between the Company and the other shareholders of Global Factoring Ltd. ("Global") with regard to the acquisition of the balance of their holdings in the company, in consideration for approximately NIS 12 million. In addition, the Company recorded a provision for impairment of goodwill in respect of Global, in the amount of NIS 7 million.

E. Balance of goodwill in respect of consolidated companies

	Cost	Accumulated write-down	Depreciated balance
Consolidated	10	(10)	-
Company	10	(10)	-

Note 7 – Buildings and Equipment

Reported amounts

In NIS millions

Consolidated

A. Composition

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Investment property(2)	Total
Cost:									
As of December 31, 2010	48	75	286	169	1	44	4	21	648
Additions	-	1	34	39	-	4	-	-	78
Disposals	-	-	*-	*-	-	-	-	-	*-
As of December 31, 2011	**48**	**76**	**320**	**208**	**1**	**48**	**4**	**21**	**726**
Accrued depreciation:									
As of December 31, 2010	8	31	220	90	*-	26	1	4	380
Additions	1	3	35	40	*-	3	2	*-	84
Disposals	-	-	*-	*-	-	-	-	-	*-
As of December 31, 2011	**9**	**34**	**255**	**130**	***-**	**29**	**3**	**4**	**464**
Depreciated balance as of December 31, 2011	**39**	**42**	**65**	**78**	**1**	**19**	**1**	**17**	**262**
Depreciated balance as of December 31, 2010	**40**	**44**	**66**	**79**	**1**	**18**	**3**	**17(2)**	**268**
Average weighted depreciation rate in 2011 (%)	2.0	7.6	24.9	25.0	15.0	8.6	11.9	2.0	
Average weighted deprecation rate in 2010 (%)	2.0	7.5	24.9	25.0	15.0	8.6	25.0	2.0	

* Amount lower than NIS 0.5 million.

(1) Includes capitalized costs related to the development of software for internal use, which totaled NIS 189 million as of December 31, 2011 (Dec. 31, 2010: NIS 155 million). With regard to the policy on capitalization of software costs, see Note 1.E.13, above.

(2) Reclassified due to the initial adoption of IAS 40; see Note 1.E.14, above.

Note 7 – Buildings and Equipment (cont.)

B. Additional disclosure regarding investment property

- Fair value is measured based on capitalization of forecast cash flows, which are based on reliable estimates of future cash flows, supported by the terms of any lease or other existing contract, as well as the use of capitalization rates reflecting current market estimates of uncertainty regarding the amount and timing of the cash flows. A capitalization rate of 8% was used.

- The fair value of investment property assets as of December 31, 2011, amounts to NIS 36 million (Dec. 31, 2010: NIS 52 million).

- Rent income from investment property amounted to approximately NIS 4 million in 2011, similar to 2010 and 2009.

Note 7 – Buildings and Equipment (cont.)

Reported amounts

In NIS millions

The Company

A. Composition

	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs[1]	Vehicles	Furniture and office equipment	Other	Total
Cost:							
As of December 31, 2010	18	283	164	1	42	4	512
Additions	1	34	37	-	4	-	76
Disposals	-	-	-	-	-	-	-
As of December 31, 2011	**19**	**317**	**201**	**1**	**46**	**4**	**588**
Accrued depreciation:							
As of December 31, 2010	4	217	85	*-	25	1	332
Additions	2	35	40	*-	2	2	81
Disposals	-	-	-	-	-	-	-
As of December 31, 2011	6	252	125	*-	27	3	413
Depreciated balance as of December 31, 2011	**13**	**65**	**76**	**1**	**19**	**1**	**175**
Depreciated balance as of December 31, 2010	**14**	**66**	**79**	**1**	**17**	**3**	**180**
Average weighted depreciation rate in 2011 (%)	9.9	24.9	25.0	15.0	8.7	11.9	
Average weighted deprecation rate in 2010 (%)	9.9	24.9	25.0	15.0	8.7	25. 0	

(1) Includes capitalized costs related to the development of software for internal use, which totaled NIS 189 million as of December 31, 2011 (Dec. 31, 2010: NIS 155 million). With regard to the policy on capitalization of software costs, see Note 1.E.13, above.

* Amount lower than NIS 0.5 million.

Note 8 – Other Assets

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2011	2010	2011	2010
Deferred taxes receivable (see Note 25)	73	**35	41	**17
Surplus of advance income-tax payments over current provisions	*-	20	*-	21
Other debtors and debit balances:				
Loans to employees	3	3	3	3
Prepaid expenses	37	19	37	18
Related companies	3	**43	1,590	**1,509
Debtors in respect of factoring	81	58	-	-
Others	58	27[(1)]	35	10
Total other debtors and debit balances	182	150	1,665	1,540
Total other assets	**255**	**205**	**1,706**	**1,578**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 above.

(1) Reclassified; see Note 2 above.

Note 9 – Credit from Banking Corporations

	December 31, 2011					
	Average annual interest rate					
	For daily balance	For transactions in the last month	Consolidated		The Company	
			December 31		December 31	
			2011	2010	2011	2010
	%	%	NIS millions		NIS millions	
Credit in current drawing accounts	4.0	4.0	6	76	2	15

Note 10 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2011	2010	2011	2010
Merchants[1]	10451	10,416	10,764	10,697
Liabilities in respect of deposits	3	3	3	3
Credit-card company and international organizations	249	185	249	185
Prepaid income	11	9	3	3
Loyalty program[3]	104	83	104	83
Expenses payable	47	50	47	50
Others	102	73[2]	102	73[2]
Total creditors in respect of credit-card activity	**10,967**	**10,819**	**11,272**	**11,094**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 418 million as of December 31, 2011 (Dec. 31, 2010: NIS 419 million). In the consolidated report – offset by an existing balance with an investee company in the amount of NIS 489 million (Dec. 31, 2010: NIS 427 million).

(2) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 above.

(3) Stars inventory and movements:

	Consolidated	
	December 31	
	2011	2010
	In thousands of Stars	
Opening balance	**1,037,655**	**1,006,125**
Stars created	101,165	268,421
Stars used	(172,843)	(205,658)
Stars cancelled	(37,043)	(31,233)
Closing balance	**928,934**	**1,037,655**

Note 11 – Other Liabilities

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2011	2010	2011	2010
Provision for deferred taxes (see Note 25)	6	5	-	1
Surplus of provision for employee benefits over amount funded (see Note 13)	66	*48	66	*48
Other creditors and credit balances:				
Expenses payable in respect of wages and related expenses	66	45	65	43
Suppliers of services and equipment	56	40	55	40
Expenses payable	79	60	78	60
Institutions	14	12	11	14
Europay (Eurocard) Israel Ltd.	-	-	185	181
Related companies	366	84	379	90
Provisions for credit losses in respect of off-balance-sheet credit facilities	15	-	10	-
Creditors in respect of factoring	7	5	-	-
Others	41	35	22	17
Total other creditors and credit balances	644	281	805	445
Total other liabilities	**716**	**334**	**871**	**494**

* Restated; see Note 1.E.17 above.

Note 12A – Equity

A. Composition

	December 31, 2011 and 2010	
	Registered	Issued and paid-up
	In NIS	
Common shares of NIS 0.0001	100	73
Special share of NIS 0.0001 [(1)]	-	-
	100	**73**

(1) One share registered, issued, and paid-up.

B. Share rights

The special share grants its holder the following rights, in addition to the right to receive invitations to participate in, and vote in the Company's general meetings:

(A) In every general meeting of the Company, the owner of the special share shall have 51% of the total votes to which all shareholders of the Company are entitled at that time.

(B) The rights attached to the special share cannot be changed except by written consent of its holder.

Note 12B – Capital Adequacy According to the Directives of the Supervisor of Banks(1)

Reported amounts

A. In consolidated data

1. Capital for the calculation of the capital ratio

	December 31, 2011	December 31, 2010
	In NIS millions	
Core tier I capital, after deductions	**1,402	*1,254
Tier II capital, after deductions	20	4
Total overall capital	**1,422**	**1,258**

2. Weighted balances of risk-adjusted assets

	December 31, 2011		December 31, 2010	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	8,560	770	*7,752	697
Market risks – foreign currency exchange rate risk	92	8	75	7
Operational risk	1,495	135	1,324	119
Total weighted balances of risk-adjusted assets	**10,147**	**913**	**9,151**	**823**

3. Ratio of capital to risk-adjusted assets

	December 31, 2011	December 31, 2010
	In percent	
Ratio of core capital and tier I capital to risk-adjusted assets	13.8	*13.7
Ratio of total capital to risk-adjusted assets	14.0	*13.7
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

* Restated; see Note 1.E.17 above.

** The effect on capital due to the implementation of the directive on impaired debts is a reduction of retained earnings in the amount of NIS 49 million.

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy."

Note 12B – Capital Adequacy According to the Directives of the Supervisor of Banks(1) (cont.)

Reported amounts

In NIS millions

B. Capital components for the calculation of the capital ratio (in consolidated data)

	December 31, 2011	December 31, 2010
1. Tier I capital		
Equity	1,433(2)	*1,263
Non-controlling interests	3	6
Less: Goodwill	-	7
Less: Net profits in respect of adjustments to fair value of securities available for sale	34	8
Total tier I capital	**1,402**	**1,254**
2. Tier II capital		
45% of net unrealized profit, before the effect of the related tax, in respect of adjustments to fair value of securities available for sale	20	4

* Restated; see Note 1.E.17 above.

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, “Capital Measurement and Adequacy.”

(2) The effect on capital due to the implementation of the directive on impaired debts is a reduction of retained earnings in the amount of NIS 49 million.

C. Capital adequacy target

Capital adequacy is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, “Capital Measurement and Adequacy.” A resolution of the Board of Directors of February 28, 2011 established minimum targets of 7.5% for the Company's core Tier I capital ratio and 12.5% for the Company's total capital ratio. This resolution took effect as of the first quarter of 2011.

Note 13 – Employee Benefits

A. Retirement Compensation and Pensions

1. General

The pension rights of employees reaching retirement age are mainly covered by amounts accrued in annuity-paying provident funds, compensation funds, and senior employees' insurance policies, while the remainder of such rights is covered by a liability included in the financial statements.

2. Personal Contracts – Chairperson of the Board of Directors and CEO of the Company

(A) The Chairperson of the Board of Directors, Ms. Irit Izakson, serves as the Chairperson of the Board of Directors of the Company as of October 1, 2008. Ms. Izakson was employed under a personal contract, which expired on December 31, 2011.

Pursuant to the Proper Conduct of Banking Business Directives that took effect on January 1, 2012, the concurrent service of Ms. Izakson as a member of the Board of Directors of Bank Hapoalim and of the Company requires approval by the Supervisor of Banks.

The Board of Directors of the Company extended the term of service of Ms. Izakson as Chairperson of the Board of Directors for a period of four additional years. The Supervisor of Banks approved her continued concurrent service as Chairperson of the Board of Directors of the Company and as a member of the Board of Directors of Bank Hapoalim, until December 31, 2013.

The terms of employment of Ms. Izakson as Chairperson of the Board of Directors of the Company as of January 1, 2012, will be formulated and presented for discussion and approval by the authorized entities at the Company and at Bank Hapoalim.

(B) The CEO of the Company, Mr. Dov Kotler, was appointed on February 1, 2009, and is employed under a personal contract, for a period of three years, which ended on January 31, 2012.

On January 25, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of the Company, the Board of Directors approved the extension of the term of service of Mr. Dov Kotler as CEO of the Company by three additional years, from February 1, 2012 to January 31, 2015, subject to the formulation of a new employment agreement with Mr. Kotler, by April 30, 2012, which shall be based, among other matters, on a new remuneration plan, congruent with the remuneration plan approved for the senior executives of the Company and consistent with the remuneration principles practiced at Bank Hapoalim, and subject to the approval of the aforesaid new agreement by the Board of Directors. Upon approval of the new employment agreement with Mr. Kotler, the agreement shall apply to his employment as of February 1, 2012.

Note 13 – Employee Benefits (cont.)

B. Bonuses

1. Pursuant to the employment agreement that expired on December 31, 2011, the Chairperson of the Board of Directors was entitled to an annual bonus, at a variable rate, calculated based on the rate of change in the net profit of the Company and of the other credit-card companies in the Bank Hapoalim Group where she serves as Chairperson of the Board of Directors, relative to a baseline profit of NIS 160 million. The total bonus each year was in an amount equal to a certain number of monthly salaries, subject to the fulfillment of threshold conditions established in the aforesaid agreement for entitlement to a bonus in a particular year.

2. Pursuant to the employment agreement that expired on January 31, 2012, the CEO of the Company was entitled to an annual bonus, at a variable rate, calculated based on the rate of change in the net profit of the Company and of the other credit-card companies in the Bank Hapoalim Group where he serves as CEO, relative to a baseline profit which is the average annual profit in 2007-2008 (excluding nonrecurring events that are not part of the ordinary course of business of the Company).

   The total bonus each year was in an amount equal to a certain number of monthly salaries, subject to fulfillment of threshold conditions established in the aforesaid agreement for entitlement to a bonus in a particular year.

3. In September 2011, the Board of Directors of the Company approved a remuneration plan for the Company's employees, derived from the profitability of the Company. The plan established a threshold level of profit, similar to the profit threshold established in the remuneration plan for the senior executives of the Company. The plan includes a link to the profitability of Bank Hapoalim. This link can cause an increase or decrease of up to 20% in the bonus, based on the return of Bank Hapoalim.

4. The annual bonus to which some employees of Bank Hapoalim (hereinafter: the "Bank") are entitled is determined based on the rate of net return on equity as it appears in the consolidated annual financial statements of the Bank Group. The basic threshold for the payment of this bonus is a return on equity of 7.5%. The annual bonus is in the amount of up to three monthly salaries. Part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance. The Company employs employees who are on loan from the Bank, and as such are entitled to the aforesaid bonus.

Note 13 – Employee Benefits (cont.)

B. Bonuses (cont.)

5. A remuneration plan for senior executives of the Company who report directly to the CEO of the Company or to the rank reporting directly to the CEO and who have an employment agreement with the Company (unless resolved otherwise by the Board of Directors) (hereinafter: the "Executives") took effect in September 2011 and applies from January 1, 2011 forward (hereinafter: the "Plan"). The Plan was approved by the Audit Committee of the Board of Directors of the Company.

Main points of the Plan:

- Separate mechanisms for setting bonus budgets and formats have been established for business functions and control and supervision functions.

- Establishing the bonus budget for Executives

  The bonus budget for Executives in any given year (the "Executives' Bonus Budget") is based on the difference between the aggregate net operating accounting profit of the Company in that year (as it appears in the annual financial statements, net of amounts allocated for bonuses pursuant to the Plan) (hereinafter: the "Actual Profit") and the profit threshold for remuneration approved by the Board of Directors of the Company in accordance with the directives of the Plan for that year (hereinafter: the "Actual Profit Difference").

  Positive bonus budget – When the Profit Difference is positive, the total positive bonus budget for Executives shall be calculated in accordance with the Actual Profit Difference and the average monthly salary of an Executive. The bonus budget is calculated according to progressively rising increments of the Actual Profit Difference, from an Actual Profit Difference of 2% to a ceiling of 30%. In a year in which the Actual Profit Difference is in the range of 0% to 2%, the Board of Directors may, at its sole discretion, according to the recommendation of the Company's CEO, approve an annual bonus in a (limited) positive amount for an Executive. In addition, the positive bonus budget shall be adjusted to the actual ROE difference of Bank Hapoalim B.M. (hereinafter: the "Bank") in the relevant year; such adjustment may increase or decrease the positive bonus budget by up to 20%.

Note 13 – Employee Benefits (cont.)

Negative bonus budget – Except in respect of the first year of the Plan (2011), and except in respect of the first year of work of an Executive who joins the Company after the adoption of the Plan, in a year in which the Actual Profit Difference is negative, the total negative bonus budget for the Executives shall be calculated as a negative amount, in accordance with the Actual Profit Difference and the average monthly salary of an Executive, from a negative Actual Profit Difference of 2% to a negative ceiling of 30%. In addition, the negative bonus budget shall be adjusted to the actual ROE difference of the Bank in the relevant year; such adjustment may increase or decrease the negative bonus budget by up to 20%.

The Board of Directors is authorized to increase or reduce the (positive or negative) Executives' Bonus Budget by up to 10%. In the event that the Executives' Bonus Budget in respect of a certain year is negative due to special external circumstances that affect the entire market in which the Company operates in that year, the Board of Directors may reduce or cancel the negative Executives' Bonus Budget in respect of that year.

- Distribution of the bonus budget among the Executives

  Each year, the (positive or negative) bonus budget shall be distributed to the Executives in respect of the previous year, proportionally to the personal grade of each Executive. Part of the personal grade shall be fixed; part of the personal grade shall be assigned according to the Executive's achievement of predefined performance targets established in advance by the CEO of the Company; and part of the personal grade shall be assigned according to the recommendation of the Company's CEO, based on his opinion. The distribution of the bonus budget and the establishment of the annual bonus shall be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law).

  The positive or negative annual bonus for an Executive shall not exceed the ceilings established in the Plan; and, in any event, the negative balance in the bonus account of an Executive shall not exceed the ceiling established in the Plan.

  The bonus mechanism for Executives defined as serving in control and supervision functions was adjusted such as to disconnect the amount of the bonus from the business results of the Company. Performance targets for supervision and reporting functions are in accordance with the recommendations of the Chairperson of the Board of Directors and the CEO of the Company. The personal grade is also determined by the Chairperson of the Board of Directors and the CEO of the Company.

Note 13 – Employee Benefits (cont.)

B. Bonuses (cont.)

- Payment mechanism – spreading of the annual bonus and the annual payment

  Each year, the amount of the (positive or negative) annual bonus determined in respect of the previous year shall be added to or subtracted from the bonus account of each Executive (hereinafter: the "Annual Deposit").

  Each year, a payment shall be made to the Executive in an amount equal to 60% of the balance in the bonus account after the Annual Deposit in respect of the previous year (assuming that the bonus account balance is positive) (the "Annual Payment"), unless, in a certain year, the Company has an aggregate net operating loss for the year and/or a deviation from the required capital adequacy ratio. In such cases, the subsequent Annual Payment shall be performed only after the release of annual financial statements of the Company (or quarterly financial statements, pursuant to a decision by the Board of Directors, in the case of a deviation of the capital ratio) presenting aggregate net operating profit, or the cessation of the deviation from the required capital adequacy ratio, as relevant.

- Termination of employment

  In the year following the year in which the day of the termination of employment occurs, account settlement shall be performed in the Executive's bonus account, but the Annual Payment shall not be performed (except in the event of the death of the Executive), and the balance of the bonus account (if positive) shall only be paid to the Executive after 24 months have elapsed from the day of termination. The Board of Directors shall be entitled, at its discretion, to reduce the amount of the bonus account balance in the event of a deterioration in the financial results of the Company during the period following the year of the termination of employment, but the amount of such a reduction shall not exceed the amount of the negative bonuses that would have been subtracted from the Executive's bonus account pursuant to the Plan, if the Executive had continued to be employed by the Company during that period.

- Bonus in respect of profits from extraordinary transactions

  The methodology for distribution of bonuses in respect of extraordinary transactions (arising from the realization of assets), insofar as shall be distributed, shall be determined by the Board of Directors at its sole discretion.

Note 13 – Employee Benefits (cont.)

C. Details of liabilities in respect of employee benefits

	December 31	
	2011	2010
Early retirement	26	17
Severance pay due to termination of employer-employee relationship	56	48
Long service bonus	*-	*-
Provision for bonus in respect of unutilized sick days	5	5
Other benefits upon termination and post-employment	23	**24
Total	**110**	**94**

* Amount lower than NIS 0.5 million.

** Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 above.

The Company's obligations in respect of benefits after the termination of the employer-employee relationship and/or other long-term benefits, granted according to law and/or agreements and/or custom at the Company, are calculated according to the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, such calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The calculation also includes active employees expected to retire with preferred retirement terms, before the legal retirement age.

D. Amounts of reserves and amounts funded for employee benefits

The amounts of reserves and amounts funded for employee benefits, as stated in the balance sheet, are as follows:

	December 31	
	2011	2011
Amount of provision	110	94(1)
Amounts funded	44	46
Surplus of provision over amounts funded*	66	48

* Included under the item "other liabilities."

(1) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 above.

E. Vacation

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date totaled approximately NIS 3 million (Dec. 31, 2010: NIS 2 million).

F. Options for Employees (cont.)

1. Pursuant to the employment agreement of the Chairperson of the Board of Directors of the Company, which expired on December 31, 2011, she was allocated 6,293 non-tradable options exercisable into 6,293 common shares of the Company at an exercise price of NIS 3,410 each. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 6,588 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The vesting period of the options is as follows: One-third of the options vest on January 1 of each of the years 2010, 2011, and 2012. The Chairperson will be able to exercise the options into shares (after vesting) until January 1, 2013. As a rule, the Chairperson will not be permitted to sell shares until one of the following events occurs: the end of her employment, the listing of the shares of the Company for trading on the stock market, or a change in the control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

   The Company has first proposal right and first refusal right with regard to any transfer of shares by the Chairperson of the Company. The Chairperson has the right to join sales of shares of the Company by Bank Hapoalim, under certain conditions.

   The agreement also includes directives pertaining to the options in the event of the end of the term of service of the Chairperson. In addition, in the event of the termination of the term of service of the Chairperson prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares arising from the exercise of the options.

   The options shall be allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 1961.

   Because the Chairperson of the Board of Directors of the Company serves as a director at Bank Hapoalim, the terms of her employment were also approved by the general meeting of Bank Hapoalim B.M. convened in January 2010.

2. Pursuant to his employment agreement, which expired on January 31, 2012, 7,404 non-tradable options exercisable into 7,404 common shares of the Company at an exercise price of NIS 3,410 each were allocated to the CEO of the Company. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 7,545 thousand, was calculated according to the Black-Scholes model and will be allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The vesting period of the options is as follows: One-third of the options vest on March 1 of each of the years 2010, 2011, and 2012. The CEO of the Company will be entitled to exercise the options into shares (after vesting) until four years have elapsed from the allocation date.

   As a rule, the CEO of the Company is not permitted to sell shares until one of the following events occurs: the termination of his employment, listing of the Company's shares for trading on the stock exchange, or a change in control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

   The Company has first proposal right and first refusal right with regard to any transfer of shares by the current CEO of the Company. The CEO has the right to join sales of shares by Bank Hapoalim, under certain conditions.

   The agreement also includes directives pertaining to the options in the event of the end of the term of service of the CEO. In addition, in the event of the end of the term of service of the CEO prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares.

   The options shall be allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 1961.

Note 13 – Employee Benefits (cont.)

F. Options for Employees (cont.)

3. Options for Employees

(A) In May 2004, the Board of Directors of the Bank approved an option allocation program for the Bank's employees for 2004-2009. Within the program, permanent Bank employees, including employees of the Company on loan from the Bank, will be allocated non-tradable options, at no cost, exercisable into common shares of NIS 1 of the Bank, at an exercise price of NIS 1 each. Each portion of options will have a vesting period of four years from the beginning of the year in which the options were allocated, and will be exercisable for a period of one year after the end of the vesting period. The quantity of options distributed to each employee was determined according to the employee's seniority, job description, and rank. Up to and including 2010, 224,187 option notes were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black-Scholes model, amounts to approximately NIS 2 million.

(B) On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Company on loan from the Bank, will receive options to purchase shares of the Bank at a price of NIS 1 each, or phantom units which grant rights similar to options to purchase shares of the Bank at the aforesaid price. The said option notes will be allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program will be similar to those of the option plan for employees in 2004-2009. The options will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

The agreement states that the options will be granted to employees provided that approval is obtained from the Supervisor of Banks for the purchase of the Bank's own shares by the Bank, in order to create a reserve to be used for the exercise of the aforesaid options.

E. Agreement with Employee Union

On September 26, 2011, the Company signed a collective wage agreement encompassing agreements with regard to norms and conditions to apply to employees of the Company. The agreement was signed by the Employee Union (the Histadrut New General Federation of Labor in Israel and the Isracard Employee Union) and by the Company. The agreement is in effect until December 31, 2013.

The agreement includes a wage increment for employees receiving monthly salaries, in the amount of 5.9% in 2011 and 3.1% in each of the years 2012 and 2013. The thirteenth monthly salary will be canceled and replaced by a 6% wage update. For employees receiving hourly wages, the thirteenth monthly salary will be canceled and the hourly rate will change; these employees also received a one-time signing bonus in an amount determined according to the employee's seniority. In addition, labor norms were approved with regard to the manner of hiring and employing workers and the termination of employment, and terms were agreed upon with regard to deposits in employee's pension and study funds.

Note 14 – Assets and Liabilities by Linkage Base – Consolidated

Reported amounts

In NIS millions

	December 31, 2011					
	Israeli currency		Foreign currency(1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	341	6	23	8	-	378
Debtors in respect of credit-card activity, net	12,039	61	25	7	-	12,132
Securities	-	-	-	-	96	96
Investments in associated companies	-	-	-	-	2	2
Buildings and equipment	-	-	-	-	262	262
Goodwill	-	-	-	-	-	-
Other assets	185	3	26	*-	41	255
Total assets	**12,565**	**70**	**74**	**15**	**401**	**13,125**
Liabilities						
Credit from banking corporations	6	-	-	*-	-	6
Creditors in respect of credit-card activity	10,832	52	62	10	11	10,967
Other liabilities	709	-	*-	6	1	716
Total liabilities	**11,547**	**52**	**62**	**16**	**12**	**11,689**
Difference	1,018	18	12	(1)	389	1,436
Effect of non-hedging derivative instruments						
Derivative instruments	(23)	-	23	-	-	-
Total	**995**	**18**	**35**	**(1)**	**389**	**1,436**

* Amount lower than NIS 0.5 million.

(1) Including foreign-currency linked.

Note 14 – Assets and Liabilities by Linkage Base – Consolidated (cont.)

Reported amounts

In NIS millions

	December 31, 2010					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	30[2]	6	36	4	-	76
Debtors in respect of credit-card activity	11,762	69	37	(3)	-	11,865
Securities	-	-	-	-	74	74
Investments in associated companies	-	-	-	-	3	3
Buildings and equipment	-	-	-	-	268	268
Goodwill	-	-	-	-	7	7
Other assets	183[2][3]	3	-	*-	19	205
Total assets	**11,975**	**78**	**73**	**1**	**371**	**12,498**
Liabilities						
Credit from banking corporations	75	-	-	1	-	76
Creditors in respect of credit-card activity	10,613	61	60	*-	85	10,819
Other liabilities	323[3]	-	*-	6	5	334
Total liabilities	**11,011**	**61**	**60**	**7**	**90**	**11,229**
Difference	964	17	13	(6)	281	1,269
Effect of non-hedging derivative instruments						
Derivative instruments (excluding options)	(10)	-	10	-	-	-
Total	**954**	**17**	**23**	**(6)**	**281**	**1,269**

* Amount lower than NIS 0.5 million.

(1) Including foreign-currency linked.

(2) Reclassified; see Note 2 above.

(3) Restated; see Note 1.E.17 above.

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2011					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	**Over 1 month and up to 3 months**	**Over 3 months and up to 1 year**	**Over 1 year and up to 2 years**	**Over 2 years and up to 3 years**	**Over 3 years and up to 4 years**
Unlinked Israeli currency						
Assets	6,786	2,443	2,506	594	174	19
Liabilities	6,448	2,302	2,166	396	146	5
Difference	338	141	340	198	28	14
Effect of derivative instruments	(4)	-	(16)	(4)	-	-
Total	**334**	**141**	**324**	**194**	**28**	**14**
CPI-linked Israeli currency						
Assets	12	19	29	7	*-	-
Liabilities	10	16	24	2	*-	-
Difference	2	3	5	5	*-	-
Foreign currency(3)						
Assets	57	33	*-	-	-	-
Liabilities	67	6	4	*-	-	-
Difference	(10)	27	(4)	(*-)	-	-
Effect of derivative instruments	4	-	17	3	-	-
Total	**(6)**	**27**	**13**	**3**	**-**	**-**
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of provisions for credit losses.

(2) As included in Note 14, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 18 million.

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return
5	1	-	-	12,528	63	12,565	0.52
4	12	12	8	11,499	63	11,547	-
1	(11)	(12)	(8)	1,029	-	1,018	0.52
-	-	-	-	(24)	-	(23)	
1	**(11)**	**(12)**	**(8)**	**1,005**	**-**	**995**	
3	-	-	-	70	*-	70	-
-	-	-	-	52	-	52	-
3	-	-	-	18	*-	18	-
-	-	-	-	90	(1)	89	0.64
-	-	-	-	77	1	78	-
-	-	-	-	13	(2)	11	0.64
-	-	-	-	24	-	23	
-	**-**	**-**	**-**	**37**	**(2)**	**34**	
-	-	-	-	-	401	401	-
-	-	-	-	-	12	12	-
-	-	-	-	-	389	389	-

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2011					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	6,855	2,495	2,535	601	174	19
Liabilities	6,525	2,324	2,194	398	146	5
Difference	330	171	341	203	28	14
Effect of derivative instruments	-	-	1	(1)	-	-
Total	**330**	**171**	**342**	**202**	**28**	**14**

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow.

Data are presented net of provisions for credit losses.

(2) As included in Note 14, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 18 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1][3]	No maturity date[4]	Total	Contractual rate of return[5]
8	1	-	-	12,688	463	13,125	
4	12	12	8	11,628	76	11,689	
4	(11)	(12)	(8)	1,060	387	1,436	
-	-	-	-	-	-	-	
4	**(11)**	**(12)**	**(8)**	**1,060**	**387**	**1,436**	

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2010					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	6,435(5)	2,395	2,421	555	109	9
Liabilities	6,184	2,379	1,986	343	70	2
Difference	251	16	435	212	39	7
Effect of derivative instruments	(3)	-	50	(54)	(3)	-
Total	**248**	**16**	**485**	**158**	**36**	**7**
CPI-linked Israeli currency						
Assets	14	21	32	3	6	*-
Liabilities	11	18	28	3	1	*-
Difference	3	3	4	*-	5	(*-)
Foreign currency(3)						
Assets	59	11	4	*-	-	-
Liabilities	47	13	2	*-	*-	-
Difference	12	(2)	2	(*-)	(*-)	-
Effect of derivative instruments	3	-	-	4	3	-
Total	**15**	**(2)**	**2**	**4**	**3**	**-**
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of provisions for doubtful debts.

(2) As included in Note 14, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 26 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

				Balance-sheet balance[2]			
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return
2	*-	-	-	11,926	49	11,975	0.33
1	5	8	-	10,978	33[5]	11,011	-
1	(5)	(8)	-	948	16	964	0.33
-	-	-	-	(10)	-	(10)	
1	**(5)**	**(8)**	**-**	**938**	**16**	**954**	
2	-	-	-	78	-	78	-
-	-	-	-	61	-	61	-
2	-	-	-	17	-	17	-
-	-	-	-	74	-	74	0.77
-	-	-	-	62	5	67	-
-	-	-	-	12	(5)	7	0.77
-	-	-	-	10	-	10	
-	**-**	**-**	**-**	**22**	**(5)**	**17**	
-	-	-	-	-	371	371	-
-	-	-	-	-	90	90	-
-	-	-	-	-	281	281	-

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2010					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	6,508	2,427	2,457	558	115	9
Liabilities	6,242	2,410	2,016	346	71	2
Difference	266	17	441	212	44	7
Effect of derivative instruments	-	-	50	(50)	-	-
Total	**266**	**17**	**491**	**162**	**44**	**7**

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of provisions for credit losses.

(2) As included in Note 14, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 18 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

					Balance-sheet balance[2]		
Over 4 years and up to 5 years	**Over 5 years and up to 10 years**	**Over 10 years and up to 20 years**	**Over 20 years**	**Total cash flows[1]**	**No maturity date[3]**	**Total**	**Contractual rate of return[5]**
4	*-	-	-	12,078	420	12,498	0.33
1	5	8	-	11,101	128	11,229	-
3	(5)	(8)	-	977	292	1,269	0.33
-	-	-	-	-	-	-	
3	**(5)**	**(8)**	**-**	**977**	**292**	**1,269**	

Note 16 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2011	2010	2011	2010
Unutilized credit-card credit lines:				
Credit risk on the Company	9,943	8,678	9,337	8,257
Credit risk on banks	24,051	23,854	24,051	23,854
Credit risk on others	375	224	-	-
Provision for credit losses	(14)	-	(9)	-
Unutilized credit-card credit lines, net	34,355	32,756	33,379	32,111
Guarantees and other liabilities:				
Exposure in respect of check assurance	72	57	72	57
Exposure in respect of other guarantees(1)	16	11	16	11
Liability in respect of factoring	45	12	-	-
Exposure in respect of merchant credit lines	241	-	241	-
Provision for credit losses	(1)	-	(1)	-
Guarantees and other liabilities, net	373	80	328	68

(1) In June 2010, the Company, jointly with Super Pharm (Israel) Ltd. ("Super Pharm") and Alonyal Ltd. ("Alonyal") provided guarantees, limited in amount, to secure the debts of Life Style Customer Loyalty Club Ltd. ("Life Style Loyalty Club") and of Life Style Financing Ltd. ("Life Style Financing") to Bank Hapoalim. The guarantees are linked to the consumer price index. Each party's guarantee is calculated according to the proportion of its ownership of Life Style Loyalty Club and Life Style Financing at the time of exercise of the guarantee, out of the amount of the guarantee. The amount of the guarantee for each guarantor shall be calculated with the deduction of amounts previously demanded of that guarantor by the Bank up to that date, and actually paid to the Bank by that guarantor. Total guarantees granted are as follows: Life Style Loyalty Club was given a guarantee in a total amount of NIS 5 million; Life Style Financing was given a guarantee in a total amount of NIS 80 million. As of the date of the report, Isracard's share is 15%.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

B. Activity in Derivative Instruments – Volume and Maturity Dates

1. The Company and its subsidiary have entered into FRA (forward-rate agreement) shekel interest-rate swap transactions with Bank Hapoalim B.M., in the amount of NIS 100 million (face value). The transactions are stated in the balance sheet at a negative gross fair value in the amount of approximately NIS 1 million. The transactions are due to expire by September 2013.

2. On October 28, 2010, the Company entered into two forward swap transactions, as follows:

   (1) An amount of USD 1,059,080, maturing January 10, 2012, at an exchange rate of 3.697.

   (2) An amount of USD 794,600, maturing January 10, 2013, at an exchange rate of 3.750

   On January 20, 2011, the Company entered into an additional forward swap transaction, as follows:

   An amount of USD 4,427,674, maturing December 3, 2012, at an exchange rate of 3.655.

   All of the transactions that have not yet matured are stated in the balance sheet at a positive gross fair value in the amount of approximately NIS 1 million.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust Issues

In May 2005, the Antitrust Commissioner (the "Commissioner") declared the Company a holder of a monopoly in clearing Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Company believes that it has strong arguments against the aforesaid declaration of monopoly, and the Company has filed an appeal of the declaration with the court. In any case, an agreement exists with the Commissioner according to which the Commissioner's aforesaid declaration of monopoly will be canceled subject to the fulfillment of the "Arrangement" described below.

In August 2005, the Israel Antitrust Authority notified the Company that the Commissioner intended to impose directives upon it under Section 30 of the Restrictive Trade Practices Law. The main points of the directives, of which the Company received a draft, are as follows:

(A) A directive instructing the Company to allow local clearing of MasterCard credit cards by additional clearers, as well as of Isracard cards (the brand owned by the Company), subject to compliance with the license terms specified by the Commissioner, as described below.

(B) A directive instructing the Company to sign a domestic agreement regularizing the interaction between clearers and issuers for the purposes of clearing in Israel of the aforesaid cards, under temporary interchange-fee (the fee paid by clearers of credit-card transactions to the credit-card issuers) terms, as approved by the Antitrust Tribunal for other clearers, and a permanent interchange fee, to be approved, for the clearing of the aforesaid cards, and for clearing by the Company of Visa cards issued by the other clearers (the "**Domestic Agreement**").

(C) A directive instructing the Company to implement a common technical interface for the execution of local clearing.

The terms stipulated by the Commissioner for the granting of a license to clear Isracard cards include the Company's right to receive monetary remuneration for the license, and the obligation of the other clearers who apply for a license for such clearing to issue a minimum number of Isracard cards.

Based on the opinion of its legal advisors, the Company believes that it has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, the Company communicated this position to the Commissioner. In any case, as noted, an agreement exists with the Commissioner according to which the Commissioner's declaration of monopoly will be canceled subject to the fulfillment of the "Arrangement" described below, and consequently no directives will be issued.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

C. Antitrust Issues (cont.)

Following talks held between the Company, Aminit, which receives operational services from the Company, and the credit-card companies Leumi Card and CAL (the four companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Commissioner, the Credit-Card Companies reached an arrangement among themselves (the "**Arrangement**"), with the Commissioner's support, under which the Credit-Card Companies will enter into a detailed Domestic Agreement among themselves regarding full local clearing in Israel, including the operation of an appropriate technical interface (the "**Technical Interface**"), of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a restrictive arrangement from the Antitrust Tribunal.

The Credit-Card Companies, together with the banks that control them – Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. According to its terms, the Arrangement will be in effect from the date of its approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been submitted. The Tribunal has granted several temporary permits for the Arrangement.

The terms of the Arrangement include, inter alia: the establishment of interchange-fee rates, which gradually decrease during the term of the Arrangement; a commitment by the parties to petition the Tribunal for approval of an interchange fee for the period following the end of the Arrangement, should the parties wish to continue cross-clearing; the obligation of the Company, under certain conditions, to set identical fees for the same merchant for clearing transactions in Isracard and MasterCard cards; and various rules of conduct to apply to the Credit-Card Companies in their agreements with merchants to enter into clearing arrangements with them, including a prohibition on ligation of different cards and various prohibitions on discrimination; and in addition, a commitment by the banks listed above to apply the aforesaid rules of conduct to themselves as well, and to undertake rules of conduct in their relationships with credit-card holders and with merchants that accept credit cards, essentially prohibitions on discrimination, tying merchants, or influence in manners prohibited in the Arrangement with regard to transferring to a particular credit card or clearing with any of the Credit-Card Companies.

The Arrangement also includes a directive under which the Commissioner will cancel the declaration of the Company as the holder of a monopoly in clearing Isracard and MasterCard cards, under the conditions stipulated in the Arrangement, which include approval of the Arrangement by the Tribunal and the execution of cross-clearing of transactions through the Technical Interface. In June 2007, the Credit Card Companies began direct clearing in Israel, through the Technical Interface, of transactions executed in MasterCard and Visa credit cards, according to the credit cards in which each company operates.

C. Antitrust Issues (cont.)

In November 2007, in the discussion of the petition to approve a restrictive arrangement, the Tribunal ruled that before it ruled on the petition, an expert would be appointed to establish the components included in the principles set forth with regard to the calculation of interchange fees by the Tribunal in a different proceeding between some of the Credit Card Companies, to which Isracard was not a party. Subsequent to this determination, an expert was appointed. The expert submitted his interim report to the Tribunal in January 2009. The expert was to have continued to formulate a final opinion, but before he completed the preparation of the final opinion, the Commissioner gave notice that due to an appointment undertaken by the expert, he would be unable to complete the opinion. In May 2010, the Commissioner gave notice of her intention to appoint the chief economist of the Antitrust Authority as a new expert, replacing the previous expert Dr. Bachar. On August 12, 2010, despite the objection of the petitioners for the approval, due to their argument that the expert should be independent, the Tribunal ruled that Dr. Parizat, the chief economist of the Antitrust Authority, would be appointed to complete the opinion of Dr. Bachar.

Dr. Parizat submitted his opinion on May 23, 2011. In a decision of the Tribunal of August 7, 2011, the temporary permit was extended to December 31, 2011, provided that the average rate of the interchange fee would not exceed 0.875% starting November 1, 2011. The petitioners for the approval, including the Company, submitted counteropinions of experts.

On December 28, 2011, an amended cross-clearing arrangement was submitted to the Tribunal, amending the previous agreements with regard to the rates of interchange fees and the extension of the agreement through the end of 2018. The Tribunal granted a temporary permit to the arrangement, until February 29, 2012.

The decision of the Tribunal may have a material negative effect on the financial results of the Company in the future; however, at this stage the Company is unable to estimate the extent of such an effect.

The Company cannot estimate whether or when the request for permanent approval of the amended arrangement will be granted.

D. Additional Regulation

1. In April 2009, a private bill was submitted to the Knesset, in advance of a preliminary discussion, concerning the separation of ownership of credit-card companies from banks. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, the implications of such legislation for the Company, if any.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

2. A private bill was submitted to the Knesset in May 2009, in advance of a preliminary discussion, concerning the right of a credit-card holder to instruct the credit-card company to cease debits due to a flaw in the basic transaction between the cardholder and the merchant with which the transaction was executed. The Company estimates that this bill, if it results in legislation, will have no material impact on the Company.

3. In May 2009, a private bill was submitted to the Knesset, in advance of a preliminary discussion, according to which the establishment of a minimum linkage rate constitutes a depriving condition in a uniform contract. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

4. A private bill was submitted to the Knesset in February 2010 according to which credit-card companies must note extensive details of merchants in their reports to cardholders. On June 6, 2010, a ministerial committee made the decision to promote this bill through secondary legislation.

   A private bill was submitted to the Knesset in March 2010, according to which credit-card companies must note in their reports to cardholders whether a transaction performed by the cardholder constitutes a transaction without presentation of the card. This bill was passed in a preliminary reading on May 26, 2010, and transferred to the Economics Committee to be prepared for a first reading. On May 23, 2010, a ministerial committee made the decision to promote this bill through regulations, in coordination with the Ministry of Justice.

   In accordance with these decisions, following discussions of this matter with the Ministry of Justice, an agreement was reached regarding the execution of the amendments under both of the aforesaid bills in Proper Conduct of Banking Business Directive No. 470, Charge Cards (hereinafter: the "Directive"). A draft amendment of the directive was issued in June 2011.

   The private bill on reporting of transactions without presentation of the card passed in the first reading in August 2011. If the matters addressed by the bill are included in the Directive, as noted above, it is likely that the legislation on this matter will not be promoted.

   In November 2011, the matters addressed by the aforesaid bills were formulated into binding directives, through amendments to Directive No. 470, as noted above. The Company estimates that the amendment of the Directive will have no effect on the Company.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

5. In March 2010, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 432 concerning the transfer of activity and closure of accounts of customers, and an amendment to Proper Conduct of Banking Business No. 470, Charge Cards, concerning the transfer of ongoing transactions in charge cards. Proper Conduct of Banking Business Directive No. 432 primarily aims to facilitate customers' transition between banks, in order to allow increased competition in the banking system. Towards that end, the circular amends the existing directive on this matter, to regularize the transfer of standing orders of customers switching from one bank to another, while also replacing their credit cards in the course of the transition. In particular, the amended directive aims to create the technological and legal infrastructure for the transfer of activity in ongoing transactions among different charge cards. This is achieved through the formation of a mechanism for the transfer of debits and the imposition of a duty upon the issuer of any credit card to perform the transfer of the activity for the customer, while communicating with the new issuer and with any merchants which were granted debiting authorizations by the customer. These directives will apply, with the necessary changes, to all transfers of activity in credit cards, including the transfer of activity in a card not issued by a bank, and the transfer of activity other than in the course of the closure of an account. Concurrently with the aforesaid amendment of Directive No. 432, appropriate amendments were made to Proper Conduct of Banking Business Directive No. 470 concerning charge cards, in order to apply the arrangement regarding the transfer of activity to credit-card companies, by including Directive No. 432 in the list of Proper Conduct of Banking Business Directives applicable to credit-card companies. The directives took effect as of September 1, 2010. The Company estimates that the amendment of the directive will have no effect on the Company.

6. In June 2010, an amendment to the Uniform Contracts Law was published, concerning the duty to note approvals of uniform contracts, and granting authority to the Governor of the Bank of Israel, through an amendment to the Banking Law (Customer Service), to establish rules regarding font sizes and the notation of material terms. The Company estimates that if such rules are established, there will be an effect on the Company, but not of a material volume.

7. In July 2010, an amendment to the Consumer Protection Law was published, concerning the postponement of debits for cardholders who enter into ongoing transactions for medical services or emergency medical care. The Company estimates that this amendment has no material effect on the Company.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

8. In July 2010, the Fuel Industry Law (Promotion of Competition) was amended, with regard to the promotion of competition in the area of automatic refueling. The amendment authorizes the Minister of National Infrastructures to enact regulations with the aim of promoting competition. This amendment may have a bearing on the Company due to the fact that the Company issues refueling devices and cards that constitute "charge cards" pursuant to the Charge Cards Law, 1986. At this stage, the Company cannot estimate the implications of this amendment for the activity of the Company in the area of refueling devices/cards, if any.

9. In July 2010, the Supervisor of Banks issued a letter on "Social Networks," which lists the risks involved in the use of social networks, including operational, legal, regulatory, and reputation risks. These risks may arise from factors such as customer identification (recording of customers' information that may expose the credit-card company, including reliance on personal information of the customer in order to unblock passwords); publication of information (including information that is misleading, erroneous, hostile, etc.); information security; and monitoring and controls. In addition to the provisions of Proper Conduct of Banking Business Directive No. 357 concerning information technology management, the letter requires credit-card companies to act to reduce the risks derived from the use of social networks, among other means by applying the measures established therein.

10. In September 2010, consumer-protection regulations were issued granting customers the right to cancel a transaction for the purchase of goods and receive a refund, in the manner in which the payment was performed, under the conditions specified in the regulations. Note that bills related to this matter were submitted to the Knesset in March 2010 and in June 2010. The Company estimates that this amendment and/or these bills, if they result in legislation, will not have a material effect on the Company.

11. In November 2010, a government bill was submitted to Knesset which concerns, among other matters, the establishment of conditions in uniform contracts that constitute depriving conditions, as well as the examination of a uniform contract and the results of such examination. At this stage, the Company cannot estimate whether this bill will result in legislation. The Company estimates that if the bill results in legislation, it will have an effect on the Company, but not to a material extent.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

12. In December 2010, the Bank of Israel issued a circular concerning Proper Conduct of Banking Business Directive No. 301, The Board of Directors. The circular is aimed at updating Proper Conduct of Banking Business Directive No. 301 with regard to the instructions of the Supervisor concerning the functioning, authority, composition, types and functions of committees, and efficient practices of the board of directors. The aim of the proposal is to ensure the existence of a high-quality, effective board of directors that fulfills its functions, with a clear understanding of its function and with the exercise of independent, appropriate judgment on matters concerning the credit-card company. The circular is in effect as of January 1, 2012.

    Two additional legislative amendments in this context are Amendment No. 14 and Amendment No. 16 to the Companies Law, which were published in January 2011 and March 2011, respectively. Among other matters, these amendments concern the disclosure duties applicable to directors, the qualification to act as a director, the exercise of independent judgment by directors, and the service of external directors. Amendment No. 16 also concerns matters not directly related to the board of directors, such as various directives pertaining to the audit committee, derived claims, and the approval of transactions concerning terms of salary and service.

    The Company is preparing to implement the aforesaid directives.

13. In January 2011, a circular was distributed entitled "Management of risks involved in the execution of illegal transactions through credit cards." The circular updates Proper Conduct of Banking Business Directive No. 411, Prevention of Money Laundering and Terrorism Financing, and Customer Identification. Main updates: A limit of the volume of exposure of issuance and clearing activity overseas, particularly in countries where the Company does not have an incorporated, supervised presence; and a limit of the exposure to contractual engagements with merchants operating in high-risk sectors. In addition, criteria for the examination of the legality of the area of activity of merchants were tightened, in cases in which credit-card companies contract with merchants overseas for the clearing of transactions without presentation of the card, either over the Internet or by other means. It was further clarified that suitable procedures should be established in order to ensure compliance with the requirements established throughout the period of the contractual engagement. This directive has no effect on the activity of the Company.

    In December 2011, the Supervisor of Banks issued a circular concerning the prohibition of money laundering and finance of terror which details the Supervisor's final instructions in connection with the struggle against parties aiding the Iranian nuclear program and related plans. The circular amends the directives of Proper Conduct of Banking Business Directive No. 411, Prevention of Money Laundering and Terrorism Financing, and Customer Identification.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

The circular requires the board of directors of a credit-card company to establish a policy on the management or risks involved in contractual engagement with or execution of customers' transactions for parties declared on international lists to be aiding the Iranian nuclear program and related plans. This policy must address controls and due-diligence tests designed to identify such declared parties. The circular references a legislative amendment and the international lists of such declared entities.

In addition, the circular requires credit-card companies to perform an initial survey to examine the extent of their exposure to such parties, and to submit the survey to the Supervisor of Banks no later than March 30, 2012.

The amendments to Proper Conduct of Banking Business No. 411 take effect on March 31, 2012.

14. A government bill approved by the Knesset plenum and published in the Official Gazette of the Government of Israel in August 2011 concerns, among other matters, the area of discounting, as well as a directive whereby an issuer that issues ten percent or more of the number of charge cards issued in Israel, or an issuer of charge cards used to execute at least ten percent of the amount of transactions executed in Israel, shall be required to contract with an clearer for cross-clearing of transactions in the charge card which it issues. The inception of this directive will be nine months after the law takes effect. The Company estimates that this law will have a material negative effect on the Company; however, at this stage the Company cannot estimate the actual extent of this effect.

15. In October 2011, a private bill was submitted to the Knesset according to which a banking corporation shall not hold more than 26% of the means of control of an issuer of charge cards; and an issuer shall not make use of customers' information or transfer it to another party, except for the purpose of debiting the customer's bank account. At this stage, the Company cannot estimate whether this bill will result in legislation. If this bill results in legislation, the Company estimates that it may have an effect on the Company; however, at this stage the Company cannot estimate the extent of this effect.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

16. In November 2011, the Knesset plenum passed a private bill in a preliminary reading according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the bill. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

17. Pursuant to an instruction published by the Bank of Israel in November 2011, banking corporations and credit-card companies must provide disclosure in their board of directors' reports of any group of borrowers whose net indebtedness on a consolidated basis (after the permitted deductions) exceeds 15% of the capital of the banking corporation or credit-card company, as detailed in the instruction. This instruction shall apply from the financial statements as of September 30, 2011, to the financial statements as of September 30, 2012. As of the reporting date, the Company is not required to make such disclosure in practice.

18. Pursuant to a bill submitted to the Knesset in November 2011 and passed in a preliminary reading in December 2011, limits shall be applied to businesses and to charge card issuers that offer benefit programs to their customers, including limits regarding the change or cancellation of such programs. In the discussion of this bill held by the Economics Committee in January 2012, an agreement was reached to split the bill into two parts, such that the part concerning the obligations applicable to businesses shall be promoted after the acceptance of an alternative phrasing of the bill that does not damage consumers and commerce, while the part concerning issuers is not promoted, subject to the regularization of benefits granted through charge cards by the Bank of Israel. When this matter is regularized in the aforesaid manner, the bill concerning issuers will be removed from the agenda.

19. In December 2011, a government bill was passed in the first reading and transferred to the Constitution, Law, and Justice Committee to be prepared for the second and third readings. The bill sets forth several amendments to the Prohibition of Money Laundering Law and the Prohibition of Terrorism Financing Law, including with regard to reporting duties and the duty to receive identifying information. In addition, a discussion is scheduled for February 2012 concerning an amendment to the Money Laundering Prohibition Order applicable to banking corporations, which concerns the examination of information in order to identify activities by declared terrorist organizations and terrorist operatives. The Company estimates that the aforesaid directives will have no effect on the Company.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

D. Additional Regulation (cont.)

20. A discussion is planned for February 2012 concerning an amendment to the Charge Card Regulations, pursuant to which the Supervisor will be able to issue directives that differ from the current text of the regulations with regard to the delivery of statements to customers. The Company estimates that this amendment will have no effect on the Company.

E. Legal Proceedings and Pending Claims

1. As of the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 3 million. Based on the opinion of its legal advisors, the Company estimates that the financial statements include adequate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

2. In February 2010, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The amount of the personal claim is not stated, and the amount of the class-action suit is estimated at NIS 32.4 million. According to the claimant, the Company overcharges for the production of copies of debit statements for cardholders. The Company has filed its response to the petition for certification. The parties have reached an arrangement according to which the petitioner will withdraw from the petition in return for reimbursement of expenses. The court approved the petitioner's withdrawal from the petition without an expense order.

3. In July 2011, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 98, and the amount of the class-action suit is estimated at NIS 14.7 million. According to the claimant, in transactions in installments, the Company illegally charges a deferred-debit fee in respect of the first installment. At this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

E. Legal Proceedings and Pending Claims (cont.)

4. It has come to the attention of the Company, through publications in the media during the reported period, that a petition to certify a class action has been filed against three credit-card companies, including the Company, and against banks including Bank Hapoalim B.M. (hereinafter: the "**Bank**").

   According to these publications, the claim is in the amount of NIS 4.9 billion, and concerns the rates of fees collected by the credit-card companies. The Company and the Bank did not receive the aforesaid petition by the date of approval of the financial statements of the Company; the Company therefore does not know the amount of the claim attributed to it and to the Bank, and cannot formulate a position with regard to the petition.

5. In November 2011, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 6.90, and the amount of the class-action suit is estimated at NIS 6.7 million. According to the claimant, the Company and others charge a payment for travel in a taxicab that is higher than the amount indicated by the meter at the end of the ride. At this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself. However, even at this preliminary stage, it can be noted that the Company's exposure, inasmuch as the petition may be accepted, is remote.

6. In January 2012, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 5,000, and the class-action suit is in an estimated amount of NIS 75 million. According to the petitioners, the Company was negligent in failing to supervise or audit shopping websites approved by credit-card companies, or in that its supervision is lacking. According to the petitioners, the Company has a heightened duty to ensure that websites used for internet shopping which it authorizes operate according to standards that secure the sensitive information transferred to them during the execution of online transactions, and that it failed to do so. At this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

7. During the reported period, the Board of Directors of the Company approved the granting of a letter of indemnification to consolidated companies (Isracard Mimun, Isracard Nechasim, Tzameret Mimunim, and Global) in respect of all of their liabilities, with no amount limit, pursuant to Proper Conduct of Banking Business Directive No. 313 (Limits on the Indebtedness of a Single Borrower) and Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy). In addition, Aminit received a letter of indemnification from the Company with regard to compliance with the ICAAP rules.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

E. Legal Proceedings and Pending Claims (cont.)

8. In July 2010, Europay filed an appeal of its income-tax assessment for 2006. The dispute between Europay and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of Europay, the sale should be treated as an event requiring capital-gains tax, rather than as an event of redemption of shares, which carries a different taxation rate. A preliminary discussion was held at the District Court of Tel Aviv, in which it was determined that because a legal case without factual disputes is involved, the parties would submit written summaries of their positions. Europay submitted the summaries of its position on December 26, 2011. The respondent (the Tax Assessment Officer) was scheduled to submit a summary by February 26, 2012. In the opinion of its legal advisors, the probability of winning this case is high.

F. Indemnification of Directors

Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

G. Agreements with a Subsidiary and with Sister Companies

The Company has agreements with Europay, Poalim Express, and Aminit, which are a subsidiary and sister companies (hereinafter: the “Companies”), for the operation of their credit-card systems.

The Company operates the Companies’ credit-card issuance and clearing activity, as well as the clearing of transactions executed in Israel using cards issued abroad. The Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of this arrangement.

H. Contractual Engagements with Banking Corporations

The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-cards: Bank Hapoalim B.M. (the Parent Company), Mizrahi Bank, Bank Yahav for Government Employees Ltd., First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., and Union Bank (jointly, the "Banks Under Arrangement").

In general, the various agreements of the Company with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the card arrangement to the Company. Each such bank is responsible for accepting all sales slips and debits executed by the customer on the day of presentation of the sales slips or debits to the bank. The aforesaid various agreements also include payment arrangements and the relevant terms with each of the Banks Under Arrangement.

I. Special Contractual Engagements

Special contractual engagements include long-term agreements in respect of property rentals, software, and operational agreements in respect of motor vehicles.

The following table lists the balances of expected amounts in respect of these contractual engagements, by year.

	December 31	
	2011	2010
	NIS millions	
First year	26	23
Second year	25	22
Third year	9	21
Fourth year	8	7
Fifth year	2	6
Over five years	6	1

Note 16 – Contingent Liabilities and Special Agreements (cont.)

J. Contractual Engagements with Customer Clubs

Within the activity of customer clubs, the Company customarily enters into agreements with various entities representing various customer groups, in arrangements in which the Company issues credit cards to the members of those customer groups (the "Club Members"). The cards issued to the Club Members usually grant them discounts, benefits, and special services at a range of merchants that accept the club's cards. Entities participating in the Company's customer-club activity include workers' organizations, professional organizations, and commercial corporations interested in issuing club cards to their customers and/or employees through credit cards. The range of different types of credit cards issued by the Company includes credit cards issued jointly with organizations and clubs, and with consumer, professional, and other entities, such as Hever cards for career military personnel and retirees, Life-Style club cards, Ashmoret cards for members of the Israel Teachers Union, Hot cards for members of the Union of Engineers and Technicians in Israel, Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel, cards for Rafael Advanced Defense Systems Ltd., cards of retail chains, and more.

Note 17 – Fair Value of Financial Instruments

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A “market price” cannot be quoted for most of the Company’s financial instruments, because no active market exists in which they are traded, with the exception of some securities. The fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note does not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

2. Principal methods and assumptions used to calculate estimates of the fair value of financial instruments

Deposits with banks – By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance sheet date.

Debtors in respect of credit-card activity – The fair value of the balance of debtors in respect of credit-card activity is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of debtors was segmented into homogeneous categories. In each category, the receipts were discounted by an interest rate reflecting similar transactions at the balance-sheet date.

Note 17 – Fair Value of Financial Instruments (cont.)

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of write-offs and of provisions for credit losses in respect of the debts.

Securities – Tradable securities: at market value in the primary market. Non-tradable securities: at cost.

Creditors in respect of credit-card activity – By discounting cash flows according to the interest rate at which the Company raised similar credit close to the balance-sheet date.

Reported amounts

In NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2011			
	Balance-sheet balance			
	(1)	(2)	Total	Fair value
Financial assets:				
Cash on hand and deposits with banks	97	281	378	378
Debtors in respect of credit-card activity, net	-	12,132	12,132	12,073
Securities(3)	85	11	96	96
Other financial assets	1	135	136	135
Total financial assets	**183**	**12,559**	**12,742**	**12,682**
Financial liabilities:				
Credit from banking corporations	6	-	6	6
Creditors in respect of credit-card activity	-	10,955	10,955	10,898
Other financial liabilities	1	625	626	625
Total financial liabilities	**7**	**11,580**	**11,587**	**11,529**

(1) Financial instruments whose balance in the balance sheet is identical to their fair value.

(2) Other financial instruments.

(3) Includes shares for which no fair value is available, which are presented at cost, less impairment, in the amount of NIS 11 million.

Note 17 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments (cont.)

	December 31, 2010			
	Balance-sheet balance			
	(1)	(2)	Total	Fair value
Financial assets:				
Cash on hand and deposits with banks	61[5]	15	76	76[5]
Debtors in respect of credit-card activity, net	-	11,882	11,882	11,826
Securities[3]	60	14	74	74
Other financial assets	16[5]	134[4]	150	149[4][5]
Total financial assets	**137**	**12,045**	**12,182**	**12,125**
Financial liabilities:				
Credit from banking corporations	64	12	76	76
Creditors in respect of credit-card activity	-	10,729	10,729	10,677
Other financial liabilities	-	279[4]	279	278[4]
Total financial liabilities	**64**	**11,020**	**11,084**	**11,031**

(1) Financial instruments whose balance in the balance sheet is identical to their fair value.

(2) Other financial instruments.

(3) Includes shares for which no fair value is available, which are presented at cost, in the amount of NIS 14 million.

(4) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.17 below.

(5) Reclassified; see Note 2 above.

Note 17A – Items Measured at Fair Value on a Recurring Basis, Consolidated

Reported amounts

In NIS millions

	December 31, 2011		
	Fair-value measurements using:		
	Prices quoted on an active market (level 1)	Other observable inputs (level 2)	Balance-sheet balance
Assets			
Securities available for sale	85	-	85
Assets in respect of derivative instruments	-	1	1
Total assets	**85**	**1**	**86**
Liabilities			
Liabilities in respect of derivative instruments	-	1	1
Total liabilities	**-**	**1**	**1**

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries

Reported amounts

In NIS millions

A. Balances

	December 31, 2011							
	Interested parties				Related parties			
	Controlling shareholders		Directors and CEOs		Associated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets								
Cash on hand and deposits with banks	376	696	-	-	-	-	-	-
Debtors in respect of credit-card activity, net(1)	1	1	*-	1	47	47	182	182
Securities	-	-	-	-	-	-	11	14
Investments	-	-	-	-	2	3	-	-
Other assets	23	23	-	-	-	-	-	-
Liabilities								
Credit from banking corporations	6	62	-	-	-	-	-	-
Creditors in respect of credit-card activity	52	79	-	-	-	-	749	799
Other liabilities	1	1			-	-	364	376
Shares (included in equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	15,837	16,079	3	4	96	96	-	-
Guarantees given by banks	5,110	5,303	-	-	12	12	1	1
Discounting balance with related party	-	-	-	-	16	16	-	-

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

* Amount lower than NIS 0.5 million.

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

A. Balances

	December 31, 2010[(2)]							
	Interested parties				Related parties			
	Controlling shareholders		Directors and CEOs		Associated companies		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets								
Cash on hand and deposits with banks	**64	**500	-	-	-	-	-	-
Debtors in respect of credit-card activity[(1)]	1	2	1	1	28	28	114	114
Securities	-	-	-	-	-	-	14	14
Investments	-	-	-	-	-	-	-	-
Other assets	**16	**21	-	-	-	-	44	69
Liabilities								
Credit from banking corporations	68	296	-	-	-	-	-	-
Creditors in respect of credit-card activity	31	31	-	-	-	-	668	679
Other liabilities	1	2	4	5	-	-	85	85
Shares (included in equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	15,706	18,926	4	4	63	63	-	-
Guarantees given by banks	5,152	5,152	-	-	7	7	1	1
Discounting balance with related party	-	-	-	-	8	8	-	-

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

(2) Restated.

* Amount lower than NIS 0.5 million.

** Reclassified; see Note 2 above.

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

B. Summary of Results of Business with Interested and Related Parties

	For the year ended December 31, 2011			
	Interested parties		Related parties	
	Controlling shareholders	Directors and CEOs	Associated companies	Others
Income from credit-card transactions	-	-	-	12
Profit (loss) from financing activity before provision for credit losses	(5)	-	6	(2)
Other income	4	-	-	24
Operating expenses	-	-	-	-
Sales and marketing expenses	-	-	-	8
General and administrative expenses	(5)	(10)	-	-
Payments to banks	(214)	-	-	-
Total	**(220)**	**(10)**	**6**	**42**

	For the year ended December 31, 2010			
	Interested parties		Related parties	
	Controlling shareholders	Directors and CEOs	Associated companies	Others
Income from credit-card transactions	*-	*-	-	**13
Profit (loss) from financing activity before provision for doubtful debts	(7)	-	**3	(*-)
Other income	3	-	-	20
Operating expenses	-	-	-	-
General and administrative expenses	(6)	(12)	-	-
Payments to banks	(239)	-	-	-
Total	**(249)**	**(12)**	**3**	**33**

* Amount lower than NIS 0.5 million.

** Restated.

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31, 2011							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	10	10	-	-

	For the year ended December 31, 2010							
	Shareholders				Directors and CEOs		Others	
	Controlling shareholders		Others					
	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	-	-	12	10	-	-

D. Additional Information

- See Note 13 – Employee Benefits.
- See Note 16 – Contingent Liabilities and Special Agreements.

Note 19 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Income from merchants:						
Merchant fees	1,022	990	905	1,024	992	906
Other income	13	12	11	13	12	11
Total gross income from merchants	1,035	1,002	916	1,037	1,004	917
Less fees to other issuers	87	76	63	87	76	63
Total net income from merchants	948	926	853	950	928	854
Income in respect of credit-card holders:						
Issuer fees	108	93	77	108	93	77
Service fees	150	144	145	150	144	145
Fees from transactions abroad	33	31	30	33	31	30
Total income in respect of credit-card holders	291	268	252	291	268	252
Total income from credit-card transactions	**1,239**	**1,194**	**1,105**	**1,241**	**1,196**	**1,106**

Note 20 – Profit from Financing Activity before Provision for Doubtful Debts

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
A. Financing income in respect of assets:						
From credit to cardholders	68	54	35	-	-	-
From credit to merchants	61	38	13	16	18	12
From deposits with banks	(1)	2	4	1	2	4
From bonds	-	(*-)	8	-	(*-)	8
From other assets	4	3	1	45	16	1
Total in respect of assets	**132**	**97**	**61**	**62**	**36**	**25**
B. Financing expenses in respect of liabilities:						
To banking corporations	12	12	4	12	11	4
On other liabilities	3	-	2	8	5	3
Total in respect of liabilities	**15**	**12**	**6**	**20**	**16**	**7**
C. In respect of derivative instruments and hedging activity:						
ALM derivatives	*-	-	-	*-	-	-
Non-effective part of hedge transactions	-	-	*-	-	-	*-
Total in respect of derivative instruments and hedging activity	*-	-	*-	*-	-	*-
D. Other:						
Other financing income	17	13	13	17	14	13
Total profit from financing activity before provision for credit losses(1)	134	98	68	59	34	31
(1) Of which: exchange-rate differences, net	17	13	11	17	13	11

* Amount lower than NIS 0.5 million.

Note 20 – Profit from Financing Activity before Provision for Doubtful Debts (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
E. Details of results of operations in investments in bonds:						
Financing (expenses) income on an accrual basis from bonds:						
Available for sale	-	(*-)	8	-	(*-)	8
Total included in (loss) profit from financing activity in respect of assets	-	(*-)	8	-	(*-)	8
Profits from sale of bonds available for sale	-	*-	3	-	*-	2
Total included in other financing (expenses) income	-	*-	3	-	*-	2
Total	**-**	**(*-)**	**11**	**-**	**(*-)**	**10**

*   Amount lower than NIS 0.5 million.

ISRACARD

Note 21 – Other Income

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
From rental of assets	4	4	4	-	-	-
Operating fees from related parties	24	20	17	25	20	17
Profit from sales of shares	10	-	-	10	-	-
Others	18	12	9	17	12	10
Total other income	**56**	**36**	**30**	**52**	**32**	**27**

Note 22 – Operating Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Wages and related expenses**	170	144(1)	122(1)	166	140	120
Data processing and computer maintenance	31	32	26	30	31	25
Automatic Bank Services (ABS)	14	13	13	14	13	13
Operating fees to MasterCard International	37	35	29	37	35	29
Amortization and depreciation	84	71	55	81	68	53
Communications	6	7	7	6	7	7
Production and delivery	86	100	91	85	100	90
Damages from abuse of credit cards	6	6	6	6	6	6
Rent and building maintenance	23	23	24	30	29	29
Customer Club management fees	34	29	11	34	29	11
Others	11	7	5	3	1	5
Total operating expenses	**502**	**467**	**389**	**492**	**459**	**388**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	*-	*-	1	*-	*-	1

(1) Reclassified; see Note 1.E.17 above.

* Amount lower than NIS 0.5 million.

Note 23 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
Wages and related expenses**	50	47(1)	40(1)	46	43	38
Advertising	60	45	42	60	44	42
Customer retention and recruitment	1	7	7	1	7	7
Gift campaigns for credit-card holders	60	1	44	60	1	44
Vehicle maintenance	5	5	5	5	5	5
Others	6	4	4	6	4	4
Total sales and marketing expenses	**182**	**109**	**142**	**178**	**104**	**140**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	*-	*-	*-	*-	*-	*-

* Amount lower than NIS 0.5 million.

Note 24 – General and Administrative Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	2010	2009	2011	2010	2009
Wages and related expenses	26	25(1)	30(1)	24	23	30
Professional services	15	15	13	14	14	12
Insurance	5	6	6	5	6	6
Benefit due to share issue	5	5	5	5	5	5
Others	14	15	15	14	15	15
Total general and administrative expenses	**65**	**66**	**69**	**62**	**63**	**68**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	2	4	8	2	4	8

(1) Reclassified; see Note 1.E.17 above.

Note 25 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Current taxes for the tax year	85	75	61	71	61	50
Deferred taxes for the tax year	(35)	(6)(1)	(8)(1)	(30)	(1)(1)	-(1)
Taxes for previous years	2	(1)	2	2	(1)	1
Provision for taxes on income	**52**	**68**	**55**	**43**	**59**	**51**

(1) Reclassified; see Note 1.E.17 above.

2. Adjustment of the theoretical amount of tax that would apply if operating profits were taxed at the statutory tax rate applicable to the Company in Israel, to the provision for taxes on operating profit as allocated to the statement of profit and loss:

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Tax rate applicable to the Company in Israel	24%	25%	26%	24%	25%	26%
Tax amount based on statutory rate	60	64	53	50	58	50
Tax increment (saving) in respect of:						
Unrecognized expenses	2	2	4	1	2	4
Change in balance of deferred taxes due to changes in tax rates	(13)	1	**(4)	(10)	*-	(3)
Tax expenses for previous years	2	(1)	2	2	(1)	1
Timing differences that do not carry deferred taxes	(2)	-	-	-	-	-
Difference in tax rate on financial institutions	3	2	**1	-	-	-
Credit for donations	(*-)	(*-)	(1)	(*-)	(*-)	(1)
Provision for taxes on income	**52**	**68**	**55**	**43**	**59**	**51**

* Amount lower than NIS 0.5 million.

** Reclassified.

3. Final tax assessments have been issued to the Company up to and including the tax year 2009.

For subsidiaries, final tax assessments have been issued up to and including the tax year 2006, including tax assessments considered to be final under the Income Tax Ordinance, with the exception of Europay, which has final tax assessments up to and including the tax year 2005. Also see Note 16.E.8, above.

Note 25 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

4. Deferred tax balances and provision for deferred taxes (consolidated):

	Deferred taxes receivable		Provision for deferred taxes	
	December 31		December 31	
	2011	**2010**	**2011**	**2010**
From provision for credit losses	54	24	-	-
From provision for vacation and bonuses	12	2	-	-
From surplus of provision for compensation and pensions over the amount funded	17	**8	-	-
From adjustment of depreciable non-monetary assets	-	-	6	4
From others	-	1	-	-
Adjustment of securities and derivatives	(10)	-	-	1
Total	**73**	**35**	**6**	**5**

Deferred tax balances and provision for deferred taxes (the Company):

	Deferred taxes receivable		Provision for deferred taxes	
	December 31		December 31	
	2011	**2010**	**2011**	**2010**
From provision for credit losses	22	6	-	-
From provision for vacation and bonuses	12	2	-	-
From surplus of provision for compensation and pensions over the amount funded	17	**8	-	-
From others	-	1	-	-
Adjustment of securities and derivatives	(10)	-	-	1
Total	**41**	**17**	**-**	**1**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17 above.

Note 25 – Provision for Taxes on Operating Profit (cont.)

5. Changes in tax rates

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from the tax year 2016 forward. In accordance with the aforesaid amendments, the corporation tax rates applicable from the tax year 2009 forward are as follows: 26% in the tax year 2009, 25% in the tax year 2010, 24% in the tax year 2011, 23% in the tax year 2012, 22% in the tax year 2013, 21% in the tax year 2014, 20% in the tax year 2015, and 18% from the tax year 2016 forward.

The Law for Change in the Tax Burden (Legislative Amendments), 2011 was passed by the Knesset on December 5, 2011. Pursuant to this law, the tax reduction established in the Economic Efficiency Law will be canceled, as noted above, and the rate of corporation tax will stand at 25% from 2012 onwards.

Current taxes for the periods reported in these financial statements are calculated according to the tax rates established in the Economic Efficiency Law.

The balances of deferred taxes as of December 31, 2011 were calculated according to the new tax rate established in the Law for Change in the Tax Burden, based on the expected tax rate at the date of reversal. The effect of the change in the tax rate on the financial statements as of December 31, 2011 is reflected in an increase in the balance of deferred taxes, in the amount of NIS 16 million, against deferred tax income.

Note 26 – Operating Segments

A. General

The Company issues, clears, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay, which combine the Isracard and MasterCard brands ("MasterCard cards"). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are cleared by Europay. Issuance and clearing of MasterCard cards are performed under a license from MasterCard International Incorporated ("MC").

The Issuance Segment

The Company issues and operates Isracard credit cards (a private brand) and MasterCard cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards.

All income and expenses related to customer recruitment and routine handling, including customer-club management, were allocated to the Issuance Segment.

Main income items associated with this segment: interchange fees, card fees, deferred-debit fees, and fees from transactions abroad, as well as net financing income attributed to the segment.

Interchange fees are fees paid by clearers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the clearer.

Main expenses associated with this segment: marketing, advertising, and management of customer clubs; benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, such as marketing and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Note 26 – Operating Segments (cont.)

Main income items associated with this segment: fees from merchants, net of interchange fees, which are allocated to the Issuance Segment; and net financing income attributed to the segment.

Main expenses associated with this segment: recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

The Financing Segment

In the last few years, credit-card companies have entered the financing business. The Financing Segment serves the customers of the Company, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability. All income and expenses related to the Company's interest-bearing activities, including discounting, advance payments, factoring, revolving credit (More), and various types of loans, were attributed to the Financing Segment.

Other

This segment includes all of the Company's other activities that do not belong to the Issuance, Clearing, and/or Financing Segment, each of which does not constitute a reportable segment. In addition, income from the sale of shares of MC is included in this segment.

Note 26 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2011				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from externals	288	949	-	2	1,239
Inter-segmental fees	713	(713)	-	-	-
Total	1,001	236	-	2	1,239
Profit (loss) from financing activity before provision for credit losses	53	6	75	(*-)	134
Other income	3	2	1	50	56
Total income	**1,057**	**244**	**76**	**52**	**1,429**
Expenses					
Provision for credit losses	23	3	16	7	49
Operating expenses	373	113	11	5	502
Sales and marketing expenses	138	37	4	3	182
General and administrative expenses	42	19	3	1	65
Payments to banks	372	-	-	-	372
Write-downs and impairment of goodwill	-	-	7	3	10
Total expenses	948	172	41	19	1,180
Operating profit before taxes	109	72	35	33	249
Provision for taxes on operating profit	23	15	7	7	52
Operating profit after taxes	86	57	28	26	197
The Company's share in operating (losses) after tax effect of investee companies (consolidated: associates)	-	-	-	(2)	(2)
Net operating profit					
Before attribution to non-controlling interests	86	57	28	24	195
Attributed to non-controlling interests	-	-	*-	-	*-
Attributed to shareholders of the Company	86	57	28	24	195
Return on equity (percent net profit out of average capital)	6.6	4.3	2.1	1.8	14.8
Average balance of assets	10,352	448	1,585	139	12,524
Of which: investments in associated companies	-	-	-	3	3
Average balance of liabilities	577	10,450	51	130	11,208
Average balance of risk-adjusted assets	7,733	576	1,119	195	9,623

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

Note 26 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2010				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from externals	265	928	-	1	1,194
Intersegmental fees	727	(727)	-	-	-
Total	**992**	**201**	**-**	**1**	**1,194**
Profit from financing activity before provisions for doubtful debts	27	5	65	1	98
Other income	3	1	1	31	36
Total income	**1,022**	**207**	**66**	**33**	**1,328**
Expenses					
Provisions for doubtful debts	6	3	27	2	38
Operations	350	103	9	5	467
Sales and marketing	70	31	5	3	109
General and administrative	43	19	3	1	66
Payments to banks	388	4	-	-	392
Write-down and impairment of goodwill	-	-	2	-	2
Total expenses	857	160	46	11	1,074
Operating profit before taxes	165	47	20	22	254
Provision for taxes on operating profit	44	13	5	6	68
Operating profit after taxes	121	34	15	16	186
The Company's share in operating profits after tax effects of investee companies (consolidated: associates)	-	-	-	*-	*-
Net operating profit					
Before attribution to non-controlling interests	121	34	15	16	186
Attributed to non-controlling interests	-	-	(1)	-	(1)
Attributed to shareholders of the Company	**121**	**34**	**14**	**16**	**185**
Return on equity (percent net profit out of average capital)	10.7	3.0	1.2	1.3	16.2
Average balance of assets	9,074	990	1,387	272	11,723
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	433	9,841	197	122	10,593
Average balance of risk-adjusted assets	6,391	866	1,174	240	8,671

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

Note 26 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

Profit and loss information	Issuance Segment	Clearing Segment	Financing Segment	Other(1)	Total
	For the year ended December 31, 2009				
Income					
Fees from externals	249	855	-	1	1,105
Intersegmental fees	717	(717)	-	-	-
Total	**966**	**138**	**-**	**1**	**1,105**
Profit from financing activity before provisions for doubtful debts	20	9	39	*-	68
Other income	2	2	-	26	30
Total income	**988**	**149**	**39**	**27**	**1,203**
Expenses					
Provisions for doubtful debts	5	*-	23	1	29
Operations	293	88	4	4	389
Sales and marketing	**111	26	2	3	142
General and administrative	45	22	1	1	69
Payments to banks	**371	1	-	-	372
Total expenses	**825**	**137**	**30**	**9**	**1,001**
Operating profit before taxes	**163**	**12**	**9**	**18**	**202**
Provision for taxes on operating profit	**45	**3	2	5	55
Operating profit after taxes	**118**	**9**	**7**	**13**	**147**
The Company's share in operating profits after tax effects of investee companies (consolidated: associates)	-	-	-	*-	*-
Net operating profit					
Before attribution to non-controlling interests	118	9	7	13	147
Attributed to non-controlling interests	-	-	1	-	1
Attributed to shareholders of the Company	**118**	**9**	**8**	**13**	**148**
Return on equity (percent net profit out of average capital)	12.3	1.0	0.6	1.3	15.2
Average balance of assets	8,453	1,202	841	457	10,953
Of which: investments in associated companies	-	-	-	19	19
Average balance of liabilities	356	9,561	3	57	9,977
Average balance of risk-adjusted assets	2,844	452	1,190	155	4,641

(1) Results of other activities which are examined separately by Management and the Board of Directors in order to make decisions regarding resource allocation and evaluation of the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.17, above.

Note 27 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2011	2010
Total assets	13,562	*12,848
Total liabilities	12,144	*11,602
Equity	1,418	*1,246
Nominal net profit	198	186

* Restated; see Note 1.E, above.