Aminit Ltd.

Annual Report

For the year ended December 31, 2012

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Aminit Ltd.

Board of Directors' Report

For the Year Ended December 31, 2012

Board of Directors' Report on the Financial Statements as at December 31, 2012

At the meeting of the Board of Directors held on February 27, 2013, it was resolved to approve and publish the audited financial statements of Aminit Ltd. ("**the Company**" or "**Aminit**") for the year 2012.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1979 as a private company. The Company is owned by Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**").

The Company is a credit-card company and an "auxiliary corporation" according to the definition of this term in the Banking Law (Licensing), 1981 (hereinafter: "**Auxiliary Corporation**"). The Company has no subsidiaries or other investee companies.

The Company is primarily engaged in issuing credit cards and clearing credit-card transactions in Visa brand cards issued for use in Israel and abroad under a license granted to the Company by the Visa International Service Association (hereinafter: "**Visa Association**").

The Company's operations are conducted through three operating segments: the Issuance Segment, which handles cardholders; the Clearing Segment, which handles merchants; and the Travelers' Cheques Segment. Credit-card systems 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.

Contractual engagement between the Company and Isracard Ltd. – Under an agreement between the Company and Isracard Ltd. (hereinafter: "**Isracard**"), a sister company, Isracard administers and operates the Company's credit-card issuance activity, clearing activity in Israel of transactions executed at merchants using Visa cards, and travelers' cheques activity, on behalf of the Company (hereinafter: "**the Arrangement**"). The Company participates in all costs common to Isracard and the Company, according to its relative share of the relevant activity. In return for Isracard's activity in the operation of the Arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties.

The Company is part of the Isracard Group, which consists of the following companies: Isracard, Europay (Eurocard) Israel Ltd. (hereinafter: "**Europay**"), Poalim Express Ltd. (hereinafter: "**Poalim Express**"), and the Company.

Share issuance – On March 24, 2011, the Company issued 4,271 common shares of par value NIS 1 each to Bank Hapoalim, at a price of NIS 3,980 per share. The total consideration was NIS 17 million.

On December 20, 2011, the Company issued 4,459 common shares of par value NIS 1 each to Bank Hapoalim, at a price of NIS 4,037 per share. The total consideration was NIS 18 million.

Dividend distribution – In December 2012, the Company distributed a dividend to Bank Hapoalim in a total amount of NIS 5 million.

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

Developments in the Global Economy

The debt crisis in the developed countries peaked during the last year, especially in Europe. Consequences were felt throughout the world, and global growth slowed. The large debts of Europe's peripheral countries were the focus of the crisis; bond yields functioned as a barometer of its severity. Massive intervention by policymakers was necessary in order to restore confidence to the markets and prevent decline. Stability was in fact achieved during the second half of the year, particularly after the publication of the plan for purchases of the bonds of the distressed countries by the European Central Bank. It is important to note that notwithstanding the signs of recovery, a genuine solution to the problem of the large sovereign debts has not yet been found; as long as these economies do not resume growing, the need to service the debts is still a sword hanging over the global economy in general, and the European economy in particular. Overall for the year, according to estimates by the International Monetary Fund, world economic growth slowed to an annual rate of 3.2%. The developed economies grew at a moderate rate of 1.3%, as the bulk of the contribution to growth derived from the developing markets, which grew by 5.1%. Central banks worldwide worked to stimulate growth, maintaining expansionary monetary policies, which were also made possible by the relatively low inflation.

Growth in the United States accelerated slightly over the last year, mainly due to improvements in private consumption and in the real-estate market. Growth in 2012 totaled 2.3%. Although the unemployment rate in the US fell from 8.5% at the end of 2011 to 7.8% by the end of 2012, the American economy is still lacking about 4 million jobs in order to return to pre-crisis employment levels. The US is also facing the problem of high public debt, although its characteristics are different than in Europe. The US has the ability to raise capital at relatively low prices, but the political disagreements between the Democratic administration and the Republican majority House of Representatives has made budget policy management difficult.

The Eurozone economy experienced a 0.4% GDP contraction in 2012, and the average unemployment rate in the Eurozone countries reached a high of 11.8% in November. Decisions made in the Eurozone over the year indicated a desire to keep it whole: Greece, the Eurozone's weakest link, received two aid packages, once it had implemented a debt settlement for private investors. A bailout fund was also made available to commercial banks in the crisis countries, and agreements were reached regarding the establishment of a uniform supervision mechanism for banks. It was resolved that in the future the central bank would buy bonds of countries in crisis, subject to certain limits. To date, Italy and Spain have not yet applied to the fund, but the decisive action seems to have largely restored confidence to the financial markets.

Growth slowed slightly in the emerging markets as well, primarily in China, India, and Brazil. The weight of these economies in global terms continued to increase; they currently account for the most substantial contribution to world growth. During the year, there were increasing concerns that the slowdown in growth rates in China might expose the Chinese economy to crises in real estate and in banking. The Chinese administration responded with measures to stimulate growth, and figures for the fourth quarter pointed to a slight improvement.

The Israeli Economy

Economic Activity in Israel

The Israeli economy posted 3.2% growth in 2012. Growth rates slowed during the year; in the fourth quarter, the economy grew by only 2.5%, in annualized terms. The main cause of the slowdown was the stagnation in exports, apparently due to the global situation. Growth rates cooled in private consumption and in investments as well, including investments in residential construction. Monetary policy was expansionary, and the same can be said for fiscal policy, although taxes were raised during the second half in response to a significant deviation from the deficit target.

The labor market remained strong in 2012, with the unemployment stable at 7%, and a 3.5% increase in the number of employed persons, although most jobs added were in the public sector, in the education and health-care segments.

Following difficulties with the approval of the state budget for 2013, general elections to the Knesset were moved to the earlier date of January 22, 2013. The new government to be established will have to cope with the need for deep budget cuts during a downturn in economic growth.

Natural gas from the Tamar reservoir will begin to arrive in the second quarter of 2013, according to estimates. The inflow of gas is expected to lead to reduced imports of energy materials to Israel; these imports soared over the last two years, due to the cessation of natural gas imports from Egypt. The natural gas is expected to contribute to economic growth, but its contribution to employment and to household incomes is likely to be minor, at least initially.

Fiscal and Monetary Policy

The budget deficit for the last year significantly exceeded the original target, reaching NIS 39 billion, or 4.2% of GDP, versus the target of 2%. Most of the deviation occurred on the revenue side, which was affected by the slowdown in growth, despite tax hikes in the second half. Expenditures deviated from plans as well, due to wage agreements, defense spending, and the adoption of the Trajtenberg Committee’s recommendations. The state budget for 2013 was not approved, and the Knesset elections were held earlier as a result, as noted.

An expansionary monetary policy was maintained over the last year. The central bank’s interest rate was lowered from 2.75% in January to 2.0% in December, and to 1.75% in January 2013.

This policy was influenced by the low interest rates in the developed countries, the cooling of the local economy, and the lack of danger to price stability in the short term. The central bank took several steps aimed at halting the increase in mortgages and cooling down the housing market over the last year.

Inflation and Exchange Rates

The consumer price index rose by 1.6% in 2012, slightly below the midpoint of the target range. Government actions led to relatively large price changes, such as a 70% decrease in prices of preschools, which became free of charge from the age of three, as part of the Trajtenberg Committee recommendations, and mobile communication prices, down by 7%. By contrast, the price of electricity rose by 10%, and prices of other basic products were affected by the increase in indirect taxes during the year. Inflation in the developed countries has been tempered by surplus production capacity and, especially, high unemployment rates. This situation has also had a substantial impact on inflation in Israel, preventing inflationary pressures. The expansionary monetary policy seemed to affect housing prices, which rose by 5.7% in the twelve months ended in November, according to a survey by the Central Bureau of Statistics, completing a 73% rise relative to 2007.

The shekel appreciated by 2.3% against the US dollar and by 0.8% against the currency basket. The Bank of Israel did not intervene in currency trading during the year. The Bank of Israel's foreign-currency reserves grew by USD 1 billion, to USD 75.9 billion. Foreign investors continued to reduce their investments in bond and short-term notes (Makams), due to limits imposed on such investments by the central bank. This process began in 2011; most foreigners' Makam holdings were sold by mid-2012.

The Credit-Card Industry in Israel

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

The credit-card companies in Israel issue and clear the international credit cards noted above (Visa, MasterCard, American Express, 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 Proper Conduct of Banking Business Directives No. 201-211, 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, and the opening of the credit-card market – 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 at December 31, 2012

	Active cards	Inactive cards	Total
Bank cards	29	10	39
Non-bank cards – credit risk on the Company	1	*-	1
Total	**30**	**10**	**40**

Number of valid credit cards as at December 31, 2011

	Active cards	Inactive cards	Total
Bank cards	15	6	21
Non-bank cards – credit risk on the Company	*-	*-	*-
Total	**15**	**6**	**21**

* Less than one thousand units.

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

	For the year ended December 31	
	2012	**2011**
Bank cards	664.8	515.0
Non-bank cards – credit risk on the Company	5.2	0.1
Total	**670.0**	**515.1**

Definitions:

Valid credit card: A card issued and not canceled 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 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 the banks.

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

Profit and Profitability

The Company's net profit totaled NIS 1.0 million in 2012, compared with NIS 1.1 million in 2011.

Net return on average equity reached 1.5% in 2012, compared with 2.4% in 2011.

Developments in Income and Expenses

Income totaled NIS 70.9 million in 2012, compared with NIS 61.1 million in 2011, an increase of 15.1%. For an explanation of the increase, see the item of income from credit-card transactions below.

Income from credit-card transactions totaled NIS 64.1 million, compared with NIS 55.9 million in 2011, an increase of 14.7%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 52.9 million, compared with NIS 45.9 million in 2011, an increase of 15.3%, resulting from an increase in the volume of activity in the Company's credit cards.
- Income in respect of credit-card holders totaled NIS 7.9 million, compared with NIS 7.0 million in 2011, an increase of 12.9%.
- Other income totaled NIS 3.3 million, compared with NIS 3.0 million in 2011, an increase of 10%.

Net interest income totaled NIS 5.5 million in 2012, compared with NIS 5.1 million in 2011, an increase of 7.8%.

Other income totaled NIS 1.3 million in 2012, compared with NIS 0.6 million in 2011, an increase of 116.7%.

Expenses before payments to banks totaled NIS 61.3 million in 2012, compared with NIS 52.3 million in 2011, an increase of 17.2%, which resulted from an increase in the volume of the Company's activity.

Expenses including payments to banks totaled NIS 69.6 million in 2012, compared with NIS 60.3 million in 2011, an increase of 15.4%, which resulted from an increase in the volume of the Company's activity.

The provision for credit losses totaled NIS 0.3 million in 2012, compared with NIS 0.5 million in 2011, a decrease of 40%.

Operating expenses totaled NIS 32.5 million, compared with NIS 30.8 million in 2011, an increase of 5.5%, which mainly resulted from an increase in the volume of the Company's clearing business.

Sales and marketing expenses totaled NIS 8.8 million in 2012, compared with NIS 7.6 million in 2011, an increase of 15.8%.

General and administrative expenses totaled NIS 19.7 million in 2012, compared with NIS 13.4 million in 2011, an increase of 47%, which resulted from an increase in the volume of the Company's activity.

Payments to banks, under agreements with the banks, totaled NIS 8.3 million in 2012, compared with NIS 8.0 million in 2011. The change mainly resulted from an increase in the Company's surplus of income over expenses.

The ratio of expenses to income before payments to banks reached 86.5% in 2012, compared with 84.9% in 2011.

Profit before taxes totaled NIS 1.3 million in 2012, similar to 2011.

The return of profit before taxes on average equity reached 2.0% in 2012, compared with 2.9% in 2011.

The provision for taxes on profit totaled NIS 0.3 million in 2012, compared with NIS 0.2 million in 2011. The effective tax rate, of total profit before taxes, reached 23.1%, compared with 15.4% in 2011.

Pursuant to the amendment of the Economic Efficiency Law in 2011, the tax reduction was canceled, and the rate of corporation tax stands at 25%, beginning in 2012.

Developments in Balance-Sheet Items

The balance sheet as at December 31, 2012 totaled NIS 1,392.4 million, compared with NIS 1,151.7 million on December 31, 2011.

Developments in the principal balance-sheet items:

	December 31			
	2012	2011	Change	
	In NIS millions		In NIS millions	In %
Total balance sheet	1,392.4	1,151.7	240.7	21
Debtors in respect of credit-card activity, net	1,323.7	1,081.3	242.4	22
Cash on hand and deposits with banks	11.9	30.1	(18.2)	(60)
Travelers' cheques in circulation	10.3	11.2	(0.9)	(8)
Creditors in respect of credit-card activity	1,277.2	1,029.5	247.7	24
Subordinated notes	31.1	32.0	(0.9)	(3)
Other liabilities	7.9	10.6	(2.7)	(25)
Equity	64.3	68.3	(4.0)	(6)

Debtors in respect of credit-card activity, net, totaled NIS 1,323.7 million on December 31, 2012, compared with NIS 1,081.3 million at the end of 2011. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date.

Cash on hand and deposits with banks totaled NIS 11.9 million on December 31, 2012, compared with NIS 30.1 million at the end of 2011. The decrease resulted from a loan granted to a sister company and from the dividend paid to Bank Hapoalim in December 2012.

Travelers' cheques in circulation totaled NIS 10.3 million on December 31, 2012, compared with NIS 11.2 million at the end of 2011.

Creditors in respect of credit-card activity totaled NIS 1,277.2 million on December 31, 2012, compared with NIS 1,029.5 million at the end of 2011. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date. This significant increase resulted from growth in the number of merchants with clearing agreements with the Company.

Subordinated notes totaled NIS 31.1 million on December 31, 2012, compared with NIS 32.0 million at the end of 2011. Pursuant to the resolution of the Board of Directors of the Company, the linkage terms of all of the notes were changed from CPI-linked bearing a fixed rate of interest to floating rate only.

Other liabilities totaled NIS 7.9 million on December 31, 2012, compared with NIS 10.6 million at the end of 2011. The decrease mainly resulted from a decrease in the amount of debt to Isracard.

Equity totaled NIS 64.3 million on December 31, 2012, compared with NIS 68.3 million at the end of 2011. The decrease in equity mainly resulted from the dividend paid to Bank Hapoalim in December 2012.

The ratio of equity to the balance sheet reached 4.6% on December 31, 2012, compared with 5.9% on December 31, 2011.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 15.4% on December 31, 2012, compared with 19.2% on December 31, 2011. 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 beginning in the first quarter of 2011.

Expenses and Investments of the Company in Information Technology Systems

Software development costs are capitalized to fixed assets if the following can be measured reliably: development costs, technical feasibility of the software, expectation of future economic benefit from the development, and the Company's intention and sufficient resources to complete the development and use the software. The capitalized expense includes costs of materials and direct labor costs that can be attributed directly to the preparation of the asset for its intended use. Other development costs, if any, are allocated to the statement of profit and loss upon formation.

Expenses incurred for the maintenance and development of information-technology systems and assets in respect of information-technology systems are detailed below.

Expenses in respect of information-technology systems as included in the statement of profit and loss (in NIS millions)

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	1	1	*-	2
Expenses for acquisitions or usage licenses not capitalized as assets	1	-	1	2
Expenses for outsourcing	1	-	-	1
Expenses for depreciation	-	-	-	-
Other expenses	5	1	*-	6
Total	**8**	**2**	**1**	**11**

* Amount lower than NIS 0.5 million.

** Includes outsourcing expenses.

(1) Including communication infrastructures.

The additions to assets in respect of the information-technology systems are incurred by Isracard, which, as noted, operates the activity of the Company.

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 customer (the cardholder) and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services.

As at 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, Isracard, Europay, Poalim Express, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

Bank cards issued by the Company are bank cards distributed to owners of accounts at banks with which the Company has agreements, including Bank Hapoalim, Bank Yahav for Government Employees Ltd., Bank Massad Ltd., and Bank Otsar Hahayal Ltd. (jointly, the "**Banks Under Arrangement**").

As noted, Isracard administers and operates issuance activity, credit-card clearing activity, and travelers' cheques activity on behalf of the Company.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under an international license; (2) the collaboration with banking corporations, particularly Bank Hapoalim, for the distribution and issuance of credit cards, including the integration of a bank card with the credit card issued to the customer; (3) brand image; (4) high-quality, experienced human capital; (5) quality of customer service; (6) a supporting 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; and (9) the ability to recruit and retain customers through a supporting marketing system;

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 a supporting 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, cheques, gift cards, and prepaid cards constitute 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

The Company issues Visa credit cards. These cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and for cash withdrawals, locally and internationally.

The various products and services offered through Isracard include various credit plans based on Credit plans; special-purpose loans for private and corporate clients; various 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 were 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 marketing, advertising, 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 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. 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. As at 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 2012.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is administered and operated by Isracard, on several levels: joint activity with the Banks Under Arrangement in the issuance of bank cards, marketing of non-bank cards, operation of a benefit program, and marketing and sales promotion, including through marketing campaigns, joint offers with leading entities in the various sectors, the operation of a telemarketing center, direct mail, salespeople, a website, and more. See also risk factors with regard to the "Cessation of Activity of a Bank in Israel" and "Competition."

Competition

The credit-card issuance field is characterized by a very high level of competition, which has intensified in recent years, encompassing all activities 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 charge 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.

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 competition, the Company, through Isracard, which administers and operates credit-card issuance activity on behalf of 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) 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 cheques; (3) reinforcement of status and image through advertising, benefits, and various offers for cardholders; and (4) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the Visa Association for the issuance and clearing of credit cards, and the arrangement with Isracard for the management and operation of credit-card issuance and clearing activity; (2) the Company's image and brand; (3) the Company's system of agreements with banks in Israel; (4) professional, skilled, experienced human capital; (5) the products and services offered to various types of customers; and (6) an advanced service system allowing a high quality of customer service.

Negative factors affecting the Company's competitive standing include, among others, technological improvements that create the possibility of development of alternative means of payment in areas such as payments via 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 an 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 at the date of the report, several credit-card companies operate in the credit-card clearing segment in Israel: the Company, Isracard, Europay, Poalim Express, 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 advance payments, sales-slip discounting, and marketing and operational services, including an option for payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns.

As noted, Isracard administers and operates credit-card clearing activity on behalf of the Company. In response to a request by the Economics Committee, in April 2011, the Company lowered fees for approximately 7,000 small businesses in peripheral regions, by 10% to 15% of the basic fee for the full year. The fee reduction offer will continue for another year, until April 2013, both for merchants included in the earlier offer and for new merchants who joined during the period of the previous offer. In November 2012, the Company lowered fees by 30% for approximately 7,000 merchants in southern Israel and in the conflict areas, with the option to suspend loan principal payments for three months.

Credit-card companies authorized to issue Visa and MasterCard cards and to clear transactions executed using these cards can clear Visa and MasterCard cards, according to each company's authorizations. In addition, beginning on May 15, 2012, the market has been open for cross-clearing of the Isracard brand, and merchants can switch clearers for this brand. With regard to the reduction of the interchange fee, beginning on November 1, 2011, and with regard to the approval of the arrangement, including all of its terms, see Note 15.B to the Financial Statements. With regard to the government bill passed by the Knesset plenum in August 2011, see Note 15.C.2 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 supporting sales and marketing system; (6) provision of related services to merchants, including various marketing, financial, and operational services; (7) accumulated experience in the area of clearing of credit cards; and (8) 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 the operation of clearing; (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, standing orders, bank transfers, and cheques 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.

Products and Services

As a clearer, the Company has agreements with various merchants, under which it clears sales slips of 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 merchants financial services, such as loans, discounting services for credit-card sales slips, advance payments, 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 and other segmented information, corporate cards, joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures.

Segmentation of Income from Products and Services

All income from merchants and from cash withdrawals by tourists in Israel are allocated to 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 interest income. The main expenses associated with this segment are recruitment and retention of merchants, sales promotion, joint advertising with merchants, clearing of sales slips, and production and delivery of statements to merchants.

For details regarding the segmentation of income from credit-card transactions, see Note 18 to the Financial Statements.

Customers

The Company's customers in the Clearing Segment are numerous, varied merchants that have entered into agreements with it, as well as discounting companies, which enter into three-fold agreements: agreements with the Company, as a clearer, for the provision of discounting services, and concurrently, agreements with merchants, which also have clearing agreements with the Company. For this purpose, the discounting company is a customer of the Company for the provision of clearing services, like any other merchant, and is counted quantitatively along with the merchants that have clearing agreements with the Company.

As at the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2012.

Marketing and Sales

The Company's marketing and sales activity in the Credit-Card Clearing Segment is administered and operated by Isracard, 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 recruit new merchants and to expand the Company's operations through new business activities, including granting of credit; (2) to strengthen the Company's image; and (3) to retain merchants as customers by providing marketing, financial, and operational services, including information regarding past and future credits of the merchant and other segmented information, advertising campaigns and unique marketing information, benefits, and programs at a high level of service.

The Company operates a website designed for its business clients at www.isracard.co.il, which provides financial information regarding the merchant's credits and expanded business information, among other matters, and allows credit applications to be filed.

Competition

The credit-card clearing field is characterized by a very high level of competition. For a list of credit-card companies operating in this area in Israel, see "The Credit-Card Industry in Israel," above. 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. The credit-card companies have expanded the mix of products and services offered to merchants by offering marketing and financial services.

In order to cope with the competition in this area, the Company, including through Isracard, which administers and operates credit-card clearing activity on behalf of 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 the 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 financing and loan services and 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) the licensing agreement with the Visa Association for the issuance and clearing of credit cards; (2) the arrangement with Isracard for the management and operation of credit-card issuance and clearing activity; (3) a supporting marketing, sales, and service system specializing in providing suitable solutions to merchants, and containing professional, skilled, experienced human capital; (4) a brand with presence and power; and (5) an advanced technological infrastructure allowing response to the needs of the various merchants.

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 payment through cellular phones, which may cause a decline in credit-card clearing; and merchants' ability to switch clearers in Visa, Isracard, and MasterCard 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 Travelers' Cheques Segment

Within this segment, the Company clears Visa travelers' cheques, mainly denominated in US dollars, issued prior to January 1, 2008, at an insignificant volume. The issuance of Visa travelers' cheques was terminated by the Company on that date, due to the change in policy of Visa International. The main income item in this segment is interest income arising from deposits of funds from the sale of cheques not yet redeemed. The main expenses in this segment are expenses for the operation of the clearing system.

Seasonality

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

Financial Information on the Company's Operating Segments

Quantitative Data on Operating Segments

Reported amounts

NIS millions

	For the year ended December 31, 2012				
Profit and loss information:	**Issuance Segment**	**Clearing Segment**	**Travelers' cheques**	**Other(1)**	**Total**
Income					
Fees from external customers	7.9	56.2	-	-	64.1
Inter-segmental fees	0.6	(0.6)	-	-	-
Total	**8.5**	**55.6**	**-**	**-**	**64.1**
Net interest income	-	5.2	0.3	-	5.5
Other income (expenses)	*-	1.3	(*-)	-	1.3
Total income	**8.5**	**62.1**	**0.3**	**-**	**70.9**
Expenses					
Provision for credit losses	0.1	0.2	-	-	0.3
Operation	3.2	29.3	*-	-	32.5
Sales and marketing	2.8	6.0	-	-	8.8
General and administrative	1.0	18.7	-	-	19.7
Net payments to banks	0.2	7.8	0.3	-	8.3
Total expenses	**7.3**	**62.0**	**0.3**	**-**	**69.6**
Profit before taxes	1.2	0.1	*-	-	1.3
Provision for taxes on profit	0.3	*-	*-	-	0.3
Net profit	**0.9**	**0.1**	***-**	**-**	**1.0**
Return on equity (percent net profit out of average capital)	1.4	0.1	-	-	1.5
Average balance of assets	65.0	1,162.0	11.5	-	1,238.5
Average balance of liabilities	1.1	1,160.9	11.1	-	1,173.1
Average balance of risk-adjusted assets	69.8	477.3	5.7	-	552.8

* Amount lower than NIS 50 thousand.

(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 such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

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

Quantitative Data on Operating Segments

Reported amounts

NIS millions

	For the year ended December 31, 2011				
Profit and loss information:	**Issuance Segment**	**Clearing Segment**	**Travelers' cheques**	**Other[1]**	**Total**
Income					
Fees from external customers	7.1	48.8	-	-	55.9
Inter-segmental fees	0.5	(0.5)	-	-	-
Total	**7.6**	**48.3**	**-**	**-**	**55.9**
Net interest income	-	4.8[1]	0.3	-	5.1
Other income	*-	0.6[1]	-	-	0.6
Total income	**7.6**	**53.7**	**0.3**	**-**	**61.6**
Expenses					
Provision for doubtful debts	*-	0.5	-	-	0.5
Operation	3.0[2]	27.5[2]	0.3	-	30.8
Sales and marketing	2.2[2]	5.4[2]	-	-	7.6
General and administrative	0.8	12.6	-	-	13.4
Net payments to banks	0.3[2]	7.7[2]	*-	-	8.0
Total expenses	**6.3**	**53.7**	**0.3**	**-**	**60.3**
Profit before taxes	1.3	*-	*-	-	1.3
Provision for taxes on profit	0.2	*-	*-	-	0.2
Net profit	**1.1**	***-**	***-**	**-**	**1.1**
Return on equity (percent net profit out of average capital)	2.4	-	-	-	2.4
Average balance of assets	74.0	917.5	11.3	-	1,002.8
Average balance of liabilities	1.5	944.3	11.5	-	957.3
Average balance of risk-adjusted assets	47.5	425.0	5.6	-	478.1

* Amount lower than NIS 50 thousand.

(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 such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Reclassified.

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

Quantitative Data on Operating Segments (cont.)

Reported amounts

NIS millions

	For the year ended December 31, 2010				
Profit and loss information:	**Issuance Segment**	**Clearing Segment**	**Travelers' cheques**	**Other[1]**	**Total**
Income					
Fees from external customers	7.4	35.2	-	-	42.6
Intersegmental fees	0.5	(0.5)	-	-	-
Total	**7.9**	**34.7**	**-**	**-**	**42.6**
Net interest income	-	2.0[3]	0.2	-	2.2
Other income	-	0.7[3]	-	0.2[2]	0.9
Total income	**7.9**	**37.4**	**0.2**	**0.2**	**45.7**
Expenses					
Provision for doubtful debts	-	1.0	-	-	1.0
Operation	2.8[4]	18.0	0.6	-	21.4
Sales and marketing	2.0[4]	5.3[4]	-	-	7.3
General and administrative	0.8	10.5	-	-	11.3
Payments to banks (receipts from banks), net	0.8[4]	2.6[4]	(0.4)	0.2	3.2
Total expenses	**6.4**	**37.4**	**0.2**	**0.2**	**44.2**
Profit (loss) before taxes	1.5	*-	(*-)	*-	1.5
Provision for taxes on profit	0.4	*-	(*-)	*-	0.4
Net profit (loss)	**1.1**	***-**	**(*-)**	***-**	**1.1**
Return on equity (percent net profit out of average capital)	4.1	-	-	-	4.1
Average balance of assets	0.2	707.9	12.6	0.2	720.9
Average balance of liabilities	0.3	(63.9)	0.3	8.6	(54.7)
Average balance of risk-adjusted assets	40.4	229.8	3.7	0.1	274.0

* Amount lower than NIS 50 thousand.

(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 such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Redemption of Class C shares by Visa Inc.

(3) Reclassified; see footnote 1 to the Statement of Profit and Loss, below.

(4) Reclassified.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 0.9 million in 2012, compared with NIS 1.1 million in 2011.

Net return on average equity in the segment reached 1.4% in 2012, compared with 2.4% in 2011. The decrease in the rate of return resulted from an increase in the equity of the Company during 2011.

Developments in Income and Expenses

The segment's income totaled NIS 8.5 million in 2012, compared with NIS 7.6 million in 2011, an increase of 11.8%.

Expenses including net payments to banks totaled NIS 7.3 million in 2012, compared with NIS 6.3 million in 2011, an increase of 15.9%.

Operating expenses totaled NIS 3.2 million in 2012, compared with NIS 3.0 million in 2011, an increase of 6.7%.

Sales and marketing expenses totaled NIS 2.8 million in 2012, compared with NIS 2.2 million in 2011, an increase of 27.3%.

General and administrative expenses totaled NIS 1.0 million in 2012, compared with NIS 0.8 million in 2011.

Net payments to banks totaled NIS 0.2 million in 2012, compared with NIS 0.3 million in 2011.

Profit before taxes totaled NIS 1.2 million in 2012, compared with NIS 1.3 million in 2011, a decrease of 7.7%.

The return of profit before taxes on average equity reached 1.8% in 2012, compared with 2.7% in 2011. The decrease in the rate of return resulted from an increase in the equity of the Company during 2011.

The provision for taxes on profit totaled NIS 0.3 million in 2012, compared with NIS 0.2 million in 2011.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 0.1 million in 2012, compared with an amount lower than NIS 50 thousand in 2011.

Net return on average equity in the segment reached 0.1% in 2012.

Developments in Income and Expenses

The segment's income totaled NIS 62.1 million in 2012, compared with NIS 53.7 million in 2011, an increase of 15.6%, which mainly resulted from an increase in the volume of transactions in credit cards cleared by the Company.

Net interest income totaled NIS 5.2 million in 2012, compared with NIS 4.8 million in 2011.

Expenses including payments to banks totaled NIS 62.0 million in 2012, compared with NIS 57.3 million in 2011, an increase of 15.5%, which resulted from an increase in the volume of the Company's activity.

Operating expenses totaled NIS 29.3 million in 2012, compared with NIS 27.5 million in 2011, an increase of 6.5%, which resulted from an increase in the volume of the Company's activity.

Sales and marketing expenses totaled NIS 6.0 million in 2012, compared with NIS 5.4 million in 2011, an increase of 11.1%.

General and administrative expenses totaled NIS 18.7 million in 2012, compared with NIS 12.6 million in 2011, an increase of 48.4%, which resulted from an increase in the volume of the Company's activity.

Payments to banks totaled NIS 7.8 million in 2012, compared with NIS 7.7 million in 2011.

Profit before taxes totaled NIS 0.1 million in 2012, compared with an amount lower than NIS 50 thousand in 2011.

The return of profit before taxes on average equity reached 0.1% in 2012.

The provision for taxes on profit totaled less than NIS 50 thousand in 2012, similar to 2011.

Profit and Profitability – Travelers' Cheques Segment

The segment's net profit totaled less than NIS 50 thousand in 2012, similar to 2011.

Developments in Income and Expenses

The segment's income totaled NIS 0.3 million in 2012, similar to 2011.

The segment's expenses totaled NIS 0.3 million in 2012, similar to 2011.

The Company ceased issuing travelers' cheques on January 1, 2008. The Company continues to clear travelers' cheques issued before that date.

Intangible Assets

The Company holds a long-term license from the Visa Association for the issuance and clearing of Visa cards, and for the clearing of Visa travelers' cheques. In addition, as a member of the Visa Association, the Company has a general right to use the brands owned by the Visa Association.

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.

Service Providers

Isracard – An arrangement is in place between the Company and Isracard, under which Isracard administers and operates credit-card issuance and clearing activity, as well as travelers' cheque activity, on behalf of the Company. For further details, see "Contractual Engagement between the Company and Isracard Ltd.," above.

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 data related to transactions executed using credit cards in Israel, such as 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 communications 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, through Isracard, 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 contractual engagement 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 finances its operations mainly through its own means and through current credit from Isracard.

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 at 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 in the tax years 2010 and 2011 were 25% and 24%, respectively.

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 canceled, as noted above, and the rate of corporation tax will stand at 25% from 2012 forward. For further details, see Note 24 to the Financial Statements.

Other Matters

1. In December 2012, the Company distributed a dividend to Bank Hapoalim in a total amount of NIS 5 million.

2. With regard to the bonus plan for senior executives, see Note 12 to the Financial Statements.

Restrictions and Supervision of the Company's Operations

As a company engaged in issuing and clearing charge cards, laws and directives related to its activity apply to the Company. These charge-card 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 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

Following talks held between the sister company Isracard, which provides operational services to the Company, and the credit-card companies Leumi Card Ltd. and Cartisei Ashrai Leisrael Ltd. (the three companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Antitrust Commissioner (hereinafter: the "**Commissioner**"), the Credit-Card Companies reached an arrangement among themselves (hereinafter: the "**Arrangement**"), under which the Credit-Card Companies and the banks that hold control of 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 (hereinafter: the “**Technical Interface**”), of transactions in Visa and MasterCard credit cards. The Arrangement was signed in May 2007 between the Credit Card Companies, Isracard, Bank Leumi LeIsrael B.M., Discount Bank Ltd., and First International Bank of Israel Ltd.

The Credit-Card Companies, together with the banks that control them – respectively, Bank Hapoalim B.M., 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 on October 31, 2006, under the terms formulated and agreed upon with the Commissioner. An amended cross-clearing arrangement, revising the earlier agreements, was submitted to the Tribunal on December 28, 2011; this arrangement is in effect from the date of its approval until December 31, 2018. A ruling handed down by the Antitrust Tribunal on March 7, 2012 approved the amended arrangement, including all of the terms thereof. The terms of the amended arrangement approved by the ruling of the Tribunal include, among other matters, a commitment by the parties to petition the Tribunal or the Commissioner regarding the period following the end of the Arrangement, should the parties wish to continue cross-clearing; 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 establishes the following issuer fee rates: the average issuer fee will be 0.75% starting January 1, 2013; 0.735% starting July 1, 2013; and 0.7% from July 1, 2014 to the end of the period of the Arrangement (December 31, 2018).

The reduction of the issuer fee approved by 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.

Additional Regulation

1. A private bill was submitted to the Knesset in March 2010, according to which credit-card companies must note in their statements to cardholders whether a transaction performed by the cardholder constitutes a transaction in a missing document. 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 in a missing document 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 470, as noted above. The amendment of the Directive has no effect on the Company.

2. 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 directives of this law have been in effect from May 15, 2012. This law has a negative effect on the Company; however, at this stage the Company cannot estimate the full actual extent of this effect.

3. 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 at September 30, 2011, to the financial statements as at September 30, 2012. The duration of the instruction was extended to September 2013 in January 2013. As at the date of this report, there is no group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the Company (as defined in Directive 313).

4. 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 Order, including with regard to reporting duties and the duty to receive identifying information. Discussions are also being conducted by the Constitution, Law, and Justice Committee regarding various amendments to the Money Laundering Prohibition Order applicable to banking corporations.

   In July 2012, a proposal to amend the Prohibition of Terrorism Financing Law, concerning the procedure for declaring terrorist organizations and terrorist operatives in Israel, was passed in a second and third reading.

5. In February 2012, the Constitution, Law, and Justice Committee approved 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. Directive 470 was amended accordingly in September 2012. The Company estimates that this amendment will have no effect on the Company.

6. In March 2012, the Justice, Technology, and Information Authority issued a draft guideline concerning restrictions on the collection of identification numbers by database owners. If the draft becomes binding in its current format, it is likely to have an impact on the Company; however, the Company cannot estimate the extent of this impact.

7. In May 2012, the Knesset plenum passed a private bill, in a second and third reading, pursuant to which the Governor of the Bank of Israel would have the authority to set rules regarding the minimum font size for notifications sent to senior citizens (as defined in the Senior Citizens Law, 1989). The Company estimates that if such rules are established, they will have no material effect on the Company.

8. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. 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.

9. In July 2012, the Knesset plenum passed a government bill, in a first reading, for the promotion of competition and reduction of concentration. A discussion on this matter was held on August 29, 2012.

10. In July 2012, a private bill was passed in a second and third reading, according to which a condition in a uniform contract establishing a minimum rate for the CPI shall constitute a depriving condition. This amendment has been in effect from November 12, 2012. The Company has prepared for the implementation of the law. The Company estimates that this law will have no material effect on the Company.

11. In July 2012, the Economics Committee held a discussion of the recommendations of the Committee for Increased Competition in the Banking Industry. The public was permitted to submit comments on the interim report until August 15, 2012. In addition, on August 14, 2012, the Bank of Israel published a draft of rules issued as a supplementary measure to the publication of the interim report of the Committee for the Examination of Increased Competition in the Banking Industry, in order to promote and improve the efficiency of the formal proceeding, reflecting the main points of the recommendations of the report in the area of fees. Following the completion of the process of consultation with the members of the Advisory Committee on Banking, and the examination of the responses of the parties who submitted their comments on the recommendations of the interim report in writing, a final version of the rules will be formulated. The Banking Rules concerning fees were published in November 2012, and took effect in January 2013. Among other matters, the rules cancel the fee for changing debiting dates of credit cards. In addition, the service provided by a clearer to a discounting service provider was declared a service subject to supervision. The Company estimates that this amendment will have no material effect on the Company.

12. In August 2012, the Knesset plenum approved an increase of the rate of value-added tax by 1 percent starting September 1, 2012. The Knesset plenum also approved an increase of the rate of income tax on individuals and the rate of employers' contributions to National Insurance. For further details, see Note 24 to the Financial Statements.

13. In October 2012, the Economics Committee passed a private bill, in a second and third 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.

    In October 2012, the Knesset plenum passed the bill for dispersal of the 18th Knesset, in a second and third reading. The election recess began on October 16, 2012 and continued until the 19th Knesset took office on February 5, 2013. Legislative proceedings for private bills can continue in the 19th Knesset if they were passed in a first reading by the 18th Knesset, and if the law of continuity has been applied to them.

14. In November 2011, a government bill was passed in a first reading and transferred to the Constitution Committee for preparation for the second and third reading, concerning the establishment of an administrative enforcement mechanism to serve as an alternative to enforcement in a criminal proceeding with regard to violations of the Protection of Privacy Law. The committee discussion scheduled for July 2012 was canceled. In August 2012, a legislative memorandum was issued amending the Protection of Privacy Law, aimed at improving compliance with the provisions of the Protection of Privacy Law and regularizing the protection of information in computerized databases. The public was permitted to submit comments on the memorandum until August 28, 2012.

15. In January 2013, the Supervisor of Banks issued a circular concerning an amendment to Proper Conduct of Banking Business Directive No. 342, "Liquidity Risk Management." The circular was issued as part of the Supervisor of Banks' efforts to strengthen the robustness of the banking system. The amendment of the directive is aimed at strengthening and simplifying liquidity risk management at banking corporations, and constitutes an interim phase in advance of the future adoption in Israel of the Basel III recommendations concerning liquidity.

    The revised directive clarifies the need to maintain a liquidity cushion against predicted liquidity needs under stress scenarios, with a one-month horizon; details the Supervisor's expectations for risk monitoring on a group basis; establishes a requirement to examine the structure of credit sources in conjunction with financing needs from a long-term perspective; and adds to the qualitative requirements for liquidity risk management.

    The Supervisor of Banks has not established specific rules for credit-card companies with regard to the aforesaid requirements, but mandates the qualitative requirements for risk management and holding of liquid assets to be fulfilled according to the needs of the company, with the necessary adjustments.

    The implementation of the amendments to Directive 342 will begin in July 2013, with the exception of Section 16 concerning the stable credit ratio, which will take effect at the end of 2013.

16. With regard to new accounting standards and new directives of the Supervisor of Banks in the period prior to implementation, see Note 1.F to the Financial Statements.

Legal Proceedings and Pending Claims

1. No legal claims have been filed against the Company.

2. The Company received a letter of indemnification from Isracard with regard to compliance with the ICAAP rules.

3. 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 50% of its shareholders' equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

Objectives and Business Strategy

The key objectives and strategies of the Company, as a part of the Isracard Group, are the following:

1. Creation of value for its shareholders.

2. Expansion of the distribution and sales-promotion base.

3. Extending collaborations with merchants.

4. Ongoing improvement in the quality of service.

5. Targeted actions to create customer preference for the credit cards issued by the Company.

6. Expansion in the area of credit and financing for merchants.

7. 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, the Head of Strategy is responsible for strategic risk and regulatory risk, and the Legal Advisor is responsible for the management of legal 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.

The Risk Management Committee of the Board of Directors was established during 2011. The Risk Management Forum headed by the CEO began to operate in 2011. The forum convenes quarterly, with the aim of ensuring adequate control coverage for risk-management processes and formulating an ongoing process for the improvement of effectiveness of risk-management control mechanisms at the Company, at the level of the risk-taking divisions, the independent control units in the divisions, and the Risk Management and Security Division.

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 Head of the Risk Management Department; 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, and the consumer price index. 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 May 2012. 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 basic risk management document. 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 roles are defined in the basic risk management document.

The Company manages market risks based on a comprehensive, integrative view, ensuring the optimal utilization of the capital and assets of the Company in order to achieve its strategic and business objectives while maintaining its stability. Market risks at the Company are managed by the Head of Finance and Administration.

In order to implement the requirements of the market risk management policy, Isracard, which administers and operates the Company's operations, as noted above, uses a targeted automated asset and liability management system.

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 with fixed interest rates.

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

	December 31, 2012				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	1,360.9	4.6	20.4	1.2	1,387.1
Financial liabilities	1,296.5	1.2	23.7	2.5	1,323.9
Net fair value of financial instruments	**64.4**	**3.4**	**(3.3)**	**(1.3)**	**63.2**

	December 31, 2011				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	1,123.4	2.0	19.1	2.0	1,146.5
Financial liabilities	1,054.5	0.6	20.7	2.6	1,078.4
Net fair value of financial instruments	**68.9**	**1.4**	**(1.6)**	**(0.6)**	**68.1**

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

	December 31, 2012							
	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 %
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	64.4	3.4	(3.3)	(1.4)	-	63.1	(0.1)	(0.1)
Immediate parallel increase of 0.1%	64.3	3.4	(3.3)	(1.4)	-	63.0	(0.2)	(0.3)
Immediate parallel decrease of 1%	64.2	3.4	(3.2)	(1.4)	-	63.0	(0.2)	(0.3)

* "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.

	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 %
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	68.9	1.4	(1.6)	(0.6)	-	68.1	-	-
Immediate parallel increase of 0.1%	68.9	1.4	(1.6)	(0.6)	-	68.1	-	-
Immediate parallel decrease of 1%	68.9	1.4	(1.6)	(0.6)	-	68.1	-	-

* "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.

C. Exposure to the Value of Securities

The Company's policy establishes a limited possibility for the execution of transactions in fixed-income risk-free securities.

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 hedging. No transactions in derivative financial instruments were executed during the reported period.

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. However, 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 granting authority.

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 of the Supervisor of Banks.

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 Risk in Respect of Exposure to a Group of Borrowers

Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of a Borrower and of a Group of Borrowers" (hereinafter: "**Directive 313**"), there is no group of borrowers that exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at December 31, 2012.

Credit Control Unit

The Company receives services for the purposes of credit control from Isracard, under the responsibility of the Head of Credit and Financial Services.

Measurement and Disclosure of Impaired Debts, Credit Risk, and Allowance for Credit Losses

The Company has implemented the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit loss, and allowance for credit losses from January 1, 2011.

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

	Balance as at December 31, 2012	Balance as at December 31, 2011
	Reported amounts	
	In NIS millions	
1. Non-performing assets		
Impaired debtors in respect of credit-card activity not accruing interest income:		
Examined on an individual basis	*-	-
Examined on a collective basis	*-	0.1
Total impaired debts not accruing interest income	*-	0.1
Total non-performing assets	***-**	**0.1**
2. Unimpaired debts in arrears of 90 days or more	**-**	**-**

* Amount lower than NIS 50 thousand.

Risk and Credit Indices

		Balance as at December 31	
		2012	2011
		In %	
(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	0.008	0.009
(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 allowance 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	0.08	0.14
(D)	Balance of allowance 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)	-(1)
(E)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.03	0.05
(F)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the average balance of debtors in respect of credit-card activity	0.06	*-
(G)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the allowance for credit losses for debtors in respect of credit-card activity	63.64	1.31

(1) More than 100%.

* Less than 0.005%.

Credit Exposure to Foreign Financial Institutions and Foreign Countries

As of the reporting date, the Company has immaterial exposure to the international organization Visa Inc., 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 at December 31, 2009, the Company uses the standardized approach in the calculation of 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 recommendations establish three pillars, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211:

- 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.

Basel III

1. 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 regulatory framework for more resilient banks and banking systems," published in December 2010, after formulation and with adjustments. On December 11, 2011, the Supervisor of Banks issued a letter entitled "Draft Translation of Amendments to the Framework for Capital Measurement and Adequacy – Basel II," which contains amendments to the Basel II directives concerning securitization and market risks. On May 28, 2012, the Supervisor of Banks issued a letter entitled "Basel III – The position of the Supervisor of Banks."

   The Basel III directives change the structure of regulatory capital, including through a focus on reinforcement of the components of capital, and the imposition of limits on the types of instruments to be included in Tier 1 capital and in Tier 2 capital. The directives also establish two new capital cushions: a cushion for the protection of capital and an anti-cyclical cushion, aimed at increasing supervision and adjusting the capital requirement to the risk profile of the company. In addition, the directives add a new limit, the leverage ratio, to the existing capital-adequacy ratios, and address liquidity ratios. The Company is examining the effect of these instructions, and will begin to implement them subject to the adoption of the instructions by the Supervisor of Banks. With regard to the effect on the core capital ratio, see the section "Capital Adequacy," below.

2. Minimum core capital ratios – In March 2012, the Supervisor of Banks issued a circular to all banking corporations and credit-card companies concerning the establishment of a minimum capital ratio higher than the current requirement. According to the directive, all banking corporations will be required to maintain a minimum core capital ratio of 9% by January 1, 2015. The core capital ratio is to be calculated in accordance with the Basel III directives and the adjustments to be established by the Supervisor of Banks.

   In addition, a large banking corporation whose total consolidated balance-sheet assets constitute at least 20% of the total balance-sheet assets in the banking system in Israel will be required to maintain a minimum core capital ratio of 10% by January 1, 2017.

The Company is studying this directive and its expected implications in connection with the formulation of a revised capital plan, with the aim of ensuring the implementation of the directive and compliance with the new core capital ratio requirements.

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 1 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).
- Address future developments in the capital base and capital requirement;
- 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.

The following table lists the required disclosures under Pillar III.

Capital Adequacy

1. Capital for the calculation of the capital ratio

	December 31, 2012	December 31, 2011
	In NIS millions	
Core capital and Tier 1 capital, after deductions	64.3	68.3
Tier 2 capital, after deductions*	31.1	31.1
Total overall capital	**95.4**	**99.4**

* Subordinated notes included in lower Tier 2 capital shall not exceed 50% of the Tier 1 capital not allocated to market risks, after the required deductions from Tier 1 capital only.

2. Weighted balances of risk-adjusted assets

	December 31, 2012		December 31, 2011	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	517.7	46.6	437.5	39.3
Market risks – foreign currency exchange rate risk	4.7	0.4	2.2	0.2
Operational risk	96.8	8.7	77.3	7.0
Total weighted balances of risk-adjusted assets	**619.2**	**55.7**	**517.0**	**46.5**

3. Ratio of capital to risk-adjusted assets

	December 31, 2012	December 31, 2011
	In %	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	10.4	13.2
Ratio of total capital to risk-adjusted assets	15.4	19.2
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

The Company is examining the effects of the Basel III directives, based on the drafts and position statements of the Supervisor of Banks, as published from time to time, including the effect of the implementation arrangements that have been established. The initial implementation date of the aforesaid directives has not yet been determined. No effect on the core capital ratio as at December 31, 2012 is expected, assuming full implementation of the directives. As noted, this estimate is based on the drafts and position statements of the Supervisor of Banks; there may be changes to the final directives that may affect the Company's aforesaid estimate.

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. In general, the capital requirement of the Company is based on its financial statements, which are prepared according to Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy).

Structure of Capital

Structure of Regulatory Capital

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

Capital measurement for the purposes of this directive is based on the division of capital into Tier 1 capital and Tier 2 capital. Tier 1 capital consists of equity. Lower Tier 2 capital consists of subordinated notes with the following main characteristics: a term to maturity of no less than five years; issued without collateral; rights under the instruments are subordinated to the claims of other creditors of the Bank; and of the amount thereof recognized as Tier 2 capital, as noted, 20% shall be deducted at the beginning of each year in the last five years before their maturity date (in the event of a subordinated note settled in installments, such a deduction should be made from each installment).

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 1 capital, after the required deductions from the capital in this tier only.

- Total Tier 2 capital and Tier 3 capital shall not exceed 100% of total Tier 1 capital, after the required deductions for the capital in this tier only.
- Subordinated notes included in lower Tier 2 capital shall not exceed 50% of Tier 1 capital not allocated to market risks (to the extent that the banking corporation holds Tier 3 capital), after the required deductions from Tier 1 capital only.

Structure of Capital

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

	December 31, 2012	December 31, 2011
	In NIS millions	
Tier 1 capital(1)		
Paid-up common share capital	0.8	0.8
Premium on shares	58.5	58.5
Retained earnings	5.0	9.0
Total core capital and Tier 1 capital	64.3	68.3
Tier 2 capital*, **	31.1	31.1
Total eligible capital	**95.4**	**99.4**

(1) In order for the Company to comply with the minimum capital ratio required by the Bank of Israel, as noted above, the Company made preparations such that in March 2011 its paid-up share capital increased by NIS 17 million, divided into 4,271 NIS 1 par value common shares, for a total consideration of NIS 3,980 per share (the total consideration was NIS 17 million). In addition, in December 2011, the Company issued 4,459 NIS 1 par value common shares to Bank Hapoalim, at a price of NIS 4,037 per share (the total consideration was NIS 18 million).

* In March 2011, subordinated notes in the amount of NIS 8 million were issued to Bank Hapoalim. In December 2011, subordinated notes in the amount of NIS 7 million were issued to Bank Hapoalim.

** Subordinated notes included in lower Tier 2 capital shall not exceed 50% of Tier 1 capital not allocated to market risks (to the extent that the Company holds Tier 3 capital), after the required deductions from Tier 1 capital only.

Capital Adequacy

The Company applies the standardized 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, 2012		December 31, 2011	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Banking corporations	476.9	42.9	409.5	36.9
Corporations	34.8	3.1	19.9	1.7
Retail to individuals	1.2	0.1	*-	*-
Small businesses	3.0	0.3	6.8	0.6
Other assets	1.8	0.2	1.3	0.1
Total credit risk	517.7	46.6	437.5	39.3
Market risks – foreign currency exchange rate risk	4.7	0.4	2.2	0.2
Operational risk	96.8	8.7	77.3	7.0
Total weighted balances of risk-adjusted assets / capital requirements	619.2	55.7	517.0	46.5

* Amount lower than NIS 50 thousand.

	December 31, 2012	December 31, 2011
Total capital ratio and Tier 1 capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	95.4	99.4
Ratio of core capital and Tier 1 capital to risk-adjusted assets	10.4%	13.2%
Ratio of total capital to risk-adjusted assets	15.4%	19.2%
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%

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 the allowance for credit losses, and the amendment of the directives on the treatment of problematic debts, beginning on 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, beginning on that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts. For details, see Note 1.F.3 to the Financial Statements, below.

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.

- The Company tracks damages arising from the abuse of credit cards. See Note 21 to the Financial Statements.

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.

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 receive 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, volume 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, the Company has 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 abroad. 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 formed 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.
- 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, 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, for a period of more than one year – 50%.

* With regard to unutilized credit facilities of credit cards for holders of retail cards, 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 allowance for credit losses):

	December 31, 2012					
	In NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
Banking corporations	1,256.4	11.9	1,268.3	-	-	1,268.3
Corporations	37.6	-	37.6	43.9	-	81.5
Retail to individuals	78.0	-	78.0	483.2	-	561.2
Small businesses	7.6	-	7.6	10.3	-	17.9
Other assets	-	2.0	2.0	-	-	2.0
Total exposures	**1,379.6**	**13.9**	**1,393.5**	**537.4**	**-**	**1,930.9**

	December 31, 2011					
	In NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
Banking corporations	1,043.4	30.1	1,073.5	0.1	-	1,073.6
Corporations	15.9	-	15.9	11.9	-	27.8
Retail to individuals	45.8	-	45.8	336.2	-	382.0
Small businesses	16.7	-	16.7	31.5	-	48.2
Other assets	-	1.3	1.3	-	-	1.3
Total exposures	**1,121.8**	**31.4**	**1,153.2**	**379.7**	**-**	**1,532.9**

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

	December 31, 2012					
	In NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	**Credit**	**Deposits/ other**	**Total balance-sheet credit risk**	**Credit facilities**	**Other**	**Total overall credit exposure[1]**
Banking corporations	1,161.1	18.3	1,179.4	-	-	1,179.4
Corporations	22.3	-	22.3	22.3	-	44.6
Retail to individuals	59.3	-	59.3	404.6	-	463.9
Small businesses	16.3	-	16.3	29.6	-	45.9
Other assets	-	1.4	1.4	-	-	1.4
Total exposures	**1,259.0**	**19.7**	**1,278.7**	**456.5**	**-**	**1,735.2**

	December 31, 2011					
	In NIS millions					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	**Credit**	**Deposits/ other**	**Total balance-sheet credit risk**	**Credit facilities**	**Other**	**Total overall credit exposure[1]**
Banking corporations	944.0	34.0	978.0	0.1	-	978.1
Corporations	17.5	-	17.5	4.4	-	21.9
Retail to individuals	45.6	-	45.6	345.5	-	391.1
Small businesses	16.8	-	16.8	31.2	-	48.0
Other assets	-	1.0	1.0	-	-	1.0
Total exposures	**1,023.9**	**35.0**	**1,058.9**	**381.2**	**-**	**1,440.1**

(1) 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 allowance for credit losses) by contractual term to maturity (the last period), according to the principal types of financial instruments.

	December 31, 2012					
	Expected contractual future cash flows, in NIS millions					
					Balance-sheet balance	
	Up to 1 year	1 year to 2 years	2 years to 3 years	Total cash flows	No maturity period	Total
Cash on hand and deposits with banks	11.9	-	-	11.9	-	11.9
Credit:						
Debtors in respect of credit cards	86.9	2.6	0.7	90.2	(0.5)	89.8
Credit to merchants	17.2	0.1	-	17.3	1.0	18.3
Companies and international credit-card organization	1,185.6	25.4	5.5	1,216.5	(0.1)	1,216.4
Income receivable and others	0.3	-	-	0.3	-	0.3
Other assets	55.0	-	-	55.0	0.5	55.5
Non-monetary assets	-	-	-	-	1.3	1.3
Off balance sheet – credit facilities	527.2	10.2	-	537.4	-	537.4
Total	**1,884.1**	**38.3**	**6.2**	**1,928.6**	**2.2**	**1,930.9**

	December 31, 2011					
	Expected contractual future cash flows, in NIS millions					
					Balance-sheet balance	
	Up to 1 year	1 year to 2 years	2 years to 3 years	Total cash flows	No maturity period	Total
Cash on hand and deposits with banks	30.2	-	-	30.2	-	30.1
Credit:						
Debtors in respect of credit cards	49.3	2.0	0.5	51.8	0.2	52.0
Credit to merchants	22.9	0.1	-	23.0	0.2	23.2
Companies and international credit-card organization	982.5	20.5	4.5	1,007.5	-	1,007.5
Income receivable and others	0.1	-	-	0.1	-	0.1
Other assets	38.8	-	0.2	39.0	0.6	39.6
Non-monetary assets	-	-	-	-	0.7	0.7
Off balance sheet – credit facilities	370.2	9.5	-	379.7	-	379.7
Total	**1,494.0**	**32.1**	**5.2**	**1,531.3**	**1.7**	**1,532.9**

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

		December 31, 2012						
		In 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	Collective allowance for credit losses	Net allowance for credit losses recognized in statement of profit and loss	Net charge-offs recognized in statement of profit and loss
Retail to individuals	Balance sheet	*-	*-	-	-	*-	*-	*-
Small businesses	Balance sheet	*-	-	-	-	0.1	(0.3)	-
Corporations	Balance sheet	0.1	0.2	-	-	0.5	(0.1)	0.8
Banking corporations	Balance sheet	-	-	-	-	0.5	*-	-
Credit facilities	Off-balance-sheet	-	-	-	-	0.1	(0.1)	-
Total		**0.1**	**0.2**	**-**	**-**	**1.2**	**(0.5)**	**0.8**

		December 31, 2011						
		In 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	Collective allowance for credit losses	Net allowance for credit losses recognized in statement of profit and loss	Net charge-offs recognized in statement of profit and loss
Retail to individuals	Balance sheet	-	-	-	-	*-	*-	-
Small businesses	Balance sheet	-	-	-	-	0.4	*-	-
Corporations	Balance sheet	0.1	0.1(1)	-	-	0.6	0.1	*-
Banking corporations	Balance sheet	-	-	-	-	0.5	0.2	-
Credit facilities	Off-balance-sheet	-	-	-	-	0.2	0.2	-
Total		**0.1**	**0.1**	**-**	**-**	**1.7**	**0.5**	***-**

* Amount lower than NIS 50 thousand.

(1) Reclassified.

Credit Risk Mitigation (CRM)

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, 2012 In NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
Retail to individuals	Unrated	-	-	-	561.2	-	*-	561.2
Small businesses	Unrated	-	-	-	17.8	-	*-	17.8
Corporations	Unrated	-	-	-	-	80.9	*-	80.9
Banking corporations	Unrated	-	714.1	541.6	-	-	-	1,255.7
	Rated	-	1.3	10.8	-	-	-	12.1
Other assets	Unrated	0.1	-	-	-	1.9	-	2.0
Total		**0.1**	**715.4**	**552.4**	**579.0**	**82.8**	***-**	**1,929.7**

After credit risk mitigation

		December 31, 2012 In NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
Retail to individuals	Unrated	-	-	-	9.5	-	*-	9.5
Small businesses	Unrated	-	-	-	4.1	-	*-	4.1
Corporations	Unrated	-	-	-	-	40.0	*-	40.0
Banking corporations	Unrated	-	714.2	542.8	-	-	-	1,257.0
	Rated	-	48.2	568.9	-	-	-	617.1
Other assets	Unrated	0.1	-	-	-	1.9	-	2.0
Total		**0.1**	**762.4**	**1,111.7**	**13.6**	**41.9**	***-**	**1,929.7**

Credit Risk Mitigation (CRM) (cont.)

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

Credit Risk Weighting

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

Before credit risk mitigation

		December 31, 2011						
		In NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
Retail to individuals	Unrated	-	-	-	382.0	-	-	382.0
Small businesses	Unrated	-	-	-	47.8	-	-	47.8
Corporations	Unrated	-	-	-	-	27.0	-	27.0
Banking corporations	Unrated	-	539.4	504.4	-	-	-	1,043.8
	Rated	-	8.2	21.1	-	-	-	29.3
Other assets	Unrated	-	-	-	-	1.3	-	1.3
Total		**-**	**547.6**	**525.5**	**429.8**	**28.3**	**-**	**1,531.2**

After credit risk mitigation

		December 31, 2011						
		In NIS millions						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
Retail to individuals	Unrated	-	-	-	0.4	-	-	0.4
Small businesses	Unrated	-	-	-	9.3	-	-	9.3
Corporations	Unrated	-	-	-	-	24.5	-	24.5
Banking corporations	Unrated	-	539.4	505.3	-	-	-	1,044.7
	Rated	-	34.7	416.3	-	-	-	451.0
Other assets	Unrated	-	-	-	-	1.3	-	1.3
Total		**-**	**574.1**	**921.6**	**9.7**	**25.8**	**-**	**1,531.2**

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 allowance for credit losses).

				December 31, 2012		
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**	
				In NIS millions		
Retail to individuals	Balance sheet	Credit	78.0	(77.3)	-	0.7
	Off balance sheet	Credit facility	483.2	(474.4)	-	8.8
Small businesses	Balance sheet	Credit	7.5	(3.5)	-	4.0
	Off balance sheet	Credit facility	10.3	(10.2)	-	0.1
Corporations	Balance sheet	Credit	37.1	(7.5)	-	29.6
	Off balance sheet	Credit facility	43.8	(33.4)	-	10.4
Banking corporations	Balance sheet	Credit	1,255.9	-	88.3	1,344.2
	Balance sheet	Deposits	11.9	-	-	11.9
	Off balance sheet	Credit facility	-	-	518.0	518.0
Other assets	Balance sheet	Other assets	2.0	-	-	2.0
Total			**1,929.7**	**(606.3)**	**606.3**	**1,929.7**

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 allowance for doubtful debts).

			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**	
			In NIS millions			
Retail to individuals	Balance sheet	Credit	45.8	(45.8)	-	*-
	Off balance sheet	Credit facility	336.2	(335.8)	-	0.4
Small businesses	Balance sheet	Credit	16.3	(7.2)	-	9.1
	Off balance sheet	Credit facility	31.5	(31.3)	-	0.2
Corporations	Balance sheet	Credit	15.4	(0.1)	-	15.3
	Off balance sheet	Credit facility	11.6	(2.4)	-	9.2
Banking corporations	Balance sheet	Credit	1,042.9	-	53.1	1,096.0
	Balance sheet	Deposits	30.1	-	-	30.1
	Off balance sheet	Credit facility	0.1	-	369.5	369.6
Other assets	Balance sheet	Other assets	1.3	-	-	1.3
Total			**1,531.2**	**(422.6)**	**422.6**	**1,531.2**

* Amount lower than NIS 50 thousand.

Credit Risk Weighting

The Company implements the standardized approach to determine risk weightings to apply to the counterparty. The standardized 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 standard 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 (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 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

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, the Company grants credit at fixed interest rates, which creates a gap in durations and generates exposure to changes in interest rates during the ordinary course of the Company's operations. In general, the Company's policy states that no activity for the purpose of trading in derivative financial instruments shall be conducted.

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.

Disclosure by Companies Using the Standardized Approach

General

The Company accounts for all of its assets and liabilities using the standardized 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; and the Board of Directors.
- ♦ **Procedures and policies** – The areas of responsibility and authority in the area of risk

management are assigned to Management, the Board of Directors, the Audit Committee, the Risk Management Committee, and specialized functions such as the Risk Manager, and 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 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 Requirement in Respect of Foreign Currency Exchange Rate Risk

	Capital requirement	
	December 31, 2012	December 31, 2011
	In NIS millions	
Market risks – foreign currency exchange rate risk(1)	0.4	0.2

(1) Specific risk arising from the surplus of assets over liabilities in the foreign-currency-linked segment, weighted by the percentage of the capital requirement (9.0%).

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 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, 2012	December 31, 2011
	In NIS millions	
Operational risk	8.7	7.0

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 at December 2012 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.

Prohibition of Money Laundering and Financing of Terrorism

The legislation applicable to credit-card companies in Israel with regard to the prohibition of money laundering and financing of terrorism 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.
- The Terrorism Financing Prohibition Law, 2005.

♦ 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 was updated in December 2011).

Order for the Prohibition of Trade with the Enemy

The Company applies controls with regard to private customers and merchants defined as high risk. The Company maintains routine controls in several areas, in order to ensure that it possesses the required information and documents, in accordance with the directives. Any gaps are addressed and resolved.

Employees are required to maintain current knowledge in this area through computerized tutorials. In addition, specific training sessions are held for the various departments concerned with the prohibition of money laundering and terrorism financing. The Company's procedures are updated and expanded from time to time 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 in Israel and in accordance with the directives and guidelines 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 at the date of preparation of the financial statements.

Allowance for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the allowance for credit losses, in order to maintain an allowance 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 an allowance, 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).

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

Individual allowance for credit losses – The Company individually examines all debts with a contractual balance (excluding allowances for credit losses, and without deducting charge-offs that do not involve an accounting waiver) of NIS 500 thousand or more. Individual allowances 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 collective basis. In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired debt, and is examined individually. The individual allowance 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.

Collective allowance for credit losses – Applied to allowances for impairment of large groups of homogeneous small debts, and in respect of debts examined individually and found to be unimpaired. The collective allowance 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 collective allowance 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 charge-offs recorded starting 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 allowance required with respect to off-balance-sheet credit instruments is estimated according to the rules established in FAS 5 (ASC 450). The allowance assessed on a collective basis for off-balance-sheet credit instruments is based on the allowance 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 credit is converted to risk-adjusted assets 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 Standardized 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.

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	Effect
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.	Low
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 control of compliance with these limits is carried out routinely.	Low

Risk factor		Brief description	Effect
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 revenue.	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 reputation risk. 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	Effect
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.	Medium
9.	Strategic risk	The risk of damage to the Company's profit and capital as a result of business decisions and/or the implementation of business decisions. Strategic risk is influenced by external and internal risk factors.	Medium
10.	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
11.	Cessation of operation of an international credit-card organization	The cessation of operation of the Visa Association may materially impair the Company's operations and financial results. In addition, collapse or insolvency of the Company and/or of Bank Hapoalim 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

Information Security and Cyber Risks

On December 6, 2012, the Supervisor of Banks issued a final letter on "Effects of information security and cyber risks on the report to the public." According to the letter, banking corporations and credit-card companies are required to assess information-security risks and take all relevant information into consideration, including past cyber attacks and the severity and frequency of such incidents. This includes a requirement to assess the probability of cyber attacks and the qualitative and quantitative volume of information-security risks, including potential costs and other implications arising from disruptions of activity or from the illegal use of assets or of sensitive information. In addition, the adequacy of preventive actions taken to minimize information-security risks and cyber attacks must be taken into consideration.

Cyber attacks may result from intentional attacks or from unintentional events. Among other matters, cyber attacks include obtaining unauthorized access to computerized systems with the aim of making illegal use of assets or of sensitive information, damaging information, or disrupting activity. Cyber attacks may be carried out in a manner that does not require obtaining unauthorized access, such as in the case of attacks designed to shut down website services.

As a result of cyber attacks, banking corporations and credit-card corporations may bear significant costs, and may suffer negative consequences, including, among others:

1. Theft of financial assets, intellectual property, or other sensitive information of the banking corporation, of its customers, or of its business partners;
2. Disruption of the activity of the banking corporation or of its business partners;
3. Recovery costs;
4. Additional expenses in the area of protection and information security;
5. Loss of income as a result of unauthorized use of proprietary information, or due to failure to retain or attract customers following an attack;
6. Legal claims;
7. Damage to reputation.

In the opinion of the Company, the extent of the effect of information security and cyber attack risks is moderate.

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; Internal Audit employees 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 2012 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.

Auditing resources – 56 audit days were invested directly at the Company in 2012. In addition, activities outsourced by the Company to its sister company Isracard Ltd. are audited within the internal audit at that company. 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 the audit – Internal Audit at the Company operates under laws, regulations, directives and guidelines of the Supervisor of Banks (including Proper Conduct of Banking Business Directive 307, The Internal Audit Function, which took effect on July 1, 2012), 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 2011 was submitted to the Audit Committee in March 2012, and discussed by the committee on July 2, 2012. A summary of audit activities for 2012 is expected to be submitted to the Audit Committee during the first quarter of 2013.

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 meetings (the meeting of the Audit Committee and the meeting of the Board of Directors), the financial statements are discussed and approved, and 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 2012, the Board of Directors of the Company continued to set forth the Company's strategy, policy, and the guiding principles for its activity.

The Board of Directors addressed the approval of the quarterly and annual financial statements (further to the discussion and recommendations of the Audit Committee); the organizational structure of the Company; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by Management and the congruence of these operations with the policies of the Company.

The plenum and committees – The Audit Committee and the Credit Committee held detailed discussions of the various aspects of the Company's activity.

13 meetings of the plenum of the Board of Directors and 11 meetings of the Audit Committee were held in 2012.

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 one.

Note that at the reporting date, the number of directors with accounting and financial expertise, according to their education, qualifications, and experience, is five. The number of directors on the Audit Committee with accounting and financial expertise, according to their education, skills, and experience, is two.

Members of the Board

Irit Izakson

Chairperson of the Company from December 2008. Member of the Credit Committee of the Board of Directors of the Company.

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

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 Basel II Implementation. Member of the following Board Committees at Bank Hapoalim: the Credit Committee and the New Products Committee.

Member of the board of directors of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Shikun & Binui Holdings Ltd.

Member of the Board of Trustees of Ben-Gurion University; 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., IDB Development Ltd.; however, she no longer serves at these companies.

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.

Member of the Board of Directors of the Company from January 31, 2010.

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; chairperson of the committee from August 29, 2011; member of the Credit Committee of the Board of Directors of the Company.

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

Chairman of the Audit Committee of the Board of Directors of Isracard; member of the following board committees at Isracard: IT Committee, Credit Committee, Wage and Remuneration Committee; Chairman of the Audit Committee of the Board of Directors of Europay; member of the Audit Committee and the Credit Committee of the Board of Directors of Poalim Express; member of the Balance Sheet Committee, the Audit Committee, and the Remuneration Committee of the Board of Directors of Mehadrin Ltd.

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.
Amiel Gurt	Retiree and lawyer in private practice. Member of the Board of Directors of the Company from July 28, 1981. Employed as a lawyer at Bank Hapoalim B.M. until December 31, 2005. Member of the Managing Committee of the Israel - Australia, New Zealand, and Oceania Chamber of Commerce. Member of the Managing Committee of the Gurt Foundation. M.Jur., Hebrew University of Jerusalem. To the best of the knowledge of the Company and of Mr. A. Gurt, he is not a family member of another interested party of the corporation.
Ilan Grinboim	CEO of Eurocom Cellular Communications Ltd. from 2004. Member of the Board of Directors of the Company from May 26, 2010. 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., Isracard, and Europay; and a member of the Wage and Remuneration Committee of the Board of Directors of Isracard. 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.

Eldad Kahana	Attorney, Head of Central Legal Counsel Division, Bank Hapoalim B.M. Member of the Board of Directors of the Company from November 15, 2006. Member of the Audit Committee of the Board of Directors of the Company. Also a member of the Board of Directors of Isracard and Europay, and of the Audit Committees of these companies, and member of the Wage and Remuneration Committee of the Board of Directors of Isracard. 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 Credit Committee of the Board of Directors of the Company, and member of the Audit Committee of the Board of Directors of the Company. CEO of Shiral 10 Ltd. Also a member of the board of directors of the following companies: Isracard, Poalim Express, Europay, the Association for the Wellbeing of Israel's Soldiers Ltd., Shiral 10 Ltd., and the Computer Direct Group Ltd. Chairman of the Finance Committee and Member of the Governing Board of Shenkar College. Chairperson of the IT Committee of the Board of Directors of Isracard; member of the following committees of the Board of Directors of Isracard: Audit Committee, Risk Management Committee; member of the Audit Committee of Europay and Poalim Express. 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.

Ran Oz

Member of the Board of Management of Bank Hapoalim B.M. from April 16, 2009.

Head of Finance, CFO at the Bank.

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

Chairperson of the board of directors of the following companies: Diur B.P. Ltd., Poalim Trust Services Ltd.

Deputy chairperson of the board of directors of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., and Poalim Capital Markets - Investment House Ltd.

Member of the board of directors of the following companies: Sure-Ha International Ltd., Isracard Ltd., Europay (Eurocard) Israel Ltd. Aminit Ltd., and Poalim Express Ltd.

From 2008 to 2009, CFO of Intouch Insurance BV.

From 2007 to 2008, Deputy CEO and CFO at Bezeq the Israel Telecommunications Corp. Ltd.

From 2004 to 2007, CFO and Corporate VP at Nice Systems Ltd.

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 September 2011. 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. Also a member of the board of directors of the following companies: Isracard and Europay. Also serves as Chairperson of the Risk Management Committee of the Board of Directors of Isracard and as a member of the Audit Committee of the Board of Directors of Isracard and Europay. Risk management advisor at HMS from 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.
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 March 12, 2009 to March 11, 2012. Also served as a member of the Audit Committee of the Board of Directors of the Company.

Senior Members of Management

Dov Kotler

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

CEO of the following credit-card companies: Isracard, Poalim Express, and Europay.

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

Member of the board of directors of the following companies: Global Factoring Ltd., Amir Marketing and Investments in Agriculture Ltd., and H.E.O.H. Management Services Ltd.

Also a member of the executive board of the Round Up Foundation.

M.B.A., Finance 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 Technology.

Served in the computer units 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.

Vice president 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 joint authorized signatory 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.

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

To the best of the knowledge of the Company, Mr. A. Kushilevitz-Ilan 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., Store Alliance.Com Ltd., and 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. During his service at the Isracard Group, established the non-bank credit system. The credit system was constructed under his management, taking into consideration and adapting to periodically changing regulatory needs. Serves as a member of the board of directors of the following companies: Tzameret Mimunim Ltd., Global Factoring Ltd., Kidum Mivne Iguach Ltd. Served as Head of Customer Relations in the Corporate Banking Area at Bank Hapoalim B.M., for ten years. His clients included leading companies in the Israeli retail market. M.A. in Business Administration, Marketing, and Finance, 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 Butensky	Member of Management of the Company from June 2011. Head of Customer and Merchant Service. Member of the Board of Directors of Tzameret Mimunim from April 4, 2012. 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 Butensky, 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.

Serves as a member of the board of directors of the following companies: Isracard (Nechasim) 1994 and Isracard Mimun.

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.

M.B.A. (specialized in finance), Hebrew University of Jerusalem; B.A. in Accounting and Economics, Hebrew University of Jerusalem.

C.P.A.

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.

Maora 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.

Also serves as a member of the board of directors of Global Factoring Ltd.

Served in various positions at Bank Hapoalim B.M. from 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 Controls over 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 over 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 consolidated by the Supervisor of Banks in Proper Conduct of Banking Business Directive 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 beginning with the financial statements as at 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, beginning with the financial statements as at December 31, 2008.

The Company routinely updates and documents existing processes; maps and documents 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.

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 as 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 at 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 Controls over Financial Reporting

During the fourth quarter ended on December 31, 2012, 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 over financial reporting.

Wages and Benefits of Officers

As part of the Company's participation in joint costs of Isracard and the Company, the Company also bears the relative cost of the wages of officers. This cost is charged to the Company as a general amount, and cannot be attributed specifically to individual officers. The payment of wages to the officers is performed by Isracard, which operates the activity of the Company, as noted.

Remuneration of Auditors[1][2]

	2012	2011
	In NIS thousands	
For audit activities[3]:		
Joint auditors	457	442
For tax services[4]:		
Joint auditors	*-	*-
Total remuneration of auditors	**457**	**442**

* Amount lower than NIS 1 thousand.

(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 control over financial reporting (SOX 404).

(4) Includes tax adjustment reports, tax assessment law, and tax consulting.

Irit Izakson	**Dov Kotler**
Chairperson of the Board of Directors	Chief Executive Officer

Tel Aviv, February 27, 2013

Aminit Ltd.

Management Review

For the Year Ended December 31, 2012

Table of Contents

Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Assets					
Cash on hand and deposits with banks	11.9	30.1	51.2	55.6	39.1
Debtors in respect of credit-card activity	1,324.8	1,082.8	836.9	592.4	433.1
Allowance for credit losses	(1.1)	(1.5)	(0.3)	(0.4)	(0.1)
Debtors in respect of credit-card activity, net	1,323.7	1,081.3	836.6	592.0	433.0
Securities	-	-	-	*-	*-
Computers and equipment	-	-	*-	*-	0.1
Other assets	56.8	40.3	1.3	1.0	1.0
Total assets	**1,392.4**	**1,151.7**	**889.1**	**648.6**	**473.2**
Liabilities					
Credit from banking corporations	1.6	0.1	0.8	*-	*-
Travelers' cheques in circulation, net	10.3	11.2	11.0	12.6	13.5
Creditors in respect of credit-card activity	1,277.2	1,029.5(1)	778.3(1)	542.9(1)	406.6(1)
Subordinated notes	31.1	32.0	16.1	3.5	-
Other liabilities	7.9	10.6(1)	49.6(1)	65.9(1)	30.5(1)
Total liabilities	**1,328.1**	**1,083.4**	**855.8**	**624.9**	**450.6**
Equity	64.3	68.3	33.3	23.7	22.6
Total liabilities and capital	**1,392.4**	**1,151.7**	**889.1**	**648.6**	**473.2**

* Amount lower than NIS 50 thousand.

(1) Reclassified.

Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Income					
From credit-card transactions	64.1	55.9	42.6	30.7	22.3
Net interest income	5.5	5.1(1)	2.2(1)	1.6(1)	2.1(1)
Other income (expenses)	1.3	0.6(1)	0.9(1)	1.2(1)	(0.7)(1)
Total income	**70.9**	**61.6**	**45.7**	**33.5**	**23.7**
Expenses					
Provision for credit losses	0.3	0.5	1.0	0.4	0.1
Operating expenses	32.5	30.8(2)	21.4(2)	17.8(2)	13.9(2)
Sales and marketing expenses	8.8	7.6(2)	7.3(2)	6.0(2)	7.9(2)
General and administrative expenses	19.7	13.4	11.3	9.3	6.4
Payments to banks (receipts from banks), net	8.3	8.0	3.2	(1.4)	(5.6)
Total expenses	**69.6**	**60.3**	**44.2**	**32.1**	**22.7**
Profit before taxes	1.3	1.3	1.5	1.4	1.0
Provision for taxes on profit	0.3	0.2	0.4	0.3	0.2
Net profit	**1.0**	**1.1**	**1.1**	**1.1**	**0.8**
Basic and diluted net profit per common share (in NIS)	**61**	**91**	**171**	**190**	**312**

(1) The Company adopted the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies for the first time on January 1, 2012, including the new definition of interest, as established in the circular of the Supervisor of Banks on the format for statements of profit and loss of banking corporations and credit-card companies and the adoption of GAAP for US banks regarding the measurement of interest income. The directives were adopted through retroactive implementation. Accordingly, the data included in the statements of profit and loss for the years 2011 and 2010 were reclassified to adjust them to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1.D below.

(2) Reclassified.

Rates of Income and Expenses

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2012		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Assets	1,215	6.5	0.53
Total assets	**1,215.0**	**6.5**	**0.53**
Liabilities	1,137.4	(1.2)	(0.11)
Total liabilities	**1,137.4**	**(1.2)**	**(0.11)**
Interest spread			**0.42**

CPI-Linked Israeli Currency

	For the year ended December 31, 2012		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Assets	2.8	-	-
Total assets	**2.8**	**-**	**-**
Liabilities	0.8	-	-
Total liabilities	**0.8**	**-**	**-**

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

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 (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2012		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Assets	20.6	0.7	3.40
Total assets	**20.6**	**0.7**	**3.40**
Liabilities	25.9	0.7	2.70
Total liabilities	**25.9**	**0.7**	**2.70**
Interest spread			**6.10**

Total

	For the year ended December 31, 2012		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Monetary assets generating financing income	1,238.4	7.2	0.58
Total assets	**1,238.4**	**7.2**	**0.58**
Monetary liabilities generating financing expenses	1,164.1	(0.5)	(0.04)
Total liabilities	**1,164.1**	**(0.5)**	**(0.04)**
Interest spread			**0.54**
Profit from financing activity – old format[2]		6.7	
Exchange-rate differences, net		(1.2)	
Net interest income before provision for credit losses		**5.5**	
Provision for credit losses		(0.3)	
Net interest income after provision for credit losses		**5.2**	

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

(2) See Note 1.D 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 (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2012
	Average balance(1)
	In NIS millions
Monetary assets generating financing income	1,238.4
Other monetary assets	0.8
Allowance for credit losses	(1.3)
Total monetary assets	**1,237.9**
Monetary liabilities generating financing expenses	1,164.1
Other monetary liabilities	8.4
Total monetary liabilities	**1,172.5**
Total surplus of monetary assets over monetary liabilities	65.4
Non-monetary assets	0.6
Non-monetary liabilities	0.6
Total capital means	**65.4**

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

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 (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2012		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In USD millions		In %
Monetary assets in foreign currency generating financing income	5.3	(1.2)	(22.64)
Total assets	**5.3**	**(1.2)**	**(22.64)**
Monetary liabilities in foreign currency generating financing expenses	6.7	1.6	23.88
Total liabilities	**6.7**	**1.6**	**23.88**
Interest spread			**1.24**

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

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 (cont.)

Addendum 3 (cont.)

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Assets	979.5[2]	4.9	0.50
Total assets	**979.5**	**4.9**	**0.50**
Liabilities	924.9[2]	0.1	0.01
Total liabilities	**924.9**	**0.1**	**0.01**
Interest spread			**0.51**

CPI-Linked Israeli Currency

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Assets	1.9	-	-
Total assets	**1.9**	**-**	**-**
Liabilities	0.6	-	-
Total liabilities	**0.6**	**-**	**-**

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

(2) Reclassified.

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 (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Assets	21.6	(4.3)	(19.91)
Total assets	**21.6**	**(4.3)**	**(19.91)**
Liabilities	24.5	4.9	20.00
Total liabilities	**24.5**	**4.9**	**20.0**
Interest spread			**0.09**

Total

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In %
Monetary assets generating financing income[3]	1,003.0[2]	0.6	0.06
Total assets	**1,003.0**	**0.6**	**0.06**
Monetary liabilities generating financing expenses	950.0[2]	5.0	0.53
Total liabilities	**950.0**	**5.0**	**0.53**
Interest spread			**0.59**
Profit from financing activity – old format[3]		5.6	
Exchange-rate differences, net		(0.5)	
Net interest income before provision for credit losses		**5.1**	
Provision for credit losses		(0.5)	
Net interest income after provision for credit losses		**4.6**	

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

(2) Reclassified.

(3) See Note 1.D 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 (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2011
	Average balance[(1)]
	In NIS millions
Monetary assets generating financing income	1,003.0[(2)]
Other monetary assets	0.5
Allowance for credit losses	(1.3)
Total monetary assets	**1,002.2**
Monetary liabilities generating financing expenses	950.0[(2)]
Other monetary liabilities	5.8[(2)]
Total monetary liabilities	**955.8**
Total surplus of monetary assets over monetary liabilities	46.4
Non-monetary assets	0.6
Non-monetary liabilities	1.5
Total capital means	**45.5**

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

(2) Reclassified.

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 (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2011		
	Average balance(1)	Financing income (expenses)	Rate of income (expenses)
	In USD millions		In %
Monetary assets in foreign currency generating financing income	6.1	(1.2)	(19.67)
Total assets	**6.1**	**(1.2)**	**(19.67)**
Monetary liabilities in foreign currency generating financing expenses	6.9	1.4	20.29
Total liabilities	**6.9**	**1.4**	**20.29**
Interest spread			**0.62**

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the allowance for credit losses.

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 to Changes in Interest Rates as at December 31, 2012

Addendum 4

Reported amounts

	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
			In NIS millions		
Unlinked Israeli currency					
Financial assets:					
Financial assets	844.9	258.1	224.3	33.3	-
Total fair value	**844.9**	**258.1**	**224.3**	**33.3**	**-**
Financial liabilities:					
Financial liabilities	789.7	252.0	218.9	32.1	-
Total fair value	**789.7**	**252.0**	**218.9**	**32.1**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	55.2	6.1	5.4	1.2	-
Cumulative exposure in the segment	55.2	61.3	66.7	67.9	67.9
Linked Israeli currency					
Financial assets:					
Financial assets	1.3	1.5	1.8	*-	-
Total fair value	**1.3**	**1.5**	**1.8**	***-**	**-**
Financial liabilities:					
Financial liabilities	0.3	0.4	0.5	*-	-
Total fair value	**0.3**	**0.4**	**0.5**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1.0	1.1	1.3	*-	-
Cumulative exposure in the segment	1.0	2.1	3.4	3.4	3.4

* Amount lower than NIS 50 thousand.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In %	In years
	-	0.3	1,360.9	1.83	0.13
	-	**0.3**	**1,360.9**	**1.83**	**0.13**
	-	3.8	1,296.5	1.84	0.15
	-	**3.8**	**1,296.5**	**1.84**	**0.15**
	-	(3.5)	64.4		
	67.9	64.4			
	-	-	4.6	(0.25)	0.22
	-	**-**	**4.6**	**(0.25)**	**0.22**
	-	-	1.2	(0.25)	0.23
	-	**-**	**1.2**	**(0.25)**	**0.23**
	-	-	3.4		
	3.4	3.4			

Exposure of the Company to Changes in Interest Rates as at December 31, 2012 (cont.)

Addendum 4 (cont.)

Reported amounts

	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
	In NIS millions				
Foreign currency					
Financial assets:					
Financial assets	12.2	4.6	4.9	-	-
Total fair value	**12.2**	**4.6**	**4.9**	**-**	**-**
Financial liabilities:					
Financial liabilities	13.0	2.6	0.1	-	-
Total fair value	**13.0**	**2.6**	**0.1**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(0.8)	2.0	4.8	-	-
Cumulative exposure in the segment	(0.8)	1.2	6.0	6.0	6.0
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	858.4	264.2	231.0	33.3	-
Total fair value	**858.4**	**264.2**	**231.0**	**33.3**	**-**
Financial liabilities:					
Financial liabilities	803.0	255.0	219.5	32.1	-
Total fair value	**803.0**	**255.0**	**219.5**	**32.1**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	55.4	9.2	11.5	1.2	-
Cumulative exposure in the segment	55.4	64.6	76.1	77.3	77.3

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In %	In years
	-	(0.1)	21.6	1.41	0.20
	-	**(0.1)**	**21.6**	**1.41**	**0.20**
	-	10.5	26.2	0.20	0.05
	-	**10.5**	**26.2**	**0.20**	**0.05**
	-	(10.6)	(4.6)		
	6.0	(4.6)			
	-	0.2	1,387.1	1.81	0.14
	-	**0.2**	**1,387.1**	**1.81**	**0.14**
	-	14.3	1,323.9	1.83	0.15
	-	**14.3**	**1,323.9**	**1.83**	**0.15**
	-	(14.1)	63.2		
	77.3	63.2			

Exposure of the Company to Changes in Interest Rates as at December 31, 2011

Addendum 4 (cont.)

Reported amounts

	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
	In NIS millions				
Unlinked Israeli currency					
Financial assets:					
Financial assets	690.2	217.0	189.3	26.6	-
Total fair value	**690.2**	**217.0**	**189.3**	**26.6**	**-**
Financial liabilities:					
Financial liabilities	638.4	210.4	181.3	24.0	-
Total fair value	**638.4**	**210.4**	**181.3**	**24.0**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	51.8	6.6	8.0	2.6	-
Cumulative exposure in the segment	51.8	58.4	66.4	69.0	69.0
Linked Israeli currency					
Financial assets:					
Financial assets	0.7	0.7	0.5	0.1	-
Total fair value	**0.7**	**0.7**	**0.5**	**0.1**	**-**
Financial liabilities:					
Financial liabilities	0.2	0.2	0.2	-	-
Total fair value	**0.2**	**0.2**	**0.2**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	0.5	0.5	0.3	0.1	-
Cumulative exposure in the segment	0.5	1.0	1.3	1.4	1.4

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In %	In years
	-	0.3	1,123.4	2.54	0.13
	-	**0.3**	**1,123.4**	**2.54**	**0.13**
	-	0.4	1,055.0	2.54	0.14
	-	**0.4**	**1,055.0**	**2.54**	**0.14**
	-	(0.1)	68.9		
	69.0	68.9			
	-	-	2.0	0.82	0.21
	-	**-**	**2.0**	**0.82**	**0.21**
	-	-	0.6	-	0.23
	-	**-**	**0.6**	**-**	**0.23**
	-	-	1.4		
	1.4	1.4			

Exposure of the Company to Changes in Interest Rates as at December 31, 2011 (cont.)

Addendum 4 (cont.)

Reported amounts

	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
			In NIS millions		
Foreign currency					
Financial assets:					
Financial assets	10.4	0.2	10.6	-	-
Total fair value	**10.4**	**0.2**	**10.6**	**-**	**-**
Financial liabilities:					
Financial liabilities	21.0	2.0	0.1	-	-
Total fair value	**21.0**	**2.0**	**0.1**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(10.6)	(1.8)	10.5	-	-
Cumulative exposure in the segment	(10.6)	(12.4)	(1.9)	(1.9)	(1.9)
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	701.3	217.9	200.4	26.7	-
Total fair value	**701.3**	**217.9**	**200.4**	**26.7**	**-**
Financial liabilities:					
Financial liabilities	659.6	212.6	181.6	24.0	-
Total fair value	**659.6**	**212.6**	**181.6**	**24.0**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	41.7	5.3	18.8	2.7	-
Cumulative exposure in the segment	41.7	47.0	65.8	68.5	68.5

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In %	In years
	-	(0.1)	21.1	-	0.29
	-	**(0.1)**	**21.1**	**-**	**0.29**
	-	0.2	23.3	-	0.07
	-	**0.2**	**23.3**	**-**	**0.07**
	-	(0.3)	(2.2)		
	(1.9)	(2.2)			
	-	0.2	1,146.5	2.52	0.14
	-	**0.2**	**1,146.5**	**2.52**	**0.14**
	-	0.6	1,078.4	-	0.14
	-	**0.6**	**1,078.4**	**-**	**0.14**
	-	(0.4)	68.1		
	68.5	68.1			

Balance Sheets as at the End of Each Quarter – Multi-Quarter Data

Addendum 5

Reported amounts

In NIS millions

	2012			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	11.9	12.5	27.2	21.6
Debtors in respect of credit-card activity	1,324.8	1,265.0	1,137.9	1,078.6
Allowance for credit losses	(1.1)	(1.2)	(1.1)	(1.2)
Debtors in respect of credit-card activity, net	1,323.7	1,263.8	1,136.8	1,077.4
Other assets	56.8	63.9	60.2	54.2
Total assets	**1,392.4**	**1,340.2**	**1,224.2**	**1,153.2**
Liabilities				
Credit from banking corporations	1.6	2.3	0.2	*-
Travelers' cheques in circulation, net	10.3	10.9	11.1	10.8
Creditors in respect of credit-card activity	1,277.2	1,214.7	1,101.7	1,031.1
Subordinated notes	31.1	32.0	31.7	31.4
Other liabilities	7.9	11.3	10.7	11.4
Total liabilities	**1,328.1**	**1,271.2**	**1,155.4**	**1,084.7**
Equity	64.3	69.0	68.8	68.5
Total liabilities and capital	**1,392.4**	**1,340.2**	**1,224.2**	**1,153.2**

* Amount lower than NIS 50 thousand.

Balance Sheets as at the End of Each Quarter – Multi-Quarter Data (cont.)

Addendum 5 (cont.)

Reported amounts

In NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	30.1	26.2	42.5	35.9
Debtors in respect of credit-card activity	1,082.8	1,079.6	987.9	892.7
Allowance for credit losses	(1.5)	(1.7)	(1.4)	(1.3)
Debtors in respect of credit-card activity, net	1,081.3	1,077.9	986.5	891.4
Computers and equipment	-	-	*-	*-
Other assets	40.3	15.3	0.9	1.0
Total assets	**1,151.7**	**1,119.4**	**1,029.9**	**928.3**
Liabilities				
Credit from banking corporations	0.1	*-	*-	*-
Travelers' cheques in circulation, net	11.2	11.1	10.4	10.8
Creditors in respect of credit-card activity	1,029.5(1)	1,024.7(1)	932.2(1)	830.6(1)
Subordinated notes	32.0	24.7	24.5	24.2
Other liabilities	10.6(1)	9.0(1)	13.1(1)	13.2(1)
Total liabilities	**1,083.4**	**1,069.5**	**980.2**	**878.8**
Equity	68.3	49.9	49.7	49.5
Total liabilities and capital	**1,151.7**	**1,119.4**	**1,029.9**	**928.3**

* Amount lower than NIS 50 thousand.

(1) Reclassified.

Quarterly Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

Reported amounts

In NIS millions

	2012			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	17.3	17.5	14.9	14.4
Net interest income	1.3	1.4	1.4	1.4
Other income	0.4	0.4	0.2	0.3
Total income	**19.0**	**19.3**	**16.5**	**16.1**
Expenses				
Provisions for credit losses	(0.2)	0.1	0.4	(*-)
Operating expenses	10.0	7.6	7.1	7.8
Sales and marketing expenses	3.8	1.9	1.8	1.3
General and administrative expenses	5.3	4.7	4.3	5.4
Payments to banks (receipts from banks), net	(0.2)	4.7	2.5	1.3
Total expenses	**18.7**	**19.0**	**16.1**	**15.8**
Profit before taxes	0.3	0.3	0.4	0.3
Provision for taxes on profit	*-	0.1	0.1	0.1
Net profit	**0.3**	**0.2**	**0.3**	**0.2**
Basic and diluted net profit per common share (in NIS)	**17**	**16**	**14**	**13**

* Amount lower than NIS 50 thousand.

Quarterly Statements of Profit and Loss – Multi-Quarter Data (cont.)

Addendum 6 (cont.)

Reported amounts

In NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	14.3	14.3	14.6	12.7
Net interest income	1.5(1)	1.4(1)	1.3(1)	0.9(1)
Other income	0.1(1)	0.1(1)	0.2(1)	0.2(1)
Total income	**15.9**	**15.8**	**16.1**	**13.8**
Expenses				
Provisions for credit losses	*-	0.3	0.1	0.1
Operating expenses	8.0(2)	7.8(2)	7.6(2)	7.4(2)
Sales and marketing expenses	2.0(2)	2.3(2)	1.4(2)	1.9(2)
General and administrative expenses	3.7	3.5	2.8	3.4
Payments to banks	1.8	1.6	3.9	0.7
Total expenses	**15.5**	**15.5**	**15.8**	**13.5**
Profit before taxes	0.4	0.3	0.3	0.3
Provision for taxes on profit	(*-)	0.1	0.1	*-
Net profit	**0.4**	**0.2**	**0.2**	**0.3**
Basic and diluted net profit per common share (in NIS)	**27**	**18**	**20**	**28**

* Amount lower than NIS 50 thousand.

(1) The Company adopted the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies for the first time on January 1, 2012, including the new definition of interest, as established in the circular of the Supervisor of Banks on the format for statements of profit and loss of banking corporations and credit-card companies and the adoption of GAAP for US banks regarding the measurement of interest income. The directives were adopted through retroactive implementation. Accordingly, the data included in the statements of profit and loss for the years 2011 and 2010 were reclassified to adjust them to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1.D below.

(2) Reclassified.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Aminit Ltd. (hereinafter: the "**Company**") for 2012 (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[1] and internal control over financial reporting[1]; 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 is brought to our knowledge by others at the Company, in particular during the preparation of the Report;

   B. We have established such internal control over financial reporting, or caused such internal control over 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 at 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 over 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 over 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 control 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 over 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

Tel Aviv, February 27, 2013

Chief Executive Officer

Certification

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Aminit Ltd. (hereinafter: the "**Company**") for 2012 (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[1] and internal control over financial reporting[1]; 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 is brought to our knowledge by others at the Company, in particular during the preparation of the Report;

   B. We have established such internal control over financial reporting, or caused such internal control over 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 at 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 over 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 over 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 over financial reporting:

A. Any significant deficiencies and material weaknesses in the establishment or application of internal control of 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 over 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 Barmack

Tel Aviv, February 27, 2013

Manager of Finance and Accounting Department,
Chief Accountant

Report of the Board of Directors and Management on Internal Controls over Financial Reporting

The Board of Directors and the Management of Aminit 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 controls 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 at December 31, 2012, 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 at December 31, 2012, the Company's internal controls over financial reporting are effective.

The effectiveness of the Company's internal controls over financial reporting as at December 31, 2012 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 129. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2012.

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, 2013

Aminit Ltd.

Financial Statements

For the year ended December 31, 2012

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Somekh Chaikin

Auditors' Report to the Shareholders of Aminit Ltd.

Pursuant to the Public Reporting Directives of the Supervisor of Banks on Internal Controls over Financial Reporting

We have audited the internal control over financial reporting of Aminit Ltd. (hereinafter: "the Company") as at December 31, 2012, 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 financial 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 at December 31, 2012, 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 financial statements of the Company as at December 31, 2012 and 2011, and for each of the years in the three-year period ended on December 31, 2012. Our report dated February 27, 2013, expressed an unqualified opinion on the said financial statements, while drawing attention to Note 15B concerning antitrust issues.

Ziv Haft	**Somekh Chaikin**
Certified Public Accountants (ISR)	Certified Public Accountants (ISR)

Tel Aviv, February 27, 2013

Auditors' Report to the Shareholders of Aminit Ltd. – Annual Financial Statements

We have audited the accompanying balance sheets of Aminit Ltd. (hereinafter: "the Company") as at December 31, 2012 and 2011, and the statements of profit and loss, reports on changes in equity, and statements of cash flows of the Company, for each of the three years in the period ended on December 31, 2012. These financial statements are the responsibility of the Company's board of directors and 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. These standards require that we plan and perform the audit with the aim of obtaining reasonable assurance that 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 an assessment of the accounting principles implemented and significant estimates used by the board of directors and by the management of the Company, as well as an evaluation of the fairness of the overall presentation in the financial statements. 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 as at December 31, 2012 and 2011, and the results of operations, changes in equity, and cash flows of the Company for each of the three years in the period ended on December 31, 2012, 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 15B concerning antitrust issues.

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 at December 31, 2012, 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, 2013, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Ziv Haft	**Somekh Chaikin**
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

Tel Aviv, February 27, 2013

Balance Sheets

Reported amounts
In NIS millions

		December 31	
	Note	2012	2011
Assets			
Cash on hand and deposits with banks	2	11.9	30.1
Debtors in respect of credit-card activity	3, 4	1,324.8	1,082.8
Allowance for credit losses	3A	(1.1)	(1.5)
Debtors in respect of credit-card activity, net		1,323.7	1,081.3
Other assets	5	56.8	40.3
Total assets		**1,392.4**	**1,151.7**
Liabilities			
Credit from banking corporations	6	1.6	0.1
Travelers' cheques in circulation, net	7	10.3	11.2
Creditors in respect of credit-card activity	8	1,277.2	1,029(1)
Subordinated notes	9	31.1	32.0
Other liabilities	10, 15	7.9	10.6(1)
Total liabilities		**1,328.1**	**1,083.4**
Contingent liabilities and special agreements	15		
Equity	11	64.3	68.3
Total liabilities and capital		**1,392.4**	**1,151.7**

(1) Reclassified.

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, 2013

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

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2012	2011	2010
Income				
From credit-card transactions	18	64.1	55.9	42.6
Net interest income	19	5.5	5.1(1)	2.2(1)
Other income	20	1.3	0.6(1)	0.9(1)
Total income		**70.9**	**61.6**	**45.7**
Expenses				
Provision for credit losses	3A	0.3	0.5	1.0
Operating expenses	21	32.5	30.8(2)	21.4(2)
Sales and marketing expenses	22	8.8	7.6(2)	7.3(2)
General and administrative expenses	23	19.7	13.4	11.3
Payments to banks (receipts from banks), net	15H	8.3	8.0	3.2
Total expenses		**69.6**	**60.3**	**44.2**
Profit before taxes		**1.3**	**1.3**	**1.5**
Provision for taxes on profit	24	0.3	0.2	0.4
Net profit		**1.0**	**1.1**	**1.1**
Basic and diluted net profit per common share (in NIS)		**61**	**91**	**171**
Number of common shares used in calculation		16,820	11,524	6,697

(1) The Company adopted the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies for the first time on January 1, 2012, including the new definition of interest, as established in the circular of the Supervisor of Banks on the format for statements of profit and loss of banking corporations and credit-caard companies and the adoption of GAAP for US banks regarding the measurement of interest income. The directives were adopted through retroactive implementation. Accordingly, the data included in the statements of profit and loss for the years 2011 and 2010 were reclassified to adjust them to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1.D below.

(2) Reclassified.

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

Statements of Changes in Equity

Reported amounts

In NIS millions

	Paid-up share capital	Premium on shares	Total paid-up share capital and capital reserves	Retained earnings	Total equity
Balance as at Dec. 31, 2009	**0.8**	**15.0**	**15.8**	**7.9**	**23.7**
Annual net profit	-	-	-	1.1	1.1
Changes and adjustments arising from:					
Share issuance	*-	8.5	8.5	-	**8.5**
Balance as at Dec. 31, 2010	**0.8**	**23.5**	**24.3**	**9.0**	**33.3**
Cumulative effect, net of tax, of initial implementation of directive on measurement of impaired debts and allowance for credit losses on Jan. 1, 2011	-	-	-	(1.1)	(1.1)
Annual net profit	-	-	-	1.1	1.1
Changes and adjustments arising from:					
Share issuance	*-	35.0	35.0	-	35.0
Balance as at Dec. 31, 2011	**0.8**	**58.5**	**59.3**	**9.0**	**68.3**
Annual net profit	-	-	-	1.0	1.0
Dividend	-	-	-	(5.0)	(5.0)
Balance as at Dec. 31, 2012	**0.8**	**58.5**	**59.3**	**5.0**	**64.3**

* Amount lower than NIS 50 thousand.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	2011(1)	2010(1)
Cash flows from operating activity			
Annual net profit	**1.0**	**1.1**	**1.1**
Adjustments:			
Revaluation of deposits from banking corporations	**-	(0.8)	0.8
Revaluation of subordinated notes	(0.9)	0.9	0.6
Depreciation	-	**-	**-
Provision (income) for credit losses	0.3	0.5(2)	(0.1)
Profit from realization and adjustment of securities available for sale	-	-	(0.2)
Deferred taxes, net	**-	(0.3)	0.1
Adjustments for exchange-rate differences	(1.0)	(1.1)(2)	(6.5)(2)
Changes in current assets			
Deposits deposited with banks*	(7.8)	(9.9)	(12.0)
Withdrawal of deposits from banks*	12.9	10.5	12.9
Proceeds of realization of securities available for sale	-	-	0.2
Decrease (increase) in credit to merchants, net	4.3	(9.1)	(3.8)
Increase in debtors in respect of credit-card activity, net	(247.0)	(237.2)	(240.7)
Increase in other assets	(16.5)	(38.5)	(0.5)
Changes in current liabilities			
Short-term credit from banking corporations, net	1.5	(0.7)	0.8
(Decrease) increase in travelers' cheques in circulation	(0.9)	0.2	(1.6)
Increase in creditors in respect of credit-card activity, net	247.7	251.2(2)	235.4(2)
Increase (decrease) in other liabilities	(2.7)	(39.2)(2)	(16.3)(2)
Net cash from operating activity	**(9.1)**	**(72.4)**	**(29.7)**

* For an original period of more than 3 months.

** Amount lower than NIS 50 thousand.

(1) The directives of the Supervisor of Banks concerning International Accounting Standard 7, Statement of Cash Flows, as established in the circular of the Supervisor of Banks on the adoption of certain IFRS, of November 30, 2011, were adopted by the Company for the first time on January 1, 2012. Comparative figures for previous years were reclassified to match the new definitions, item headings, and presentation method of the current reporting period. For further details, see Note 1.E below.

(2) Reclassified.

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

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	2011(1)	2010(1)
Cash flows from financing activity			
Issuance of subordinated notes, net	-	15.0	12.0
Issuance of share capital	-	35.0	8.5
Dividend paid to shareholders	(5.0)	-	-
Net cash from financing activity	(5.0)	50.0	20.5
Increase (decrease) in cash and cash equivalents	(14.1)	(22.4)	(9.2)
Balance of cash and cash equivalents at beginning of year	18.8	40.1	42.8
Effect of changes in exchange rates on cash balances	1.0	1.1	6.5
Balance of cash at end of year	5.7	18.8	40.1
Interest and taxes paid and/or received			
Interest received	6.7	6.5	4.0
Interest paid	(2.1)	(0.2)	(1.2)
Taxes paid on income	(0.6)	(0.3)	(0.3)
Taxes received on income	*-	0.1	-

* Amount lower than NIS 50 thousand.

(1) The directives of the Supervisor of Banks concerning International Accounting Standard 7, Statement of Cash Flows, as established in the circular of the Supervisor of Banks on the adoption of certain IFRS, of November 30, 2011, were adopted by the Company for the first time on January 1, 2012. Comparative figures for previous years were reclassified to match the new definitions, item headings, and presentation method of the current reporting period. For further details, see Note 1.E below.

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

Note 1 – Significant Accounting Policies

A. General

1. Aminit Ltd. (hereinafter: the “Company”) is a corporation incorporated in Israel in 1979 and is wholly owned by Bank Hapoalim B.M. The holder of the permit for control of Bank Hapoalim is Ms. Shari Arison. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981. The Company issues and clears transactions in Visa brand credit cards.

2. Isracard Ltd. (hereinafter: "Isracard"), a sister company, operates the Company's credit-card system on behalf of the Company. An agreement is in place between the Company and Isracard for that purpose, regularizing the manner of account settlement between the parties (see Note 15G).

3. 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.

4. The annual financial statements were approved for publication by the Board of Directors of the Company on February 27, 2013.

B. Definitions

In these financial statements:

♦ **International Financial Reporting Standards (hereinafter: "IFRS")** – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including IFRS 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.

♦ **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 banking 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 banking 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 – Aminit Ltd.

2. The Parent Company – Bank Hapoalim B.M.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

3. Related parties – As defined in International Accounting Standard 24, excluding interested parties.

4. 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.

5. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.

6. CPI – The consumer price index in Israel, as published by the Central Bureau of Statistics.

7. USD – United States dollar.

8. 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.

9. 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.

10. 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.

11. Cost – Cost in reported amounts.

12. Nominal financial reporting – Financial reporting based on reported amounts.

13. Functional currency – The currency of the main economic environment in which the company operates. Usually the currency of the environment in which the company generates and expends most of its cash.

14. 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.

Note 1 – Significant Accounting Policies (cont.)

C. Basis for Preparation of the Financial Statements (cont.)

♦ On matters not related to the core business of banking – Accounting treatment in accordance with Israeli GAAP and certain 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 Company 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 Company 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 Company acts in accordance with the IFRS;
- Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Company 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 financial statements are presented in New Israeli Shekels (NIS), the functional currency of the Company, rounded to the nearest million, except where 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:

♦ Financial instruments measured at fair value;

♦ Deferred tax assets and liabilities;

♦ Provisions;

♦ Assets and liabilities in respect of employee benefits.

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. Beginning on January 1, 2004, the Company has prepared its financial statements in reported amounts.

Note 1 – Significant Accounting Policies (cont.)

C. Basis for Preparation of the Financial Statements (cont.)

4. Use of Estimates

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 accounting 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.

D. Reclassification

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.

In accordance with the directives, the Company adjusted the presentation method of its statement of profit and loss and of the accompanying notes, as detailed below:

- The item “profit from financing activity before provisions for credit losses” was split into three separate items – “interest income,” “interest expenses,” and “other income,” presented on separate lines.

- Non-interest components of profit from financing activity before provisions for credit losses and components of profits (losses) from investments in shares were classified under the item "other income."

- The item “profit from extraordinary transactions” was canceled, and the common practice in the United States was adopted, where extraordinary items are defined as items that are “unusual” and “infrequent.” Accordingly, the classification of any event as an extraordinary item in the statement of profit and loss shall be performed only with advance approval by the Supervisor of Banks.

The Company implemented the directives regarding the format of the statement of profit and loss beginning on January 1, 2012, retroactively. Consequently, the reclassifications described below were performed in the financial statements for the years ended December 31, 2011 and December 31, 2010.

D. Reclassification (cont.)

Items included in the statement of profit and loss:

Due to the initial implementation of the directives of the Supervisor of Banks regarding the new format for the statement of profit and loss (see Section D below), the reclassifications described below were performed in the financial statements for the years ended December 31, 2011 and 2010.

- Net exchange-rate differences in the amount of NIS 0.5 million and NIS 0.7 million for the years ended December 31, 2011 and 2010, respectively, were reclassified, from profit from financing activity before provisions for credit losses to other income.

- Fees to banks in the amount of NIS 0.1 million and an amount lower than NIS 50 thousand for the years ended December 31, 2011 and 2010, respectively, were reclassified, from profit from financing activity before provisions for credit losses to operating expenses.

- The items profit from financing activity before provisions for credit losses and operating profit before taxes were changed to net interest income and profit before taxes, respectively.

Items included in the statement of cash flows:

Due to the initial implementation of IAS 7, Statement of Cash Flows (see Section E below), which establishes rules for the classification of the various items in the statement according to the nature of the activity, the following reclassification has been implemented.

- Net changes in cash flows in respect of current assets (such as credit to cardholders and merchants, debtors in respect of credit-card activity, deposit and withdrawal of deposits with banks, and debtors in respect of receivables discounting) previously included in investing activity (formerly activity in assets), in the amount of NIS 245.7 million and NIS 243.6 million in the years ended December 31, 2011 and 2010, respectively, were reclassified under current activity.

- Net changes in cash flows in respect of current liabilities (such as creditors in respect of credit-card activity, travelers' cheques in circulation, and net short-term credit from banking corporations) previously included in financing activity (formerly activity in liabilities and capital), in the amount of NIS 250.7 million and NIS 234.6 million in the years ended December 31, 2011 and 2010, respectively, were reclassified under current activity.

Items included in the notes to the financial statements:

Due to the initial implementation of accounting standards, accounting standard updates, and directives of the Supervisor of Banks, as detailed in Section E below, data in certain notes to the financial statements were reclassified to match the new definitions, headings, and presentation method of the current reporting period.

Note 1 – Significant Accounting Policies (cont.)

E. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks

The Company has implemented the accounting standards and directives described below, beginning on January 1, 2012:

1. Directives concerning the format for the statement of profit and loss, established in the circular of the Supervisor of Banks on the format for statements of profit and loss of banking corporations and the adoption of GAAP for US banks concerning the measurement of interest income.

2. Certain IFRS and IFRIC interpretations referring to the implementation of these standards, as follows:

   - IAS 7, Statement of Cash Flows;
   - IAS 12, Income Taxes;
   - IAS 23, Borrowing Costs;
   - IAS 24, Related Party Disclosures.

3. Directives of the Supervisor of Banks on accounting for transactions between a banking corporation and its controlling party or a company controlled by the banking corporation.

4. Directives of the Supervisor of Banks concerning fair value measurement, which integrate ASU 2011-04, Fair Value Measurement (ASC 820): Revision of Fair Value Measurement and Uniform Disclosure Requirements in US GAAP and IFRS, into the Public Reporting Directives.

5. Directives of the Supervisor of Banks concerning the update of disclosures of the credit quality of debts and credit loss allowances, for the adoption of ASU 2010-20.

The accounting policies of the Company, as detailed in Section F 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.

F. 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 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,

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

and the depreciated cost in foreign currency translated according to the exchange rate at the end of the year.

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.

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.

Set out below are details regarding representative exchange rates and the CPI (2010 base = 100), and the rates of change therein:

	December 31		
	2012	**2011**	**2010**
Consumer price index (in points)	105.7	104.0	101.8
United States dollar exchange rate (in NIS per 1 USD)	3.733	3.821	3.549

	Percent change in the year ended December 31		
	2012	**2011**	**2010**
Consumer price index	1.6	2.2	2.7
USD exchange rate	(2.3)	7.7	(6.0)

2. Basis for Recognition of Revenues and Expenses

(1) Income from clearing fees, net of fee refunds, is recognized 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.

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

(3) Income from card fees and deferred-debit fees collected from cardholders are recognized in the statement of profit and loss on a cumulative basis.

(4) Interest income and expenses are recognized on an accrual basis, with the exception of interest on amounts in arrears, which is recognized in the statement of profit and loss based on actual collection.

(5) Other income and expenses – recognized on an accrual basis.

3. Impaired Debts, Credit Risk, and Allowance for Credit Losses

Pursuant to the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, beginning on January 1, 2011, the Company has implemented the American accounting standard ASC 310 and the position statements of the banking supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives and in the position statements and guidelines of the Supervisor of Banks. In addition, beginning on 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 and debtors in respect of credit-card activity (including credit to merchants). 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 charge-offs but before deduction of the allowance 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.

Allowance for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the allowance for credit losses, in order to maintain an allowance 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 an allowance, 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).

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: “individual allowance” or “collective allowance.” The Company also examines the overall fairness of the allowance for credit losses. This evaluation of fairness is based on Management's judgment, taking into consideration the risks inherent in the credit portfolio and the assessment methods applied by the Company to establish the allowance.

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Individual allowance for credit losses – The Company chooses to identify debts for individual examination when the total contractual balance of the debt (without deducting charge-offs that do not involve an accounting waiver and allowances for credit losses) is NIS 500 thousand or more. An individual allowance for credit losses is recognized for any debt examined on an individual basis and 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 collective basis. In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired debt, and is examined individually. The individual allowance 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.

Collective allowance for credit losses – Reflects allowances for impairment in respect of credit losses not identified individually in large groups of small debts with similar debt attributes, and in respect of debts examined individually and found to be unimpaired. The collective allowance is calculated in accordance with the rules set forth in FAS 5 (ASC 450), "Contingencies," based on the formula for the calculation of the collective allowance specified in the temporary order issued by the Supervisor of Banks, which was in effect up to and including December 31, 2012. The formula is based on historical rates of loss in 2008, 2009, 2010, and 2011, and on actual rates of net charge-offs recorded starting January 1, 2011. The calculation differentiates between problematic and non-problematic credit, and among consumer credit, commercial credit, the international organization, and credit-card companies.

The allowance required in respect of off-balance-sheet credit instruments is assessed according to the rules established in FAS 5 (ASC 450). The allowance assessed on a collective basis for off-balance-sheet credit instruments is based on the rates of allowances 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 Standardized Approach.

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.

Troubled Debt Restructuring

A debt that has undergone a troubled debt restructuring 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

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

to ease the burden of cash payments for the borrower in the near term (reduction or postponement of cash payments required of the borrower).

In order to determine whether a debt arrangement executed by the Company constitutes a troubled debt restructuring, 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: (1) at the date of the debt arrangement, the borrower is in default, including when any other debt of the borrower is in default; (2) 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; (3) 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 (4) 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: (1) 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); (2) 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.

Debts the terms of which have been changed during restructuring, including those examined on a collective basis prior to restructuring, are classified as impaired debt and assessed on an individual basis for the purpose of the allowance for credit losses or charge-off. In light of the fact that a debt that has undergone a troubled 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.

Charge-Offs

The Company performs charge-offs for any debt or part of a 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 collective basis, charge-off rules were established based on the period of arrears (in most cases more than 150 consecutive days), and on other problematic characteristics. It is hereby clarified that charge-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 for the debt in the Company's books.

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Policy on Provisions for Doubtful Debts Before the Implementation of the Directives on Impaired Debts, Credit Risk, and Allowance for Credit Losses

Prior to January 1, 2011, 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 and the volume of their activity. 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 required a specific provision but whose risk characteristics had 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 were not collectible, or due to other reasons for which the debts were uncollectible.

Effect of the Initial Implementation of the Directives of the Supervisor of Banks Concerning the Update of Disclosures of the Credit Quality of Debts and Credit Loss Allowances, for the Adoption of ASU 2010-20

On March 25, 2012, the Supervisor of Banks issued a circular concerning an update of the disclosure of credit quality of debts and the allowance for credit losses, to adopt ASU 2010-20, which requires more extensive disclosure of debt balances, changes in the balance of the allowance for credit losses, and additional disclosures regarding credit quality.

The Company has implemented these directives, beginning on January 1, 2012, prospectively, for balance-sheet data required for the first time under the directive, with the reclassification of comparative figures where possible. It is hereby clarified that disclosures were provided in the financial statements for 2012 with regard to the balance of debts and the change in the allowance for credit losses; the other disclosures required under this directive will be implemented starting with the financial statements as at March 31, 2013. The initial implementation of this directive had no effect, other than the change in presentation.

4. Establishing the Fair Value of Financial Instruments

The Company applies 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. In addition, beginning on January 1, 2012, the Company applies the directives of the Supervisor of Banks concerning fair value

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

measurement, which integrate the rules established in ASU 2011-04, "Fair Value Measurement (ASC 820): Revision of Fair Value Measurement and Uniform Disclosure Requirements in US GAAP and IFRS," into the Public Reporting Directives.

Fair value is defined as the price that would be obtained from the sale of an asset, or the price that would be paid to transfer a liability, in an ordinary transaction between market participants, 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 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, accessible to the Company at the date of measurement.
- Level 2 data: Observable inputs for the asset or liability, directly or indirectly, which are not quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding the asset or liability.

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 the Company determines the liquidity of markets and the relevance of prices observed in such markets.

In addition, the fair value of financial instruments is measured without taking the blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair value measurement by market participants in the absence of Level 1 data.

Effect of the Initial Implementation of the Directives of the Supervisor of Banks Concerning Fair Value Measurement, which Integrate ASU 2011-04, Fair Value Measurement (ASC 820): Revision of Fair Value Measurement and Uniform Disclosure Requirements in US GAAP and IFRS, into the Public Reporting Directives

A circular amending the Public Reporting Directives of the Supervisor of Banks concerning fair value measurements was issued on November 20, 2012. The amendments set forth in the circular are aimed at adjusting the Public Reporting Directives concerning fair value measurements to the updated version of US GAAP in this area. Specifically, the amendment integrates the rules for fair value measurement established in ASU 2011-04 into the Public Reporting Directives. The circular also establishes a new uniform disclosure format for certain disclosure requirements related to fair value included in ASU 2011-04.

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

The standard sets forth significant additional disclosure requirements in the following areas:

- With regard to fair value measurements classified as Level 3 in the fair value hierarchy:
  - Quantitative disclosure of significant unobservable inputs and a description of the assessment technique applied by the Company, with regard to items measured at fair value on a recurring basis as well as on a non-recurring basis;
  - Qualitative discussion of an analysis of the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of the interaction between such unobservable inputs, if any;
- 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;
- For every transfer from Level 1 to Level 2 or vice versa of items measured at fair value on a recurring basis, a description should be provided of the item, the amount of the transfer, the reason for the transfer, and the policy of the banking corporation;
- Use of a non-financial 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;
- A detailed breakdown of the fair value hierarchy (the division into 3 levels) in respect of balances and fair value estimates of financial instruments.

The Company has implemented the amendments set forth in ASU 2011-04 and in the circular of the Supervisor of Banks, beginning on January 1, 2012, prospectively. The initial implementation of ASU 2011-04 and of the circular of the Supervisor of Banks had no material effect on the financial statements, other than a change in presentation due to the new disclosure requirements.

5. Debtors and Creditors in Respect of Credit-Card Transactions

Upon capture of a credit-card transaction, the Company includes a debt of the cardholder in its balance sheet, if it is the 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.

6. Offsetting Assets and Liabilities

The Company offsets assets and liabilities arising from the same counterparty and presents the net balance thereof in the balance sheet, under the following cumulative conditions:

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

- With respect to such liabilities, a legally enforceable right exists to offset the liabilities against the assets;

- There is an intention to settle the liability and realize the assets on a net basis or simultaneously.

The Company offsets assets and liabilities with two different counterparties and presents a net amount in the balance sheet given the two cumulative conditions noted above, provided that an agreement exists between the three parties clearly establishing the Company's right to offset with respect to such liabilities.

7. Intangible Assets

Software Costs

Software acquired by the Company is measured at cost, with the deduction of amortization and accumulated 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 in respect of development activities include direct costs of materials and services and direct labor wages for workers. Other costs in respect of development activities and research costs are allocated to profit and loss when they arise. In subsequent periods, capitalized development costs are measured at cost, with the deduction of amortization and accrued losses from impairment.

Amortization

Amortization is the systematic allocation of the cost of an intangible asset over its useful life. Amortization 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, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in each asset.

Intangible assets created at the Company (such as software under development) are not amortized systematically as long as they are not available for use, i.e. they are not in the necessary location and condition in order to function in the manner intended by Management. Accordingly, these intangible assets, such as software costs, are examined by the Company for impairment at least once a year until they become available for use.

The estimated useful life for the current period and for comparative periods with respect to capitalized development costs is 4 years.

Estimates related to the amortization method, useful life, and residual value are reexamined at least at the end of each reporting year, and adjusted when necessary.

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

8. Impairment of Non-Financial Assets

The book value of the non-financial assets of the Company, excluding deferred tax assets, is examined at each reporting date. If indications of impairment exist, an estimate of the recoverable amount of the asset is calculated.

Recoverable Amount

The recoverable amount of an asset is the higher of its value in use and its fair value net of selling expenses (net sale price). In determining value in use, the Company discounts the estimated future cash flows according to a pretax discounting rate reflecting market estimates regarding the time value of 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.

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 are also 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;

(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, the Company tests for impairment in accordance with the rules set forth in IAS 36, Impairment of Assets.

9. Employee Benefits

Obligations for Employee Benefits

The Company's liabilities for benefits post-termination of the employer-employee relationship and/or other long-term benefits granted according to law and/or agreements and/or customary

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

practice at the Company are calculated in accordance with the Company's policies and procedures. 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.

In addition, according to the letter, 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 turnover rate of employees (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 is 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.

10. Expenses for Taxes on Income

Taxes on income include current and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the taxes arise from a transaction or event recognized directly in equity.

Current Taxes

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 reporting date, including changes in tax payments referring to previous years.

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

Offsetting Current Tax Assets and Liabilities

Current tax assets are offset in the balance sheet when they arise from the same reported entity, an enforceable legal right to offset exists, and there is an intention to settle on a net basis and realize the taxes simultaneously.

Deferred Taxes

Deferred taxes are recognized 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 measurement of deferred taxes reflects the tax effects that will derive from the manner in which the Company expects, at the end of the reporting period, to recover or settle the book value of the assets and liabilities. 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.

A deferred-tax asset in respect of losses carried forward, tax benefits, and deductible temporary differences is recognized in the books when it is more likely than not that taxable income will exist in the future against which it can be used, or if the opportunity for tax planning exists. Deferred-tax assets are examined at each reporting date, and are written down if the relevant tax benefits are not expected to materialize.

In order to determine that a deferred-tax asset can be recognized, the Company takes all available evidence into consideration – both positive evidence supporting the recognition of the deferred-tax asset and negative evidence against the recognition of the deferred-tax asset.

If the Company is not expected to have sufficient taxable income and/or the Company does not have the opportunity to plan taxes, net deferred-tax assets shall not exceed the amount of taxable temporary differences.

The Company does not recognize deferred taxes in respect of temporary differences arising from investments in subsidiaries and associates, because the Company controls the reversal date of the difference, and reversal is not expected in the foreseeable future.

Offsetting Current Tax Assets and Liabilities

The Company offsets current 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.

Note 1 – Significant Accounting Policies (cont.)

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

11. Earnings Per Share

The Company presents data on basic and diluted 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 Company by the weighted average number of common shares in circulation during the year.

12. Statement of Cash Flows

The statement of cash flows is presented with classification into cash flows from regular activity, investing activity (formerly “activity in assets”), and financing activity (formerly “activity in liabilities and capital”). Cash flows arising from main activities of the Company are classified under regular activity. The item "cash and cash equivalents" includes cash on hand and deposits with banks for an original period of up to three months.

Effect of the Initial Implementation of the New Directives of the Supervisor of Banks Concerning the Statement of Cash Flows

The Company has implemented the new directives of the Supervisor of Banks concerning the statement of cash flows beginning on January 1, 2012, retroactively. The initial implementation of this standard had no effect, other than the change in presentation. For details regarding the reclassifications, see Note 1D above.

13. Segmental Reporting

A segment 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.

14. Related Party Disclosures

IAS 24, Related Party Disclosures, establishes the disclosure required of entities with regard to their relationships with related parties and with regard to unsettled transactions and balances with related parties.

In addition, disclosure is required for compensation to key management personnel. Key executives are defined as persons with the authority and responsibility to plan the activity of the entity, or to directly or indirectly guide and control the entity, including any director (active or inactive) of the entity.

F. Accounting Policies Implemented in the Preparation of the Financial Statements (cont.)

As part of the adoption of the standard by the Supervisor of Banks, the format of the required disclosure in the financial statements was reclassified, 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.

Effect of the Initial Implementation of the New Directives of the Supervisor of Banks Concerning Related Party Disclosures

The Company has implemented the new directives of the Supervisor of Banks concerning IAS 24, Related Party Disclosures, beginning on January 1, 2012, retroactively. For the purpose of the initial implementation of the standard, the Company mapped its relationships with related parties. Under the new definition, as a result of the mapping process, new related parties were identified. For further information regarding transactions and balances with related parties, see Note 17, "Interested and Related Parties." The initial implementation of the standard had no effect on the financial statements, other than a change in presentation.

G. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation

1. 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 January 1, 2008 or later. 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.

   Pursuant to the circular, the deadlines for reporting according to IFRS by banking corporations and credit-card companies are as follows:

   - On matters related to the core business of banking – The Supervisor of Banks intends to reach a final decision on this matter, taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards.

   - On matters not related to the core business of banking – Adopted gradually during 2011 and 2012. However, IAS 19, Employee Benefits, has not yet taken effect and will be adopted according to the instructions of the Supervisor of Banks, when such instructions are published, with regard to the timing and manner of initial implementation.

Note 1 – Significant Accounting Policies (cont.)

G. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

2. Directive 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 for the purpose of adoption of the rules established in US GAAP regarding nonrefundable fees and other costs. The directive establishes rules for the treatment of loan origination fees and direct loan origination costs. The eligible fees and costs, according to the criteria established in the directive, 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 credit commitment fees and costs, including credit-card transactions.

A circular entitled Date of Adoption of Section 310-20 of the Codification Concerning Nonrefundable Fees and Other Costs was issued on July 25, 2012. According to the circular, directives related to the adoption of US GAAP on the measurement of interest income will be implemented from January 1, 2014, forward.

The Company is examining the effects of the adoption of this directive on its financial statements.

3. Directive Concerning the Statement of Comprehensive Income

A circular amending the Public Reporting Directives of the Supervisor of Banks on the Statement of Comprehensive Income was issued on December 9, 2012. The objective of the circular is to adjust the presentation method of the statement of comprehensive income to the requirements of US GAAP (ASU 2011-05 and ASU 2011-12), and to the prevalent presentation method of the statement of comprehensive income in the financial statements of US banking corporations. The circular changes the presentation method of items of other comprehensive income in the financial statements, such that items of other comprehensive income shall be reported in a separate report, entitled the "statement of comprehensive income," to be presented immediately following the statement of profit and loss. In addition, details of the composition of and changes in "cumulative other comprehensive income" shall be presented in a new note on cumulative other comprehensive income.

The amendments to this directive shall apply to financial statements from the first quarter of 2013 forward, and shall be implemented retroactively. The initial implementation of the standard is expected to have no material effect on the financial statements, other than the change in presentation.

4. Directive Concerning Offsetting of Assets and Liabilities

A circular amending the Public Reporting Directives of the Supervisor of Banks on Offsetting Assets and Liabilities was issued on December 12, 2012. The amendments set

G. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation (cont.)

forth in the circular are aimed at adjusting Section 15A of the Public Reporting Directives to US GAAP.

The amendments in this directive will apply to financial statements for reporting periods beginning January 1, 2013, and will be implemented retroactively. However, in the quarterly statements for 2013, banking corporations are permitted not to provide disclosures required for the first time as a result of the implementation of this directive regarding comparative figures for the corresponding quarters of 2012.

The Company is examining the possible implications of the implementation of the circular.

Note 2 – Cash on Hand and Deposits with Banks

Reported amounts

NIS millions

	December 31	
	2012	**2011**
Cash on hand[(1)]	2.2	18.6
Deposits with banks for an original term of up to 3 months[(1)]	3.5	0.2
Total cash and cash equivalents	**5.7**	**18.8**
Other deposits with banks[(1)]	6.2	11.3
Total	**11.9**	**30.1**

(1) With deduction of the allowance for credit losses.

Note 3 – Debtors in Respect of Credit-Card Activity

Reported amounts

NIS millions

A. Debtors in Respect of Credit-Card Activity

	Average annual interest rate 2012		December 31	
	For daily balance	For transactions in the last month	2012	2011
	%	%		
Debtors in respect of credit cards[(1) (2)]	-	-	89.8	52.0
Credit to merchants[(3)]	7.52	7.94	18.3	23.2
Total debtors and credit to credit-card holders and merchants[(4) (5)]			108.1	75.2
Less: Allowance for credit losses			(0.6)	(1.0)
Total debtors and credit to credit-card holders and merchants, net			107.5	74.2
Companies and international credit-card organization[(5) (6)]			1,215.9	1,007.0
Income receivable			0.1	0.1
Others			0.2	*-
Total debtors in respect of credit-card activity, net			**1,323.7**	**1,081.3**
(1) Under the responsibility of banks			88.3	52.0

(2) 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.

(3) Includes advance payments to merchants in the amount of NIS 17.3 million (Dec. 31, 2011: NIS 23.0 million).

(4) Of which, NIS 2.9 million in debts examined on an individual basis, including debts found to be unimpaired, the allowance for credit losses in respect of which was calculated on a collective basis (Dec. 31, 2011: NIS 10.7 million). For further details, see Note 3C below.

(5) Of which, NIS 105.2 million in debts not examined individually, the allowance for credit losses in respect of which was calculated on a collective basis (Dec. 31, 2011: NIS 64.5 million). For further details, see Note 3D below.

(6) Of which, an allowance for credit losses in the amount of NIS 0.5 million in 2012, similar to 2011.

* Amount lower than NIS 50 thousand.

Note 3 – Debtors in Respect of Credit-Card Activity (cont.)

Reported amounts

NIS millions

B. Debtors and Credit to Credit-Card Holders and Merchants

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Debtors and credit to credit-card holders and merchants – debts examined on an individual basis	2.9	0.1	2.8	10.7	0.2	10.5
Debtors and credit to credit-card holders and merchants – debts examined on a collective basis	105.2	0.5	104.7	64.5(1)	0.8(1)	63.7(1)
Total debtors and credit to credit-card holders and merchants	**108.1**	**0.6**	**107.5**	**75.2**	**1.0**	**74.2**

(1) Comparative figures were reclassified according to the classifications for the current period.

Note 3 – Debtors in Respect of Credit-Card Activity (cont.)

Reported amounts

NIS millions

C. Debtors and Credit to Credit-Card Holders and Merchants – Debts Examined on an Individual Basis

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts*	***-	***-	-	-	-	-
Other unimpaired debts**	2.9	0.1	2.8	10.7	0.2	10.5
Total debts examined on an individual basis	**2.9**	**0.1**	**2.8**	**10.7**	**0.2**	**10.5**

* Impaired debts do not accrue interest income.

** Debts examined on an individual basis and found to be unimpaired. The allowance for credit losses in respect of these debts was calculated on a collective basis.

*** Amount lower than NIS 50 thousand.

D. Debtors and Credit to Credit-Card Holders and Merchants – Debts Examined on a Collective Basis

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts**	0.1	0.1	*-	0.1	0.1	*-
Unimpaired debts in arrears of 90 days or more	-	-	-	-	-	-
Unimpaired debts in arrears of 30 to 89 days	0.2	0.1	0.1	0.1(1)	*-	0.1(1)
Other unimpaired debts	104.9	0.3	104.6	64.3(1)	0.7(1)	63.6(1)
Total debts examined on a collective basis	**105.2**	**0.5**	**104.7**	**64.5**	**0.8**	**63.7**

* Amount lower than NIS 50 thousand.

** Impaired debts do not accrue interest income.

(1) Comparative figures were reclassified according to the classifications for the current period.

Note 3A – Allowance for Credit Losses in Respect of Debts and in Respect of Off-Balance-Sheet Credit Instruments

Reported amounts

NIS millions

	For the year ended December 31, 2012		
	Individual allowance	Collective allowance	Total
Allowance for credit losses as at Jan. 1, 2012	**-**	**1.7**	**1.7**
Provision for credit losses	0.1	0.2	0.3
Charge-offs	(0.1)	(0.7)	(0.8)
Recovery of debts charged off in previous years(1)	-	-	-
Charge-offs, net	(0.1)	(0.7)	(0.8)
Allowance for credit losses as at Dec. 31, 2012	***-**	**1.2**	**1.2**
Composition of allowance as at Dec. 31, 2012			
In respect of debtors and credit to credit-card holders and merchants	*-	0.6	0.6
In respect of companies and the international credit-card organization	-	0.5	0.5
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	0.1	0.1
Composition of allowance as at Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	-	1.0	1.0
In respect of companies and the international credit-card organization	-	0.5	0.5
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	0.2	0.2

* Amount lower than NIS 50 thousand.

(1) Collection for merchants is performed by offsetting new sales slips captured by the system.

Note 3A – Allowance for Credit Losses in Respect of Debts and in Respect of Off-Balance-Sheet Credit Instruments (cont.)

Reported amounts

NIS millions

	For the year ended December 31, 2011		
	Individual allowance	Collective allowance	Total
Allowance for credit losses as at Jan. 1, 2011	**-**	**1.2**	**1.2**
Provision for credit losses	-	0.5	0.5
Charge-offs	-	(*-)	(*-)
Recovery of debts charged off in previous years(1)	-	-	-
Charge-offs, net	-	(*-)	(*-)
Allowance for credit losses as at Dec. 31, 2011	**-**	**1.7**	**1.7**
Composition of allowance as at Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	-	1.0	1.0
In respect of companies and the international credit-card organization	-	0.5	0.5
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	0.2	0.2
Composition of allowance as at Jan. 1, 2011			
In respect of debtors and credit to credit-card holders and merchants	-	0.9	0.9
In respect of companies and the international credit-card organization	-	0.3	0.3
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	*-	*-

* Amount lower than NIS 50 thousand.

(1) Collection for merchants is performed by offsetting new sales slips captured by the system.

Note 3B – Additional Information Regarding Credit Risk – Allowance for Credit Losses in Respect of Debts

Change in Allowance for Credit Losses

Reported amounts

NIS millions

	As at December 31, 2012				
	Debtors and credit in respect of credit cards(3)				
	Under the responsibility of the Company	Under the responsibility of banks	Credit to merchants(3)	Other(2)	Total
Allowance for credit losses at beginning of year	*-	*-	1.2	0.5	1.7
Provision for credit losses	*-	*-	0.3	*-	0.3
Charge-offs	*-	-	(0.8)	-	(0.8)
Recovery of debts charged off in previous years	-	-	-(1)	-	-
Net charge-offs	(*-)	-	(0.8)	-	(0.8)
Allowance at end of year	***-**	***-**	**0.7**	**0.5**	**1.2**

	As at December 31, 2011				
	Debtors and credit in respect of credit cards(3)				
	Under the responsibility of the Company	Under the responsibility of banks	Credit to merchants(3)	Other(2)	Total
Allowance for credit losses at beginning of year	-	-	0.3	-	0.3
Net charge-offs recognized as at January 1, 2011	-	-	(0.5)	-	(0.5)
Other changes in allowance as at January 1, 2011	-	*-	1.1	0.3	1.4
Provision for credit losses	*-	*-	0.3	0.2	0.5
Charge-offs	-	-	(*-)	-	(*-)
Recovery of debts charged off in previous years	-	-	-(1)	-	-
Net charge-offs	-	-	(*-)	-	(*-)
Allowance at end of year	***-**	***-**	**1.2**	**0.5**	**1.7**

* Amount lower than NIS 0.5 million.

(1) Collection for merchants is performed by offsetting new sales slips captured by the system.

(2) Includes companies and the international credit-card organization, and other debts.

(3) Includes off-balance sheet credit instruments.

Note 3C – Additional Information Regarding Credit Risk – Debts and Off-Balance-Sheet Credit Instruments

Credit Quality and Arrears

Reported amounts

NIS millions

	As at December 31, 2012					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	88.3	-	-	88.3	-	-
Debtors in respect of credit cards under the responsibility of the Company	1.5	*-	*-	1.5	-	*-
Credit to merchants	18.0	0.2	0.1	18.3	-	0.2
Other	1,287.9	-	-	1,287.9	-	-
Total	**1,395.7**	**0.2**	**0.1**	**1,396.0**	**-**	**0.2**

	As at December 31, 2011					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	52.0	-	-	52.0	-	-
Debtors in respect of credit cards under the responsibility of the Company	*-	-	-	*-	-	-
Credit to merchants	23.0	0.1	0.1	23.2	-	0.1
Other	1,087.7	-	-	1,087.7	-	-
Total	**1,162.7**	**0.1**	**0.1**	**1,162.9**	**-**	**0.1**

* Lower than NIS 50 thousand.

Note 4 – Debtors[1] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness

Reported amounts

NIS millions

	December 31, 2012			
		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	32,857	36.5	34.6	0.4
Borrower balances over 5 and up to 10	4,356	28.9	26.9	1.5
Borrower balances over 10 and up to 15	1,226	13.6	11.8	1.4
Borrower balances over 15 and up to 20	502	7.1	5.8	1.5
Borrower balances over 20 and up to 30	453	7.5	5.5	3.4
Borrower balances over 30 and up to 40	105	2.9	1.7	0.8
Borrower balances over 40 and up to 80	94	4.6	1.7	0.3
Borrower balances over 80 and up to 150	23	2.2	0.3	0.3
Borrower balances over 150 and up to 300	6	1.0	-	0.2
Borrower balances over 300 and up to 600	1	0.4	-	-
Borrower balances over 1,200 and up to 2,000	4	3.3	-	2.2
Borrower balances over 2,000 and up to 4,000	1	-	-	2.0
Borrower balances over 4,000 and up to 8,000	1	0.1	-	5.4
Borrower balances over 8,000 and up to 20,000	1	15.1	-	-
Borrower balances over 400,000 and up to 800,000	2	1,201.4	-	-
Total	**39,632**	**1,324.5**	**88.3**	**19.4**
Income receivable and other debtors	-	0.3	-	-
Total	**39,632**	**1,324.8**	**88.3**	**19.4**

(1) Before deduction of the allowance for credit losses.

(2) Number of borrowers by total debtors and 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).

Note 4 – Debtors[1] in Respect of Credit-Card Activity and Off-Balance-Sheet Credit Risk by Size of Borrowers' Indebtedness (cont.)

Reported amounts

NIS millions

	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	17,500	18.3	17.5	-
Borrower balances over 5 and up to 10	2,481	16.8	15.4	-
Borrower balances over 10 and up to 15	767	9.0	7.9	0.1
Borrower balances over 15 and up to 20	339	5.6	4.6	0.1
Borrower balances over 20 and up to 30	212	4.8	3.2	0.3
Borrower balances over 30 and up to 40	71	2.2	1.4	0.2
Borrower balances over 40 and up to 80	73	3.7	1.5	0.1
Borrower balances over 80 and up to 150	27	2.3	0.5	0.5
Borrower balances over 150 and up to 300	9	1.5	-	0.4
Borrower balances over 300 and up to 600	3	0.4	-	0.8
Borrower balances over 600 and up to 1,200	2	1.6	-	0.3
Borrower balances over 1,200 and up to 2,000	1	-	-	1.3
Borrower balances over 2,000 and up to 4,000	5	7.0	-	4.8
Borrower balances over 4,000 and up to 8,000	1	4.1	-	1.2
Borrower balances over 400,000 and up to 600,000	2	1,005.4	-	-
Total	**21,493**	**1,082.7**	**52.0**	**10.1**
Income receivable and other debtors	-	0.1	-	-
Total	**21,493**	**1,082.8**	**52.0**	**10.1**

(1) Before deduction of the allowance for credit losses.

(2) Number of borrowers by total debtors and 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).

Note 5 – Other Assets

Reported amounts

NIS millions

	December 31	
	2012	2011
Deferred taxes receivable, net (see Note 24)	0.6	0.6
Surplus of advance income-tax payments over current provisions	0.1	-
Other debtors and debit balances:		
Prepaid expenses	1.3	0.7
Isracard (related party)*	54.8	38.8
Other debtors	*-	0.2
Total other debtors and debit balances	56.1	39.7
Total other assets	**56.8**	**40.3**

* This balance is unlinked, and bears interest at the rate commonly used at Bank Hapoalim B.M. for weekly short-term deposits.

Note 6 – Credit from Banking Corporations

	2012		December 31	
	Average annual interest rate		2012	2011
	For daily balance	For transactions in the last month	Reported amounts	
	%	%	NIS millions	
Credit in current drawing accounts	1.4	1.4	1.6	0.1

Note 7 – Travelers' Cheques in Circulation, Net

Reported amounts

NIS millions

A. Composition:

	December 31	
	2012	2011
Travelers' cheques in USD	9.9	10.8
Travelers' cheques in GBP	0.1	0.1
Travelers' cheques in EUR	0.3	0.3
Total	**10.3**	**11.2**

B. The amount constitutes the net balance of travelers' cheques not yet presented for redemption.

C. The Company has contingent liabilities in foreign currency related to the loss of travelers' cheques in the amount of NIS 6.4 million (December 31, 2011: NIS 6.5 million). The Company included an appropriate provision in its financial statements for the aforesaid lost travelers' cheques.

D. The Company ceased issuing travelers' cheques on January 1, 2008. The Company continues to clear travelers' cheques issued before that date.

Note 8 – Creditors in Respect of Credit-Card Activity

Reported amounts

NIS millions

	December 31	
	2012	2011
Merchants(1)	1,270.5	*1,024.5
Liabilities in respect of deposits	0.2	0.2
Expenses payable	6.0	*2.3
Prepaid income	0.5	0.5
Others	-	2.0
Total creditors in respect of credit-card activity	**1,277.2**	**1,029.5**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 58.1 million as at December 31, 2012 (Dec. 31, 2011: NIS 70.3 million).

* Reclassified.

Note 9 – Subordinated Notes

Reported amounts

NIS millions

A. Item Composition

	Average duration[(1)]	Internal rate of return[(2)]	December 31	
	%	%	2012	2011
	2012			
In Israeli currency				
Unlinked	6.90	2.93	31.1	*32.0

* Includes a balance of payable interest in the amount of NIS 0.9 million as at December 31, 2011.

(1) Average duration is the average payment period weighted by the cash flow, capitalized at the internal rate of return.

(2) The internal rate of return is the interest rate discounting the expected cash flow to the balance-sheet balance included in the financial statements.

Note 10 – Other Liabilities

Reported amounts

NIS millions

	December 31	
	2012	**2011**
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	-	0.1
Suppliers of services and equipment	4.0	1.3
Expenses payable	6.1	*5.3
Related companies	1.2	*0.8
Institutions	**-	0.5
Others	0.1	*2.4
Allowance for credit losses in respect of off-balance-sheet liabilities	0.1	0.2
Total other liabilities	**7.9**	**10.6**

* Reclassified.

** Amount lower than NIS 50 thousand.

Note 11A – Equity

Composition

	Registered	Issued and paid-up
	December 31, 2012	
	In NIS	
Common shares of par value NIS 1 each	15,002,000	16,820

	Registered	Issued and paid-up
	December 31, 2011	
	In NIS	
Common shares of par value NIS 1 each	15,002,000	16,820

Note 11B – Capital Adequacy According to the Directives of the Supervisor of Banks(1)

Reported amounts

NIS millions

A. Capital Adequacy According to the Directives of the Supervisor of Banks

	December 31, 2012	December 31, 2011
1. Capital for the calculation of the capital ratio		
Core capital and Tier 1 capital	64.3	68.3
Tier 2 capital*	31.1	31.1
Total overall capital	**95.4**	**99.4**

* Subordinated notes included in lower Tier 2 capital shall not exceed 50% of the Tier 1 capital not allocated to market risks, after the required deductions from Tier 1 capital only.

2. Weighted balances of risk-adjusted assets	**December 31, 2012**		**December 31, 2011**	
	Weighted balances of risk-adjusted assets	**Capital requirement**	**Weighted balances of risk-adjusted assets**	**Capital requirement**
Credit risk:				
Credit risk	517.7	46.6	437.5	39.3
Market risks – foreign currency exchange rate risk	4.7	0.4	2.2	0.2
Operational risk	96.8	8.7	77.3	7.0
Total weighted balances of risk-adjusted assets	**619.2**	**55.7**	**517.0**	**46.5**

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, “Capital Measurement and Adequacy.”

Note 11B – Capital Adequacy According to the Directives of the Supervisor of Banks (cont.)

Reported amounts

NIS millions

3. Ratio of capital to risk-adjusted assets	December 31, 2012	December 31, 2011
	In %	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	10.4	13.2
Ratio of total capital to risk-adjusted assets	15.4	19.2
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

B. Capital Components for the Calculation of the Capital Ratio

	December 31, 2012	December 31, 2011
1. Tier 1 capital		
Equity	64.3	68.3
Total Tier 1 capital	**64.3**	**68.3**
2. Tier 2 capital		
Lower Tier 2 capital		
Subordinated notes	31.1	31.1
Total Tier 2 capital	**31.1**	**31.1**

1. Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, “Capital Measurement and Adequacy.”

Capital Adequacy Target

The Company has a policy, which has been approved by the Board of Directors and by Management, of maintaining a capital-adequacy level according to a capital target that is higher than the minimum ratio required by the Supervisor of Banks. In the opinion of the Company, the capital target set by the Board of Directors and Management reflects the appropriate required level of capital given its risk profile and risk appetite. As at the reporting date, the target core capital ratio is 7.5%, and the target total capital ratio is 12.5%.

As part of the gradual process of adoption of the Basel III directives in Israel, on March 28, 2012, the Supervisor of Banks issued a letter entitled, "The Basel III Framework – Minimum Core Capital Ratios." The letter requires banks and credit-card companies to maintain a core capital ratio of 9% (instead of the current 7.5%) by January 1, 2015. In addition, a banking corporation whose total consolidated balance-sheet assets constitute at least 20% of the total balance-sheet assets in the banking system will be required to maintain a minimum core capital ratio of 10% by January 1, 2017. For such banking corporations, the core capital ratio of 9% to be implemented by January 1, 2015 will serve as an interim target.

The Company is studying this directive and its expected implications in connection with the formulation of a revised capital plan, with the aim of ensuring the implementation of the directive and compliance with the new core capital ratio requirements; the Company will adapt to the Group policy as necessary.

Note 12 – Employee Benefits

1. Chairperson of the Board of Directors Ms. Irit Izakson – New Employment Agreement

The Chairperson of the Board of Directors, Ms. Irit Izakson, was appointed to serve as Chairperson of the Board of Directors of the Company and of Poalim Express Ltd. from January 1, 2009 to December 31, 2011. From October 1, 2008, Ms. Izakson also serves as Chairperson of the Board of Directors of Isracard Ltd. and of Europay (Eurocard) Israel Ltd. Subsequent to the required approvals at Isracard and approval by the Supervisor of Banks, the Board of Directors approved the extension of Ms. Izakson's term of service, concurrently with her service as a director at Bank Hapoalim, until December 31, 2013.

On April 30, 2012, the Board of Directors of Isracard approved a new employment agreement with Ms. Izakson, in her capacity as Chairperson of the Board of Directors, for a period of three years beginning January 1, 2012 and ending December 31, 2014; the continuation of the contractual engagement with the Chairperson in the third year of the agreement (2014) is subject to approval by the Supervisor of Banks (hereinafter: the "**New Employment Agreement"**). The cost of the employment agreement is reflected for the Company in its operational agreement with Isracard.

The New Employment Agreement was also approved by the general assembly of shareholders of Isracard. Pursuant to the New Employment Agreement, notwithstanding the foregoing, the parties are permitted to terminate the contractual engagement under the employment agreement at any time, including earlier than the period of the agreement, with 90 days' advance notice. In the event that the approval of the Supervisor of Banks for Ms. Izakson's continued service as Chairperson of the Board of Directors of the Company is not obtained, it shall be seen as termination of the Company's contractual engagement with Ms. Izakson. If her employment is terminated at the initiative of the Company, or at her own initiative under circumstances that entitle her to severance pay according to law, Ms. Izakson shall be entitled to a full supplement of the severance pay amount to 250% of her last monthly salary.

A bonus plan applicable to the Chairperson of the Board of Directors was established within the New Employment Agreement, which is similar in its principles to the bonus plan for senior executives at the Company. For details regarding the bonus plan applicable to the Chairperson of the Board of Directors and the CEO of the Company, see below.

Pursuant to the New Employment Agreement, the Chairperson of the Board of Directors of the Company was granted equity compensation in the form of 161,241 ordinary restricted stock units (the "**RSU**"), exercisable into shares of Bank Hapoalim B.M. (hereinafter: "**Bank Hapoalim**"), under terms identical to those established in the remuneration plan for senior executives at Bank Hapoalim (hereinafter: the "**Bank Remuneration Plan**"). Upon fulfillment of all of the conditions for the exercise of the RSU in accordance with the Bank Remuneration Plan, the RSU shall be exercised automatically into shares of Bank Hapoalim, which will be purchased by Bank Hapoalim on the stock market for that purpose. The RSU shall vest such that one-third of the units vest after 12, 24, and 36 months, respectively, from the inception date of the New Employment Agreement, and shall be restricted for 12 additional months after the vesting date. In addition, various limits have been set on the exercise of the RSU, in connection with the results of operations and financial condition of Bank Hapoalim.

Note 12 – Employee Benefits (cont.)

The Chairperson of the Board of Directors was also granted equity compensation in the form of 51,000 contingent restricted stock units of Bank Hapoalim (hereinafter: the "**Contingent RSU**"). Shortly after the publication of the annual financial statements of Bank Hapoalim for a given year, a quantity of Contingent RSU, of the installment of Contingent RSU, shall vest. This quantity shall be calculated in a proportional and linear manner, based on the attainment of an ROE difference (i.e. operating profits above a certain threshold established in the Bank Remuneration Plan) of 1% to 3%. With regard to the Contingent RSU, various limits have been set on the exercise of the RSU, in connection with the results of operations and financial condition of Bank Hapoalim.

The ordinary RSU and the Contingent RSU were granted in accordance with the directives of the capital gains track in Section 102 of the Income Tax Ordinance [New Version], 1961, and were deposited with a trustee appointed for that purpose in the Bank Remuneration Plan.

Upon termination of the employment of the Chairperson of the Board of Directors, the RSU (including the Contingent RSU) that have not yet vested shall expire, with the exception of a relative share of the next installment of RSU that would vest on the next vesting date following the termination of employment if she had continued to work at the Company. The RSU vested as described above shall be exercised automatically, as described above.

In the event of termination of employment under circumstances that justify the denial of severance pay, or in the event of violation of the non-competition provisions in the employment agreement, the RSU will not be exercisable, whether vested or not.

In the event that Bank Hapoalim distributes a dividend, prior to the exercise date of any of the RSU, the Chairperson of the Board of Directors shall be entitled to a cash payment in an amount equal to the amount of the dividend that would have been paid, if at the date of the dividend distribution she had held a number of ordinary shares of Bank Hapoalim equal to the number of the said RSU, with deduction of the applicable tax. The payment of the dividend equivalent grant and the entitlement thereto shall occur only after the RSU vest, and subject to such vesting. In August 2012, Isracard paid Bank Hapoalim the value of the RSU at the date of the grant.

Exercise of options under the previous employment agreement and acquisition of the shares arising from the exercise

The exercise of the options granted to the Chairperson of the Board of Directors of the Company under her previous employment agreement, which ended December 31, 2011, was approved by the appropriate organs of Isracard. The acquisition of the shares arising from these options by Isracard was subject to approval by the Supervisor of Banks. Because the Supervisor did not grant approval for the purchase of the shares by Isracard, the shares were acquired by Bank Hapoalim. The acquisition of the shares by Bank Hapoalim was in a total amount of approximately NIS 3.5 million (before deduction of applicable tax). The Chairperson of the Board of Directors no longer holds options of Isracard under her previous employment agreement.

Note 12 – Employee Benefits (cont.)

The New Employment Agreement, including the bonus plan and the grants of the RSU, as well as the sale of shares of Isracard to Bank Hapoalim, as described above, were approved by the Human Resources, Salaries, and Remuneration Committee, the Audit Committee of the Board of Directors, and the general meeting of Bank Hapoalim, as the Chairperson of the Board of Directors is also a member of the Board of Directors of Bank Hapoalim.

2. Chief Executive Officer Mr. Dov Kotler – New Employment Agreement

The CEO of the Company, Mr. Dov Kotler, was appointed on February 1, 2009 and employed under a personal contract until January 31, 2012. Mr. Kotler also serves as CEO of Isracard Ltd., Poalim Express Ltd., and Europay (Eurocard) Israel Ltd.

Mr. Dov Kotler's term of service as CEO of the Company was extended by three additional years, from February 1, 2012 to January 31, 2015 (hereinafter: the "**New Employment Agreement**").

The cost of the employment agreement is reflected for the Company in its operational agreement with Isracard. Pursuant to the employment agreement, notwithstanding the aforesaid, the Company may terminate the contractual engagement pursuant to the employment agreement at any time, including before the end of the period of the agreement, with nine months' advance notice; and Mr. Kotler may terminate the contractual engagement pursuant to the employment agreement with six months' advance notice. In the event of the termination of Mr. Kotler's employment at the Company, whether at his initiative or at the initiative of the Company, under circumstances that entitle him to severance pay, Mr. Kotler shall be entitled to a supplement of the amount of severance pay to 100% of his last monthly salary.

A bonus plan applicable to the CEO was established within the New Employment Agreement, which is similar in its principles to the bonus plan for senior executives at the Company. For details regarding the bonus plan applicable to the Chairperson of the Board of Directors and the CEO of the Company, see below.

Pursuant to the New Employment Agreement, the CEO of the Company was granted equity compensation in the form of 189,695 ordinary RSU, exercisable into shares of Bank Hapoalim, at terms identical to those established for senior executives of Bank Hapoalim in the Bank Remuneration Plan, as detailed above with regard to the Chairperson of the Board of Directors of the Company. The RSU will vest over the three years of the agreement (one-third after 12, 24, and 36 months, respectively, from the inception date of the New Employment Agreement). In addition to the aforesaid RSU, the CEO of the Company was granted equity compensation in the form of 60,000 Contingent RSU, in accordance with the terms of the Bank Remuneration Plan, and as detailed above with regard to the Chairperson of the Board of Directors of the Company. The other terms of the ordinary RSU and the Contingent RSU shall be in accordance with the directives of the Bank Remuneration Plan, as described above with regard to the Chairperson of the Board of Directors of the Company. In July 2012, Isracard paid Bank Hapoalim the value of the RSU at the date of the grant.

Note 12 – Employee Benefits (cont.)

Exercise of options under the previous employment agreement and acquisition of the shares arising from the exercise

The exercise of the options granted to the CEO of the Company under his previous employment agreement, which ended January 31, 2012, was approved by the appropriate organs of Isracard. The acquisition of the shares arising from these options by Isracard was subject to approval by the Supervisor of Banks. Because the Supervisor did not grant approval for the purchase of the shares by Isracard, the shares were acquired by Bank Hapoalim. The acquisition of the shares by Bank Hapoalim was in a total amount of approximately NIS 4.1 million (before deduction of applicable tax). The CEO no longer holds options of Isracard under his previous employment agreement.

The New Employment Agreement, including the bonus plan and the grants of the RSU, as well as the sale of shares of Isracard to Bank Hapoalim, as described above, were approved by the Human Resources, Salaries, and Remuneration Committee, the Audit Committee, and the Board of Directors of Bank Hapoalim.

3. Bonus Plan for the Chairperson of the Board of Directors and the Chief Executive Officer of the Company

A bonus plan was established within the new employment agreements of the Chairperson of the Board of Directors and the CEO of the Company, as noted above (hereinafter, in this section: the "**Plan**").

The Plan states that the threshold profit for compensation with regard to the Chairperson of the Board of Directors and the CEO of the Company each year shall be identical to the threshold profit established in the remuneration plan for senior executives of the Company in that year; in certain cases, the threshold profit shall also be subject to approval by the Human Resources, Salaries, and Remuneration Committee of Bank Hapoalim (with regard to the Chairperson of the Board of Directors, also approval by additional organs of Bank Hapoalim, as required by law); and in any event, the threshold profit for the Chairperson of the Board of Directors and the CEO of the Company in any year shall not be lower than NIS 174 million.

Pursuant to the Plan, a positive or negative personal budget will be established each year for each of the Chairperson of the Board of Directors and the CEO, based on the difference between the aggregate net accounting profit/loss of all of the companies in the Isracard Group in the given year (as it appears in the annual financial statements of the group of companies, excluding provisions recorded for bonuses for the senior management of the Company), and the threshold profit for compensation established as noted above with regard to the Chairperson of the Board of Directors and the CEO (hereinafter: the "**Actual ROE Difference**"). In a year in which the Actual ROE Difference is positive, the budget shall be calculated according to progressively rising increments of the Actual ROE Difference, from an Actual ROE Difference of 2% to a ceiling of 30%; in a year in which the Actual ROE Difference is negative, the budget shall be calculated from a negative ROE difference of 2% to a negative ceiling of 30%. In a year in which the positive Actual ROE Difference is between 0% and 2%, the Board of Directors, at its sole discretion (with regard to the Chairperson of the Board of Directors, also subject to approval by the organs of Bank Hapoalim, as required by law), may approve an annual bonus in a limited positive amount for the Chairperson of the Board of Directors or the CEO of the Company. In addition, the positive or negative bonus budget to be established as

Note 12 – Employee Benefits (cont.)

described above shall be adjusted to the Actual ROE Difference of Bank Hapoalim in the relevant year; such adjustment may increase or decrease the positive or negative bonus budget by up to 20%.

In the event that the bonus budget in a particular 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 of Isracard (with regard to the Chairperson of the Board of Directors, also subject to approval by the organs of Bank Hapoalim, as required by law) may reduce or cancel the negative bonus budget of the Chairperson of the Board of Directors or the CEO in respect of that year.

Each year, the (positive or negative) bonus budget of each of the Chairperson of the Board of Directors and the CEO in respect of the previous year shall be distributed proportionally to the personal grade of each executive. Part of the personal grade shall be fixed, while part shall be based on the achievement of performance objectives set in advance.

The positive annual bonus of each of the Chairperson of the Board of Directors and the CEO shall not exceed an amount equal to eighteen (18) of each of their monthly salaries. The negative annual bonus of each of the Chairperson of the Board of Directors and the CEO shall not exceed an amount equal to ten (10) of each of their monthly salaries, and in any case, the negative balance in each of their bonus accounts shall not exceed an amount equal to three (3) monthly salaries.

Each year, a payment shall be made to each of the Chairperson of the Board of Directors and the CEO in an amount equal to 50% of the balance in the bonus account after the annual deposit in respect of the preceding year (assuming that the bonus account balance is positive) (hereinafter: the "**Annual Payment**"), unless, in a certain year, the Company has a net loss for the year and/or a deviation from the required capital adequacy ratio. In such a case, the next Annual Payment shall be performed only after the publication of financial statements showing an aggregate net operating profit, and/or financial statements showing that the deviation from the capital adequacy ratio has ceased, as relevant.

The directives in the Plan with regard to the termination of employment of the Chairperson of the Board of Directors or the CEO, as well as the directives in the Plan with regard to the bonus in respect of profits from extraordinary transactions, are similar to the corresponding directives in the remuneration plan for the senior executives of the Company.

Note 13 – Assets and Liabilities by Linkage Base

Reported amounts

NIS millions

	December 31, 2012					
	Israeli currency		Foreign currency*			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	0.7	-	10.2	1.0	-	11.9
Debtors in respect of credit-card activity, net[(1)]	1,308.7	4.6	10.2	0.2	-	1,323.7
Other assets	55.6	-	-	**-	1.2	56.8
Total assets	**1,365.0**	**4.6**	**20.4**	**1.2**	**1.2**	**1,392.4**
Liabilities						
Credit from banking corporations	0.1	-	1.5	-	-	1.6
Travelers' cheques in circulation	-	-	9.9	0.4	-	10.3
Creditors in respect of credit-card activity	1,262.3	1.2	12.2	0.9	0.6	1,277.2
Subordinated notes	31.1	-	-	-	-	31.1
Other liabilities	6.7	-	-	1.2	-	7.9
Total liabilities	**1,300.2**	**1.2**	**23.6**	**2.5**	**0.6**	**1,328.1**
Difference	**64.8**	**3.4**	**(3.2)**	**(1.3)**	**0.6**	**64.3**

* Including foreign-currency linked.

** Amount lower than NIS 50 thousand.

(1) After deduction of the allowance for attributed credit losses, in the amount of NIS 1.1 million.

Note 13 – Assets and Liabilities by Linkage Base (cont.)

Reported amounts

NIS millions

	December 31, 2011					
	Israeli currency		Foreign currency*			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	8.1	-	19.7	2.3	-	30.1
Debtors in respect of credit-card activity, net(1)	1,080.1	2.0	(0.5)	(0.3)	-	1,081.3
Computers and equipment	-	-	-	-	-	-
Other assets	39.6	-	-	-	0.7	40.3
Total assets	**1,127.8**	**2.0**	**19.2**	**2.0**	**0.7**	**1,151.7**
Liabilities						
Credit from banking corporations	0.1	-	-	-	-	0.1
Travelers' cheques in circulation	-	-	10.8	0.4	-	11.2
Creditors in respect of credit-card activity	1,017.6(2)	0.6	9.8	1.0	0.5	1,029.5
Subordinated notes	32.0	-	-	-	-	32.0
Other liabilities	9.3(2)	-	0.1	1.2	-	10.6
Total liabilities	**1,059.0**	**0.6**	**20.7**	**2.6**	**0.5**	**1,083.4**
Difference	**68.8**	**1.4**	**(1.5)**	**(0.6)**	**0.2**	**68.3**

* Including foreign-currency linked.

(1) After deduction of the allowance for attributed credit losses, in the amount of NIS 1.5 million.

(2) Reclassified.

Note 14 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

NIS millions

	December 31, 2012					
	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	845.0	258.8	226.0	28.1	6.2	-
Liabilities	757.0	246.4	217.3	27.2	6.5	0.9
Difference	88.0	12.4	8.8	0.9	(0.3)	(0.9)
CPI-linked Israeli currency						
Assets	1.3	1.5	1.8	*-	-	-
Liabilities	0.4	0.4	0.5	*-	-	-
Difference	0.9	1.1	1.3	-	-	-
Foreign currency(3)						
Assets	12.2	4.5	4.9	-	-	-
Liabilities	13.0	2.5	0.1	-	-	-
Difference	(0.8)	2.0	4.8	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-
Total						
Assets	858.5	264.8	232.8	28.1	6.2	-
Liabilities	770.4	249.3	217.9	27.2	6.5	0.9
Difference	88.1	15.5	14.9	0.9	(0.3)	(0.9)

* Amount lower than NIS 50 thousand.

(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 13, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) 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	Total cash flows[1]	No maturity date	Total	Contractual rate of return[4]
-	-	1,364.2	0.9	1,365.0	-
0.9	33.6	1,289.8	3.8	1,300.2	0.02
(0.9)	(33.6)	74.4	(2.9)	64.8	
-	-	4.6	-	4.6	-
-	-	1.3	-	1.2	-
-	-	3.3	-	3.4	-
-	-	21.6	-	21.6	
-	-	15.6	10.5	26.1	
-	-	6.0	(10.5)	(4.5)	
-	-	-	1.2	1.2	-
-	-	-	0.6	0.6	-
-	-	-	0.6	0.6	-
-	-	1,390.4	2.1	1,392.7	
0.9	33.6	1,306.7	14.9	1,328.4	
(0.9)	(33.6)	83.7	(12.8)	64.3	-

Note 14 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

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	690.3	217.7	191.3	22.5	5.1	-
Liabilities	607.0	211.3	184.6	21.8	5.7	1.3
Difference	83.3	6.4	6.7	0.7	(0.6)	(1.3)
CPI-linked Israeli currency						
Assets	0.7	0.7	0.6	*-	*-	-
Liabilities	0.2	0.2	0.2	*-	*-	-
Difference	0.5	0.5	0.4	*-	*-	-
Foreign currency(3)						
Assets	10.4	0.2	10.8	-	-	-
Liabilities	21.0	2.0	0.1	-	-	-
Difference	(10.6)	(1.8)	10.7	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-
Total						
Assets	701.4	218.6	202.7	22.5	5.1	-
Liabilities	628.2	213.5	184.9	21.8	5.7	1.3
Difference	73.2	5.1	17.8	0.7	(0.6)	(1.3)

* Amount lower than NIS 50 thousand.

(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 13, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) 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	Total cash flows[1]	No maturity date	Total	Contractual rate of return[4]
-	-	1,126.9	0.9	1,127.8	-
1.3	35.6	1,068.6	0.4	1,059.0	2.22%
(1.3)	(35.6)	58.3	0.5	68.8	-
-	-	2.0	-	2.0	-
-	-	0.6	-	0.6	-
-	-	1.4	-	1.4	-
-	-	21.4	(0.1)	21.2	1.65%
-	-	23.1	0.2	23.3	0.01%
-	-	(1.7)	(0.3)	(2.1)	
-	-	-	0.7	0.7	-
-	-	-	0.5	0.5	-
-	-	-	0.2	0.2	-
-	-	1,150.3	1.5	1,151.7	0.06%
1.3	35.6	1,092.3	1.1	1,083.4	2.22%
(1.3)	(35.6)	58.0	0.4	68.3	-

Note 15 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

NIS millions

	December 31	
	2012	2011
Unutilized credit-card credit lines:		
Credit risk on banks	518.0	369.6
Credit risk on the Company	9.2	0.6
Allowance for credit losses	(*-)	(*-)
Total unutilized credit-card credit lines, net	**527.2**	**370.2**
Other liabilities:		
Exposure in respect of merchant credit lines	10.2	9.5
Allowance for credit losses	(0.1)	(0.2)
Other liabilities, net	**10.1**	**9.3**

* Amount lower than NIS 50 thousand.

B. Antitrust Issues

Following talks held between the sister company Isracard, which provides operational services to the Company, and the credit-card companies Leumi Card Ltd. and Cartisei Ashrai Leisrael Ltd. (the three companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Antitrust Commissioner (hereinafter: the "**Commissioner**"), the Credit-Card Companies reached an arrangement among themselves (hereinafter: the "**Arrangement**"), under which the Credit-Card Companies and the banks that hold control of 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 (hereinafter: the “**Technical Interface**”), of transactions in Visa and MasterCard credit cards. The Arrangement was signed in May 2007 between the Credit Card Companies, Isracard, Bank Leumi LeIsrael B.M., Discount Bank Ltd., and First International Bank of Israel Ltd.

The Credit-Card Companies, together with the banks that control them – respectively, Bank Hapoalim B.M., 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 on October 31, 2006, under the terms formulated and agreed upon with the Commissioner. An amended cross-clearing arrangement, revising the earlier agreements, was submitted to the Tribunal on December 28, 2011; this arrangement is in effect from the date of its approval until

Note 16 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues (cont.)

December 31, 2018. A ruling handed down by the Antitrust Tribunal on March 7, 2012 approved the amended arrangement, including all of the terms thereof. The terms of the amended arrangement approved by the ruling of the Tribunal include, among other matters, a commitment by the parties to petition the Tribunal or the Commissioner regarding the period following the end of the Arrangement, should the parties wish to continue cross-clearing; 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 establishes the following issuer fee rates: the average issuer fee will stand at 0.75% starting January 1, 2013; 0.735% starting July 1, 2013; and 0.7% from July 1, 2014 to the end of the period of the Arrangement (December 31, 2018).

The reduction of the issuer fee approved by 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.

C. Additional Regulation

1. A private bill was submitted to the Knesset in March 2010, according to which credit-card companies must note in their statements to cardholders whether a transaction performed by the cardholder constitutes a transaction in a missing document. 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 in a missing document 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 470, as noted above. The amendment of the Directive has no effect on the Company.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

C. Additional Regulation (cont.)

2. 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 directives of this law have been in effect beginning on May 15, 2012. This law has a negative effect on the Company; however, at this stage the Company cannot estimate the full actual extent of this effect.

3. 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 at September 30, 2011, to the financial statements as at September 30, 2012. The duration of the instruction was extended to September 2013 in January 2013. As at the date of this report, there is no group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the Company (as defined in Directive 313).

4. 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 Order, including with regard to reporting duties and the duty to receive identifying information. Discussions are also being conducted by the Constitution, Law, and Justice Committee regarding various amendments to the Money Laundering Prohibition Order applicable to banking corporations.

   In July 2012, a proposal to amend the Prohibition of Terrorism Financing Law, concerning the procedure for declaring terrorist organizations and terrorist operatives in Israel, was passed in a second and third reading.

5. In February 2012, the Constitution, Law, and Justice Committee approved 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. Directive 470 was amended accordingly in September 2012. The Company estimates that this amendment will have no effect on the Company.

6. In March 2012, the Justice, Technology, and Information Authority issued a draft guideline

C. Additional Regulation (cont.)

concerning restrictions on the collection of identification numbers by database owners. If the draft becomes binding in its current format, it is likely to have an impact on the Company; however, the Company cannot estimate the extent of this impact.

7. In May 2012, the Knesset plenum passed a private bill, in a second and third reading, pursuant to which the Governor of the Bank of Israel would have the authority to set rules regarding the minimum font size for notifications sent to senior citizens (as defined in the Senior Citizens Law, 1989). The Company estimates that if such rules are established, they will have no material effect on the Company.

8. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. 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.

9. In July 2012, the Knesset plenum passed a government bill, in a first reading, for the promotion of competition and reduction of concentration. A discussion on this matter was held on August 29, 2012.

10. In July 2012, a private bill was passed in a second and third reading, according to which a condition in a uniform contract establishing a minimum rate for the CPI shall constitute a depriving condition. This amendment has been in effect beginning on November 12, 2012. The Company has prepared for the implementation of the law. The Company estimates that this law will have no material effect on the Company.

11. In July 2012, the Economics Committee held a discussion of the recommendations of the Committee for Increased Competition in the Banking Industry. The public was permitted to submit comments on the interim report until August 15, 2012. In addition, on August 14, 2012, the Bank of Israel published a draft of rules issued as a supplementary measure to the publication of the interim report of the Committee for the Examination of Increased Competition in the Banking Industry, in order to promote and improve the efficiency of the formal proceeding, reflecting the main points of the recommendations of the report in the area of fees. Following the completion of the process of consultation with the members of the Advisory Committee on Banking, and the examination of the responses of the parties who submitted their comments on the recommendations of the interim report in writing, a final version of the rules will be formulated. The Banking Rules concerning fees were published in November 2012, and took effect in January 2013. Among other matters, the

Note 16 – Contingent Liabilities and Special Agreements (cont.)

C. Additional Regulation (cont.)

rules cancel the fee for changing debiting dates of credit cards. In addition, the service provided by a clearer to a discounting service provider was declared a service subject to supervision. The Company estimates that this amendment will have no material effect on the Company.

12. In August 2012, the Knesset plenum approved an increase of the rate of value-added tax by 1 percent starting September 1, 2012.The Knesset plenum also approved an increase of the rate of income tax on individuals and the rate of employers' contributions to National Insurance. For further details, see Note 24 below.

13. In October 2012, the Economics Committee passed a private bill, in a second and third 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.

    In October 2012, the Knesset plenum passed the bill for dispersal of the 18th Knesset, in a second and third reading. The election recess began on October 16, 2012 and continued until the 19th Knesset took office on February 5, 2013. Legislative proceedings for private bills can continue in the 19th Knesset if they were passed in a first reading by the 18th Knesset, and if the law of continuity has been applied to them.

14. In November 2011, a government bill was passed in a first reading and transferred to the Constitution Committee for preparation for the second and third reading, concerning the establishment of an administrative enforcement mechanism to serve as an alternative to enforcement in a criminal proceeding with regard to violations of the Protection of Privacy Law. The committee discussion scheduled for July 2012 was canceled. In August 2012, a legislative memorandum was issued amending the Protection of Privacy Law, aimed at improving compliance with the provisions of the Protection of Privacy Law and regularizing the protection of information in computerized databases. The public was permitted to submit comments on the memorandum until August 28, 2012.

15. In January 2013, the Supervisor of Banks issued a circular concerning an amendment to Proper Conduct of Banking Business Directive No. 342, "Liquidity Risk Management." The circular was issued as part of the Supervisor of Banks' efforts to strengthen the robustness of the banking system. The amendment of the directive is aimed at strengthening and simplifying liquidity risk management at banking corporations, and constitutes an interim phase in advance of the future adoption in Israel of the Basel III recommendations concerning liquidity.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

C. Additional Regulation (cont.)

The revised directive clarifies the need to maintain a liquidity cushion against predicted liquidity needs under stress scenarios, with a one-month horizon; details the Supervisor's expectations for risk monitoring on a group basis; establishes a requirement to examine the structure of sources of financing in conjunction with financing needs from a long-term perspective; and adds to the qualitative requirements for liquidity risk management.

The Supervisor of Banks has not established specific rules for credit-card companies with regard to the aforesaid requirements, but mandates the qualitative requirements for risk management and holding of liquid assets to be fulfilled according to the needs of the company, with the necessary adjustments.

The implementation of the amendments to Directive 342 will begin in July 2013, with the exception of Section 16 concerning the stable financing ratio, which will take effect at the end of 2013.

16. With regard to new accounting standards and new directives of the Supervisor of Banks in the period prior to implementation, see Note 1F above.

D. Legal Proceedings

1. No legal claims have been filed against the Company.

2. The Company received a letter of indemnification from Isracard with regard to compliance with the ICAAP rules.

E. Travelers' Cheques

The Company ceased issuing travelers' cheques in 2008. The Company continues to clear travelers' cheques issued in the past.

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 50% of its shareholders' equity, according to most recent (annual or quarterly) financial statements known before the actual payment.

Note 16 – Contingent Liabilities and Special Agreements (cont.)

G. Agreement with Isracard Ltd.

The Company has an agreement with Isracard, a sister company, for the operation of the Company's credit-card issuance activity, clearing in Israel of transactions executed with merchants using Visa cards, and the operation of travelers' cheques activity. The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity. In return for Isracard's part in the operation of these activities, the Company pays a fee and other payments to Isracard, as agreed between the parties.

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-card arrangement: Bank Hapoalim B.M. (the Parent Company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., and Bank Otsar Hahayal Ltd. (jointly, the "Banks Under Arrangement"). The agreements 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 banks are also responsible for any damage caused by loss, theft, or cancellation of credit cards used by unauthorized parties. The bank's responsibility for such damages expires after a certain period. The aforesaid various agreements also include payment arrangements and the relevant terms with each of the Banks Under Arrangement.

Note 16 – 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 obtained for most of the Company's financial instruments, because there is no active market in which they are traded. In view of the foregoing, 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 do 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.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of write-offs and of allowances for credit losses in respect of the debts.

Securities – Tradable securities: at market value in the primary market. Nontradable 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.

Note 16 – Fair Value of Financial Instruments (cont.)

Reported amounts

NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2012				
		Fair value[a]			
	Balance-sheet balance	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Cash on hand and deposits with banks	11.9	5.7	6.2	-	11.9
Debtors in respect of credit-card activity, net	1,323.7	-	-	1,320.3	1,320.3
Other financial assets	54.9	-	-	54.9	54.9
Total financial assets	**1,390.5**	**5.7**	**6.2**	**1,375.2**	**1,387.1**
Financial liabilities:					
Credit from banking corporations	1.6	1.6	-	-	1.6
Travelers' cheques in circulation	10.3	-	10.3	-	10.3
Creditors in respect of credit-card activity	1,276.7	-	-	1,273.1	1,273.1
Subordinated notes	31.1	-	31.1	-	31.1
Other financial liabilities	7.8	-	-	7.8	7.8
Total financial liabilities	**1,327.5**	**1.6**	**41.4**	**1,280.9**	**1,323.9**

(A) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

Note 16 – Fair Value of Financial Instruments (cont.)

Reported amounts

NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2011				
		Fair value[(a)]			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	30.1	18.6	11.5	-	30.1
Debtors in respect of credit-card activity, net	1,081.3	-	-	1,077.4	1,077.4
Other financial assets	39.0	-	-	39.0	39.0
Total financial assets	**1,150.4**	**18.6**	**11.5**	**1,116.4**	**1,146.5**
Financial liabilities:					
Credit from banking corporations	0.1	0.1	-	-	0.1
Travelers' cheques in circulation	11.2	-	11.2	-	11.2
Creditors in respect of credit-card activity	1,028.9	-	-	1,025.0	1,025.0
Subordinated notes	32.0	-	32.0	-	32.0
Other financial liabilities	10.1	-	-	10.1	10.1
Total financial liabilities	**1,082.3**	**0.1**	**43.2**	**1,035.1**	**1,078.4**

** Of which: assets and liabilities in the amount of NIS 25 million and NIS 1 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value).

(A) Level 1 - Fair value measurements using prices quoted on an active market.

Level 2 - Fair value measurements using other significant observable inputs.

Level 3 - Fair value measurements using significant unobservable inputs.

Note 17 – Interested and Related Parties

Reported amounts

NIS millions

The Company implemented IAS 24, Related Party Disclosures, for the first time in January 2012. For details, see Note 1D. Accordingly, new related and interested parties were identified, and others were removed; data for previous years were restated based on the new population. The Company is a direct subsidiary of Bank Hapoalim B.M.

A. Balances

	December 31, 2012					
	Interested parties				Related parties	
	Controlling shareholders		Key executives(2)		Others(3)	
	Year-end balance	Highest balance during the year(4)	Year-end balance	Highest balance during the year(4)	Year-end balance	Highest balance during the year(4)
Assets						
Cash on hand and deposits with banks	11.5	28.3	-	-	-	-
Debtors in respect of credit-card activity, net(1)	0.2	0.2	*-	*-	-	-
Debtors and debit balances	-	-	-	-	54.8	63.6
Liabilities						
Credit from banking corporations	1.6	2.2	-	-	-	-
Creditors in respect of credit-card activity	0.1	0.9	-	-	229.5	229.5
Subordinated notes	31.1	32.1	-	-	-	-
Other liabilities	0.8	0.8	0.5	0.5	0.3	4.5
Shares (included in equity)	*-	*-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	516.9	517.0	0.4	0.4	-	-
Guarantees given by banks	88.2	88.2	-	-	-	-
Discounting balance with related party	-	-	-	-	3.2	3.2

* Amount lower than NIS 50 thousand.

(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) Including their close family members, as defined in IAS 24.

(3) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

(4) Based on balances at the end of each month.

Note 17 – Interested and Related Parties (cont.)

Reported amounts

NIS millions

A. Balances (cont.)

	December 31, 2011[1]					
	Interested parties				Related parties	
	Controlling shareholders		Key executives[3]		Others[4]	
	Year-end balance	Highest balance during the year[5]	Year-end balance	Highest balance during the year[5]	Year-end balance	Highest balance during the year[5]
Assets						
Cash on hand and deposits with banks	29.2	62.4	-	-	-	-
Debtors in respect of credit-card activity, net[2]	-	-	*-	*-	0.1	0.4
Debtors and debit balances	-	-	-	-	38.8	38.8
Liabilities						
Credit from banking corporations	0.1	1.4	-	-	-	-
Creditors in respect of credit-card activity	2.0	4.1	-	-	225.9	225.9
Subordinated notes	32.0	32.0	-	-	-	-
Other liabilities	0.8	1.7	0.6	0.6	2.3	44.7
Shares (included in equity)	*-	*-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	368.6	408.1	0.2	0.2	-	-
Guarantees given by banks	53.1	55.7	-	-	-	-

* Amount lower than NIS 50 thousand.

(1) Restated. See Note 1.F.15.

(2) 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.

(3) Including their close family members, as defined in IAS 24.

(4) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

(5) Based on balances at the end of each month.

Note 17 – Interested and Related Parties (cont.)

Reported amounts

NIS millions

B. Summary of Results of Business with Interested and Related Parties

	For the year ended December 31, 2012		
	Interested parties		Related parties
	Controlling shareholders	Key executives[2]	Others[3]
Income from credit-card transactions	0.1	-	21.5
Net interest income	1.2	-	1.0
General and administrative expenses	-	(0.5)	(14.7)
Operating expenses	*-	-	-
Payments to banks	(8.3)[4]	-	-
Total	**(7.0)**	**(0.5)**	**7.8**

	For the year ended December 31, 2011[1]		
	Interested parties		Related parties
	Controlling shareholders	Key executives[2]	Others[3]
Income from credit-card transactions	0.1	-	16.3
Net interest income	1.0[1]	-	1.0[1]
General and administrative expenses	(*-)	(0.6)	(9.0)
Operating expenses	0.1	-	-
Payments to banks	(8.0)[4]	-	-
Total	**(6.8)**	**(0.6)**	**8.3**

	For the year ended December 31, 2010[1]		
	Interested parties		Related parties
	Controlling shareholders	Key executives[2]	Others[3]
Income from credit-card transactions	-	-	14.7
Net interest income	0.2[1]	-	1.9[1]
General and administrative expenses	-	(0.5)	(6.7)
Operating expenses	*-	-	-
Payments to banks	(4.7)[4]	-	-
Total	**(4.5)**	**(0.5)**	**9.9**

* Amount lower than NIS 50 thousand.

(1) Restated. For details, see Note 1D.

(2) Including their close family members, as defined in IAS 24.

(3) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

(4) See Note 15H above.

Note 17 – Interested and Related Parties (cont.)

Reported amounts

NIS millions

C. Benefits for Interested Parties

	For the year ended December 31, 2012	
	Key executives	
	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	0.5	6

	For the year ended December 31, 2011[(1)]	
	Key executives	
	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	0.6	7

	For the year ended December 31, 2010[(1)]	
	Key executives	
	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	0.5	6

(1) Restated; see Note 1.F.15.

D. Dividend distribution – In December 2012, the Company distributed a dividend to Bank Hapoalim in a total amount of NIS 5 million.

Note 18 – Income from Credit-Card Transactions

Reported amounts

NIS millions

	For the year ended December 31		
	2012	**2011**	**2010**
Income from merchants:			
Merchant fees	136.5	125.1	95.2
Other income	0.3	0.3	0.2
Total gross income from merchants	**136.8**	**125.4**	**95.4**
Less fees to other issuers	(83.9)	(79.5)	(63.1)
Total net income from merchants	52.9	45.9	32.3
Income in respect of credit-card holders:			
Issuer fees	4.7	4.2	4.5
Service fees	1.6	1.5	1.6
Fees from transactions abroad	1.6	1.3	1.2
Total income in respect of credit-card holders	**7.9**	**7.0**	**7.3**
Other income	3.3	3.0	3.0
Total income from credit-card transactions	**64.1**	**55.9**	**42.6**

Note 19 – Net Interest Income

Reported amounts

NIS millions

	For the year ended December 31		
	2012	**2011**	**2010**
A. Interest income:			
From credit to merchants	2.9	3.2[(1)]	2.4[(1)]
From deposits with banks	2.2	1.8[(1)]	0.8[(1)]
From other assets	1.6	1.1[(1)]	(0.3)[(1)]
Total interest income	**6.7**	**6.1**	**2.9**
B. Interest expenses:			
To banking corporations	0.1	*-	*-
On other liabilities	1.1	1.0	0.7
Total interest expenses	**1.2**	**1.0**	**0.7**
Total net interest income	**5.5**	**5.1**	**2.2**

* Amount lower than NIS 50 thousand.

(1) The Company adopted the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies for the first time on January 1, 2012, including the new definition of interest, as established in the circular of the Supervisor of Banks on the format for statements of profit and loss of banking corporations and credit-card companies and the adoption of GAAP for US banks regarding the measurement of interest income. The directives were adopted through retroactive implementation. Accordingly, the data included in the statements of profit and loss for the years 2011 and 2010 were reclassified for adjustment to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1D above.

Note 20 – Other Income

Reported amounts

NIS millions

	For the year ended December 31		
	2012	**2011(1)**	**2010(1)**
Other income	0.1	0.1	*-
Non-interest financing income, net	1.2	0.5	0.9
Total other income	**1.3**	**0.6**	**0.9**

* Amount lower than NIS 50 thousand.

(1) Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies.

Note 21 – Operating Expenses

Reported amounts

NIS millions

	For the year ended December 31		
	2012	**2011**	**2010**
Wages and related expenses	11.5	11.5	7.2
Data processing and computer maintenance	7.2	6.7	4.4
Automatic Bank Services (ABS)	2.3	2.1	1.4
Operating expenses for incoming and outgoing tourism	5.9	5.2	3.7
Operating expenses for travelers' cheques	*-	0.3	0.6
Amortization and depreciation	-	*-	*-
Communications	0.5	0.4	0.3
Production and delivery	1.5	1.4(1)	1.5(1)
Damages from abuse of credit cards	0.5	0.8	0.5
Rent and building maintenance	2.4	2.0	1.5
Others	0.7	0.4	0.3
Total operating expenses	**32.5**	**30.8**	**21.4**

* Amount lower than NIS 50 thousand.

(1) Reclassified.

Note 22 – Sales and Marketing Expenses

Reported amounts

NIS millions

	For the year ended December 31		
	2012	2011	2010
Wages and related expenses	5.0	4.5	3.5
Advertising	0.6	0.2[(1)]	0.5[(1)]
Customer retention and recruitment	1.7	1.5[(1)]	1.9[(1)]
Gift campaigns for credit-card holders	*-	0.1	0.2
Vehicle maintenance	1.2	1.0	1.0
Others	0.3	0.3	0.2
Total sales and marketing expenses	**8.8**	**7.6**	**7.3**

(1) Reclassified.

* Amount lower than NIS 50 thousand.

Note 23 – General and Administrative Expenses

Reported amounts

NIS millions

	For the year ended December 31		
	2012	2011	2010
Wages and related expenses	2.2	1.6	1.2
Payments to Isracard[(1)]	14.7	9.0	6.7
Professional services	0.8	0.8	0.4
Expenses to Parent Company	-	*-	1.5
Others	2.0	2.0	1.5
Total general and administrative expenses	**19.7**	**13.4**	**11.3**

* Amount lower than NIS 50 thousand.

(1) See Note 15G above.

Note 24 – Provision for Taxes on Profit

Reported amounts

NIS millions

	For the year ended December 31		
	2012	**2011**	**2010**
1. Item composition:			
Current taxes for the accounting year	0.4	0.4	0.3
Current taxes for previous years	(*-)	(*-)	-
Total current taxes	0.4	0.4	0.3
Deferred taxes for the accounting year	(0.1)	(0.2)	0.1
Provision for taxes on income	0.3	0.2	0.4

* Amount lower than NIS 50 thousand.

2. Adjustment of the theoretical amount of tax that would apply if profits were taxed at the statutory tax rate applicable to banking corporations in Israel, to the provision for taxes on profit as allocated to the statement of profit and loss:

	For the year ended December 31		
	2012	**2011**	**2010**
Tax rate applicable to the Company in Israel	25%	24%	25%
Tax amount based on statutory rate	0.3	0.3	0.4
Tax increment (saving) in respect of:			
Exempt income	(*-)	*-	-
Change in balance of deferred taxes	*-	(0.1)	*-
Taxes for previous years	(*-)	(*-)	-
Provision for taxes on income	**0.3**	**0.2**	**0.4**

* Amount lower than NIS 50 thousand.

Reported amounts

NIS millions

3. Final tax assessments have been issued to the Company up to and including the tax year 2010, including tax assessments considered to be final under the Income Tax Ordinance.

4. Deferred Tax Balances

	December 31	
	2012	**2011**
From allowance for credit losses	0.6	0.6
From provision for pensions	-	*-
Total	**0.6**	**0.6**

* Amount lower than NIS 50 thousand.

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 in the tax years 2010 and 2011 were 25% and 24%, respectively.

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 canceled, as noted above, and the rate of corporation tax will stand at 25% from 2012 forward.

The Value Added Tax Order (Rate of Tax on Non-Profit Associations and Financial Institutions) (Amendment), 2012, was published in the Official Gazette of the Government of Israel on August 30, 2012. The amendment adjusts the rate of value-added tax to 17% beginning on September 1, 2012. The change in the rate of tax had an immaterial effect.

Current taxes for the periods reported in these financial statements are calculated according to the tax rates established in the laws as noted above.

The effect of the changes in tax rates on the financial statements as at December 31, 2012 is immaterial.

Note 25 – Operating Segments

Reported amounts

NIS millions

	For the year ended December 31, 2012				
Profit and loss information:	**Issuance Segment**	**Clearing Segment**	**Travelers' cheques**	**Other[(1)]**	**Total**
Income					
Fees from external customers	7.9	56.2	-	-	64.1
Inter-segmental fees	0.6	(0.6)	-	-	-
Total	**8.5**	**55.6**	**-**	**-**	**64.1**
Net interest income	-	5.2	0.3	-	5.5
Other income (expenses)	*-	1.3	(*-)	-	1.3
Total income	**8.5**	**62.1**	**0.3**	**-**	**70.9**
Expenses					
Provision for credit losses	0.1	0.2	-	-	0.3
Operation	3.2	29.3	*-	-	32.5
Sales and marketing	2.8	6.0	-	-	8.8
General and administrative	1.0	18.7	-	-	19.7
Payments to banks, net	0.2	7.8	0.3	-	8.3
Total expenses	**7.3**	**62.0**	**0.3**	**-**	**69.6**
Profit before taxes	**1.2**	**0.1**	***-**	**-**	**1.3**
Provision for taxes on profit	0.3	*-	*-	-	0.3
Net profit	**0.9**	**0.1**	***-**	**-**	**1.0**
Return on equity (percent net profit out of average capital)	1.4	0.1	-	-	1.5
Average balance of assets	65.0	1,162.0	11.5	-	1,238.5
Average balance of liabilities	1.1	1,160.9	11.1	-	1,173.1
Average balance of risk-adjusted assets	69.8	477.3	5.7	-	552.8

* Amount lower than NIS 50 thousand.

(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 evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

Note 25 – Operating Segments (cont.)

Reported amounts

NIS millions

	For the year ended December 31, 2011				
Profit and loss information:	**Issuance Segment**	**Clearing Segment**	**Travelers' cheques**	**Other(1)**	**Total**
Income					
Fees from external customers	7.1	48.8	-	-	55.9
Inter-segmental fees	0.5	(0.5)	-	-	-
Total	**7.6**	**48.3**	**-**	**-**	**55.9**
Net interest income	-	4.8(2)	0.3	-	5.1
Other income	*-	0.6(2)	-	-	0.6
Total income	**7.6**	**53.7**	**0.3**	**-**	**61.6**
Expenses					
Provision for credit losses	*-	0.5	-	-	0.5
Operation	3.0(2)	27.5(2)	0.3	-	30.8
Sales and marketing	2.2(2)	5.4(2)	-	-	7.6
General and administrative	0.8	12.6	-	-	13.4
Payments to banks, net	0.3(2)	7.7(2)	*-	-	8.0
Total expenses	**6.3**	**53.7**	**0.3**	**-**	**60.3**
Profit before taxes	**1.3**	***-**	***-**	**-**	**1.3**
Provision for taxes on profit	0.2	*-	*-	-	0.2
Net profit	**1.1**	***-**	***-**	**-**	**1.1**
Return on equity (percent net profit out of average capital)	2.4	-	-	-	2.4
Average balance of assets	74.0	917.5	11.3	-	1,002.8
Average balance of liabilities	1.5	944.3	11.5	-	957.3
Average balance of risk-adjusted assets	47.5	425.0	5.6	-	478.1

* Amount lower than NIS 50 thousand.

(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 evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Reclassified.

Note 25 – Operating Segments (cont.)

Reported amounts

NIS millions

	For the year ended December 31, 2010				
Profit and loss information:	**Issuance Segment**	**Clearing Segment**	**Travelers' cheques**	**Other[(1)]**	**Total**
Income					
Fees from external customers	7.4	35.2	-	-	42.6
Inter-segmental fees	0.5	(0.5)	-	-	-
Total	**7.9**	**34.7**	**-**	**-**	**42.6**
Net interest income	-	2.0[(2)]	0.2	-	2.2
Other income	-	0.7[(3)]	-	0.2[(2)]	0.9
Total income	**7.9**	**37.4**	**0.2**	**0.2**	**45.7**
Expenses					
Provision for credit losses	-	1.0	-	-	1.0
Operation	2.8[(4)]	18.0	0.6	-	21.4
Sales and marketing	2.0[(4)]	5.3[(4)]	-	-	7.3
General and administrative	0.8	10.5	-	-	11.3
Payments to banks (receipts from banks), net	0.8[(4)]	2.6[(4)]	(0.4)	0.2	3.2
Total expenses	**6.4**	**37.4**	**0.2**	**0.2**	**44.2**
Profit (loss) before taxes	**1.5**	***-**	**(*-)**	***-**	**1.5**
Provision for taxes on profit	0.4	*-	(*-)	*-	0.4
Net profit (loss)	**1.1**	***-**	**(*-)**	***-**	**1.1**
Return on equity (percent net profit out of average capital)	4.1	-	-	-	4.1
Average balance of assets	0.2	707.9	12.6	0.2	720.9
Average balance of liabilities	0.3	(63.9)	0.3	8.6	(54.7)
Average balance of risk-adjusted assets	40.4	229.8	3.7	0.1	274.0

* Amount lower than NIS 50 thousand.

(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 evaluate the performance of such activities, but do not meet the definition of a reportable segment due to non-fulfillment of quantitative conditions.

(2) Redemption of Class C shares by Visa Inc.

(3) Reclassified; see footnote 1 to the Statement of Profit and Loss, above.

(4) Reclassified.

Note 26 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

NIS millions

	December 31	
	2012	2011
Total assets	1,392.4	1,151.7
Total liabilities	1,328.1	1,083.4
Equity	64.3	68.3
Nominal net profit	1.0	1.1