Isracard Ltd. and its Consolidated Companies

Annual Report

For the year ended December 31, 2013

ISRACARD

Report as at December 31, 2013

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Board of Directors' Report

For the Year Ended December 31, 2013

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Board of Directors' Report on the Financial Statements as at December 31, 2013

At the meeting of the Board of Directors held on February 27, 2014, it was resolved to approve and publish the audited financial statements of Isracard Ltd. (hereinafter: **"the Company**" or "**Isracard**") and its consolidated companies for the year 2013.

Mr. Shimon Gal was appointed to the position of Chairperson of the Board of Directors of the Company as of January 1, 2014, replacing Ms. Irit Izakson, who served in this position until December 31, 2013.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1975 as a private company. The Company is owned by Bank Hapoalim B.M. (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 issues, clears, and operates Isracard credit cards, which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay (Eurocard) Israel Ltd. (hereinafter: "**Europay**"), which combine the Isracard and MasterCard brands (hereinafter: "**MasterCard cards**"). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are cleared by Europay. Issuance and clearing of MasterCard cards are performed under a license granted to Europay by MasterCard International Incorporated (hereinafter: "the **MasterCard Organization**").The agreement determining the relationship between the Company and the MasterCard Organization was renewed during 2013. The Company also issues, clears, and operates Visa credit cards for use in Israel and abroad, under a license granted to the Company by the Visa International Service Association (hereinafter: "**Visa Association**").

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

The Company's operations are conducted in three main segments of activity, constituting the core of its operations: credit-card issuing, credit-card clearing, and financing.

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

The Company and its consolidated companies are part of the Isracard Group, which also includes Poalim Express Ltd., a sister company owned by Bank Hapoalim (hereinafter: "**Poalim Express**").

The Company acquired the full holdings of Bank Hapoalim in Aminit on July 1, 2013. Aminit was primarily engaged in issuing credit cards and clearing transactions in credit cards of the Visa brand in Israel and abroad, under a license granted by the Visa Association. Aminit was merged into the Company on October 1, 2013.

Holding Structure of the Company

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

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

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

- **Europay (Eurocard) Israel Ltd.** (hereinafter: "**Europay**") was established and incorporated in Israel in 1972, and is a wholly owned and controlled subsidiary of the Company. On May 9, 2012, the Company acquired 7,699 common shares from Mizrahi Tefahot Bank Ltd., constituting 1.8% of the issued and paid-up common share capital of Europay. Following the completion of this transaction, the Company holds 100% of the shares of Europay.

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

- **Tzameret Mimunim Ltd.** (hereinafter: "**Tzameret Mimunim**") was established and incorporated in 1999, and provides credit-card discounting services and loans to merchants. Tzameret Mimunim is a wholly owned and controlled subsidiary of the Company.

- **Global Factoring Ltd.** (hereinafter: "**Global**") was established in 2005, operates in the area of invoice discounting (factoring), and is a wholly owned and controlled subsidiary of the Company.

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

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

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

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Holding Structure of the Company as at December 31, 2013

The Company

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

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

Developments in the Global Economy

Worldwide economic activity showed moderate improvement in 2013, with acceleration in the developed economies alongside deterioration in the emerging economies. Looking ahead, the global recovery is threatened by further worsening in the emerging economies. As noted, most of the developed economies experienced accelerating activity accompanied by more moderate financial risks – the risk premiums of the countries that were at the focus of the crisis in Europe fell to a relatively low level, and some stock markets broke historical records. The deterioration in the emerging economies took the form of a decline in the pace of growth and an increase in the risk level. Overall for the year, according to estimates by the International Monetary Fund, the global economy grew at a rate of 3.0%, similar to the growth rate in 2012. The developed economies saw moderate 1.3% growth. Despite the deceleration, developing economies were the main contributors to global growth, with a 4.7% growth rate. The improvement in economic activity in the developed countries was not accompanied by a genuine improvement in labor markets. The unemployment rate in the United States fell to 6.7% in December, but there was a worrying decrease in workforce participation; Eurozone unemployment remained high, at 12.0%, with a far higher rate among young people. Due to the recession and low inflation environment, monetary policies in the developed countries remained highly expansionary. In the United States, the Fed began to reduce bond purchases in December 2013, but reiterated a commitment to keep the interest rate low for a long period. In Europe, the interest rate was lowered to 0.25% in November, and the President of the European Central Bank hinted at the possible use of additional expansionary measures available to the bank. In Japan, the quantitative expansion plan continues.

The economic recovery in the United States continued, and GDP continued to grow, though at a more moderate pace than in 2012. Growth in 2013 totaled 1.9%. Private consumption and industrial activity continued to expand, and prices of homes continued to trend up. The improvement in economic activity and in the labor market led the central bank to announce a reduction of bond purchases in December. Although the steps taken by the American administration significantly reduced the budget deficit this year, the disagreements between Democrats and Republicans over the national budget led to a shutdown of federal services in October 2013 and caused a failure to raise the debt ceiling on time, which damaged economic activity and investors' confidence. In the Eurozone, Germany remained a positive standout; growth expanded to the peripheral countries as well, and most resumed a growth trajectory towards the end of the year, although it remains fragile. Overall in 2013, the Eurozone GDP contracted by approximately 0.4%. Despite the structural changes and the fiscal restraint applied by the Eurozone countries, their heavy debts are still a severe burden for the economy. The approach to the implementation of austerity policies changed somewhat over the last year; fiscal policies are now more growth-supporting. Growth in the emerging economies slowed, and growth forecasts were adjusted downward. The growth of the Chinese economy slowed; the government is attempting to promote reforms designed to encourage sustainable growth in the future. Brazil and India experienced significant deceleration of economic activity, also accompanied by an outflow of foreign capital and significant depreciation of their currencies against the US dollar. In addition to the damage sustained by the emerging economies as a result of the global crisis, several – such as Turkey, Ukraine, and Thailand – are undergoing crises sparked by internal issues.

The Israeli Economy

Economic Activity in Israel

The Israeli economy grew by 3.3% in 2013, according to estimates by the Central Bureau of Statistics, similar to the growth rate in 2012. The economy has maintained a stable rate of growth for two years, although it is important to remember that in 2013 this growth was attained partly due to the contribution of natural gas from the Tamar reservoir, which began to arrive in the second quarter. The Bank of Israel estimates the contribution of natural gas at 0.4-0.9 percentage points. Exports of goods and services remained stagnant, for the second year, likely due to the recession in global demand and the appreciation of the NIS; this was the main cause of the relatively low growth, excluding the effect of natural gas. However, private consumption expanded by approximately 4%, despite tax increases and budget cutbacks in mid-2013. Investments in the sectors of the economy stabilized in 2013, on average, and trended up during the year. Despite the relatively slow growth, the labor market remained robust – unemployment fell to an average level of 6.2%, from 6.9% in 2012, along with a 2.7% increase in the number of employed persons, although most of these were in the public sector. Residential construction starts remained stable compared to the preceding year, at about 44,000 units; sales of new homes continued to increase. Prices of homes rose by 8.0%, according to a survey by the Central Bureau of Statistics. The Supervisor of Banks imposed further limits on the mortgage market, pursuant to which mortgage payments cannot exceed 50% of the household's income.

Several geopolitical developments during 2013, especially the second half, reduced risk for the Israeli economy, at least for the short term. Syria reached an agreement with the Western powers over the removal of all chemical weapons from its territory, and a dialogue began between the United States and Iran regarding the development of nuclear weapons. Israel's risk premiums in the financial markets decreased.

Fiscal and Monetary Policy

The budget deficit for 2013 reached 3.2% of GDP, versus a target of 4.65%. The large gap between these two figures mainly resulted from high tax revenues, partly of a nonrecurring nature, such as "trapped" taxes or major deals in which companies were sold to foreign investors. Expenses were also less than budgeted. The Central Bureau of Statistics changed its method of measuring GDP, causing an increase in the recorded GDP, which also had the effect of reducing the ratio of the deficit to the GDP. In July, the Knesset approved a budget encompassing an increase in indirect and direct taxes and a broad cutback in expenses. The improvement in the budget raised the possibility that the Knesset-approved increase in income-tax rates at the beginning of 2014 might not be implemented.

The Bank of Israel interest rate gradually decreased from 1.75% in January 2013 to 1.0% in December 2013 and 0.75% at the end of February 2014. The absence of inflationary pressures made this expansionary policy possible. It was also supported by expansionary policies in the United States and in Europe. The interest-rate cuts were also designed to help halt the appreciation of the NIS.

Inflation and Exchange Rates

The consumer price index rose by 1.8% in 2013. Housing prices rose by 3.0%, and food prices rose by 3.3%. By contrast, prices of energy and communications decreased. Inflation was low in most of the developed countries over the last year, and prices of agricultural commodities fell. These conditions, as well as the appreciation of the NIS, served to curb price increases.

The NIS appreciated by 7.0% against the US dollar and by 7.7% against the effective currency basket in 2013. Appreciation pressures stemmed from the improvement in the current account of the balance of payments, following the arrival of natural gas from the Tamar reservoir, expectations of further improvement in the coming years, and a very high volume of foreign direct investments in Israel. During the year, the Bank of Israel purchased USD 5.3 billion, of which USD 2.1 billion within a plan to reduce the impact of the natural-gas discovery on the exchange rate. The central bank announced that it would purchase an additional USD 3.5 billion under this plan during 2014.

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 issues and clears Isracard credit cards, issues and clears MasterCard credit cards jointly with Europay, and issues and clears Visa credit cards; (2) Poalim Express Ltd. (hereinafter: a "**Sister Company**"), which issues and clears American Express credit cards; (3) 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; (4) 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 (5) Diners Club Israel Ltd. (hereinafter: "**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and clears Diners credit cards.

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

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

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 1986 (the "**Charge Cards Law**") and the derived regulations; the Banking Law (Customer Service), 1981 (the "**Banking Law (Customer Service)**"); and the Anti-Money Laundering Law, 2000 (the "**Anti-Money Laundering Law**") and the order issued under its power by the Bank of Israel. In addition, various directives of the Supervisor of Banks apply to credit-card companies in Israel, including Proper Conduct of

Banking Business Directive No. 470, which regularizes the activity of credit-card companies, as well as guidelines derived from Proper Conduct of Banking Business Directives No. 201-211, which establish risk-management standards aimed at reinforcing the financial robustness and stability of the banking system.

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

The data include, for the first time, the consolidated results of Aminit, which was acquired and merged with the Company during 2013. Comparative figures were restated for comparability; for further details, see Note 1.I to the Financial Statements.

Number of Credit Cards (in thousands)

Number of valid credit cards as at December 31, 2013

	Active cards	Inactive cards	Total
Bank cards	2,151	367	2,518
Non-bank cards –			
Credit risk on the Company	547	156	703
Credit risk on others	38	53	91
	585	209	794
Total	**2,736**	**576**	**3,312**

Number of valid credit cards as at December 31, 2012

	Active cards	Inactive cards	Total
Bank cards	2,064	347	2,411
Non-bank cards –			
Credit risk on the Company	517	130	647
Credit risk on others	45	52	97
	562	182	744
Total	**2,626**	**529**	**3,155**

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

	For the year ended December 31	
	2013	2012
Bank cards	81,550	76,744
Non-bank cards –		
Credit risk on the Company	12,873	12,257
Credit risk on others	1,207	1,487
	14,080	13,744
Total	**95,630**	**90,488**

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 relevant bank.

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

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

Profit and Profitability in the Consolidated Report

Net profit of the Company in 2013, excluding profit from the sale of shares of MasterCard Incorporated (hereinafter: "**MC**"), totaled NIS 256 million, compared with NIS 223 million, excluding profit from the sale of shares of MC, in the preceding year, an increase of 14.8%.

The Company's net profit in 2013 totaled NIS 285 million, compared with NIS 239 million in 2012, an increase of 19.2%.

Net return on average equity reached 15.5% in 2013, compared with 14.8% in 2012. The return of net profit, excluding profit from the sale of shares of MC, on average equity reached 13.9% in 2013, compared with 13.8% in 2012, excluding profit from the sale of shares of MC.

Developments in Income and Expenses

Revenues totaled NIS 1,514 million in 2013, compared with NIS 1,518 million in 2012, a decrease of 0.3%.

Income from credit-card transactions totaled NIS 1,281 million in 2013, compared with NIS 1,302 million in 2012, a decrease of 1.6%. The decrease resulted from the following factors:

- Net income from merchants totaled NIS 879 million, compared with NIS 952 million in 2012. The 7.7% decrease mainly resulted from a decrease in the rate of merchant fees, partially offset by an increase in the volume of clearing of transactions executed with merchants that have clearing agreements with the Company.

- Income in respect of credit-card holders totaled NIS 402 million, compared with NIS 350 million in 2012, an increase of 14.9%, which mainly resulted from the effect of the increase in the volume of transactions using the Company's cards in Israel cleared by other clearers.

For further details, see Note 19 to the Financial Statements.

Net interest income totaled NIS 133 million in 2013, compared with NIS 141 million in 2012, a decrease of 5.7%, which mainly resulted from a decrease in the interest rate.

Other income totaled NIS 100 million in 2013, compared with NIS 75 million in 2012, an increase of 33.3%. The increase mainly resulted from income in respect of the sale of shares of MC in the amount of NIS 37 million in 2013, compared with income in the amount of NIS 21 million in 2012.

Expenses before payments to banks totaled NIS 799 million in 2013, compared with NIS 844 million in 2012, a decrease of 5.3%.

Expenses including payments to banks totaled NIS 1,134 million in 2013, compared with NIS 1,192 million in 2012, a decrease of 4.9%.

The provision for credit losses totaled NIS 7 million in 2013, compared with NIS 37 million in 2012, a decrease of 81.1%. The decrease resulted from a decrease in debt balances and optimization of the Company's credit portfolio.

Operating expenses totaled NIS 507 million in 2013, compared with NIS 478 million in 2012, an increase of 6.1%.

Sales and marketing expenses totaled NIS 213 million in 2013, compared with NIS 257 million in 2012, a decrease of 17.1%. The decrease resulted from advertising expenses, due to the launch of the new Tracks program, and from expenses due to the Stars program, which ended on June 30, 2012.

General and administrative expenses totaled NIS 72 million in 2013, similar to the preceding year.

Payments to banks under agreements with the banks totaled NIS 335 million in 2013, compared with NIS 348 million in 2012, a decrease of 3.7%.

The ratio of expenses to income before payments to banks and before write-downs and impairment of goodwill reached 52.8% in 2013, compared with 55.6% in 2012.

Profit before taxes totaled NIS 380 million in 2013, compared with NIS 326 million in 2012, an increase of 16.6%.

The return of profit before taxes on average equity reached 20.7% in 2013, compared with 20.2% in 2012. The return of profit before taxes on average equity, excluding profit from the sale of shares of MC, reached 18.7%, compared with 18.9% in 2012, excluding profit from the sale of shares of MC.

The provision for taxes on profit totaled NIS 95 million in 2013, compared with NIS 87 million in 2012. The effective rate of tax out of total operating profit before taxes reached 25.0%, compared with 26.7% in 2012 (at the subsidiary that is a financial institution, as defined in the Value Added Tax Law, 1975, the statutory tax rate in 2013 was 36.21%, compared with 35.53% in 2012).

Developments in Balance-Sheet Items in the Consolidated Report

The balance sheet as at December 31, 2013 totaled NIS 14,605 million, compared with NIS 14,694 million on December 31, 2012.

Developments in the principal balance-sheet items:

	December 31			
	2013	2012	Change	
	NIS millions		NIS millions	%
Total balance sheet	14,605	14,694	(89)	(0.6)
Debtors in respect of credit-card activity, net	13,573	13,583	(10)	(*-)
Cash on hand and deposits with banks	378	461	(83)	(18.0)
Securities	38	79	(41)	(51.9)
Creditors in respect of credit-card activity	11,880	12,130	(250)	(2.1)
Subordinated notes	-	31	(31)	(100.0)
Shareholders' equity	1,948	1,739	209	12.0

* Rate lower than 0.5%.

Debtors in respect of credit-card activity, net, totaled NIS 13,573 million as at December 31, 2013, compared with NIS 13,583 million at the end of 2012. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The change resulted from changes in the volume of activity in the cards issued by the Company, and a change in credit extended to customers and merchants.

Cash on hand and deposits with banks totaled NIS 378 million on December 31, 2013, compared with NIS 461 million at the end of 2012.

Securities totaled NIS 38 million as at December 31, 2013, compared with NIS 79 million at the end of 2012. The decrease mainly resulted from the sale of shares of MC in 2013, for a consideration of NIS 56 million, which was offset by an increase in the amount of NIS 15 million in the fair value of the shares of MC held by the Company on December 31, 2013.

Buildings and equipment totaled NIS 285 million as at December 31, 2013, compared with NIS 264 million at the end of 2012.

Creditors in respect of credit-card activity totaled NIS 11,880 million as at December 31, 2013, compared with NIS 12,130 million at the end of 2012. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date.

Subordinated notes were repaid during October 2013; for further details, see Note 1.I to the Financial Statements.

Shareholders' equity totaled NIS 1,948 million as at December 31, 2013, compared with NIS 1,739 million at the end of 2012. The increase mainly resulted from net profit.

The ratio of shareholders' equity to the balance sheet reached 13.3% as at December 31, 2013, compared with 11.8% at the end of 2012.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 17.7% on December 31, 2013, compared with 15.8% at the end of 2012. 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.

Investments and Expenses of the Company for Information Technology

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 sufficiency in 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 when they arise.

Definitions relevant to the information presented:

Expenses for information technology: Actions or processes that maintain the functionality and safety of a product. Maintenance of existing products, including software and hardware; service and support for systems and products; payment for licenses; and personnel maintaining existing systems.

Assets in respect of information technology: Software acquisition, products, and project manpower. Development of new systems for internal use, purchasing of new systems, purchasing of new products, and personnel developing new systems and products.

Software: Costs in respect of writing of computer code, development of software for internal use, and/or software acquisition.

Hardware: All physical components of the computer and its peripheral equipment.

Expenses for wages and related costs: Manpower for the maintenance of existing systems.

Expenses for usage licenses: Expenses in respect of software maintenance and software rentals.

Outsourcing expenses: External manpower for the maintenance of existing systems.

Others: Mainly hardware maintenance, maintenance of POS devices, and other expenses for information technology .

Expenses incurred for the maintenance and development of information technology and assets in respect of information technology in 2013 are detailed below.

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

	Software	Hardware[1]	Other	Total
Expenses for wages and related costs	29	10	4	43
Expenses for acquisitions or usage licenses not capitalized as assets	31	-	-	31
Outsourcing expenses	18	-	-	18
Depreciation expenses	66	19	2	87
Other expenses	1	5	4[2]	10
Total	**145**	**34**	**10**	**189**

Additions to assets in respect of information technology not allocated as expenses (in NIS millions)

	Software	Hardware(1)	Other	Total
Costs of wages and related costs	*-	-	-	*-
Outsourcing costs	54	*-	-	54
Costs of acquisition or usage licenses	18	33	1	52
Costs of equipment, buildings, and land	-	-	2	2
Total	**72**	**33**	**3**	**108**

Balances of assets in respect of information technology (in NIS millions)

	Software	Hardware(1)	Other	Total
Total depreciated cost	120	43	4	167
Of which: in respect of wages and related costs**	84	*-	-	84

* Amount lower than NIS 0.5 million.

** Includes outsourcing costs.

(1) Including communication infrastructures.

(2) Includes recharges to sister companies.

Expenses incurred for the maintenance and development of information technology and assets in respect of information technology in 2012 are detailed below.

Expenses in respect of information technology as included in the statement of profit and loss (in NIS millions)(5)

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	20	10	3	33
Expenses for acquisitions or usage licenses not capitalized as assets	24(6)	-	-(6)	24
Outsourcing expenses	22	-	-	22
Depreciation expenses	70	10	2	82
Other expenses	6	5	(3)(4)	8
Total	**142**	**25**	**2**	**169**

Additions to assets[2] in respect of information technology not allocated as expenses (in NIS millions)

	Software	Hardware[1]	Other	Total
Costs of wages and related costs	2[6]	-	-	2
Outsourcing costs	41[6]	*-	-	41
Costs of acquisition or usage licenses[3]	23	37	*-	60
Costs of equipment, buildings, and land	-	1	*-	1
Total	**66**	**38**	***-**	**104**

Balances of assets in respect of information technology (in NIS millions)

	Software	Hardware[1]	Other	Total
Total depreciated cost	114	29	2	145
Of which: in respect of wages and related costs**	71	*-	-	71

* Amount lower than NIS 0.5 million.

** Includes outsourcing costs.

(1) Including communication infrastructures.

(2) Including prepaid expenses in respect of the monitoring of information technologies.

(3) Including costs of acquisition or usage licenses in respect of information technology which were classified in the financial statements as prepaid expenses, rather than as fixed assets (costs of equipment, buildings, and land).

(4) Includes recharges to sister companies.

(5) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

(6) Reclassified.

Description of the Company's Business by Operating Segments

The Credit-Card Issuance Segment

General

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services. As 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, 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 distributed to owners of accounts at banks with which the Company and Europay have agreements, including Bank Hapoalim (the parent company), Bank Mizrahi Tefahot Ltd. (hereinafter: "**Mizrahi Bank**"), Bank Yahav for Government Employees Ltd. (hereinafter: "**Bank Yahav**"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., and Union Bank Ltd. (jointly, the "**Banks Under Arrangement**"). The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs. See also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under an international license; (2) 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) high-quality, experienced human capital; (4) quality of customer service; (5) an operational system including information systems, technologies, communications, and advanced infrastructures; (6) a technological level allowing response to changes and the development of new products; (7) a system of risk management and credit controls; (8) the ability to recruit and retain customers through a targeted marketing system; (9) agreements to establish customer clubs; and (10) operational efficiency and preservation of scale advantage.

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card issuance services are the following: (1) the need to obtain a license from an international organization to issue the brand and receive the right to use its trademark, 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 investments in technological infrastructures, including an operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the structure of the credit-card industry in Israel, which has a high penetration rate; and (5) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment. Payment methods such as cash, direct debits, electronic bank transfers, checks, gift cards, and rechargeable 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

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

The Company also issues and operates a variety of products and services, including More brand revolving credit cards, allowing cardholders to determine the terms of repayment; fuel cards and refueling devices; gift cards; specialized purchasing cards; rechargeable cards; various credit plans based on Isracredit; various types of all-purpose loans based on credit limits of credit cards; vehicle purchasing loans, through I.M.T., which uses the brand IsraCar; loans for second-hand vehicle purchases through Kidum; various options for spreading payments; and provision of information and certifications.

Segmentation of Income from Products and Services

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

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

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

Contractual Arrangements with Banking Corporations

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

Customers – Cardholders

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

As 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 2013.

Marketing and Distribution

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

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

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

As part of the enhancement of its communication with its cardholders and enrichment of the range of benefits offered to them, the Company has launched a new benefit plan, the Tracks program, which allows customers to receive benefits according to their interests. The goal of this program is to make the benefits offered to customers more relevant, while building a community of customers with which regular communications can be maintained. The program included the launch of an upgraded website and a mobile application that offer simple, easy access to the full range of benefits of the Company.

The Company strives to attain leadership in the digital arena and in the area of mobile payments. As part of its activity in this area, the Company has launched several innovative products: Pay Pass for mobile payments, based on NFC technology, using stickers or credit cards with the ability to transmit to the cash register; mobile payment through the Isracard application, for a range of merchants, without the use of a physical credit card; Pay Ware Sail, for accepting credit-card payments via smartphone; and Taxi Pay, for calling and paying taxicabs using a mobile wallet.

The Company has also emphasized the improvement of customer interfaces, and has launched Isracard at a Click, an innovative service available on its website and application offering a chat with a digital representative to obtain full information regarding transactions.

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 have credit cards or who have 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 over the "wallet" of cardholders (who 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; and (3) offers of non-bank credit services through revolving credit cards or through loans for cardholders, as an addition and/or alternative to credit granted by banks and other financial institutions.

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

In order to cope with the competition in this sector, the Company takes the following main actions:

(1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) innovation – response to customers' needs by developing new products and services to supply the requirements of the Company's customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks; (3) reinforcement of the Company's 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 Company and Europay are the leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (2) the Company's image and brands; (3) the Company's size advantage and leadership grant additional advantages, such as savings in its cost structure; (4) professional, skilled, experienced human capital; (5) the Company has long-term agreements with the Banks Under Arrangement for the issuance of credit cards; (6) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (7) the range of products and services offered to a broad spectrum of customers; (8) an advanced service system allowing a high quality of customer service; and (9) a robust capital structure and positive cash flow.

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

The Credit-Card Clearing Segment

General

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

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

On October 1, 2013, Isracard Ltd. and Aminit Ltd. merged. As of that date, Isracard clears the three brands Isracard, MasterCard, and Visa.

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, such as loans, 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.

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 continued until the end of 2013, both for merchants included in the earlier offer and for new merchants who joined during the period of the previous offer.

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 16.C.1 to the Financial Statements.

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

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card clearing services are the following: (1) the need for financial means, experience, and extensive knowledge in order to carry out the necessary large investments in technological infrastructures, an operational system, and large-scale advertising and marketing; (2) the need to obtain a license from international organizations to clear the brands under their ownership, while continually complying with the terms stipulated in each license and with the rules of the relevant organization; (3) deployment of a communications system to allow 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.

With regard to the Supervisor's draft concerning clearing licenses, see the section Additional Regulation, Section 6, below.

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

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 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. In addition, the Company offers clearing of gift cards which it issues, as well as an option for secure clearing via smartphone (Payware).

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants 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 attributed to the segment. The main expenses associated with the Clearing Segment include expenses for recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

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

Customers

The Company's customers in the Clearing Segment are numerous, varied merchants that have entered into agreements with it, including various government ministries. As 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 2013.

Marketing and Sales

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

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

The Company operates a website 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.

Isracard cards were opened for cross-clearing in May 2012. For further details on this matter, see the section “Restrictions and Supervision of the Company's Operations,” below. Competition in the clearing sector is focused on recruiting new merchants for clearing agreements with the Company, retaining existing merchants as customers of the Clearing Segment, and preventing desertion to competitors, which requires the investment of extensive efforts and resources and high sales and marketing expenses.

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

In order to cope with the competition in this sector, the Company takes the following main actions: (1) a competitive, prudent fee 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 marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the clearing service provider, and in formulating the overall perception of the Company by merchants.

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

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

The Financing Segment

General

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

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

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

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

The Company operates under laws, standards, and regulatory directives applicable to the banking system and to credit-card companies in Israel, such as directives of the Supervisor of Banks, the Antitrust Commissioner, and more.

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

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

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

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

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

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

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

Products and Services

The Company offers financial services to merchants, including loans, discounting of credit-card sales slips by the Company and by Tzameret Mimunim Ltd., advance payments, credit facilities for business cards, purchasing cards and B2B, and receivables discounting services. In addition, the Company offers credit to private customers, including revolving credit, which allows cardholders to determine the repayment terms; special-purpose loans; various credit plans based on Isracredit; various general-purpose loans based on credit-card credit facilities; vehicle purchasing loans, through I.M.T., which uses the brand IsraCar; loans for second-hand vehicle purchases through Kidum; and loans that do not require a card, all at a high level of service.

Segmentation of Income from Products and Services

All income and expenses attributed to the interest-bearing credit activity of the Company were assigned to the Financing Segment, including discounting, advance payments, receivables discounting, revolving credit, and loans of various types. For details regarding the segmentation of income from transactions of the Financing Segment, see Notes 20 and 21 to the Financial Statements.

Customers

The Company's customers in the Financing Segment include numerous merchants and private customers. Private customers are segmented by risk ratings assigned based on an internal risk-rating model of the Company designed for private customers. The group of customers of this segment in the business sector consists of merchants in a broad range of industries who use the Company's clearing services, as well as non-clearing customers who use one of the various types of corporate cards of the Company, or customers who use receivables discounting services provided through the subsidiary Global Factoring. These customers are also segmented by risk ratings assigned based on an internal risk-rating model of the Company designed for business customers.

Marketing and Sales

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

Competition

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

Seasonality

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

The Other Segment

This segment includes all of the Company's other activities that do not belong to the Issuance Segment, the Clearing Segment, and/or the Financing Segment, each of which does not constitute a reportable segment. This includes the credit-card system operation services which the Company provides to a sister company that issues and clears American Express credit cards; the activity of Isracard Nechasim; the Company's activity in the area of check settlement guaranteeing and check discounting; clearing of Visa travelers' checks issued in the past; and income from the realization of shares of MC.

ISRACARD

Financial Information on the Company's Operating Segments – Consolidated

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2013				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from external customers	395	881	1	4	1,281
Intersegmental fees	571	(571)	-	-	-
Total	**966**	**310**	**1**	**4**	**1,281**
Net interest income	24	2	105	2	133
Other income	16	10	1	73	100
Total income	**1,006**	**322**	**107**	**79**	**1,514**
Expenses (income)					
Provisions for credit losses	(5)	3	8	1	7
Operations	325	158	21	3	507
Sales and marketing	153	50	10	-	213
General and administrative	39	25	8	-	72
Payments to banks (receipts from banks)	336	(2)	-	1	335
Total expenses	**848**	**234**	**47**	**5**	**1,134**
Profit before taxes	**158**	**88**	**60**	**74**	**380**
Provision for taxes on profit	40	21	15	19	95
Profit after taxes	**118**	**67**	**45**	**55**	**285**
The Company's share in profits of associates after tax	-	-	-	*-	*-
Net profit					
Before attribution to non-controlling interests	118	67	45	55	285
Attributed to non-controlling interests	-	-	-	-	-
Attributed to shareholders of the Company	**118**	**67**	**45**	**55**	**285**
Return on equity (percent net profit out of average capital)	6.4	3.6	2.5	3.0	15.5
Average balance of assets	11,237	1,714	1,877	113	14,941
Of which: investments in associated companies	-	-	-	4	4
Average balance of liabilities	799	11,491	310	502	13,102
Average balance of risk-adjusted assets	8,179	1,239	1,490	123	11,031

* Amount lower than NIS 0.5 million.

(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 – Consolidated (cont.)

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2012[(2)]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from external customers	344	954[(3)]	1	3	1,302
Intersegmental fees	639	(639)	-	-	-
Total	**983**	**315**	**1**	**3**	**1,302**
Net interest income	33	3	104	1	141
Other income	12	9	1	53[(3)]	75
Total income	**1,028**	**327**	**106**	**57**	**1,518**
Expenses					
Provisions for credit losses	12	6	14	5	37
Operations	297	159	18	4	478
Sales and marketing	179	68	9	1	257
General and administrative	38	28	6	-	72
Payments to banks	340	8	-	-	348
Total expenses	**866**	**269**	**47**	**10**	**1,192**
Profit before taxes	162	58	59	47	326
Provision for taxes on profit	**44**	**16**	**15**	**12**	**87**
Profit after taxes	118	42	44	35	239
The Company's share in losses of associates after tax	-	-	-	(*-)	(*-)
Net profit					
Before attribution to non-controlling interests	118	42	44	35	239
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	**118**	**42**	**44**	**35**	**239**
Return on equity (percent net profit out of average capital)	7.3	2.6	2.7	2.2	14.8
Average balance of assets	10,926	1,608	1,813	132	14,479
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	652	11,518	260	433	12,863
Average balance of risk-adjusted assets	8,019	1,124	1,392	176	10,711

* Amount lower than NIS 0.5 million.

(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) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

(3) Reclassified.

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

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2011[2]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[1]**	**Total**
Income					
Fees from external customers	299	998[3]	-	2	1,299
Intersegmental fees	714	(714)	-	-	-
Total	**1,013**	**284**	**-**	**2**	**1,299**
Net interest income	35	9	80	2	126
Other income	15	10	1	35[3]	61
Total income	**1,063**	**303**	**81**	**39**	**1,486**
Expenses					
Provisions for credit losses	23	4	16	7	50
Operations	329	144	12	4	489
Sales and marketing	196	43	5	2	246
General and administrative	36	24	3	1	64
Payments to banks	372	8	-	-	380
Write-downs and impairment of goodwill	-	-	7	-	7
Total expenses	**956**	**223**	**43**	**14**	**1,236**
Profit before taxes	**107**	**80**	**38**	**25**	**250**
Provision for taxes on profit	22	17	8	5	52
Profit after taxes	**85**	**63**	**30**	**20**	**198**
The Company's share in losses of associates after tax	-	-	-	(2)	(2)
Net profit					
Before attribution to non-controlling interests	85	63	30	18	196
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	**85**	**63**	**30**	**18**	**196**
Return on equity (percent net profit out of average capital)	6.2	4.6	2.2	1.3	14.4
Average balance of assets	10,422	1,366	1,507	136	13,431
Of which: investments in associated companies	-	-	-	3	3
Average balance of liabilities	579	11,302	51	137	12,069
Average balance of risk-adjusted assets	7,779	1,001	1,097	198	10,075

* Amount lower than NIS 0.5 million.

(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) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

(3) Reclassified.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment’s net profit totaled NIS 118 million, similar to the net profit in 2012.

Net return on average equity reached 6.4%, compared with 7.3% in 2012.

Developments in Income and Expenses

The segment's income totaled NIS 1,006 million, compared with NIS 1,028 million in 2012, a decrease of 2.1%.

Income from fees totaled NIS 966 million, compared with NIS 983 million in 2012, a decrease of 1.7%.

Net interest income totaled NIS 24 million, compared with NIS 33 million in 2012, a decrease of 27.3%, which mainly resulted from a decrease in the interest rate.

Other income totaled NIS 16 million, compared with NIS 12 million in 2012, an increase of 33.3%.

The segment's expenses before payments to banks totaled NIS 512 million, compared with NIS 526 million in 2012, a decrease of 2.7%.

The segment's expenses including payments to banks totaled NIS 848 million, compared with NIS 866 million in 2012, a decrease of 2.1%.

The provision for credit losses totaled NIS 5 million, compared with NIS 12 million in 2012, The decrease resulted from a decrease in debt balances and optimization of the Company's credit portfolio.

Operating expenses totaled NIS 325 million, compared with NIS 297 million in 2012, an increase of 9.4%.

Sales and marketing expenses totaled NIS 153 million, compared with NIS 179 million in 2012, a decrease of 14.5%.

General and administrative expenses totaled NIS 39 million, compared with NIS 38 million in 2012, an increase of 2.6%.

Payments to banks under agreements with the banks totaled NIS 336 million, compared with NIS 340 million in 2012, a decrease of 1.2%.

The ratio of expenses to income in the segment, before payments to banks, reached 50.9%, compared with 51.2% in 2012.

The segment's profit before taxes totaled NIS 158 million, compared with NIS 162 million in 2012, a decrease of 2.5%.

The provision for taxes on profit in the segment totaled NIS 40 million, compared with NIS 44 million in 2012, a decrease of 9.1%.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 67 million, compared with NIS 42 million in 2012, an increase of 59.5%.

Net return on average equity reached 3.6%, compared with 2.6% in 2012.

Developments in Income and Expenses

The segment's income totaled NIS 322 million, compared with NIS 327 million in 2012, a decrease of 1.5%.

Income from fees totaled NIS 310 million, compared with NIS 315 million in 2012, a decrease of 1.6%.

Net interest income totaled NIS 2 million, compared with NIS 3 million in 2012, a decrease of 33.3%.

Other income totaled NIS 10 million, compared with NIS 9 million in 2012, an increase of 11.1%.

The segment's expenses totaled NIS 234 million, compared with NIS 269 million in 2012, a decrease of 13%.

The provision for credit losses totaled NIS 3 million, compared with NIS 6 million in 2012, a decrease of 50%. The decrease resulted from a decrease in debt balances and optimization of the Company's credit portfolio.

Operating expenses totaled NIS 158 million, compared with NIS 159 million in 2012, a decrease of 0.6%.

Sales and marketing expenses totaled NIS 50 million, compared with NIS 68 million in 2012, a decrease of 26.5%.

General and administrative expenses totaled NIS 25 million, compared with NIS 28 million in 2012, a decrease of 10.7%.

The ratio of expenses to income in the segment reached 72.7%, compared with 82.3% in 2012.

The segment's profit before taxes totaled NIS 88 million, compared with NIS 58 million in 2012, an increase of 51.7%.

The provision for taxes on profit in the segment totaled NIS 21 million, compared with NIS 16 million in 2012, an increase of 31.3%.

Profit and Profitability – Financing Segment

The segment's net profit totaled NIS 45 million, compared with NIS 44 million in 2012, an increase of 2.3%.

Net return on average equity reached 2.5%, compared with 2.7% in 2012.

Developments in Income and Expenses

The segment's income totaled NIS 107 million, compared with NIS 106 million in 2012, an increase of 0.9%.

Net interest income totaled NIS 105 million, compared with NIS 104 million in 2012, an increase of 1.0%.

Other income totaled NIS 1 million, similar to 2012.

The segment's expenses totaled NIS 47 million, similar to 2012.

The provision for credit losses totaled NIS 8 million, compared with NIS 14 million in 2012, a decrease of 42.9%. The decrease resulted from a decrease in debt balances and optimization of the Company's credit portfolio.

Operating expenses totaled NIS 21 million, compared with NIS 18 million in 2012, an increase of 16.7%.

Sales and marketing expenses totaled NIS 10 million, compared with NIS 9 million in 2012, an increase of 11.1%.

General and administrative expenses totaled NIS 8 million, compared with NIS 6 million in 2012, an increase of 33.3%.

The ratio of expenses to income in the segment reached 43.9%, compared with 44.3% in 2012.

The segment's profit before taxes totaled NIS 60 million, compared with NIS 59 million in 2012, an increase of 1.7%.

The provision for taxes on profit in the segment totaled NIS 15 million, similar to 2012.

Profit and Profitability – Other Segment

The segment’s net profit totaled NIS 55 million, compared with NIS 35 million in 2012, an increase of 57.1%. The increase mainly resulted from profit in respect of the sale of shares of MC.

Net return on average equity reached 3.0%, compared with 2.2% in 2012.

Developments in Income and Expenses

The segment's income totaled NIS 79 million, compared with NIS 57 million in 2012, an increase of 38.6%.

Other income totaled NIS 73 million, compared with NIS 53 million in 2012, an increase of 37.7%.

The segment's expenses totaled NIS 5 million, compared with NIS 10 million in 2012, a decrease of 50%.

The ratio of expenses to income in the segment reached 6.3%, compared with 17.5% in 2012.

The segment's profit before taxes totaled NIS 74 million, compared with NIS 47 million in 2012.

The provision for taxes on profit in the segment totaled NIS 19 million, compared with NIS 12 million in 2012.

Fixed Assets and Facilities

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

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

Intangible Assets

The Company owns the trademark "Isracard" and holds long-term licenses from the international organizations MasterCard and Visa to issue and clear MasterCard and Visa credit cards in Israel. In addition, the Company has rights to several trademarks related to credit cards which it issues, clears, and/or operates. Most of the trademarks to which the Company has rights are related to the appearance or names of credit cards; imprints, images, or logos appearing on credit cards; the Company's publications; documents used as means of payment and collection; etc.

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

Human Capital

Organizational Structure

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

Personnel

Total employee positions at the Company include:

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

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

(3) External personnel.

The number of employee positions decreased by 48 in 2013 as compared to the number of positions at the end of 2012(1). Most of the decrease resulted from the implementation of an efficiency plan at the various divisions of the Company and from a cutback in overtime.

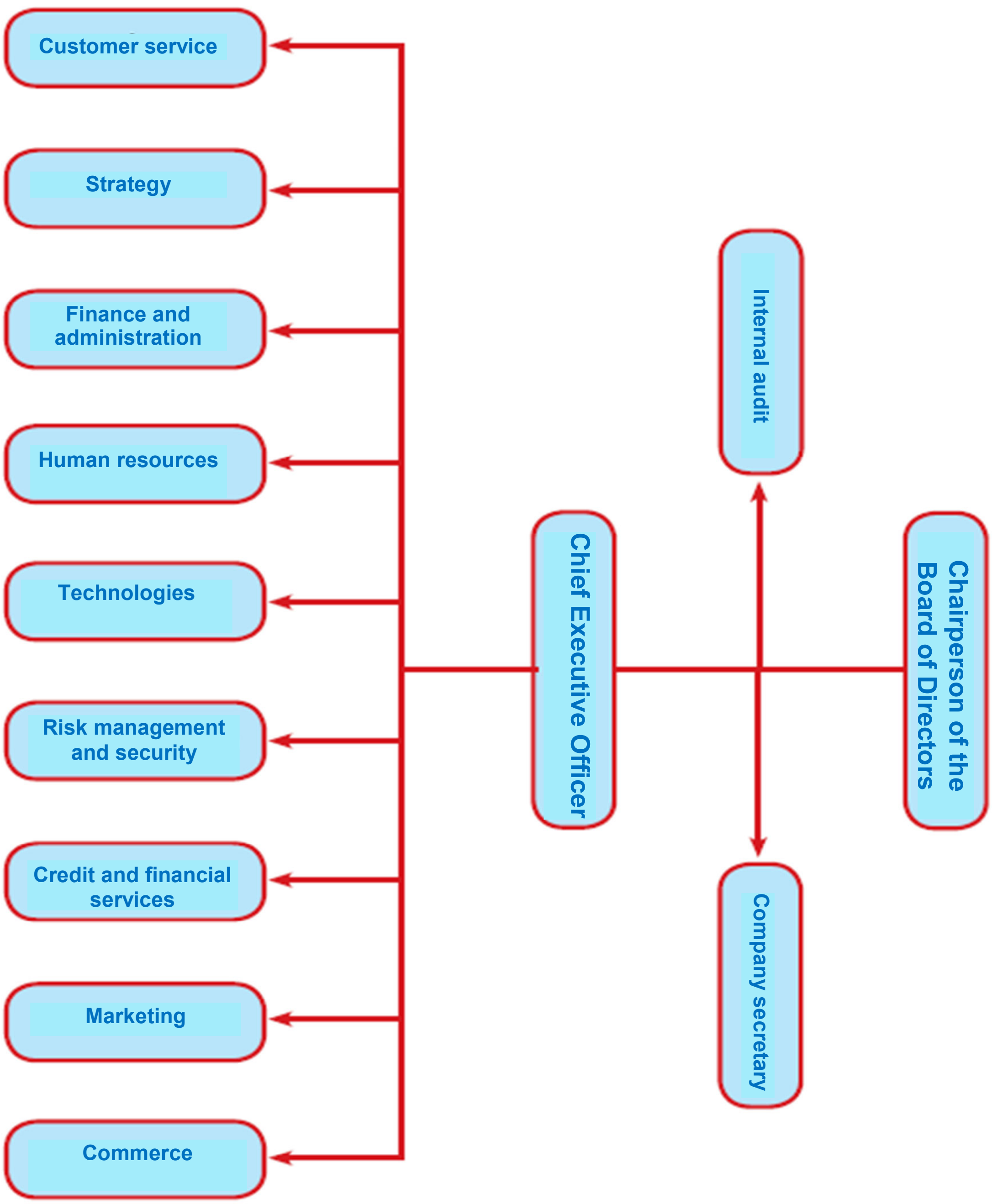
	2013	**2012***
Average positions on a monthly basis	1,292	1,339
Total positions at year end	1,290	1,338

* The data include, for the first time, the consolidated number of employee positions of Aminit, which was acquired and merged during 2013. Comparative figures were restated for comparability; for further details, see Note 1.I to the Financial Statements. The number of employees includes positions allocated to other companies in the Group through expense-sharing arrangements.

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

The number of employees was adjusted based on the volume of activity in the various divisions of the Company. In addition, numerous measures were taken in response to the changing needs expressed by the various departments, according to the key projects at the Company, with changes and adjustments made in order to provide efficient, high-quality solutions.

Units of the Company



Trends in Human Resources

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

In 2013, the Company continued to maintain this policy, through:

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

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

3. Employees as ambassadors – encouragement of employees' involvement in the business objectives of the Company.

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

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

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

7. Development of strategic partnerships with the various departments, in order to support the Group's objectives.

8. Continued instillation of a culture of intra-organizational surveys, for the purposes of learning, growth, and improvement of performance.

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

10. Collective agreement – 2011 was the first year in which a collective agreement for employees of the Company was in place. Labor relations remained stable and peaceful during 2013. A collective agreement was signed during the year, which will be in effect from January 1, 2014 to December 31, 2017.

Think Innovation – Cultivating Innovation Within the Organization

During the year, we cultivated innovative thinking within the organization by leading a process in which all managers were engaged, first through an inspirational conference, which culminated in the announcement of an innovation contest, and later through targeted activities in the various divisions. Ideas that began in the innovation conference and conference have matured into changes and innovations implemented and expressed in everyday activity. The theme of innovation was also integrated into executive development courses; leadership and change-management skills were imparted, and managers were required to carry out innovative assignments at their units.

Everyone is an Ambassador

As part of the strategic partnership and collaboration with the various divisions, several activities for employees were conducted during the year with the aim of encouraging employee involvement in the Company's business objectives and turning employees into ambassadors. The range of activities increased motivation to improve sales, pursue organizational learning, suggest new ideas, improve processes, and apply lessons learned.

Ethical Code

As a leader in its field, the Isracard Group is committed to values-driven and respectful business conduct with all of our business partners and stakeholders. The ethical code, formulated in a comprehensive process in partnership with employees and executives, is the Group's value identity, reflecting the unique values and the code of conduct to which we are committed. Since the introduction of the ethical code in 2009, the Senior Ethics Committee and representatives of the various departments have worked to encourage a conversation about ethics and to instill the values and behaviors derived from the ethical code of the Group. During 2013, meetings with the ethics trustees of the Group were held, and routine updates were issued.

Professional Training

In a strategic partnership guiding and supporting achievement of the objectives of the organization as a whole and of the business units within it, a targeted training program was created for each business unit, including targeted plans for employees, based on specific needs identified. In 2013, we emphasized executive and employee development, aligned with the changing challenges and business environment; improvement of service and sales capabilities of service representatives; absorption of new products and services; and structural/organizational changes at the various divisions. The Company also worked on training and enhancing the knowledge of employees and executives in various roles within the Company: continuing to instill a culture of winning service – the customer as our guest; teaching tools for the encouragement of creativity and openness to innovation; imparting sales skills to various groups within the Company; providing in-depth professional knowledge in the areas of credit and sales; and encouraging employees to acquire higher education.

Instilling a Culture of Performance Evaluation and Surveys

Based on the philosophy that feedback and a reflection of the condition of the organization provide a foundation for learning and growth, several intra-organizational surveys were conducted during the year. Following the surveys, the findings were communicated and served as the basis for managerial decisions and for plans for improvement throughout the organization. In addition, a performance evaluation process was successfully carried out, reflecting the concept of an objective-based performance culture throughout the organization.

Occupational Stability

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

Promotion of Diversity

The Company has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups. In 2013, the Company continued to support the creation of a supportive, open work environment with acceptance of differences and aid for social integration and professional and personal fulfillment, open to others and to those who are different, and the creation of a more tolerant community of employees, with respect and appreciation for others.

Isracard in the Community

As the leading credit-card company in Israel, the Company is committed to the community within which it operates, and accords high importance to active involvement in the community. The Company prioritizes contribution and giving back to the community and encourages its employees to actively participate in volunteering efforts, which reinforce their sense of pride and cohesion, strengthen social values, and promote helping others.

The Company's community activities are based on a philosophy of promoting equality and equal opportunities to all segments of society; investments are therefore focused on geographical and social peripheries: strengthening disadvantaged groups in Israeli society, advancement and education of the generation of the future, and empowerment of women.

Annual contributions by employees and by the Management of the Company to activities related to giving back to the community are performed through the "Matan – Your Way to Give" foundation. In addition, this is the ninth year in which we have adopted the Nahal Patrol

Regiment, as part of the “Adopt a Soldier” project, and provided ongoing support for the well-being of the regiment and its soldiers.

Remembrance – Donations for Holocaust survivors in need on holidays; donation to the Witness Theater program; donation to the Amcha foundation, which operates rehabilitation clubs for Holocaust survivors. Group employees are exposed to and participate in volunteer activities aiding Holocaust survivors.

Round Up Israel – Simply Do Good – The Isracard Group works to raise public consciousness of contribution to the community and supports the activity of the Round Up foundation. The foundation's goal is to enable the public to round up every credit-card transaction amount and donate the difference to the donor's chosen foundation or cause.

Service Providers

The Company's main service providers include:

Automatic Bank Services Ltd. ("ABS") – ABS serves as a communications channel between merchants and clearers. To the best of the Company's knowledge, ABS operates a system for collecting 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.

IBM – The Company has contracted with IBM to receive various necessary services in the area of information systems, including agreements to acquire and maintain equipment and to acquire software. IBM is the exclusive supplier of mainframe computers to the Company.

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

Financing

The Company finances its operations through its own means, through loans within the Isracard Group, and through daily short-term on-call loans from banks.

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

Taxation

Changes in Tax Rates

An economic plan for 2013-2014 (the Budget Law) was approved by the Knesset plenum on July 30, 2013. Among other matters, the plan includes an increase of the rate of corporation tax from 25% to 26.5% beginning January 1, 2014. The aforesaid change in the rate of corporation tax under the Budget Law, and the change in the rate of profit tax, as detailed below, raised the statutory rate of tax applicable to financial institutions from 36.21% in 2013 to 37.7% from 2014 forward. For further details, see Note 25 to the Financial Statements.

Other Matters

1. This year, the Company participated in the service competition held by the Israel Management Center, and won first place for the third consecutive time.
2. With regard to the bonus plan for senior executives, see Note 13.D.3 to the Financial Statements.
3. Aminit was merged into the Company during 2013. For further details, see Note 1.I to the Financial Statements.
4. With regard to the agreement with the employees' union, see Note 13.H to the Financial Statements.

Restrictions and Supervision of the Company's Operations

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

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

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

In addition to the laws relevant to the Company's activity as an auxiliary corporation and as a credit-card company, various items of legislation apply to the Company which regularize its routine operations, including the Restrictive Trade Practices Law, 1988 (hereinafter: 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

1. Pursuant to an arrangement between the Company and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "**Arrangement**"), the average issuer fee stands at 0.735% as of July 1, 2013, and the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement. The reduction of the issuer fee approved by the Antitrust Tribunal may have a material adverse effect on the financial results of the Company in the future; however, the Company cannot estimate the actual volume of this effect.

2. An agreement was signed between the Company and Leumi Card in April 2012, and an agreement was signed between the Company and CAL in May 2012, both in connection with the implementation of Amendment 18 to the Banking (Licensing) Law, 1981 (hereinafter: the "**Agreements**"). Pursuant to the Agreements, Leumi Card and CAL were granted licenses to clear Isracard brand charge cards, under the terms agreed upon by the parties. The Company estimates that granting licenses in accordance with this law will have a material negative effect on the Company; however, at this stage the Company cannot estimate the actual extent of this effect. On September 13, 2012, the Commissioner granted a restrictive arrangement exemption permitting Leumi Card and CAL to clear Isracard brand cards, with the payment of an issuer fee, a one-time licensing fee, and an additional amount, the content and extent of which has been deemed confidential by the Antitrust Tribunal. Following the Commissioner's refusal to permit the collection of a licensing fee as agreed upon by the parties, on February 6, 2013, the Company petitioned the Antitrust Tribunal for approval of the Agreements. The position of the Commissioner, objecting to the approval of the Agreements as they stand, was submitted in June 2013. Discussions on this matter are being conducted by the Antitrust Tribunal.

Additional Regulation

1. 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 applies beginning with the financial statements as at September 30, 2011. 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 Proper Conduct of Banking Business Directive No. 313).

2. 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. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the bill.

3. 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. A report summarizing the recommendations of the Committee for the Examination of Increasing Competition in the Banking Industry was submitted to the Minister of Finance and to the Governor of the Bank of Israel on March 19, 2013; the Economics Committee discussed this matter in May 2013.

4. The Regulations on Equality for Persons with Disabilities, approved in December 2012, mandate accessible websites and the access process, among other matters. The regulations were published in the Official Gazette of the Israeli Government on April 25, 2013, and took effect six months later; a period of time was established for implementation of the adjustments required in the regulations.

5. 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 Company is also examining the effects of the Basel III directives concerning liquidity, including an evaluation of the quantitative effect on compliance with management requirements.

6. In December 2013, the Bank of Israel issued general criteria and terms for controlling parties and holders of means of control of an applicant for a clearing license, as well as the procedure for obtaining a clearing license.

7. In May 2013, the government approved an increase of the rate of value-added tax by 1%, to 18%, starting June 2, 2013.

8. In July 2013, the Knesset plenum passed the Budget Law and the Arrangements Law for 2013 and 2014 in the second and third reading. This included approval of an increase in corporation tax, from 25% to 26.5%, beginning January 1, 2014.

9. A circular entitled, "Temporary Order – Implementation of Disclosure Requirements Pursuant to Pillar 3 of Basel II – Disclosure Requirements Concerning Remuneration" was issued in December 2013. The new disclosure requirements are aimed at supporting effective market discipline and allowing market users to evaluate the quality of remuneration methods and the manner in which they support the strategy and risk position of banking corporations.

10. The Supervisor of Banks issued a directive concerning remuneration policy at banking corporations in November 2013. The directive establishes rules aimed at ensuring that remuneration arrangements at banking corporations are consistent with their risk-management system and long-term goals. Accordingly, relevant amendments were made to the Proper Conduct of Banking Business Directive concerning the board of directors. The Company is in the process of updating its remuneration policy in accordance with the principles of the directive.

11. In February 2014, the Supervisor of Banks issued a circular entitled, "Proposal for an Update of the Disclosure of Credit Quality of Debts and of the Allowance for Credit Losses at Credit Card Companies." Pursuant to the circular, the Company is required to change the classifications of debtors and credit balances in the note, "Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses."

12. 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. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the bill, and transferred the bill to the Constitution, Law, and Justice Committee for preparation for the second and third reading.

13. 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. In October 2013, the Knesset plenum approved the government's announcement of its intention to apply the rule of continuity to the bill. The Constitution Committee will hold a discussion in February 2014 in preparation for the second and third reading.

14. In December 2013, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 301, "Board of Directors." Among other matters, the draft addresses permanent conflicts of interest and sets limits on the service of a director at a banking corporation concurrently with service as an officer in a capital-market corporation, in accordance with the principles of the joint policy formulated by the Supervisor of Banks and the Supervisor of the Capital Market, Insurance, and Savings.

15. In August 2013, the Supervisor of Banks issued directives concerning the delivery of messages to customers by electronic means, including the delivery of monthly statements to customers of credit-card companies. Among other matters, the directives aim to improve

service to customers and to increase efficiency and reduce costs in the production and delivery of messages sent to customers.

16. In August 2013, the Supervisor of Banks issued rules concerning contractual engagements with "aggregator" businesses (i.e. businesses that aggregate credits and debits of other merchants), in connection with the prevention of money laundering, in view of the barrier formed between the credit-card company and the end merchant from which the product or service was acquired.

17. In September 2013, the Supervisor of Banks issued a circular concerning earlier publication of financial statements to the public, and updated the Public Reporting Directives on this matter. Pursuant to the directive, banking corporations and credit-card companies will be required to make a gradual change such that by 2016 their quarterly financial statements are published no later than 45 days from the end of the quarter, and their annual financial statements are published no later than two months from the end of the year.

18. In September 2013, the Supervisor of Banks published a directive concerning reduction or increase of interest rates, pursuant to which for floating-rate loans (including credit limits for charge cards) granted to an "individual" or a "small business," when the interest rate on the loan changes, the banking corporation must apply the same reduction or increase to the base interest rate that applied when the loan was granted.

19. In October 2013, a bill for the amendment of the Charge Cards Law was submitted to Knesset, proposing an expansion of the list of details to be noted by law on the invoice in a transaction, as well as a list of details that issuers must note on the monthly statement sent to customers. In January 2014, the Ministers' Committee on Legislation resolved to oppose this bill.

20. In October 2013, the Constitution, Law and Justice Committee approved various amendments to the Money Laundering and Terrorism Financing Prohibition Order, which applies to banking corporations, including the rules for the "Know Your Customer" procedure. The amendment to the order was published in the Official Gazette of the Israeli Government in February 2014.

21. In February 2014, the Economics Committee passed a private bill for 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.

22. In February 2014, a bill was submitted to the Knesset concerning increasing competition in the area of credit institutions, proposing, among other matters, that banking corporations should gradually sell any means of control that they hold in credit-card companies.

23. On February 12, 2014, the Antitrust Authority issued a draft for comments from the public, sections of which include recommendations for expansion of the use of debit cards in Israel and rapid crediting of merchants in charge-card transactions.

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

Legal Proceedings and Pending Claims

1. As at the date of the report, several legal claims have been filed against the Company and a consolidated company, arising from the ordinary course of their business, in the aggregate amount of approximately NIS 7 million. Based on the opinion of its legal advisors, the Company estimates that the financial statements include adequate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

2. In May 2012, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 1,231, and the class-action suit is in an estimated amount of NIS 373.3 million. According to the claimant, the Company clears credit-card transactions on websites (transactions with a missing document) with no examination of the credit-card data entered into the website, other than the number and expiration date of the card, and without cross-referencing the data transferred to it. The court approved withdrawal on July 28, 2013. The personal claim was dismissed and the petition for certification was expunged.

3. A claim and a petition to certify the claim as a class action against the Company were filed in November 2012, with regard to currency conversion fees collected by the Company. The amount of the claim has been set at a total of approximately NIS 150 million. According to the claimant, Isracard misled credit-card holders with regard to the rate for euro currency conversion, in violation of the Consumer Protection Law, gaining unjust enrichment. The claimant seeks to represent Isracard credit-card holders who executed purchases of products outside Israel and were charged currency conversion fees despite the fact that no such fee is listed in the list of charges. The court approved withdrawal on August 29, 2013. The personal claim was dismissed and the petition for certification was expunged.

4. A claim and a petition to certify the claim as a class action against five fuel companies and three credit-card companies (Isracard, Leumi Card, and CAL) was received in October 2013. The amount of the claim of the customer suing Isracard stands at approximately NIS 1,000. The amount of the class-action suit was not noted. According to the claimants, a covert arrangement exists between the credit-card companies and the fuel companies wherein the credit-card companies charge customers who purchase fuel a sum of NIS 150 to NIS 600 per fuel purchase, either through "blockage of part of the cardholder's credit limit" or through "debiting the account in another transaction for a purchase that was not executed," for several days, until the amount of the credit limit is updated or the amounts charged are refunded. In the opinion of the Company's legal advisors, at this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

5. In December 2013, a claim and a petition to certify the claim as a class action were filed against the Company with regard to the addition of advertisements to the monthly statement sent by e-mail. The amount of the personal claim has been set at NIS 1,000. The amount of

the class-action suit has been set at NIS 50 million. According to the claimant, the Company added advertisements for its customers without having received their consent, and continued to do so after being asked to cease, in violation of the conditions established in the Communications Law (Telecommunications and Broadcast), 1982. The Company thereby allegedly committed offenses of violation of a legislated duty and unjust enrichment. In light of clarifications received from the Company, the applicant filed to withdraw from the petition for certification. The court ruled to approve the withdrawal on February 20, 2014.

6. During 2011, the Board of Directors of the Company approved the granting of a letter of indemnification to consolidated companies (Isracard Mimun, Isracard Nechasim, Tzameret Mimunim, and Global) in respect of all of their liabilities, in an unlimited amount, pursuant to Proper Conduct of Banking Business Directive No. 313 ("Limits on the Indebtedness of a Single Borrower") and Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy").

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

Objectives and Business Strategy

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

1. Creation of value for its shareholders.

2. Long-term contractual engagements with the Banks Under Arrangement.

3. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.

4. Continued implementation of the loyalty club strategy.

5. Expansion in the area of credit for private and business customers.

6. Maintaining differentiation and uniqueness of the private brand Isracard; maintaining the Company's image and continued positioning as a market leader.

7. Extending collaborations with merchants.

8. Ongoing improvement in quality of service to banks, loyalty clubs, merchants, and cardholders.

9. Maintaining a high technological level: innovation and support for product and service development and for improvements in efficiency.

10. Targeted actions to create customer preference for the credit cards issued by the Company and make these cards customers' first choice.

11. High-quality systems of risk management, credit control, and fraud prevention.

12. Working in accordance with the ethical code of the Company.

Risk Management Policy

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

Risks are managed pursuant to Proper Conduct of Banking Business Directive No. 339 and in compliance with Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy"). In December 2012-June 2013, the Bank of Israel issued several substantial updates of the Proper Conduct of Banking Business Directives, including Directive 310, "Risk Management"; Directive 311, "Credit Risk Management"; Directive 301, "Board of Directors"; Directive 342, "Liquidity Risk Management"; Directive 333, "Interest Rate Risk"; and Directive 339, "Market and Interest Rate Risks."

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

The Risk Management Committee of the Board of Directors convenes on a quarterly basis. In addition, the Risk Management Forum is headed by the CEO. 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, who is also responsible for money-laundering prevention, and the Head of Information Security.

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

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

The business activity of the Company is exposed to market risks arising from volatility in interest rates, exchange rates, the consumer price index, and the value of securities. The Company does not actively create exposure to market risks. Ongoing management of these risks is therefore aimed at monitoring of the risks in relation to the policies established by the Company.

The Company's market risk management policy is based on common practices in the banking system in Israel and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy") regarding market risk management, and Directive No. 339, "Market and Interest Rate Risk," adjusted to the unique risk profile of the Company. This policy was approved by the Board of Directors of the Company in May 2013. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and in interest rates, the CPI, foreign exchange rates, 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, for the Company and its subsidiaries on a consolidated basis, ensuring the optimal utilization of the capital and assets of each of the companies in the Group in order to achieve their strategic and business objectives while maintaining their stability. Market risks at the Company are managed by the Head of Finance and Administration.

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

A. Linkage Base Risk

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

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

B. Interest-Rate Exposure

Interest-rate risk is the exposure to damage to the capital of the Company as a result of changes in interest rates in the various markets. Among other factors, this exposure arises from the gap between maturity dates and dates of interest calculations for assets and liabilities in each of the linkage segments. For the purposes of interest rate risk management, gaps between assets and liabilities in future periods are examined, and comparisons of terms to maturity of assets, liabilities, and capital are performed on a monthly basis. Interest-rate exposure exists primarily in the shekel segment, as this segment contains assets with fixed interest rates.

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

	December 31, 2013				
	In NIS millions				
	Israeli currency		Foreign currency*		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	13,878	81	133	25	14,117
Amounts receivable in respect of derivative financial instruments	40	-	-	-	40
Financial liabilities	12,309	56	111	24	12,500
Amounts payable in respect of derivative financial instruments	40	-	-	-	40
Net fair value of financial instruments	**1,569**	**25**	**22**	**1**	**1,617**

	December 31, 2012(1)				
	In NIS millions				
	Israeli currency		Foreign currency*		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	13,976	78	139	35	14,228
Amounts receivable in respect of derivative financial instruments	40	-	3	-	43
Financial liabilities	12,636	51	86	25	12,798
Amounts payable in respect of derivative financial instruments	43	-	-	-	43
Net fair value of financial instruments	**1,337**	**27**	**56**	**10**	**1,430**

* Including Israeli currency linked to foreign currency.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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

	December 31, 2013						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	1,568	25	22	1	1,616	(1)	(0.1)
Immediate parallel increase of 0.1%	1,569	25	22	1	1,617	-	-
Immediate parallel decrease of 1%	1,570	25	22	1	1,618	1	0.1

	December 31, 2012(1)						
	Net fair value of financial instruments after the effect of changes in interest rates**					Change in fair value	
	Israeli currency		Foreign currency***				
	Unlinked	CPI-linked	USD	Other	Total	Total	Total
	In NIS millions						In percent
Immediate parallel increase of 1%	1,337	27	56	10	1,430	*-	-
Immediate parallel increase of 0.1%	1,337	27	56	10	1,430	*-	-
Immediate parallel decrease of 1%	1,337	27	56	10	1,430	*-	-

* Amount lower than NIS 0.5 million.

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

*** Including Israeli currency linked to foreign currency.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

C. Exposure to the value of securities

The Company's policy establishes a limited possibility for the execution of transactions in fixed-income, low-risk 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. The Company executes IRS and FRA transactions, from time to time, in order to hedge interest-rate exposures.

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 April 2013. 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 ("Liquidity Risk Management"), adjusted to the unique risk profile of the Company.

This policy is achieved by maintaining routine monitoring of the liquidity position of the Company through the use of an internal liquidity risk management model, monitoring of the indicator system for the identification of liquidity pressures, examination of extreme scenarios, and the use of an auxiliary system for current flow management. The disposable capital of the Company is used to give 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, in 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 Supervisor Reporting Directive No. 815 of the Supervisor of Banks.

The Company is preparing to implement Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management," which will take effect on January 1, 2014. The main points of the directive are focused on the adoption of the approach requiring the involvement of a function independent of the business units to support appropriate decision-making regarding credit; this function should address and participate in the formulation of credit policy, classification of problematic debts, formulation of recommendations concerning collective allowances, and approval of material credit exposures.

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, 2013.

Credit Control Unit

The Credit Risk Control and Management Unit is part of the first level of controls, and performs overarching control within the credit risk management process. The unit is responsible for writing the credit policy document, writing and approval of the division's procedures in the area of credit risk management and credit risk control, and submitting recommendations regarding limits on exposure to credit risks. The unit is independent and characterized by independence from the business of its division.

The unit operates in two areas:

1. **Control:**
   - Applying credit controls at the level of the product and at the level of the customer.
   - Applying operational controls to the process of granting and approving credit.
   - Performing periodic examinations of transactions with high risk ratings and sample examinations of the overall portfolio.

2. **Management of credit risks:**
   - Analyzing the various types of diversification in the credit portfolio.
   - Analyzing spreads versus risks.
   - Checking compliance with credit limits, credit authority, and regulatory restrictions.
   - Evaluating the level of risk at the level of the consumer/corporate credit portfolio and at the level of major clients.
   - Monitoring and reporting on the Group’s exposures to financial institutions.

Credit Exposure to Foreign Financial Institutions and Foreign Countries

The Company has immaterial exposure to the international organizations MasterCard International Incorporated, MasterCard Europe, Visa International, and Visa Europe with respect to balances of transactions executed by tourists in Israel, net of the balances of transactions executed by Israelis overseas in respect of which the Company has not yet been credited by the international organizations.

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, and Unimpaired Debts in Arrears of 90 Days or More

The data include, for the first time, the consolidated results of Aminit, which was acquired and merged during 2013. Comparative figures were restated for comparability; for further details, see Note 1.I to the Financial Statements.

	Balance as at December 31, 2013	Balance as at December 31, 2012
Consolidated	**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	17	14
Examined on a collective basis	4	9
Other impaired debtors not accruing interest income:		
Examined on an individual basis	-	-
Examined on a collective basis	*-	1
Total impaired debts not accruing interest income	21	24
Total nonperforming assets	21	24
2. Unimpaired debts in arrears of 90 days or more	-	-

* Amount lower than NIS 0.5 million.

Risk and Credit Indices

		December 31 2013	December 31 2012
		In percent	
(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	0.15	0.17
(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	0.64	0.61
(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	*-	*-
(E)	Problematic credit risk as a percentage of total credit risk	0.06	0.07
(F)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.05	0.28
(G)	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	0.02	0.12
(H)	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	3.41	19.28

* Greater than 100%.

Capital Measurement and Adequacy

The Company assesses its capital adequacy. 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.

The Basel II recommendations establish three pillars, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy"):

- 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

On June 3, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directives No. 201-211, adopting the Basel III directives as of January 1, 2014. Main changes from Basel II to Basel III:

- Establishment of minimum capital requirements of 9% for common equity Tier 1 capital (instead of the current 7.5% requirement applicable to core capital) and 12.5% for total capital (instead of the current 9%), from January 1, 2015 forward. In addition, large banking corporations whose total consolidated balance-sheet assets constitute at least 20% of the total assets in the banking system will be required to increase their minimum core capital ratios by one percentage point, and comply with ratios of 10% for common equity Tier 1 capital and 13.5% for total capital from January 1, 2017 forward.
- Redefinition of the capital base (a focus on Tier 1 capital, reduction of Tier 2 capital, and elimination of Tier 3 capital), with stricter terms for inclusion in supervisory capital, including as follows:
    - Reduction of instruments eligible for inclusion in regulatory capital.
    - Establishment of a series of supervisory adjustments (deductions), most of which will be performed with respect to common equity Tier 1 capital.
    - A significant change in the rules for accounting for investments in supervisory capital instruments of financial institutions.

- A change in accounting for cumulative other comprehensive income or loss in respect of revaluation of securities available for sale and cash-flow hedges.
- Accounting (during the transitional period) for comprehensive income or loss in respect of net assets or net liabilities for employee benefits.
- Stricter accounting for surplus investments in a single non-financial corporation.
- Transitional directives for accounting for certain capital instruments that are not eligible as supervisory capital under the Basel III directives but were recognized under Basel II (full deduction by January 1, 2022).

♦ A change in accounting for debts in arrears.

Further details regarding capital instruments issued by the Company are available on the Company's website, at www.isracard.co.il, along with data from the annual financial statements.

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.

Capital adequacy targets of the Company (see also Basel III, above):

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. Capital management should therefore:

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

Guiding Principles in Capital Management

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

The following table lists the required disclosures under Pillar III.

Capital Adequacy

Consolidated data

1. Capital for the calculation of the capital ratio

	December 31, 2013	December 31, 2012(1)
	In NIS millions	
Core capital and Tier 1 capital	1,933	1,707
Tier 2 capital*	**9	50
Total overall capital	**1,942**	**1,757**

* 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.

** The Company repaid the subordinated notes in October 2013, with the approval of the Supervisor of Banks.

2. Weighted balances of risk-adjusted assets

	December 31, 2013		December 31, 2012[1]	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions			
Credit risk	9,098	819	9,307	838
Market risks – foreign currency exchange rate risk	23	2	65	6
Operational risk	1,876	169	1,777	160
Total weighted balances of risk-adjusted assets	**10,997**	**990**	**11,149**	**1,004**

3. Ratio of capital to risk-adjusted assets

	December 31, 2013	December 31, 2012[1]
	In percent	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	17.6	15.3
Ratio of total capital to risk-adjusted assets	17.7	15.8
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

Expected Effect of the Adoption of the Basel III Directives on January 1, 2014

On August 29, 2013, the Supervisor of Banks issued a circular concerning Basel disclosure requirements pertaining to the composition of capital. The circular established updated disclosure requirements which banks and credit-card companies will be required to provide as part of the adoption of the Basel III directives. The disclosure requirements will be in effect from January 1, 2014 forward. However, in annual financial statements for 2013, banks and credit-card companies were required to include disclosure of the expected effect of the implementation of Basel III.

The expected effect of the adoption of the Basel III directives on January 1, 2014, is presented below, based on the position of the Company on December 31, 2013. The calculation of the expected effect of the adoption of the Basel III directives on January 1, 2014 takes the transitional directives described above into consideration.

	According to the directives of the Supervisor of Banks applicable December 31, 2013 – Basel II	Cancellation of core capital and recognition of common equity Tier 1 capital	Gains from securities available for sale	Collective allowance for credit losses	Deferred taxes	According to Basel III directives
	In NIS millions					
A. Regulatory capital after deductions and supervisory adjustments						
Core capital	1,933	(1,933)	-	-	-	-
Common equity Tier 1 capital	-	1,933	15	-	-	1,948
Tier 2 capital	9	-	(9)	92	-	92
Total capital	1,942	-	6	92	-	2,040
B. Weighted balances of risk-adjusted assets						
Credit risk	9,098	-	-	61	149	9,308
Market risk	23	-	-	-	-	23
Operational risk	1,876	-	-	-	-	1,876
Total weighted balances of risk adjusted assets	10,997	-	-	61	149	11,207
C. Ratio of capital to risk-adjusted assets						
Ratio of core capital to risk-adjusted assets	17.6%	(17.6%)	-	-	-	-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-	17.6%	0.1%	(0.1%)	(0.2%)	17.4%
Ratio of total capital to risk-adjusted assets	17.7%	-	**-	0.7%	(0.2%)	18.2%
Minimum capital ratio required in the directives of the Supervisor of Banks						
Ratio of core capital to risk-adjusted assets	7.5%					-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-					*7.5%
Ratio of total capital to risk-adjusted assets	9.0%					*9.0%

* See minimum capital requirements in the section "Basel III," above.

** Rate lower than 0.1%.

Applicability of Implementation

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

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

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

In general, the capital requirement of the Company is based on its consolidated financial statements, which are prepared according to Proper Conduct of Banking Business Directives – "Capital Measurement and Adequacy" (201-211). As at December 31, 2013, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

Structure of Capital

Structure of Regulatory Capital

Pursuant to the directives of Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy"), banking corporations and credit-card companies must maintain a ratio of capital to risk-adjusted assets of no less than 9% of the weighted average of their 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 capital excluding unrealized profits in respect of securities available for sale at fair value.

Upper Tier 2 capital consists of 45% of the unrealized profits in respect of securities available for sale at fair value, before the effect of tax.

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 Company; 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. See also "Basel III," above

Structure of Capital (continued)

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

	December 31, 2013	**December 31, 2012(1)**
	In NIS millions	
Tier 1 capital		
Paid-up common share capital	*-	*-
Share premium	43	97
Retained earnings	1,882	1,603
Other capital instruments	8	7
Total core capital and Tier 1 capital	1,933	1,707
Tier 2 capital		
Subordinated notes	-	31
45% of unrealized gains before tax from fair-value adjustments of securities available for sale	9	19
Total eligible capital	**1,942**	**1,757**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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, including Basel III, according to the required allocation under Proper Conduct of Banking Business Directives No. 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, 2013		December 31, 2012[1]	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Sovereign	-	-	-	-
Public-sector entities	1	*-	1	*-
Banking corporations	5,039	453	5,116	461
Corporations	1,429	129	1,539	139
Retail loans to individuals	2,080	187	2,101	189
Small businesses	73	7	69	6
Other assets	476	43	481	43
Total credit risk	9,098	819	9,307	838
Market risks – foreign currency exchange rate risk	23	2	65	6
Operational risk	1,876	169	1,777	160
Total weighted balances of risk-adjusted assets / capital requirement	10,997	990	11,149	1,004

* Amount lower than NIS 0.5 million.

	December 31, 2013	December 31, 2012[(1)]
Total capital ratio and Tier 1 capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	1,942	1,757
Ratio of core capital and Tier 1 capital to risk-adjusted assets	17.6%	15.3%
Ratio of total capital to risk-adjusted assets	17.7%	15.8%
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%

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

Credit Risk – General Disclosure Requirements

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and 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 United States accounting standards in this area (ASC 310) and the position statements of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives. In addition, beginning on that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts. For further details, see Note 1.G.4 to the Financial Statements.

Credit Risk Management

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

- The Company sets limits on the granting of credit , 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 Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of a Single Borrower and of a

Group of Borrowers." Applying 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 Supervisor Reporting Directive No. 815.

- The Company tracks damages arising from the abuse of credit cards. See Note 22 to the Financial Statements.

- The Company is preparing to implement Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management," which will take effect on January 1, 2014. The main points of the directive are focused on the adoption of the approach requiring the involvement of a function independent of the business units to support appropriate decision-making regarding credit; this function should address and participate in the formulation of credit policy, classification of problematic debts, and approval of material credit exposures.

Principles of Credit Concentration Risk Management

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

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

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

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 banks in Israel. 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 routinely monitors these exposures and reports exceptions from limits.

Credit exposure to financial institutions results primarily 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 No. 201-211 ("Capital Measurement and Adequacy"), as described below:

- Unutilized credit facilities of credit cards for holders of retail cards – 10%*.
- Other off-balance-sheet exposures, including unutilized credit facilities of credit cards for non-retail cardholders and check guarantees, for a period of up to one year – 20%.
- Other off-balance-sheet exposures, including unutilized credit facilities of credit cards for non-retail cardholders and check guarantees, for a period of more than one year – 50%.
- Other off-balance-sheet exposures, including guarantees and other commitments – 100%.

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

ISRACARD

Credit Risk

Credit Exposures

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

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

	December 31, 2013						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Transactions in derivative financial instruments(2)	Credit facilities	Other	Total overall credit exposure
	In NIS millions						
Banking corporations	1,324	378	1,702	-	45	-	1,747
Corporations	1,885	-	1,885	-	2,975	54	4,914
Retail to individuals	10,319	-	10,319	-	29,679	163	40,161
Small businesses	296	-	296	-	461	-	757
Public sector	2	-	2	-	*-	-	2
Government	*-	-	*-	-	3	-	3
Other assets(1)	-	491	491	-	-	-	491
Total exposures	**13,826**	**869**	**14,695**	**-**	**33,163**	**217**	**48,075**

	December 31, 2012(3)						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Transactions in derivative financial instruments(2)	Credit facilities	Other	Total overall credit exposure
	In NIS millions						
Banking corporations	1,677	461	2,138	*-	29	-	2,167
Corporations	1,855	-	1,855	-	3,080	48	4,983
Retail to individuals	9,979	-	9,979	-	31,025	161	41,165
Small businesses	301	-	301	-	503	-	804
Public sector	2	-	2	-	*-	-	2
Government	*-	-	*-	-	4	-	4
Other assets(1)	-	504	504	-	-	-	504
Total exposures	**13,814**	**965**	**14,779**	***-**	**34,641**	**209**	**49,629**

* Amount lower than NIS 0.5 million.

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

(2) Positive fair value of derivatives, including the add-on established in Proper Conduct of Banking Business Directives No. 201-211 reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments.

(3) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

<u>Average gross</u> credit exposures, by principal type of credit exposure (before deducting the allowance for credit losses):

	December 31, 2013						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Transactions in derivative financial instruments(3)	Credit facilities	Other	Total overall credit exposure(2)
	In NIS millions						
Banking corporations	1,762	504	2,266	-	33	-	2,299
Corporations	1,764	-	1,764	-	3,039	51	4,854
Retail to individuals	10,216	-	10,216	-	30,041	160	40,417
Small businesses	301	-	301	-	494	-	795
Public sector	2	-	2	-	*-	-	2
Government	*-	-	*-	-	4	-	4
Other assets(1)	-	497	497	-	-	-	497
Total exposures	**14,045**	**1,001**	**15,046**	**-**	**33,611**	**211**	**48,868**

	December 31, 2012(4)						
	Balance-sheet credit risk				Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Transactions in derivative financial instruments(3)	Credit facilities	Other	Total overall credit exposure(2)
	In NIS millions						
Banking corporations	1,601	492	2,093	1	29	-	2,123
Corporations	1,176	-	1,176	-	1,638	39	2,853
Retail to individuals	9,809	-	9,809	-	31,299	137	41,245
Small businesses	944	-	944	-	2,163	-	3,107
Public sector	3	-	3	-	*-	-	3
Government	*-	-	*-	-	5	-	5
Other assets(1)	-	502	502	-	-	-	502
Total exposures	**13,533**	**994**	**14,527**	**1**	**35,134**	**176**	**49,838**

* Amount lower than NIS 0.5 million.

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

(2) Average exposure calculated on a quarterly basis.

(3) Positive fair value of derivatives, including the add-on established in Proper Conduct of Banking Business Directives No. 201-211 reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments.

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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, 2013					
	Classified by term to maturity, in NIS millions					
	Up to 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years	Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years
Cash on hand and deposits with banks	377	-	1	-	-	-
Credit:						
Debtors in respect of credit cards	10,433	335	64	*-	*-	-
Credit to cardholders and merchants	1,150	249	109	24	4	1
Companies and international credit-card organization	1,251	48	11	-	-	-
Income receivable and others	27	-	-	-	-	-
Other assets	190	*-	*-	3		-
Non-monetary assets	-	-	-	-	-	-
Off balance sheet – credit facilities and other	33,181	62	-	-	-	-
Total assets	**46,609**	**694**	**185**	**27**	**4**	**1**

	December 31, 2012(1)					
	Classified by term to maturity, in NIS millions					
	Up to 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years	Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years
Cash on hand and deposits with banks	460	-	-	1	-	-
Credit:						
Debtors in respect of credit cards	10,037	400	87	*-	*-	-
Credit to cardholders and merchants	1,147	212	102	22	4	1
Companies and international credit-card organization	1,605	54	13	-	-	-
Income receivable and others	24	-	-	-	-	-
Other assets	176	*-	*-	-	3	-
Non-monetary assets	-	-	-	-	-	-
Transactions in derivative financial instruments	-	*-	-	-	-	-
Off balance sheet – credit facilities and other	34,522	202	-	-	-	-
Total assets	**47,971**	**868**	**202**	**23**	**7**	**1**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

			Balance-sheet balance	
	Total cash flows	No maturity period	Non-monetary assets	Total
	378	-	-	378
	10,832	8	-	10,829
	1,537	10	-	1,495
	1,310	-	-	1,310
	27	-	-	27
	193	102	-	295
	-	-	361	361
	33,243	137	-	33,380
	47,520	**257**	**361**	**48,075**

			Balance-sheet balance	
	Total cash flows	No maturity period	Non-monetary assets	Total
	461	-	-	461
	10,524	10	-	10,522
	1,488	9	-	1,448
	1,672	-	-	1,672
	24	-	-	24
	179	88	-	268
	-	-	384	384
	-	-	-	-
	34,724	126	-	34,850
	49,072	**233**	**384**	**49,629**

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

		December 31, 2013						
		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	12	5	-	8	51	(3)	6
Small businesses	Balance sheet	1	*-	-	1	2	*-	(3)
Corporations	Balance sheet	8	2	-	8	16	7	*-
Banking corporations	Balance sheet	-	-	-	-	4	1	-
Public sector	Balance sheet	-	-	-	-	*-	*-	-
Government	Balance sheet	-	-	-	-	*-	*-	-
Credit facilities and other	Off-balance-sheet	-	-	-	-	19	(1)	-
Total		**21**	**7**	**-**	**17**	**92**	**4**	**3**

		December 31, 2012(1)						
		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	19	9	-	11	51	11	10
Small businesses	Balance sheet	1	*-	-	1	2	(3)	(5)
Corporations	Balance sheet	4	1	-	2	15	8	11
Banking corporations	Balance sheet	-	-	-	-	3	*-	-
Public sector	Balance sheet	-	-	-	-	*-	*-	-
Government	Balance sheet	-	-	-	-	*-	*-	-
Credit facilities and other	Off-balance-sheet	-	-	-	-	20	5	-
Total		**24**	**10**	**-**	**14**	**91**	**21**	**16**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

Credit Risk Mitigation (CRM)

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

Credit Risk Weighting

Credit exposure is detailed below (after deduction of the allowance for credit losses, by risk weights):

Before credit-risk mitigation

		December 31, 2013						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
		In NIS millions						
Retail to individuals	Unrated	-	-	-	40,083	-	2	40,085
Small businesses	Unrated	-	-	-	755	-	*-	755
Corporations	Unrated	-	-	-	-	4,857	*-	4,857
	Rated	-	-	29	-	1	-	30
Banking corporations	Unrated	-	675	657	-	-	-	1,332
	Rated	-	368	43	-	-	-	411
Public sector	Unrated	-	-	2	-	-	-	2
Government	Rated	3	-	-	-	-	-	3
Other assets	Unrated	15	-	-	-	476	-	491
Total		18	1,043	731	40,838	5,334	2	47,966

After credit risk mitigation

		December 31, 2013						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Net credit exposure**
		In NIS millions						
Retail to individuals	Unrated	-	-	-	9,818	-	2	9,820
Small businesses	Unrated	-	-	-	181	-	*-	181
Corporations	Unrated	-	-	-	-	1,859	*-	1,859
	Rated	-	-	29	-	1	-	30
Banking corporations	Unrated	-	2,582	9,244	-	-	-	11,826
	Rated	-	3,476	20,278	-	-	-	23,754
Public sector	Unrated	-	-	2	-	-	-	2
Government	Rated	3	-	-	-	-	-	3
Other assets	Unrated	15	-	-	-	476	-	491
Total		**18**	**6,058**	**29,553**	**9,999**	**2,336**	**2**	**47,966**

* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM) (cont.)

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

Credit Risk Weighting

Credit exposure is detailed below (after deduction of the allowance for credit losses, by risk weights):

Before credit-risk mitigation

		December 31, 2012[1]						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
		In NIS millions						
Retail to individuals	Unrated	-	-	-	41,085	-	4	41,089
Small businesses	Unrated	-	-	-	801	-	*-	801
Corporations	Unrated	-	-	-	-	4,943	*-	4,943
	Rated	-	-	-	-	16	-	16
Banking corporations	Unrated	-	889	786	-	-	-	1,675
	Rated	-	464	27	-	-	-	491
Public sector	Unrated	-	-	2	-	-	-	2
Government	Rated	4	-	-	-	-	-	4
Other assets	Unrated	22	-	-	-	481	-	503
Total		**26**	**1,353**	**815**	**41,886**	**5,440**	**4**	**49,524**

After credit risk mitigation

		December 31, 2012[1]						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Net credit exposure**
		In NIS millions						
Retail to individuals	Unrated	-	-	-	10,726	-	4	10,730
Small businesses	Unrated	-	-	-	189	-	*-	189
Corporations	Unrated	-	-	-	-	2,067	*-	2,067
	Rated	-	-	-	-	16	-	16
Banking corporations	Unrated	-	2,665	9,908	-	-	-	12,573
	Rated	-	3,391	20,049	-	-	-	23,440
Public sector	Unrated	-	-	2	-	-	-	2
Government	Rated	4	-	-	-	-	-	4
Other assets	Unrated	22	-	-	-	481	-	503
Total		**26**	**6,056**	**29,959**	**10,915**	**2,564**	**4**	**49,524**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

Use of Eligible Collateral for Credit Risk Mitigation

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

			December 31, 2013			
Exposure	Credit risk	Type of exposure	Gross credit risk exposure	Exposure covered under the responsibility of banks		Net credit risk exposure
				Total amounts subtracted	Total amounts added	
			In NIS millions			
Retail to individuals	Balance sheet	Credit	10,260	(8,360)	-	1,900
	Off-balance sheet	Credit facility	29,666	(21,905)	-	7,761
	Off-balance sheet	Other	159	-	-	159
Small businesses	Balance sheet	Credit	294	(206)	-	88
	Off-balance sheet	Credit facility	461	(368)	-	93
Corporations	Balance sheet	Credit	1,860	(765)	-	1,095
	Off-balance sheet	Credit facility	2,974	(2,233)	-	741
	Off-balance sheet	Other	53	-	-	53
Banking corporations	Balance sheet	Credit	1,320	-	9,331	10,651
	Balance sheet	Deposits	378	-	-	378
	Off-balance sheet	Credit facility	45	-	24,506	24,551
Public sector	Balance sheet	Credit	2	-	-	2
	Off-balance sheet	Credit facility	*-	-	-	*-
Government	Balance sheet	Credit	*-	-	-	*-
	Off-balance sheet	Credit facility	3	-	-	3
Other assets	Balance sheet	Other assets	491	-	-	491
Total			**47,966**	**(33,837)**	**33,837**	**47,966**

* Amount lower than NIS 0.5 million.

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

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

			December 31, 2012[(1)]			
Exposure	**Credit risk**	**Type of exposure**	**Gross credit risk exposure**	**Exposure covered under the responsibility of banks**		**Net credit risk exposure**
				Total amounts subtracted	**Total amounts added**	
			In NIS millions			
Retail to individuals	Balance sheet	Credit	9,917	(8,085)	-	1,832
	Off-balance sheet	Credit facility	31,015	(22,274)	-	8,741
	Off-balance sheet	Other	157	-	-	157
Small businesses	Balance sheet	Credit	298	(216)	-	82
	Off-balance sheet	Credit facility	503	(396)	-	107
Corporations	Balance sheet	Credit	1,837	(723)	-	1,114
	Off-balance sheet	Credit facility	3,075	(2,153)	-	922
	Off-balance sheet	Other	47	-	-	47
Banking corporations	Balance sheet	Credit	1,676	-	9024	10,700
	Balance sheet	Deposits	461	-	-	461
	Transactions in derivative financial instruments		*-	-	-	*-
	Off-balance sheet	Credit facility	29	-	24823	24,852
Public sector	Balance sheet	Credit	2	-	-	2
	Off-balance sheet	Credit facility	*-	-	-	*-
Government	Balance sheet	Credit	*-	-	-	*-
	Off-balance sheet	Credit facility	4	-	-	4
Other assets	Balance sheet	Other assets	503	-	-	503
Total			**49,524**	**(33,847)**	**33,847**	**49,524**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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. In accordance with the standardized approach, the Company uses ratings by the international rating agencies Moody's, S&P, and Fitch. Each agency’s scale is adjusted to the risk groups using standardized 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 No. 201-211 ("Capital Measurement and Adequacy") for the purpose of minimizing credit risks, in the calculation of the capital allocation required according to the standardized approach. However, in its routine operations the Company considers these repayment sources as existing permanent flows, and uses them to manage credit risks (for risk management purposes, rather than for capital allocation). No collateral exists against non-bank credit to cardholders (such credit is granted according to the rating of the applicant).

Corporate credit is mainly based on the turnover of the merchant, and the credits owed to it serve as the repayment source for cases in which the credit is not repaid. This activity is conducted in accordance with credit policies. The amount of the credit is established according to the rating of the merchant, the type of credit product, and the turnover of the merchant. In addition, loans to merchants are conditional upon the receipt of a personal guarantee from the owner. The situation is different in private credit for the purchase of motor vehicles. The credit extended for the purchase of a motor vehicle is backed by a lien on the motor vehicle in favor of the Company. Default on payments allows realization of the security and repayment of the liability.

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

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

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

Hedging Interest-Rate Exposures

The financial activity of the Company is usually characterized by a parallel between the average duration of assets and liabilities (mainly short-term); i.e. customers' activity ("debtors in respect of credit cards") versus liabilities to merchants ("creditors in respect of credit-card activity"). However, the Company also extends credit for the medium term (usually up to one year, and sometimes up to three years). In addition, 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.

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

As at December 31, 2013, one IRS transaction is outstanding, with a face value of NIS 40 million. The transaction is presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

Hedging Foreign Currency Exposures

The Company's currency exposure is managed through daily matching of assets and liabilities in foreign currency (and linked to foreign currency) through foreign currency current accounts with banks, where the goal is to bring the net position to zero at the end of each day. The Company uses forward contracts, from time to time, to hedge currency risk in long-term purchasing transactions.

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 No. 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 activities (issuance, clearing, and financing); 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 investment committee; the Audit Committee; the Risk Management Committee of the Board of Directors; and the Board of Directors.

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

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

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

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

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

Structure and Organization of Market Risk Management Function

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

Market Risk Manager (VP Finance and Administration)

The Market Risk Manager is responsible for the formulation, implementation, and absorption of a comprehensive policy for the management of all market and liquidity risks to which the Company is exposed (currency, CPI, interest rate, securities, liquidity), including:

- Responsibility for financial exposures at the Company, subject to limits approved by the Board of Directors.

- Procedures for monitoring and control on matters related to exposure management.

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

Chief Risk Officer

The Chief Risk Officer of the Company is responsible, as part of his duties, among other matters, for control of the market and liquidity risks of the Company. Within this framework, he is responsible for controlling the Company's market risk management policies and processes.

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

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

Nature and Volume of Risk Reporting and Measurement Systems

A risk management system (RMS) is in use 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.

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 hedging transactions.

Foreign Currency Exposure Management

Transactions are hedged using 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 transaction date and the settlement date in foreign-currency transactions. The Company monitors these differences.

Capital Requirement in Respect of Foreign Currency Exchange Rate Risk

	Capital requirement	
	December 31, 2013	December 31, 2012(1)
	In NIS millions	
Market risks – Foreign currency exchange rate risk*	2	6

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

Operational Risk

Operational risk is managed by the members of Management at the Company, each with regard to the area for which he or she is responsible. The Head of Risks and Security at the Company is responsible for independent supervision of the 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, 2013	December 31, 2012(1)
	In NIS millions	
Operational risk	169	160

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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 No. 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 2013 is NIS 10,000) are reported on a quarterly basis to Management and the Board of Directors. The events are analyzed in order to ensure that a relevant operational process exists and that the existing controls are sufficient in order to reduce the risk of an additional event. If necessary, additional controls are added to the process.

Material operational risks are mitigated by:

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

Disclosure Regarding Share Holdings in the Banking Book

From time to time, the Company invests in areas synergetic with its operations and/or complementary to its core activity. These investments are of a strategic nature, and are not performed as financial holdings. According to the Company's policies, the Company does not perform securities trading.

	December 31			
	2013		2012	
	Balance-sheet balance	Capital requirements	Balance-sheet balance	Capital requirements
	In NIS millions			
Associated companies	5	*-	2	*-
Other companies				
Store Alliance.Com Ltd.	8	1	8	1
MasterCard Incorporated (MC)**	27	2	68	6
Other	3	*-	3	*-
Total	**43**	**3**	**81**	**7**

* Amount lower than NIS 0.5 million.

** Based on fair value on the stock exchange.

The Company holds options, in small numbers, in several companies and technological ventures with which it has entered into collaborations. The monetary volume of the options is immaterial.

Associated Companies

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

The Company holds 15% of the issued share capital of Life Style Customer Loyalty Club Ltd. (presented as an "other" company) and of Life Style Financing Ltd. (presented as an associated company).

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

I.M.T. - The Central Vehicle Distribution Company Ltd. (hereinafter: "IMT")

IMT leases motor vehicles to its customers through finance and operational leasing, while providing a source of credit.

The Company holds 20% of the issued share capital of IMT. The investment in IMT is presented in the financial statements according to the equity method.

Kidum Mivne Iguach 1 Ltd. (hereinafter: "Kidum")

Kidum extends loans to the general public for the purchase of second-hand motor vehicles with a manufacturing year no more than five years prior to the date of granting of the loan.

The Company holds 20% of the issued share capital of Kidum. The investment in Kidum is presented in the financial statements according to the equity method.

Other Companies

Store Alliance.Com Ltd.

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

Shares of MasterCard Incorporated ("MC")

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

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."
- The Order on Trade with the Enemy.

The Company applies monitoring and controls with regard to private customers and merchants in general, and those defined as high risk in particular. The Company maintains routine monitoring and 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 stay current on this topic through an annual training program and an up-to-date computer-based tutorial. Individual training sessions are conducted as necessary at the various departments as well as at external entities that are in contact with customers and have a connection to the issue of 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 the relevant topics in accordance with the requirements. The Compliance Officer coordinates the Compliance Committee, the Compliance Trustees Forum, and the Money Laundering and Terrorism Financing 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. Monthly reports are submitted to the Bank of Israel, in accordance with requirements.

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." 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.

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

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 and guarantees).

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.

Contingent Liabilities

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

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

Discussion of Risk Factors

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

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

	Risk factor	Brief description	Degree of effect of risk factor
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's revenue and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in 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, compliance incidents, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability.	Medium
6.	Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Low

Risk factor		Brief description	Degree of effect of risk factor
7.	Competition	The credit-card industry in Israel is characterized by a high level of competition, both in the area of bank cards and in the area of non-bank cards, as reflected in the loss of customers or reduction of customers' activity, or the termination of the contractual engagement with one of the Banks Under Arrangement, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants).	Medium
8.	Regulation and legislation	Present or future risk to the Company's revenue and capital arising from legislation and/or directives of various regulatory agencies that cause changes in 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 debts owed to it by customers of the relevant bank.	Medium

Risk factor	Brief description	Degree of effect of risk factor
11. Cessation of operation of an international credit-card organization	The cessation of operation of an international credit-card organization, in particular the MasterCard organization, may materially impair the Company's operations and financial results. In addition, collapse or insolvency of one of the Affiliate Members of Europay (a Principal Member) could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium

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.

The Company routinely works to identify and prevent events of information leakage involving sensitive business materials and customer details, and works to identify and prevent cyber attacks aimed at its infrastructures.

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 Proper Conduct of Banking Business Directive No. 307, "Internal Audit Function." 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. 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 2013 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 the Internal Audit Unit, the plan was submitted for discussion by the Audit Committee; subsequently, taking the committee's recommendations into consideration, the plan was discussed and approved by the Board of Directors.

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

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

Auditing resources – Approximately 3 auditor positions were invested at the Company and its subsidiaries in 2013. 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 they 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 No. 307, "Internal Audit Function"), 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, 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 2012 was submitted to the Company in February 2013. A summary of audit activities for 2013 is expected to be submitted to the Audit Committee during the first quarter of 2014.

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. The Head of Finance and Administration reviews the Company's business results and financial position as well as main items in the financial statements, the plausibility of the data, 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. In addition, the Chief Accountant addresses material issues in financial reporting, material evaluations, and critical estimates implemented in the financial statements.

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 2013, the Board of Directors of the Company continued to set forth the Company’s strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel. As part of this process, the Board of Directors established limits on exposure to the various risks and formulated policy for the activity of the subsidiaries.

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 Board of Directors includes the Audit Committee, the Credit Committee, the Wage and Remuneration Committee, the Risk Management Committee, and the Information Technology Committee. The Board of Directors and the committees held detailed discussions of the various aspects of the Company's activity.

18 meetings of the plenum of the Board of Directors and 45 meetings of the committees of the Board of Directors were held in 2013.

Directors with Accounting and Financial Expertise

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

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

Members of the Board

Irit Izakson

Served as Chairperson of the Company and as Chairperson of the Credit Committee of the Board of Directors of the Company from the beginning of October 2008 to December 31, 2013.

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

M.Sc. 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.

Shimon Gal

Serves as Chairperson of the Company and as Chairperson of the Credit Committee of the Board of Directors of the Company as of the beginning of January 2014. Also serves as Chairperson of Europay and Poalim Express, and as Chairperson of the Credit Committee of the Board of Directors of Poalim Express.

Head of Corporate Banking at Bank Hapoalim B.M. as of November 2009; chairperson of the board of management of Poalim Trust Services Ltd. and Diur B.P. Ltd. as of August 2013.

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

Director with accounting and financial expertise.

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

Avi Idelson

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

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

Member of the Board of Directors of the Company from January 31, 2010. Member of the Audit Committee of the Board of Directors of the Company; Chairperson of the Committee from February 28, 2011. Member of the following committees of the Board of Directors of the Company: IT Committee, Credit Committee, Remuneration Committee. Serves as Chairperson of the Audit Committee of the Board of Directors of the Company as of November 25, 2013.

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

Chairperson 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.

Eldad Kahana

Member of the Board of Directors of the Company from August 8, 1979.

Member of the Audit Committee and the Remuneration Committee of the Board of Directors of the Company.

Also a member of the board of directors and audit committee of Europay.

Attorney.

Until July 31, 2013, Head of Central Legal Counsel Division, Bank Hapoalim B.M.

L.L.B., Hebrew University of Jerusalem.

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

Shmuel Lachman

Member of the Board of Directors of the Company from May 21, 2009.

External director of the Company under Proper Conduct of Banking

Business Directive No. 301 of the Supervisor of Banks.

Chairperson of the IT Committee of the Board of Directors of the Company, and member of the following committees of the Board of Directors of the Company: the Audit Committee, the Risk Management Committee, and the Remuneration Committee.

CEO of Shiral 10 Ltd.

Also a member of the board of directors of the following companies: Europay, Poalim Express, 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.

Member of the audit committee of the board of directors of the following companies: Poalim Express and Europay.

In the last five years or during part of that period, served as a member of the board of directors of the following companies: IDB Holdings Ltd.; however, he no longer serves there.

M.Sc., Industry and Management, Technion; B.Sc., Industry and Management, Technion.

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

Director with accounting and financial expertise.

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

David Luzon

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

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

Member of the Information Technology Committee and the Risk Management Committee of the Board of Directors of the Company.

Also a member of the board of directors of Europay.

In the last five years or during part of that period, served as a member of the board of directors of the following companies: Poalit, and Malam-Team Ltd.; however, he no longer serves at these companies.

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

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

Ran Oz

Partner at Viola Credit.

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

From 2009 to 2013, served as a member of the Board of Management of Bank Hapoalim B.M., in the position of Chief Financial Officer. Also served as 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., Europay 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 March 1, 2011.

External director of the Company under Proper Conduct of Banking

Business Directive No. 301 of the Supervisor of Banks.

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

Member of the board of directors and audit committee of 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.

Moshe Amit

Member of the boards of directors of various companies.

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

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

Chairperson of the board of directors of Global Factoring Ltd.

Until December 31, 2013, also served as chairperson of Delek Israel Fuel Corporation Ltd. Serves as a member of the board of directors of the following companies: Europay; Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets Investment Holdings Ltd.; Mega Retail Ltd. (formerly Blue Square Chain Properties & Investments Ltd.); AFI Development Plc, Cyprus; Allied Real Estate Ltd. Chairperson of Excellence Investments Ltd.

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

In the last five years or during part of that period, served as a member of the board of directors of the following companies: The Phoenix Israel Insurance Company Ltd., Matav Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Signature Bank New York Ltd., and as chairperson of the board of Continental Bank Ltd., Tempo Beer

Industries Ltd., and Cargall Ltd.; however, he no longer serves at these companies.

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

Director with accounting and financial expertise.

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

Itzhak Amram

Member of the Board of Directors of the Company from September 25, 2011.

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

Member of the Audit Committee of the Board of Directors of the Company from April 23, 2012; member of the Risk Management Committee of the Board of Directors of the Company.

Also serves as an external director of Europay under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks, and as a member of the audit committee of the board of directors of Europay; as of December 16, 2012, serves as an external director of Poalim Express under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks.

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

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

Nitzana Adawi

Member of the Board of Directors of the Company from May 29, 2012. Also a member of the Audit Committee, the Credit Committee, and the Remuneration Committee of the Board of Directors of the Company.

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

Senior economist, lecturer on finance, member of the teaching staff at the Open University, MBA program. Advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc.

Member of the board of directors of the following companies: Europay (from May 29, 2012) and Poalim Express (from October 31, 2011). Member of the audit committee of the board of directors of Europay; member of the credit committee of the board of directors of Poalim Express.

M.B.A., 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. N. Adawi, she is not a family member of another interested party of the corporation.

Ari Pinto

Member of the Board of Management of Bank Hapoalim B.M. from September 8, 2009.

Head of Retail Banking, Bank Hapoalim B.M.

Served for the preceding four years as Head of Corporate Strategy, and previously as Head of the Retail Credit and Mortgages Division and as Head of the Human Resources Division.

Member of the Board of Directors of Isracard and Europay from November 25, 2013.

M.A. in Public Administration; B.A. in Business.

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

Guy Kalif

Head of the Comptrolling Division at Bank Hapoalim B.M. from February 1, 2007.

Member of the Board of Directors of the Company from September 2, 2013.

Also a member of the board of directors of the following companies: Tarshish Hapoalim Holdings and Investments Ltd., Hapoalim Nechasim (Menayot) Ltd., Opaz Ltd., Poalim Self Service Ltd., Pekaot Poalim Ltd., Poalim Ofakim Ltd., Poalim Mortgages Insurance Agency (2005) Ltd., Hapoalim Hanpakot Ltd.

C.P.A.

B.A. in Accounting and Economics, Tel Aviv University; M.B.A., specialized in finance and strategy, Tel Aviv University.

Director with accounting and financial expertise.

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

Lilach Asher-Topilsky Served as a member of the Board of Directors of the Company from November 18, 2003 to October 31, 2013.

Ilan Grinboim Served as a member of the Board of Directors of the Company from May 26, 2010 to May 26, 2013.

Senior Members of Management

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

CEO of the following credit-card companies: 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, Amir Marketing and Investments in Agriculture Ltd., and H.E.O.H. Management Services Ltd.; member of the governing 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.

Oren Cohen Butensky Member of Management of the Company from June 2011.

Head of Customer Service.

Member of the board of directors of Tzameret Mimunim Ltd. 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, Derby 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.

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.

Vicky Levi

Member of the Management of the Company from January 1, 2014.

Head of Commerce.

Also a member of the board of directors of Global Factoring Ltd. and Tzameret Mimunim Ltd.

From 1992, served in various positions at Bank Hapoalim B.M.

1992-2003 – Executive training track, various management positions, Bank Hapoalim branch network.

2003-2006 – Head of Negev Region at Bank Hapoalim B.M.

2006-2013 – Head of Central Region at Bank Hapoalim B.M.

M.B.A., Ben Gurion University; B.A. in Economics, Ben Gurion University.

Investment advisor certified by the Israel Securities Authority.

Completed a directors' course at the Interdisciplinary Center Herzliya.

To the best of the knowledge of the Company and of Ms. V. Levi, she 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; will leave his position at the Company during May 2014.

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.

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.

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.

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.

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.

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 department. The credit department 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.

Previously 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.

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.
Ron Weksler	Left his position at the Company on October 31, 2013.

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 of financial reporting, pursuant to the provisions of Sections 302 and 404 of the law known as the “Sarbanes-Oxley Act,” enacted in the United States. The provisions of these two sections of the law were consolidated by the Supervisor of Banks in Proper Conduct of Banking Business Directive No. 309 in September 2008, and the Public Reporting Directives were adjusted accordingly in June 2009.

The two directives of the aforesaid law have been implemented at the Company since their inception dates:

- ♦ The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been applied 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 applied 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.

The Board of Directors and the Management of the Company estimate that the controls identified as noted above are effective in achieving the control objectives with regard to maintaining execution, precision, and completeness. These control objectives meet the criteria established in the COSO integrated framework of internal controls.

Evaluation of Controls and Procedures Regarding Disclosure

The Management of the Company, in cooperation with the Chief Executive Officer and the Chief Accountant of the Company, has assessed the effectiveness of the controls and procedures regarding disclosure at the Company 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, 2013, there was no change in the Company's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal controls over financial reporting.

Wages and Benefits of Officers[1]

The following table lists the salaries, compensation, value of benefits, employer contributions, and provisions for the five recipients of the highest wages among the senior officers of the Company, in thousands of NIS.

Wages of Senior Officers for the Year Ended December 31, 2013

	Salary	Bonuses and other payments[2][5]	Share-based payment transactions	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Dov Kotler[3]	1,295	1,610	944	133	456
Irit Izakson[3]	1,098	1,361	86	170	628
Ronen Zaretsky	776	829	-	82	262
Ron Weksler*[4]	837	601	115	126	262
Ron Cohen[4]	796	523	88	37	180

Wages of Senior Officers for the Year Ended December 31, 2012

	Salary	Bonuses and other payments[2][5]	Share-based payment transactions	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Dov Kotler[3]	1,322	1,587	1,870	111	430
Irit Izakson[3]	1,117	1,362	1,415	139	339
Ron Weksler[4]	936	422	941	138	230
Ronen Zaretsky	792	683	-	68	220
Ron Cohen[4]	773	100	270	34	382

1. Pursuant to an agreement with companies in the Isracard Group, those companies are debited with some operational costs, which include wages of senior officers, among other things. The table shows the full wages paid to such officers.
2. Bonuses, as described in Note 13C (with regard to the Chairperson of the Board of Directors and the CEO of the Company) and 13D to the Financial Statements.
3. Share-based payment transactions, as described in Note 13B(1)f and 13B(h) to the Financial Statements.
4. The benefit is in the form of phantom options for shares of Bank Hapoalim, which impart a monetary grant based on the difference between the price of the Bank Hapoalim share on the TASE and the base price. Also see Note 13B(1)c to the Financial Statements.
5. Loans granted under terms similar to those offered to all employees of the Company; amounts determined based on uniform criteria.
6. Data represent credit-card balances during the ordinary course of business as at December 31.

* Employment at the Company ended on October 31, 2013.

	Loans granted under benefit terms				
Total salaries and related expenses	Balance as at Dec. 31, 2013	Average term to maturity (in years)	Benefit granted during the year(5)	Balance of loans granted under ordinary terms(6)	Payments by controlling shareholders
4,438	-	-	-	20	-
3,343	-	-	-	54	141
1,949	-	-	-	45	-
1,941	-	-	-	49	-
1,624	-	-	-	19	-

	Loans granted under benefit terms				
Total salaries and related expenses	Balance as at Dec. 31, 2012	Average term to maturity (in years)	Benefit granted during the year(5)	Balance of loans granted under ordinary terms(6)	Payments by controlling shareholders
5,320	-	-	-	26	-
4,372	-	-	-	33	144
2,667	-	-	-	58	-
1,763	30	3	-	24	-
1,559	-	-	-	26	-

Remuneration of Auditors[1][2]

The data include, for the first time, the consolidated results of Aminit, which was acquired and merged during 2013. Comparative figures were restated for comparability; for further details, see Note 1.I to the Financial Statements.

	Consolidated		The Company	
	2013	**2012**	**2013**	**2012**
	(In NIS thousands)			
For audit activities[3]:				
Joint auditors	2,319	1,938	2,196	1,816
Total	2,319	1,938	2,196	1,816
For tax services[4]:				
Joint auditors	86	79	86	75
For other services[5]:				
Joint auditors	135	*(47)	135	*(47)
Total	221	32	221	28
Total remuneration of auditors	**2,540**	**1,970**	**2,417**	**1,844**

* Surplus provision from the preceding year.

(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, including an audit of the internal control over financial reporting

(SOX 404).

(4) Includes tax adjustment reports and tax consulting.

(5) Mainly includes routine processes.

Shimon Gal
Chairperson of the Board of Directors

Dov Kotler
Chief Executive Officer

Tel Aviv, February 27, 2014

Isracard Ltd. and its Consolidated Companies

Management's Review

For the Year Ended December 31, 2013

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Consolidated Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2013	**2012(1)**	**2011(1)**	**2010(1)**	**2009(1)**
Assets					
Cash on hand and deposits with banks	378	461	408	127	538
Debtors in respect of credit-card activity	13,661	13,666	13,176	12,733	11,167
Allowance for credit losses	(88)	(83)	(67)	(79)	(60)
Debtors in respect of credit-card activity, net	13,573	13,583	13,109	12,654	11,107
Securities	38	79	96	74	178
Investments in associated companies	5	2	2	3	2
Buildings and equipment	285	264	262	268	254
Goodwill	-	-	-	7	10
Other assets	326	305	257	165	126
Total assets	**14,605**	**14,694**	**14,134**	**13,298**	**12,215**
Liabilities					
Credit from banking corporations	18	37	6	77	47
Creditors in respect of credit-card activity	11,880	12,130	11,937	11,577	10,843
Subordinated notes	-	31	32	16	4
Other liabilities	759	757	655	326	231
Total liabilities	**12,657**	**12,955**	**12,630**	**11,996**	**11,125**
Shareholders' equity	1,948	1,739	1,501	1,296	1,085
Non-controlling interests	-	-	3	6	5
Total capital	1,948	1,739	1,504	1,302	1,090
Total liabilities and capital	**14,605**	**14,694**	**14,134**	**13,298**	**12,215**

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

Consolidated Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31				
	2013	**2012(1)**	**2011(1)**	**2010(1)**	**2009(1)**
Income					
From credit-card transactions	1,281	1,302(2)	1,299(2)	1,240(2)	1,136(2)
Net interest income	133	141	126	90	61
Other income	100	75(2)	61(2)	43(2)	38(2)
Total income	**1,514**	**1,518**	**1,486**	**1,373**	**1,235**
Expenses					
Provision for credit losses	7	37	50	39	29
Operating expenses	507	478	489	437	383
Sales and marketing expenses	213	257	246	179	181
General and administrative expenses	72	72	64	65	68
Payments to banks	335	348	380	395	371
Write-downs and impairment of goodwill	-	-	7	2	-
Total expenses	**1,134**	**1,192**	**1,236**	**1,117**	**1,032**
Profit before taxes	**380**	**326**	**250**	**256**	**203**
Provision for taxes on profit	95	87	52	69	55
Profit after taxes	**285**	**239**	**198**	**187**	**148**
The Company's share in profits (losses) of associated companies, after tax	*-	(*-)	(2)	-	-
Net profit					
Before attribution to non-controlling interests	285	239	196	187	148
Attributed to non-controlling interests	-	*-	*-	(1)	1
Attributed to shareholders of the Company	**285**	**239**	**196**	**186**	**149**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**388**	**325**	**268**	**254**	**202**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

(2) Reclassified.

Rates of Income and Expenses of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses

Addendum 3

Reported amounts

The data include, for the first time, the consolidated results of Aminit, which was acquired and merged during 2013. Comparative figures were restated for comparability; for further details, see Note 1.I to the Financial Statements.

Average Balances and Interest Rates – Assets

	For the year ended December 31, 2013			For the year ended December 31, 2012			For the year ended December 31, 2011		
	Average balance[1]	Interest income	Rate of income	Average balance[1]	Interest income	Rate of income	Average balance[1]	Interest income	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing assets[2]									
Cash on hand and deposits with banks	686	5	0.73	560	8	1.43	268	8	2.99
Debtors in respect of credit-card activity[3]	1,645	130	7.90	1,643	138	8.40	1,453	129	8.88
Other assets	148	10	6.76	127	7	5.51	70	4	5.71
Total interest-bearing assets	2,479	145	5.85	2,330	153	6.57	1,791	141	7.87
Non-interest-bearing debtors in respect of credit cards	11,993			11,669			11,170		
Other non-interest-bearing assets[4]	469			480			470		
Total assets	**14,941**			**14,479**			**13,431**		

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Includes derivative instruments and non-monetary assets; net 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 of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Average Balances and Interest Rates – Liabilities and Capital

	For the year ended December 31, 2013			For the year ended December 31, 2012			For the year ended December 31, 2011		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Interest-bearing liabilities(2)									
Credit from banking corporations	30	(10)	(33.33)	24	(9)	(37.50)	50	(12)	(24.00)
Subordinated notes	26	(1)	(3.85)	32	(1)	(3.13)	22	(2)	(9.09)
Other liabilities	420	(1)	(0.24)	363	(2)	(0.55)	96	(1)	(1.04)
Total interest-bearing liabilities	476	(12)	(2.52)	419	(12)	(2.86)	168	(15)	(8.93)
Non-interest-bearing creditors in respect of credit cards	12,265			12,096			11,570		
Other non-interest-bearing liabilities(3)	361			348			331		
Total liabilities	13,102			12,863			12,069		
Total capital means	1,839			1,616			1,362		
Total liabilities and capital means	**14,941**			**14,479**			**13,431**		
Interest spread			3.33			3.71			(1.06)
Net return on interest-bearing assets in Israel	2,479	133	5.37	2,330	141	6.05	1,791	126	7.04

(1) Based on balances at the beginning of each month.

(2) The Company has no activities outside Israel.

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

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 of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Average Balances and Interest Rates – Additional Information Regarding Interest-Bearing Assets and Liabilities Attributed to Activity in Israel

	For the year ended December 31, 2013			For the year ended December 31, 2012			For the year ended December 31, 2011		
	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income	Average balance(1)	Interest income (expenses)	Rate of income
	In NIS millions		In percent	In NIS millions		In percent	In NIS millions		In percent
Unlinked Israeli currency									
Total interest-bearing assets	2,462	145	5.89	2,307	153	6.63	1,755	141	8.03
Total interest-bearing liabilities	459	(12)	(2.61)	408	(12)	(2.94)	156	(15)	(9.62)
Interest spread			3.28			3.69			(1.59)
CPI-linked Israeli currency									
Total interest-bearing assets	9	*-	-	9	*-	-	9	*-	-
Total interest-bearing liabilities	-	-	-	-	-	-	-	-	-
Interest spread			-			-			-
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	8	*-	-	14	*-	-	27	*-	-
Total interest-bearing liabilities	17	(*-)	-	11	(*-)	-	12	(*-)	-
Interest spread			-			-			-
Total activity in Israel									
Total interest-bearing assets	2,479	145	5.85	2,330	153	6.57	1,791	141	7.87
Total interest-bearing liabilities	476	(12)	(2.52)	419	(12)	(2.86)	168	(15)	(8.93)
Interest spread			3.33			3.71			(1.06)

* Amount lower than NIS 0.5 million.

(1) Based on balances at the beginning of each month.

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 of the Company on a Consolidated Basis and Analysis of Changes in Interest Income and Interest Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Analysis of Changes in Interest Income and Interest Expenses

Year ended December 31, 2013 versus year ended December 31, 2012

	Increase (decrease) due to change(1)		
	Quantity	Price	Net change
	In NIS millions		
Interest-bearing assets(2)			
Cash on hand and deposits with banks	1	(4)	(3)
Debtors in respect of credit-card activity	*-	(8)	(8)
Other interest-bearing assets	1	2	3
Total interest income	2	(10)	(8)
Interest-bearing liabilities(2)			
Credit from banking corporations	2	(1)	1
Subordinated notes	*-	(*-)	-
Other interest-bearing liabilities	*-	(1)	(1)
Total interest expenses	2	(2)	-

Year ended December 31, 2012 versus year ended December 31, 2011

	Increase (decrease) due to change(1)		
	Quantity	Price	Net change
	In NIS millions		
Interest-bearing assets(2)			
Cash on hand and deposits with banks	4	(4)	-
Debtors in respect of credit-card activity	16	(7)	9
Other interest-bearing assets	3	(*-)	3
Total interest income	23	(11)	12
Interest-bearing liabilities(2)			
Credit from banking corporations	(10)	7	(3)
Subordinated notes	*-	(1)	(1)
Other interest-bearing liabilities	2	(1)	1
Total interest expenses	(8)	5	(3)

* Amount lower than NIS 0.5 million.

(1) The change in quantity was calculated by multiplying the difference between the average balances in each period by the rate of income/expense for the period. The change in price was calculated by multiplying the average balance of the corresponding period by the difference between the rates of income/expense in each period.

(2) The Company has no activities outside Israel.

Note: Full data regarding the rates of income and expenses in each segment, by balance-sheet item, will be provided upon request.

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as at December 31, 2013

Addendum 4

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets*	8,465	2,554	2,386	467	-
Derivative financial instruments	-	40	-	-	-
Total fair value	**8,465**	**2,594**	**2,386**	**467**	**-**
Financial liabilities:					
Financial liabilities*	7,368	2,282	2,141	447	4
Derivative financial instruments	-	-	40	-	-
Total fair value	**7,368**	**2,282**	**2,181**	**447**	**4**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,097	312	205	20	(4)
Cumulative exposure in the segment	1,097	1,409	1,614	1,634	1,630
Linked Israeli currency					
Financial assets:					
Financial assets*	15	24	38	1	3
Total fair value	**15**	**24**	**38**	**1**	**3**
Financial liabilities:					
Financial liabilities*	11	18	27	*-	-
Total fair value	**11**	**18**	**27**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	4	6	11	1	3
Cumulative exposure in the segment	4	10	21	22	25

* Amount lower than NIS 0.5 million.

** Weighted average based on fair value of effective average duration.

	Over 5 years	No maturity period	Total fair value	Internal rate of return(2)	Effective average duration(3)
				In percent	In years
	-	6	13,878	2.40%	0.16
	-	-	40		0.12
	-	**6**	**13,918**		**0.16
	-	67	12,309	2.04%	0.17
	-	-	40		0.85
	-	**67**	**12,349**		**0.17
	-	(61)	1,569		
	1,630	1,569			
	-	*-	81	(0.46%)	0.43
	-	**-**	**81**		
	-	-	56	(0.61%)	0.26
	-	**-**	**56**		
	-	*-	25		
	25	25			

General notes

(1) In this table, the data by period represent the present value of future cash flows of each financial instrument, capitalized at the interest rates discounting them to the fair value included in respect of the financial instrument in Note 17 to the Financial Statements, consistently with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 17 to the Financial Statements.

(2) The internal rate of return is the interest rate discounting the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 17 to the Financial Statements.

(3) The effective average duration of a group of financial instruments constitutes an approximation of the percent change in the fair value of the group of financial instruments that would be caused by a small change (a 0.1% increase) in the internal rate of return of each of the financial instruments.

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as at December 31, 2013 (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	104	16	12	-	-
Total fair value	**104**	**16**	**12**	**-**	**-**
Financial liabilities:					
Financial liabilities	98	20	6	-	-
Total fair value	**98**	**20**	**6**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	6	(4)	6	-	-
Cumulative exposure in the segment	6	2	8	8	8
Total exposure to changes in interest rates					
Financial assets:					
Financial assets*	8,584	2,594	2,436	468	3
Derivative financial instruments	-	40	-	-	-
Total fair value	**8,584**	**2,634**	**2,436**	**468**	**3**
Financial liabilities:					
Financial liabilities	7,477	2,320	2,174	447	4
Derivative financial instruments	-	-	40	-	-
Total fair value	**7,477**	**2,320**	**2,214**	**447**	**4**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,107	314	222	21	(1)
Cumulative exposure in the segment	1,107	1,421	1,643	1,664	1,663

* Amount lower than NIS 0.5 million.

** Weighted average based on fair value of effective average duration.

	Over 5 years	No maturity period	Total fair value	Internal rate of return(2)	Effective average duration(3)
				In percent	In years
	-	26	158	0.32%	0.09
	-	26	158		**0.09
	-	11	135	-	0.06
	-	11	135	0.27%	**0.06
	-	15	23		
	8	23			
	-	32	14,117	2.35%	0.16
	-	-	40		0.12
	-	**32**	**14,157**		****0.16**
	-	78	12,500	2.02%	0.17
	-	-	40		0.85
	-	**78**	**12,540**		****0.17**
		(46)	1,617		
	1,663	1,617			

General notes

(1) In this table, the data by period represent the present value of future cash flows of each financial instrument, capitalized at the interest rates discounting them to the fair value included in respect of the financial instrument in Note 17 to the Financial Statements, consistently with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 17 to the Financial Statements.

(2) The internal rate of return is the interest rate discounting the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 17 to the Financial Statements.

(3) The effective average duration of a group of financial instruments constitutes an approximation of the percent change in the fair value of the group of financial instruments that would be caused by a small change (a 0.1% increase) in the internal rate of return of each of the financial instruments.

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as at December 31, 2012[(4)]

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets**	8,386	2,598	2,444	553	-
Derivative financial instruments	-	40	-	-	-
Total fair value	**8,386**	**2,638**	**2,444**	**553**	**-**
Financial liabilities:					
Financial liabilities**	7,329	2,466	2,217	555	-
Derivative financial instruments	3	-	1	39	-
Total fair value	**7,332**	**2,466**	**2,218**	**594**	
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,054	172	226	(41)	-
Cumulative exposure in the segment	1,054	1,226	1,452	1,411	1,411
Linked Israeli currency					
Financial assets:					
Financial assets**	14	23	37	*-	4
Total fair value	**14**	**23**	**37**	***-**	**4**
Financial liabilities:					
Financial liabilities**	10	16	25	*-	-
Total fair value	**10**	**16**	**25**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	4	7	12	-	4
Cumulative exposure in the segment	4	11	23	23	27

* Amount lower than NIS 0.5 million.

** Excluding balance-sheet balances of derivative financial instruments and fair value of off-balance-sheet financial instruments.

*** Weighted balance according to fair value of effective average duration.

	Over 5 years	No maturity period	Total fair value	Internal rate of return(2)	Effective average duration(3)
				In percent	In years
	-	(5)	13,976	2.31%	0.18
	-	-	40		0.12
	-	**(5)**	**14,016**		*****0.18**
	8	61	12,636	1.87%	0.19
	-	-	43		1.67
	8	**61**	**12,679**		*****0.19**
	(8)	(66)	1,337		
	1,403	1,337			
	-	-	78	0.04%	0.46
	-	**-**	**78**		*****0.46**
	-	-	51	(0.24%)	0.26
	-	**-**	**51**		*****0.26**
	-	-	27		
	27	27			

General notes

(1) In this table, the data by period represent the present value of future cash flows of each financial instrument, capitalized at the interest rates discounting them to the fair value included in respect of the financial instrument in Note 17 to the Financial Statements, consistently with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 17 to the Financial Statements.

(2) The internal rate of return is the interest rate discounting the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 17 to the Financial Statements.

(3) The effective average duration of a group of financial instruments constitutes an approximation of the percent change in the fair value of the group of financial instruments that would be caused by a small change (a 0.1% increase) in the internal rate of return of each of the financial instruments.

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

ISRACARD

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as at December 31, 2012[4] (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets**	78	21	7	*-	-
Derivative financial assets	3	-	-	-	-
Total fair value	**81**	**21**	**7**	***-**	**-**
Financial liabilities:					
Financial liabilities**	76	19	4	*-	-
Total fair value	**76**	**19**	**4**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	5	2	3	-	-
Cumulative exposure in the segment	5	7	10	10	10
Total exposure to changes in interest rates					
Financial assets:					
Financial assets**	8,478	2,642	2,488	553	4
Derivative financial instruments	3	40	-	-	-
Total fair value	**8,481**	**2,682**	**2,488**	**553**	**4**
Financial liabilities:					
Financial liabilities**	7,415	2,501	2,246	555	-
Derivative financial instruments	3	-	1	39	-
Total fair value	**7,418**	**2,501**	**2,247**	**594**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,063	181	241	(41)	4
Cumulative exposure in the segment	1,063	1,244	1,485	1,444	1,448

* Amount lower than NIS 0.5 million.

** Excluding balance-sheet balances of derivative financial instruments and fair value of off-balance-sheet financial instruments.

*** Weighted balance according to fair value of effective average duration.

	Over 5 years	No maturity period	Total fair value	Internal rate of return(2)	Effective average duration(3)
				In percent	In years
	-	68	174	0.39%	0.07
	-	-	3		0.03
	-	**68**	**177**		*****0.07**
	-	12	111	0.31%	0.07
	-	**12**	**111**		*****0.07**
	-	56	66		
	10	66			
	-	63	14,228	2.27%	0.18
	-	-	43		0.11
	-	**63**	**14,271**		*****0.18**
	8	73	12,798	1.86%	0.19
	-	-	43		1.67
	8	**73**	**12,841**		*****0.19**
	(8)	(10)	1,430		
	1,440	1,430			

General notes

(1) In this table, the data by period represent the present value of future cash flows of each financial instrument, capitalized at the interest rates discounting them to the fair value included in respect of the financial instrument in Note 17 to the Financial Statements, consistently with the assumptions according to which the fair value of the financial instrument was calculated. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 17 to the Financial Statements.

(2) The internal rate of return is the interest rate discounting the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 17 to the Financial Statements.

(3) The effective average duration of a group of financial instruments constitutes an approximation of the percent change in the fair value of the group of financial instruments that would be caused by a small change (a 0.1% increase) in the internal rate of return of each of the financial instruments.

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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

Addendum 5

Reported amounts

In NIS millions

	2013			
	Q4	**Q3**	**Q2(1)**	**Q1(1)**
Assets				
Cash on hand and deposits with banks	378	562	635	439
Debtors in respect of credit-card activity	13,661	13,801	13,634	14,201
Allowance for credit losses	(88)	(85)	(81)	(85)
Debtors in respect of credit-card activity, net	13,573	13,716	13,553	14,116
Securities	38	33	49	47
Investments in associated companies	5	4	4	4
Buildings and equipment	285	279	279	279
Other assets	326	347	299	334
Total assets	**14,605**	**14,941**	**14,819**	**15,219**
Liabilities				
Credit from banking corporations	18	42	26	25
Creditors in respect of credit-card activity	11,880	12,212	12,126	12,624
Subordinated notes	-	32	32	31
Other liabilities	759	772	754	730
Total liabilities	**12,657**	**13,058**	**12,938**	**13,410**
Shareholders' equity	1,948	1,883	1,881	1,809
Non-controlling interests	-	-	-	-
Total capital	1,948	1,883	1,881	1,809
Total liabilities and capital	**14,605**	**14,941**	**14,819**	**15,219**

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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

Addendum 5 (cont.)

Reported amounts

In NIS millions

	2012(1)			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	461	614	418	476
Debtors in respect of credit-card activity	13,666	13,639	13,287	13,123
Allowance for credit losses	(83)	(80)	(76)	(71)
Debtors in respect of credit-card activity, net	13,583	13,559	13,211	13,052
Securities	79	77	74	70
Investments in associated companies	2	2	2	2
Buildings and equipment	264	264	277	277
Other assets	**305**	**309**	**275**	**287**
Total assets	14,694	14,825	14,257	14,164
Liabilities				
Credit from banking corporations	37	35	39	16
Creditors in respect of credit-card activity	12,130	12,352	11,893	11,849
Subordinated notes	31	32	32	32
Other liabilities	757	706	670	704
Total liabilities	**12,955**	**13,125**	**12,634**	**12,601**
Shareholders' equity	1,739	1,700	1,623	1,560
Non-controlling interests	-	-	-	3
Total capital	**1,739**	**1,700**	**1,623**	**1,563**
Total liabilities and capital	14,694	14,825	14,257	14,164

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

ISRACARD

Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

Reported amounts

In NIS millions

	2013			
	Q4	Q3	Q2[(1)]	Q1[(1)]
Income				
From credit-card transactions	347	323	301	310
Net interest income	33	33	32	35
Other income	19	29	13	39
Total income	**399**	**385**	**346**	**384**
Expenses (income)				
Provision for credit losses	3	4	(1)	1
Operating expenses	143	122	123	119
Sales and marketing expenses	58	59	43	53
General and administrative expenses	25	15	14	18
Payments to banks	90	87	78	80
Total expenses	**319**	**287**	**257**	**271**
Profit before taxes	**80**	**98**	**89**	**113**
Provision for taxes on profit	21	20	24	30
Profit after taxes	**59**	**78**	**65**	**83**
The Company's share in profits of associates after tax	*-	*-	*-	*-
Net profit				
Before attribution to non-controlling interests	59	78	65	83
Attributed to non-controlling interests	-	-	-	-
Attributed to shareholders of the Company	**59**	**78**	**65**	**83**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**81**	**106**	**89**	**112**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

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

Addendum 6 (cont.)

Reported amounts

In NIS millions

	2012[2]			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	323[1]	342[1]	322[1]	315[1]
Net interest income	37	35	35	34
Other income	14[1]	17[1]	12[1]	32[1]
Total income	**374**	**394**	**369**	**381**
Expenses				
Provision for doubtful debts	3	5	14	15
Operating expenses	133	117	110	118
Sales and marketing expenses	72	60	66	59
General and administrative expenses	24	17	15	16
Payments to banks	81	94	88	85
Total expenses	**313**	**293**	**293**	**293**
Profit before taxes	61	101	76	88
Provision for taxes on profit	**19**	**26**	**20**	**22**
Profit after taxes	42	75	**56**	**66**
The Company's share in losses of associates after tax	(*-)	(*-)	(*-)	(*-)
Net profit				
Before attribution to non-controlling interests	42	75	56	66
Attributed to non-controlling interests	-	-	-	-
Attributed to shareholders of the Company	**42**	**75**	**56**	**66**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**56**	**102**	**77**	**90**

* Amount lower than NIS 0.5 million.

(1) Reclassified.

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2013 (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 annual financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in 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, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, in particular during the preparation of the Report;

   B. We have established such internal control 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. furthermore:

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 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

Chief Executive Officer

Tel Aviv, February 27, 2014

Certification

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2013 (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 annual financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in 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, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, in particular during the preparation of the Report;

   B. We have established such internal control 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. furthermore:

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 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."

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 27, 2014

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

The Board of Directors and the Management of Isracard Ltd. (hereinafter: the "**Company**") are responsible for the establishment and application of adequate internal controls over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal 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, 2013, 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, 2013, 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, 2013 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 151. 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, 2013.

Shimon Gal	**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, 2014

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2013

ISRACARD

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Somekh Chaikin

Auditors' Report to the Shareholders of Isracard Ltd. Pursuant to the Public Reporting Directives of the Supervisor of Banks on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Isracard Ltd. and its subsidiaries (hereinafter, jointly: "the Company") as at December 31, 2013, 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 (PCAOB) in the United States concerning audit 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, 2013, based on criteria established in the 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 consolidated and standalone balance sheets of the Company as at December 31, 2013 and 2012, and the consolidated and standalone statements of profit and loss, statements of comprehensive income, statements of changes in shareholders' equity, and statements of cash flows of the Company for each of the years in the three-year period ended on December 31, 2013. Our report dated February 27, 2014, included an unqualified opinion on the aforesaid financial statements, while drawing attention to Note 16C concerning antitrust issues.

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

Tel Aviv, February 27, 2014

Somekh Chaikin

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

We have audited the accompanying balance sheets of Isracard Ltd. (hereinafter: "the Company") as at December 31, 2013 and 2012 and the consolidated balance sheets as at those dates, and the statements of profit and loss, statements of comprehensive income, statements of changes in shareholders' equity, and statements of cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2013. 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 audits.

We conducted our audits 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 sample 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, of the Company and consolidated, as at December 31, 2013 and 2012, and the results of operations, changes in shareholders' equity, and cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2013, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforesaid opinion, we draw attention to Note 16C concerning antitrust issues.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the United States 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, 2013, 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, 2014, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

Somekh Chaikin

Certified Public Accountants (ISR)

Ziv Haft

Certified Public Accountants (ISR)

Tel Aviv, February 27, 2014

Balance Sheets

Reported amounts

In NIS millions

		Consolidated		The Company	
		December 31		December 31	
	Note	2013	2012[(1)]	2013	2012[(1)]
Assets					
Cash on hand and deposits with banks	2	378	461	373	457
Debtors in respect of credit-card activity	3, 4	13,661	13,666	12,203	12,295
Allowance for credit losses	3A	(88)	(83)	(39)	(40)
Debtors in respect of credit-card activity, net		13,573	13,583	12,164	12,255
Securities	5	38	79	38	79
Investments in investee companies (consolidated: in associates)	6	5	2	256	241
Buildings and equipment	7	285	264	197	179
Other assets	8	326	305	2,251	1,954
Total assets		**14,605**	**14,694**	**15,279**	**15,165**
Liabilities					
Credit from banking corporations	9	18	37	18	23
Creditors in respect of credit-card activity	10	11,880	12,130	12,610	12,644
Subordinated notes[(2)]		-	31	-	31
Other liabilities	11, 16	759	757	703	728
Total liabilities		**12,657**	**12,955**	**13,331**	**13,426**
Contingent liabilities and special agreements	16				
Shareholders' equity		1,948	1,739	1,948	1,739
Total capital		1,948	1,739	1,948	1,739
Total liabilities and capital		**14,605**	**14,694**	**15,279**	**15,165**

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I below.

(2) With regard to the settlement of subordinated notes, see Note 1.I below.

Shimon Gal Chairperson of the Board of Directors	**Dov Kotler** Chief Executive Officer	**Sigal Barmack** Manager of Finance and Accounting Department, Chief Accountant

Tel Aviv, February 27, 2014

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

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	Consolidated For the year ended December 31			The Company For the year ended December 31		
		2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Income							
From credit-card transactions	19	1,281	**1,302	**1,299	1,283	**1,304	**1,301
Net interest income	20	133	141	126	40	57	50
Other income	21	100	**75	**61	95	**69	**58
Total income		**1,514**	**1,518**	**1,486**	**1,418**	**1,430**	**1,409**
Expenses (income)							
Provision for credit losses	3A	7	37	50	(1)	24	36
Operating expenses	22	507	478	489	493	465	479
Sales and marketing expenses	23	213	257	246	208	252	242
General and administrative expenses	24	72	72	64	65	67	61
Payments to banks	16H	335	348	380	335	348	380
Write-downs and impairment of goodwill		-	-	7	-	-	-
Total expenses		**1,134**	**1,192**	**1,236**	**1,100**	**1,156**	**1,198**
Profit before taxes		**380**	**326**	**250**	**318**	**274**	**211**
Provision for taxes on profit	25	95	87	52	76	71	43
Profit after taxes		**285**	**239**	**198**	**242**	**203**	**168**
The Company's share in profits (losses) of investee companies (consolidated: associates), after tax		*-	(*-)	(2)	43	36	28
Net profit							
Before attribution to non-controlling interests		285	239	196	285	239	196
Attributed to non-controlling interests		-	*-	*-	-	-	-
Attributed to shareholders of the Company		285	239	196	285	239	196
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)		**388**	**325**	**268**	**388**	**325**	**268**
Number of common shares used in calculation		735,124	733,898	733,198	735,124	733,898	733,198

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I below.

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

Statements of Comprehensive Income

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Net profit before attribution to non-controlling interests	285	239	196	285	239	196
Net profit attributed to non-controlling interests	-	*-	*-	-	-	-
Net profit attributed to shareholders of the Company	**285**	**239**	**196**	**285**	**239**	**196**
Other comprehensive income (loss) before tax:						
Adjustments for presentation of securities available for sale at fair value, net	(22)	(2)	35	(22)	(2)	35
Other comprehensive income (loss) before tax	(22)	(2)	35	(22)	(2)	35
Effect of related tax	5	*-	(9)	5	*-	(9)
Other comprehensive income (loss) before attribution to non-controlling interests, after tax	(17)	(2)	26	(17)	(2)	26
Net of other comprehensive income attributed to non-controlling interests	-	-	-	-	-	-
Other comprehensive income (loss) attributed to shareholders of the Company, after tax	**(17)**	**(2)**	**26**	**(17)**	**(2)**	**26**
Comprehensive income before attribution to non-controlling interests	**268**	**237**	**222**	**268**	**237**	**222**
Comprehensive income attributed to non-controlling interests	-	*-	*-	-	-	-
Comprehensive income attributed to shareholders of the Company	**268**	**237**	**222**	**268**	**237**	**222**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I to the Financial Statements below.

(2) The Company adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. The directive was adopted retroactively. Accordingly, data on other comprehensive income for the previous years were reclassified, and are no longer presented as part of the statement of changes in equity; instead, they are presented in the consolidated statement of comprehensive income. See also Note 1.F below. In addition, Note 27, Cumulative Other Comprehensive Income (Loss), includes details of changes in the components of other comprehensive income.

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

Statements of Changes in Equity

Reported amounts

In NIS millions

	For the year ended December 31, 2013						
		Capital reserves					
	Paid-up share capital	Premium on shares	From a controlling shareholder	Total paid-up share capital and capital reserves	Accumulated other comprehensive income (loss)**	Retained earnings	Total capital
Balance as at Dec. 31, 2012[(1)]	***-**	**97**	**7**	**104**	**32**	**1,603**	**1,739**
Annual net profit	-	-	-	-	-	285	285
Adjustments and changes due to:							
Acquisition of a sister company	-	(63)	-	(63)	-	(6)	(69)
Benefits received from controlling shareholder	-	-	1	1	-	-	1
Benefit from share allocation	-	5	-	5	-	-	5
Share issuance at a consolidated company	-	4	-	4	-	-	4
Net other comprehensive loss after tax**	-	-	-	-	(17)	-	(17)
Balance as at Dec. 31, 2013	***-**	**43**	**8**	**51**	**15**	**1,882**	**1,948**

* Amount lower than NIS 0.5 million.

** The Company adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directives state that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in Note 27, Cumulative Other Comprehensive Income, below. The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1.F below.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I below.

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

Statements of Changes in Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2012(1)									
		Capital reserves								
	Paid-up share capital	Premium on shares	Benefit due to share-based payment transactions	From a controlling shareholder	Total paid-up share capital and capital reserves	Accumulated other comprehensive income (loss)**	Retained earnings	Total	Non-controlling interests	Total capital
Balance as at Dec. 31, 2011	***-**	**78**	**14**	**6**	**98**	**34**	**1,369**	**1,501**	**3**	**1,504**
Annual net profit	-	-	-	-	-	-	239	239	*-	239
Adjustments and changes due to:										
Benefit for share-based payment transactions	-	-	*-	-	*-	-	-	*-	-	*-
Exercise of options in respect of share-based payment	*-	14	(14)	-	*-	-	-	*-	-	*-
Benefits received from controlling shareholder	-	-	-	4	4	-	-	4	-	4
Transfer to controlling party in respect of benefits related to share-based payment	-	-	-	(3)	(3)	-	-	(3)	-	(3)
Benefit due to share allocation	-	5	-	-	5	-	-	5	-	5
Dividend paid to shareholders of a consolidated company	-	-	-	-	-	-	(5)	(5)	-	(5)
Dividend to holders of non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	(3)	(3)
Acquisition of shares in a subsidiary from holders of non-controlling interests	-	-	-	-	-	-	-	-	(*-)	(*-)
Net other comprehensive loss after tax**	-	-	-	-	-	(2)	-	(2)	-	(2)
Balance as at Dec. 31, 2012	***-**	**97**	**-**	**7**	**104**	**32**	**1,603**	**1,739**	**-**	**1,739**

* Amount lower than NIS 0.5 million.

** The Company adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directives state that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in Note 27, Cumulative Other Comprehensive Income, below. The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1.F below.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I below.

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

Statements of Changes in Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2011[(1)]									
		Capital reserves								
	Paid-up share capital	Premium on shares	Benefit due to share-based payment transactions	From a controlling shareholder	Total paid-up share capital and capital reserves	Accumulated other comprehensive income**	Retained earnings	Total	Non-controlling interests	Total capital
Balance as at Dec. 31, 2010	***-**	**14**	**12**	**6**	**32**	**8**	**1,223**	**1,263**	**6**	**1,269**
Cumulative effect of acquisition of a sister company	-	24	-	-	24	-	9	33	-	33
Cumulative effect, net of tax, of initial implementation of directive on measurement of impaired debts and allowance for credit losses on Jan. 1, 2011	-	-	-	-	-	-	(50)	(50)	-	(50)
Cumulative effect of initial implementation of IFRS	-	-	-	-	-	-	(9)	(9)	(3)	(12)
Annual net profit	-	-	-	-	-	-	196	196	*-	196
Adjustments and changes due to:										
Benefits received from controlling shareholder	-	-	-	*-	*-	-	-	*-	-	*-
Benefit for share-based payment transactions		-	2	-	2	-	-	2	-	2
Benefit due to share allocation	-	5	-	-	5	-	-	5	-	5
Share issuance at a consolidated company	-	35	-	-	35	-	-	35	-	35
Net other comprehensive income after tax**										
Effect of related tax	-	-	-	-	-	26	-	26	-	26
Balance as at Dec. 31, 2011	***-**	**78**	**14**	**6**	**98**	**34**	**1,369**	**1,501**	**3**	**1,504**

* Amount lower than NIS 0.5 million.

** The Company adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directives state that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in Note 27, Cumulative Other Comprehensive Income, below. The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1.F below.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I below.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Cash flows from operating activity						
Annual net profit	**285**	**239**	**196**	**285**	**239**	**196**
Adjustments:						
The Company's share in undistributed (profits) losses of investee companies (consolidated: associates)	(*-)	*-	2	(43)	(36)	(28)
Depreciation of buildings and equipment	93	89	84	91	86	81
Write-downs and impairment of goodwill	-	-	7	-	-	-
Impairment of securities available for sale	-	-	3	-	-	3
Provision (income) for credit losses	7	37	50	(1)	24	36
Profit from realization of securities available for sale	(37)	(21)	(10)	(37)	(21)	(10)
Deferred taxes, net	(7)	(12)	(35)	(4)	(9)	(30)
Profit from realization of buildings and equipment	-	*-	-	-	-	-
Retirement compensation – increase in surplus of provision over amount funded	6	9	18	6	9	18
Revaluation of deposits with banking corporations	1	(*-)	(2)	1	-	(2)
Revaluation of subordinated notes	-	(1)	1	-	(1)	1
Benefit due to share-based payment transactions	-	*-	2	-	*-	2
Benefit due to transactions with a controlling party	1	1	*-	1	1	*-
Benefit due to share allocation	5	5	5	5	5	5
Adjustments in respect of exchange-rate differences	*-	*-	(27)	*-	*-	(27)
Changes in current assets						
Increase in deposits with banks	(24)	(9)	(27)	(24)	(9)	(27)
Withdrawal of deposits from banks	22	30	22	22	30	22
Change in credit to cardholders and merchants, net	(39)	(91)	(288)	45	32	(237)
Change in debtors in respect of credit-card activity, net	41	(412)	(257)	46	(367)	(315)
Change in debtors in respect of factoring	(12)	(37)	(23)	-	-	-
Change in other assets, net	2	(20)	(17)	(287)	(265)	(129)
Changes in current liabilities						
Short-term credit from banking corporations, net	(19)	31	(71)	(5)	21	(14)
Change in creditors in respect of credit-card activity, net	(250)	193	360	(34)	299	445
Change in other liabilities, net	(7)	87	287	(3)	81	290
Net cash from operating activity	**68**	**118**	**280**	**64**	**119**	**280**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I below.

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

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Cash flows from investing activity						
Investment in investee companies (consolidated: associates)	(3)	(*-)	(1)	(3)	(*-)	(1)
Acquisition of buildings and equipment	(110)	(93)	(70)	(107)	(92)	(68)
Acquisition of a sister company	(69)	-	-	(69)	-	-
Proceeds of realization of buildings and equipment	-	*-	-	-	*-	-
Proceeds of realization of securities available for sale	56	57	-	56	57	-
Net cash from investing activity	(126)	(36)	(71)	(123)	(35)	(69)
Cash flows from financing activity						
Acquisition of shares of a subsidiary from holders of non-controlling interests	-	*-	-	-	-	-
Net issuance of subordinated notes at a sister company		-	15	-	-	15
Redemption of subordinated notes	(31)	-	-	(31)	-	-
Issuance of share capital at a consolidated company	4	-	35	4	-	35
Dividend paid to shareholders of a sister company	-	(5)	-	-	(5)	-
Dividend paid to holders of non-controlling interests in consolidated companies	-	(3)	-	-	-	-
Realization of put option for holders of non-controlling interests	-	-	(12)	-	-	(12)
Net cash from financing activity	**(27)**	**(8)**	**38**	**(27)**	**(5)**	**38**
Increase (decrease) in cash	(85)	74	247	(86)	79	249
Balance of cash at beginning of year	449	375	101	445	366	90
Effect of changes in exchange rates on cash balances	(*-)	(*-)	27	(*-)	(*-)	27
Balance of cash at end of year	**364**	**449**	**375**	**359**	**445**	**366**
Interest and taxes paid and/or received						
Interest received	143	144	144	21	27	28
Interest paid	9	14	15	9	9	14
Dividends received	*-	*-	-	*-	*-	-
Income tax paid	121	121	85	98	102	70
Income tax received	23	7	16	23	7	16

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I below.

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

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012	2011	2013	2012	2011
Appendix A						
Activity in assets and liabilities not involving cash flows						
Acquisition of buildings and equipment against liabilities to suppliers	4	(2)	8	2	(2)	8
Proceeds of realization of securities available for sale against other debtors	-	-	20	-	-	20

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

Note 1 – Significant Accounting Policies

A. General

Isracard Ltd. (hereinafter: the “**Company**”) is a corporation incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. (hereinafter: the "**Parent Company**" / "**Bank Hapoalim**"). 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 is primarily engaged in issuing and clearing Isracard, MasterCard, and Visa brand credit-card transactions and in financing activity, as well as operating the credit-card systems of its subsidiary Europay (Eurocard) Israel Ltd. and of its sister company Poalim Express Ltd. The financial statements as at December 31, 2013, include those of the Company and of its subsidiaries (hereinafter: the "**Group**"), as well as the Group's interests in joint operations and in associates.

The financial statements were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with the directives and guidelines of the Supervisor of Banks.

The notes to the financial statements refer to the financial statements of the Company and to the consolidated financial statements of the Company and its consolidated subsidiaries, except where the note states that it refers only to the Company or only to the consolidated statements.

The annual financial statements were approved for publication by the Board of Directors of the Company on February 27, 2014.

B. Material Events During the Reported Period

Acquisition and Merger of Aminit Ltd.

The Company acquired the full holdings of Bank Hapoalim in Aminit Ltd. (hereinafter: "**Aminit**") on July 1, 2013. Aminit was merged into the Company on October 1, 2013. For further details, see Note 1.I below.

C. Definitions

In these financial statements:

- 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), Codification, and in accordance with the guidelines and position statements of the banking supervision agencies in the United States.

Note 1 – Significant Accounting Policies (cont.)

C. Definitions (cont.)

- **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.

1. The Company – Isracard Ltd.
2. The Group – The Company and its consolidated companies.
3. The Parent Company – Bank Hapoalim B.M.
4. Subsidiaries/consolidated companies – Companies controlled by the Company.
5. Associated companies – Companies other than consolidated companies, the Company's investment in which is included in the financial statements based on the equity method.
6. Investee companies – Consolidated companies and associated companies.
7. Related parties – As defined in IAS 24, Related Party Disclosures, excluding interested parties.
8. Interested parties – As defined in the Securities Law, 1968, and as defined in Section 80B of the Public Reporting Directives.
9. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.
10. CPI – The consumer price index, as published by the Central Bureau of Statistics in Israel.
11. USD – United States dollar.
12. 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.
13. 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.
14. 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.
15. Cost – Cost in reported amounts.

Note 1 – Significant Accounting Policies (cont.)

C. Definitions (cont.)

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

17. 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.

18. Presentation currency – The currency in which the financial statements are presented.

D. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the Group are prepared in accordance with the Public Reporting Directives and guidelines 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 based on GAAP for US banks as adopted in the Public Reporting Directives of the Supervisor of Banks. Matters related to the core business of banking have been defined by the Supervisor of Banks as financial instruments; recognition of revenues, including customer loyalty programs; allowance for credit losses; contingent liabilities and provisions; presentation of financial statements; and segmental reporting.

- **On matters not related to the core business of banking** – Accounting treatment based on Israeli GAAP, and on certain IFRS and the related IFRIC interpretations. Pursuant to the directives of the Supervisor of Banks, international standards are implemented according to the following principles:
  - In cases in which a material issue arises that is not resolved in the IFRS or in the implementation instructions of the Supervisor, the Group treats the issue according to GAAP for US banks specifically applicable to these matters;
  - In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Group acts according to specific implementation guidelines established by the Supervisor;
  - Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Group acts in accordance with the IFRS;
  - Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Bank acts in accordance with the Public 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.

Note 1 – Significant Accounting Policies (cont.)

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

2. Functional Currency and Presentation Currency

The consolidated 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, derivatives, and other financial instruments measured at fair value through profit and loss;
- Financial instruments classified as available for sale;
- Liabilities in respect of share-based payment to be settled in cash;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits.
- Investments in joint operations and in associates.

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.

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, 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.

Note 1 – Significant Accounting Policies (cont.)

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

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.

E. Reclassification

Due to the first-time implementation of certain accounting standards and directives of the Supervisor of Banks (see Section F below), certain items in the financial statements and certain comparative figures were reclassified, in order to match the item headings, reporting requirements, and presentation method of the current reporting period.

Presentation of Items of Other Comprehensive Income

Following the initial implementation of the directives of the Supervisor of Banks concerning presentation of the statement of comprehensive income, in accordance with the requirements of US GAAP (ASU 2011-05 and ASU 2011-12) and with the prevalent method of presentation of the statement of comprehensive income in the financial statements of banking corporations in the United States, items of other comprehensive income in the financial statements for 2012 and 2011 have been reclassified, so that they are not presented separately in the statement of changes in equity, but are reported as a total amount, with details of the composition presented in a separate report entitled the "consolidated statement of comprehensive income," which is presented immediately after the statement of profit and loss.

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

The following accounting standards and directives were implemented by the Company for the first time in the financial statements for 2013:

1. Directive concerning the "statement of comprehensive income."
2. Directive concerning "offsetting of assets and liabilities."
3. Certain disclosures pursuant to 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, initial implementation of which was required beginning January 1, 2013.
4. A new system of International Financial Reporting Standards (IFRS) concerning the consolidation of financial statements and related matters.
5. Updates concerning the presentation of the note on assets and liabilities by linkage base and by term to maturity.

Note 1 – Significant Accounting Policies (cont.)

F. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks (cont.)

The accounting policies of the Group, as detailed in Section G below, include the new accounting policies resulting from the implementation of the aforesaid 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.

G. Accounting Policies Implemented in the Preparation of the Financial Statements

The accounting policies detailed below were implemented consistently over all of the periods presented in these consolidated statements by the entities in the Group, unless otherwise noted.

1. Foreign Currency and Linkage

Transactions in Foreign Currency

Transactions in foreign currency are translated 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 according to the exchange rate in effect at that date.

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 are recognized in profit and loss, with the exception of differences arising from translation of equity financial instruments classified as available for sale, which are recognized in other comprehensive income.

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.

Note 1 – Significant Accounting Policies (cont.)

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

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

	December 31		
	2013	**2012**	**2011**
Consumer price index (in points)	107.6	105.7	104.0
United States dollar exchange rate (in NIS per 1 USD)	3.471	3.733	3.821

	Percent change in the year ended December 31		
	2013	**2012**	**2011**
Consumer price index	1.8	1.6	2.2
USD exchange rate	(7.0)	(2.3)	7.7

2. Basis for Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date of attainment of control to the date of cessation of control. Control is the power to determine the financial and operational policy of a company in order to derive benefit from its operations. Potential voting rights that can be exercised immediately are taken into consideration in examining the existence of control. Control exists when the Company is exposed to or has a right to variable returns arising from its involvement in an acquiree, and has the ability to influence such returns through its influence over the acquiree. Accounting policies of subsidiaries were changed, where necessary, in order to adjust them to the accounting policies adopted by the Group.

Non-Controlling Interests

Non-controlling interests constitute the capital of a subsidiary that cannot be directly or indirectly attributed to the parent company. Transactions with non-controlling interests where control is retained are treated as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is allocated to the share of the owners of the Company, directly in capital.

Note 1 – Significant Accounting Policies (cont.)

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

Joint Operations

When the Group has rights to assets and commitments to liabilities attributed to joint arrangements, it recognizes the assets, liabilities, income, and expenses of the joint operation in accordance with its interests in these items, including its share of items held or created jointly. Profits or losses from transactions with joint operations are recognized only in the amount of the share of the other parties in the joint operation. When such transactions provide evidence of decline in value of such assets, the losses are recognized in full by the Group.

Investments in Associates

Associates are entities in which the Group has material influence on financial and operational policy, but has not obtained control or joint control. Investments in associates are treated according to the equity method and recognized for the first time at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in income and expenses, profit or loss, and other comprehensive income of equity-basis investees, after the necessary adjustments to the accounting policy of the Group, from the date on which the material influence exists, to the date when the material influence ceases to exist.

It is hereby clarified that the Company does not adjust accounting policies on matters related to the core business of banking (where IFRS have not yet been adopted in the Public Reporting Directives) implemented by non-financial associates.

When the Group's share of losses exceeds the value of the Group's interests in an equity-basis investee company, the book value of such interests (including long-term investments constituting part of the investment in the investee company) is written down to zero. In cases in which the Group's share of a long-term investment constituting part of an investment in an investee company differs from its share in the investee company's capital, the Group continues to recognize its share of the investee company's losses after the equity investment is brought to zero, according to the percentage of its economic entitlement to the long-term investment after the interests are brought to zero, as noted. The Group does not recognize additional losses of the investee company unless the Group has a commitment to support the investee company, or unless the Group has paid sums on its behalf.

Loss of Material Influence

The Group discontinues the use of the equity method from the date of the loss of its material influence, and treats the remaining investment as a financial asset.

Note 1 – Significant Accounting Policies (cont.)

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

Inter-Company Transactions

Mutual balances in the Group and unrealized income and expenses arising from inter-company transactions were canceled in full.

Business Combinations

The Group applies the acquisition method to business combinations, with the exception of combinations of businesses under common control. The acquisition date is the date on which the acquirer obtains control over the acquiree.

Business Combinations of Companies Under Common Control

The acquisition of interests in businesses under the control of the controlling shareholder of the Group was accounted for as though the acquisition had been performed on the date on which control was initially attained by the controlling shareholder of the Group. Comparative figures were restated for that purpose. Assets and liabilities acquired are presented according to the values presented earlier in the financial statements of the sister company. Capital components of the Group were restated from the date of initial attainment of control by the controlling shareholder of the Group, such that the capital components of the acquired entity were added to the existing capital components of the Group, with the exception of paid-up share capital, which was added to the premium on shares. Any difference between the cash paid for the acquisition and the value of the assets and liabilities acquired on the date of attainment of control was recognized directly in equity.

A New System of International Financial Reporting Standards (IFRS) Concerning the Consolidation of Financial Statements and Related Matters

The Company has implemented the new system of IFRS concerning the consolidation of financial statements and related matters, as adopted in the Public Reporting Directives, beginning January 1, 2013. Among other matters, IFRS 10, Consolidated Financial Statements, was adopted. Also adopted were IFRS 11, Joint Arrangements; the amendment to IAS 28, Investments in Associates and Joint Ventures; and IFRS 12, Disclosure of Interests in Other Entities.

The Company has implemented the system of standards for interim and annual periods beginning January 1, 2013 or later, retroactively.

The implementation of the system of standards had no material effect on the financial statements of the Company.

Note 1 – Significant Accounting Policies (cont.)

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

3. 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.

(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) Securities and derivative financial instruments – see Sections 5 and 6 below.

(6) Other income and expenses are recognized on an accrual basis.

4. 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. The Company has also implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses.

Debtors in Respect of Credit Card Activity and Other Debt Balances

The directive is implemented with regard to all debt balances, such as deposits with banks, debtors in respect of credit-card activity (including credit to merchants and credit to cardholders), and other debt balances, which 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 impaired.

Note 1 – Significant Accounting Policies (cont.)

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

Identification and Classification of Impaired Debts

The Company classifies all of its problematic debts and items of off-balance-sheet credit into the categories: under special supervision, substandard, or 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. Decisions regarding debt classification are made based on factors including the state of arrears of the debt and evaluation of the borrower's financial condition and repayment capability.

In any case, debt is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. For that purpose, the Company monitors the days of arrears, with reference to the contractual repayment terms. A debt is in arrears when the principal or interest in respect of the debt has not been paid, after the scheduled payment date. Once the date has been classified as impaired, it is treated as a debt not accruing interest income. In addition, any debt the terms of which have been changed in the course of a troubled debt restructuring is classified as impaired.

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, as a separate liability account, at an appropriate level to cover estimated credit losses in connection with off-balance-sheet credit instruments (such as unutilized credit facilities and guarantees).

The 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.

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. 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 – 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

Note 1 – Significant Accounting Policies (cont.)

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

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, and 2010, and on actual rates of net charge-offs recorded starting January 1, 2011. The calculation differentiates between problematic and non-problematic credit, and among cardholders, merchants, international organizations, and credit-card companies.

A draft concerning the "collective allowance for credit losses" was submitted to the advisory committee for discussion on July 18, 2013. The draft extends the application of the temporary order concerning the calculation of the "collective allowance for credit losses" based on the segmentation described above, establishes comments and guidelines for the method of calculation of rates of past losses, and establishes comprehensive requirements for the inclusion of adjustments in respect of environmental factors in establishing allowance coefficients. Directives are also included that address the use of internal ratings in calculating the collective allowance.

The expected effect of the implementation of the guidelines concerning the calculation of rates of past losses will be accounted for as a change in an estimate and allocated to profit and loss. The initial implementation date has not yet been set.

In accordance with the guidelines of the Supervisor of Banks, prior to the publication of updated and final guidelines concerning the collective allowance, the Company continues to implement the directives established in the temporary order. At this stage, the Group cannot estimate the effect of the adoption of the directive, when it is implemented.

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 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.

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 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

Note 1 – Significant Accounting Policies (cont.)

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

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 a troubled debt 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.)

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

Revenue Recognition

Upon classification of a debt as impaired, the Company defines the debt as a debt not accruing interest income, and ceases accruing interest income in respect of the debt.

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 Company implements the directives in the circular of the Supervisor of Banks 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, any material acquisitions and sales of debts during the reporting period, and additional disclosures regarding credit quality.

Among other matters, banking corporations and credit-card companies are required to provide quantitative disclosure of an indication of credit quality, at least with regard to the balance of problematic debts in each group of debts. The new disclosure is required for each credit segment (e.g. commercial credit, private credit, other credit, and banks), as well as for each of the main groups of debts, as defined in the directive.

The Company is implementing the directives prospectively. Some of the new disclosure requirements with regard to troubled debt restructuring have been implemented by the Company as of January 1, 2013. The Company is not required to include comparative information with respect to the aforesaid new disclosures.

The initial implementation of the directives had no effect, other than an update of the format of the disclosure in Note 3, Credit Risk, Debtors in Respect of Credit-Card Activity, and Allowance for Credit Losses.

5. Securities

The securities held by the Company are classified by the Company as securities available for sale. Accordingly, the securities are included in the balance sheet at fair value, which is usually based on stock-market rates, other than shares for which no fair value is available, which are measured in the balance sheet at cost, less impairment. Dividend income and losses from other-than-temporary impairment are allocated to profit and loss. Unrealized profits or losses from adjustment to fair value net of tax are allocated directly to a separate item within equity, in the statement of other comprehensive income, and are allocated to the statement of profit and loss upon realization.

Note 1 – Significant Accounting Policies (cont.)

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

The Company examines, in each reporting period, whether other-than-temporary impairment has occurred in its investments in other companies. This examination is performed when signs exist that may indicate the possibility that the value of the investments has been impaired, including a decline in stock-market prices, in the investee's business, or in the industry in which the investee operates, and other parameters. The deductions for the adjustments of the value of these investments, which in the opinion of Management are based on an examination of all relevant aspects, with appropriate weight granted to each, which are not of a temporary nature, are allocated to the statement of profit and loss. The cost of securities realized is calculated on a “first in - first out” basis.

6. Derivative Financial Instruments

The Company holds derivative financial instruments for the purpose of economic hedges of foreign-currency risks and interest-rate risks. Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Company. Changes in the fair value of these derivatives are recognized in profit and loss when they arise.

7. Establishing the Fair Value of Financial Instruments

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 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 extinguish 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.

Note 1 – Significant Accounting Policies (cont.)

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

The hierarchy requires the use of observable market inputs, when such information is available. When possible, the Company considers relevant observable market information in its evaluation. The volume and frequency of transactions, bid-ask spread, and size of the adjustment necessary in comparing similar transactions are all factors taken into consideration when 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.

Securities

The fair value of securities available for sale is determined based on market prices quoted in the primary market. In such cases, the fair value of the Company’s investment in securities is the number of units multiplied by the quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Company's position relative to the trading volume (the holding size factor). If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Derivative Financial Instruments

Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.).

Additional Non-Derivative Financial Instruments

A "market price" cannot be obtained for the majority of financial instruments in this category (such as debtors in respect of credit-card activity and deposits with banks), because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. For that purpose, future cash flows of impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts.

Note 1 – Significant Accounting Policies (cont.)

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

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

Upon capture of a credit-card transaction, the Company includes, in its balance sheet, a debt of the cardholder, if it is the issuing company, or a debt of another issuing company, against a liability to pay the merchant. If the merchant does not receive clearing services from the Company, the Company records a liability to pay another clearing company.

9. Offsetting Assets and Liabilities

The Company has implemented the rules established in the circular of the Supervisor of Banks of December 12, 2012, which updated the Public Reporting Directives of the Supervisor of Banks concerning offsetting of assets and liabilities. The amendments set forth in the circular are aimed at adjusting Section 15A of the Public Reporting Directives to US GAAP.

In accordance with the directives, 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:

- 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 and the counterparty owe one another determinable amounts.

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

The Company has implemented the rules in the directive beginning January 1, 2013, retroactively. The initial implementation had no effect on the financial statements of the Company.

10. Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Company has implemented the measurement and disclosure rules set forth in the American accounting standard FAS 166, Transfers and Servicing of Financial Assets (ASC 860-10), pursuant to which a transferred financial asset shall be presented in the balance sheet of the party that controls it, whether that party is the transferor or the recipient of the asset. The Company subtracts liabilities to merchants upon early settlement of debts to the merchant and release of the obligation to the merchant.

Note 1 – Significant Accounting Policies (cont.)

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

11. Fixed Assets (Buildings and Equipment)

Recognition and Measurement

Fixed-asset items are measured at cost, with the deduction of accrued amortization and accrued losses from impairment. The cost includes expenses directly attributable to the acquisition of the asset. The cost of assets developed in-house includes the cost of materials and direct labor wages, as well as any additional cost directly attributable to bringing the asset to the location and condition necessary in order for it to operate in the manner intended by management.

Costs of acquired software that constitutes an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Company classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item “buildings and equipment.” With regard to the accounting treatment of software costs, see the section "Intangible Assets," below.

Profit or loss from the disposal of a fixed-asset item are determined by comparing the consideration from the disposal of the asset with its book value, and recognized as a net amount under the item “other income” in the statement of profit and loss.

Subsequent Costs

Subsequent costs are recognized as part of the book value of fixed assets if the future economic benefits inherent therein are expected to flow to the Group, and if the cost can be measured reliably. Routine maintenance costs of fixed-asset items are allocated to profit and loss when they arise.

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or another amount substituted for the cost, after deduction of the residual value of the asset. An asset is depreciated when it is available for use, i.e. when it has reached the necessary location and condition in order for it to function in the manner intended by Management.

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset. Assets leased in finance leases are depreciated over the shorter of the period of the lease and the period of use of the

Note 1 – Significant Accounting Policies (cont.)

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

assets. Improvements to rental properties are depreciated over the shorter of the period of the lease and the useful life. Land owned by the Company is not depreciated.

Useful life estimates for the current period and for comparative periods:

Buildings	50 years
Investment property	50 years
Installations and improvements to rental properties	10-50 years
Computers and peripheral equipment	3-4 years
Software costs	4 years
Furniture and office equipment	5-16 years
Vehicles	6 years
Other	4-5 years

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

12. Intangible Assets

Software Costs

Software acquired by the Group is recognized as an asset and measured at cost, with the deduction of depreciation 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.

Subsequent Costs

Subsequent costs are recognized as intangible assets only when they increase the future economic benefit inherent in the asset in respect of which they were expended. Other costs, including costs related to goodwill or to brands developed in-house, are allocated to the statement of profit and loss when they arise.

Note 1 – Significant Accounting Policies (cont.)

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

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 the intangible assets, including software assets, starting on the date when the assets are available for use. Goodwill is not amortized systematically, but is examined for impairment at least once a year.

Intangible assets created at the Group (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 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.

13. Leases

A lease is an agreement in which the lessor transfers the right to use an asset to the lessee for an agreed period of time, in return for a payment or a series of payments. There are two types of leases: finance leases (leases in which substantially all of the risks and rewards associated with ownership of the asset are transferred, regardless of whether property rights are transferred at the end of the arrangement) and operational leases (leases other than finance leases). The Company has operational leases only.

The Company presents assets under operational leases in its balance sheet according to the nature of the asset, and recognizes the income and expenses from the lease based on the straight-line method, over the period of the lease. In addition, in each period, the Company recognizes depreciation expenses in respect of depreciable assets under its ownership which are leased in operational leases; the depreciation policy with respect to such assets is consistent with the depreciation policy for depreciable assets owned by the Company.

14. Investment Property

Investment property is property (land or buildings, or part of a building, or both) held (by the Group as an owner or by a lessee through a finance lease) for the purpose of generating rent income or for

Note 1 – Significant Accounting Policies (cont.)

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

equity appreciation or both, and not for the purpose of:

(a) Use in the delivery of services, or for administrative purposes; or

(b) Sale during the ordinary course of business.

Investment property is measured for the first time at the acquisition cost, plus transaction costs. In subsequent periods, the investment property is measured at cost, with the deduction of accumulated depreciation and losses from impairment.

15. Impairment of Non-Financial Assets

Timing of Examination of Impairment

The book value of the non-financial assets of the Group, with the exception of deferred-tax assets and including equity-basis investments, is examined at each reporting date, in order to determine whether indications of impairment are present. If such indications exist, an estimate of the recoverable amount of the asset is calculated.

Measurement of Recoverable Amount

The recoverable amount of an asset is the higher of its value in use and its fair value net of realization expenses (net sale price). In determining value in use, the Group discounts the estimated future cash flows according to a pretax discounting rate reflecting market estimates regarding the time value of money and the specific risks related to the asset, in respect of which cash flows expected to derive from the asset have not been adjusted. Losses from impairment are recognized when the book value of the asset exceeds the recoverable amount, and are charged to profit and loss.

Cancellation of Loss from Impairment

A loss from the impairment of goodwill is not canceled. With regard to other assets in respect of which losses from impairment have been recognized in previous periods, an examination is conducted at each reporting date in order to test for signs that these losses have decreased or no longer exist. Losses from impairment are canceled if a change has occurred in the estimates used to determine the recoverable amount, only if the book value of the asset, after cancellation of the loss from impairment, does not exceed the book value net of amortization or depreciation that would have been determined if no loss from impairment had been recognized.

Note 1 – Significant Accounting Policies (cont.)

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

Impairment of In-House Software Development Costs

In addition to the indications of impairment established in IAS 36, Impairment of Assets, tests of impairment of in-house software development costs shall also be performed when the signs listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

(1) The software is not expected to provide significant potential services;

(2) The manner or volume of use or expected use of the software has changed substantially;

(3) The software has been or will be substantially changed;

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

Investments in Associates

Investments in associates are examined for impairment when objective evidence of impairment exists, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, and in accordance with Ruling 4-1 of the Israel Securities Authority, Guidelines for Write-Downs of Long-Term Investments.

Goodwill constituting part of the investment in the associate is not recognized as a separate asset, and is therefore not examined separately for impairment. Impairment is examined with respect to the investment as a whole. If objective evidence exists indicating that the value of the investment may be impaired, the Group performs an estimate of the recoverable amount of the investment, which is the higher of its value in use and the net sale value.

In determining the value in use of an investment in an associate, the Group estimates its share of the current value of estimated future cash flows to be generated by the associate, including cash flows from the activities of the associate and the consideration for the final realization of the investment, or the current value of the estimated future cash flows expected to derive from dividends and from the final realization.

Loss from impairment is recognized when the book value of the investment, after application of the equity method, exceeds the recoverable amount, and is recognized under the item "the Company's share in profits (losses) of associates, after tax" in the statement of profit and loss. Loss from impairment is not allocated to a particular asset, including to goodwill constituting part of the account of

Note 1 – Significant Accounting Policies (cont.)

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

the investment in the associate. Loss from impairment shall be canceled only if changes have occurred in the estimates used to determine the recoverable amount of the investment since the date of the last recognition of loss from impairment. The book value of the investment, after cancellation of the loss from impairment, shall not exceed the book value of the investment that would have been determined according to the equity method if the loss from impairment had not been recognized. The cancellation of a loss from impairment shall be recognized under the item "the Company's share of profits (losses) of associates, after tax."

16. Terminated Stars Loyalty Program

A balance exists in the Company's books in respect of the Stars program, which ended on June 30, 2012. The balance of the liability will be reduced, beginning January 1, 2014, according to an agreement reached with the Supervisor of Banks. The reduction method represents the economic trajectory and receding risk in respect of the liability.

17. 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 practice at the Company are calculated in accordance with the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, these calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The mortality rate is based on current directives issued in this area by the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance. In addition, various statistics are taken into consideration with regard to mortality tables, rates of employee turnover, and the real rate of change of employee wages over time. The calculation also includes active employees expected to retire with preferred retirement terms, before the legal retirement age. Changes in the various actuarial characteristics would lead to results different from those obtained today.

Short-term employee benefits, such as labor wages, vacations, and bonuses, are reported on an undiscounted 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

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

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.

18. Share-Based Payment Transactions

The fair value at the date of the grant of share-based payments to employees is allocated as a wage expense, in parallel to the increase in equity, over the period in which the unconditional eligibility for the grant is attained. The amount allocated as an expense in respect of share-based payment grants contingent upon vesting conditions, which are service conditions or performance conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are performance conditions constituting market conditions, the Group takes such conditions into consideration when estimating the fair value of the equity instruments granted. The Group therefore recognizes the expense in respect of such grants regardless of whether the conditions are fulfilled.

The fair value at the date of the grant of a share-based payment for services is allocated as sales and marketing expenses, in parallel to the increase in equity, over the period of the services agreement.

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional eligibility for the payment is attained. The liability is remeasured at every reporting date, until the date of settlement. Any change in the fair value of the liabilities is allocated as an expense under "salaries and related expenses" in profit and loss.

Transactions in which the Parent Company grants employees of the Company interests in its equity instruments are accounted for by the Company as a share-based payment settled in equity instruments. An expense is recognized in the financial statements of the Company, in the statement of

Note 1 – Significant Accounting Policies (cont.)

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

profit and loss, over the period of the employees' entitlement to the equity instruments, against a corresponding amount recorded in equity in respect of the equity inflow received from the Parent Company.

19. Contingent Liabilities

The financial statements include sufficient provisions for legal claims, according to the assessment of Management and based on the opinions of its legal advisors. The disclosure is in the format set forth in the directives of the Supervisor of Banks, such that the claims filed against the Company are classified into three groups:

(1) Probable risk – the probability of realization of the exposure to risk is greater than 70%. Provisions are included in the financial statements in respect of claims in this risk group.

(2) Reasonably possible risk – the probability of realization of the exposure to risk is greater than 20% and less than or equal to 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.

(3) Remote risk – the probability of realization of the exposure to risk is less than or equal to 20%. No provision is included in the financial statements in respect of claims in this risk group and no disclosure is given.

Legal claims regarding which the Supervisor of Banks has determined that the Company is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Company is required to reimburse.

20. 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 tax arises from a transaction or event recognized directly in equity or other comprehensive income.

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.

The provision for taxes on the income of a consolidated company that is a financial institution for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law.

Note 1 – Significant Accounting Policies (cont.)

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

Offsetting Current Tax Assets and Liabilities

Current tax assets and current tax liabilities 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 enacted or substantively enacted at the balance-sheet date.

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

Offsetting Deferred Tax Assets and Liabilities

The Company offsets deferred tax assets and liabilities in the event that an enforceable legal right exists for the offsetting of current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

Uncertain Tax Positions

The Company recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court.

Note 1 – Significant Accounting Policies (cont.)

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

21. Capitalization of Borrowing Costs

IAS 23, Borrowing Costs, states that borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset must be capitalized. A qualifying asset is an asset that requires a substantial period of time to prepare for its designated use or sale, including fixed assets, software assets, and other assets where a long period is necessary in order to bring the asset to a condition in which it can fulfill its designated function or be sold. However, it has been clarified in the directives of the Supervisor of Banks that banking corporations and credit-card corporations shall not capitalize borrowing costs unless they have established clear policy, procedures, and controls with regard to the criteria for recognition of qualifying assets and with regard to the borrowing costs capitalized. Accordingly, the Company does not capitalize borrowing costs of qualifying assets.

22. Earnings Per Share

The Group 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.

23. Statement of Cash Flows

The statement of cash flows is presented classified into cash flows from operating activity, investing activity, and financing activity. Cash flows arising from main activities of the Group are classified under operating activity. The item "cash and cash equivalents" includes cash on hand and deposits with banks for an original period of up to three months.

24. Reporting on Operating Segments

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.

25. Related Party Disclosures

IAS 24, Related Party Disclosures, establishes the disclosure required of entities with regard to their

Note 1 – Significant Accounting Policies (cont.)

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

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.

26. Transactions with Controlling Parties

The Company implements US GAAP for the accounting treatment of transactions between a banking corporation or credit-card company and its controlling party or a company controlled by the banking corporation or credit-card company. In situations where these rules do not address the accounting treatment, the Company applies the rules established in Standard 23 of the Israel Accounting Standards Board, Accounting Treatment of Transactions between an Entity and its Controlling Party.

Assets and liabilities regarding which a transaction has been executed with a controlling party are measured at fair value at the date of the transaction. Because a transaction on the equity level is involved, the Group allocates the difference between the fair value and the consideration from the transaction to equity.

Loans, Including Deposits

At the first recognition date, the loan granted to the controlling party or the deposit received from the controlling party is presented in the financial statements of the Company at its fair value as an asset or liability, as relevant. The difference between the amount of the loan granted or deposit received and the fair value thereof at the first recognition date is allocated to equity.

In reporting periods subsequent to the first recognition date, the aforesaid loans or deposits are presented in the financial statements of the Company at their depreciated cost, with implementation of the effective interest method, excluding cases in which, pursuant to GAAP, they are presented at fair value.

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

1. On January 30, 2014, the Supervision of Banks issued a draft concerning the adoption of US GAAP on employee benefits. The draft updates the requirements for recognition, measurement, and disclosure of employee benefits in the Public Reporting Directives, in accordance with GAAP for US banks. The draft includes certain updates of the Public Reporting Directives, but does not

Note 1 – Significant Accounting Policies (cont.)

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

include all of the necessary updates to the directives as a result of the adoption of these rules. These matters, including further clarification if necessary, will be handled separately.

The draft states that the amendments to the Public Reporting Directives will take effect on January 1, 2015. Upon initial implementation, the bank or credit-card company must retroactively amend its comparative figures for periods beginning January 1, 2013, or later, to comply with the requirements of the aforesaid rules. The draft states, among other matters:

- The discount rate for calculation of the liability for employee benefits will be based on market yields of government bonds in Israel. As a result, the temporary order in the current directives that sets the capitalization rate for calculating provisions to cover employee benefits will be canceled.

- Banking corporations will apply GAAP for US banks with regard to share-based payments, as specified in ASC 718 – Compensation – Stock Compensation.

The effect of the implementation of international standards with regard to employee benefits (IAS 19) on the financial results of the Company is immaterial.

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. The directive also sets forth rules regarding the treatment of changes in the terms of debt that do not constitute troubled debt restructuring, and the treatment of early repayment of debts.

The directives pertaining to the adoption of US GAAP concerning interest income measurement will be implemented from January 1, 2014, forward. These directives will have no material effect on the financial statements.

3. Collective Allowance for Credit Losses

A draft circular updating the Public Reporting Directives concerning the "collective allowance for credit losses" was issued on April 10, 2013. The draft extends the period of application of the

Note 1 – Significant Accounting Policies (cont.)

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

temporary order concerning the calculation of the collective allowance for credit losses, provides clarifications and guidelines for the calculation of the rate of past losses, and provides detailed instructions regarding the inclusion of adjustments for environmental factors in the allowance coefficient. The draft also mandates significant expansion of the requirements for documentation supporting the collective allowance coefficient and the general fairness of the allowance, as well as significant expansion of reporting requirements.

The requirements in the directive are expected to take effect in accordance with the schedule and transitional directives to be established in the final directive. The expected effect of the implementation of the guidelines concerning the calculation of rates of past losses will be accounted for as a change in an estimate and allocated to profit and loss.

The implementation of the guidelines on all matters pertaining to the requirements on quantification of environmental factors, the general fairness of the allowance, and the documentation requirements may necessitate extensive preparations by the Company and changes of existing methodologies for the quantification of the collective allowance. Therefore, at this stage the Company cannot quantify the expected effects of such implementation.

4. Update of Disclosure of Credit Quality, Debts, and Allowance for Credit Losses at Credit Card Companies

A circular entitled "Update of Disclosure of Credit Quality, Debts, and Allowance for Credit Losses at Credit Card Companies" was issued on February 10, 2014. The circular will apply beginning in the first quarter of 2014, with the exception of the disclosure of credit ratings, which will apply beginning with the annual report for 2014.

I. Restatement – Acquisition of Sister Company

The Company acquired the full holdings of Bank Hapoalim B.M. (the Parent Company) in Aminit on July 1, 2013. The consideration for the acquisition, in the amount of NIS 69 million, reflects the total equity of Aminit at the acquisition date. Following the sale, the Company holds 100% of the equity of Aminit. The acquisition was accounted for in the financial statements as a combination of businesses under common control, using the book value accounting approach; the consideration for the acquisition was treated as a subtraction from equity on July 1, 2013. The financial statements were adjusted by restatement to retroactively reflect the consolidation of Aminit.

The following table presents the effect of the transaction on July 1, 2013, the date of the transaction.

	Isracard before the acquisition	Aminit	Effect of the acquisition	After the acquisition
	In NIS millions			
Assets	13,483	1,604	(336)	14,751
Liabilities	11,671	1,535	(267)	12,939
Net	**1,812**	**69**	**(69)**	**1,812**
Paid-up share capital	*-	1	(1)	*-
Premium on shares	40	62	(62)	40
Capital reserves from controlling shareholder	7	-	-	7
Comprehensive income	20	-	-	20
Retained earnings	1,745	6	(6)	1,745
Total capital	**1,812**	**69**	**(69)**	**1,812**

* Amount lower than NIS 0.5 million.

Aminit was merged into the Company in October 2013. The subordinated notes issued by Aminit to Bank Hapoalim in the past, in the amount of NIS 31 million, were redeemed.

Note 2 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2013	**2012**[(2)]	**2013**	**2012**[(2)]
Cash on hand[(1)]	43	29	42	29
Deposits with banks for original terms of up to 3 months[(1)]	321	420	317	416
Total cash and cash equivalents	**364**	**449**	**359**	**445**
Other deposits with banks[(1)]	14	12	14	12
Total	**378**	**461**	**373**	**457**

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

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3 – Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

A. Debtors in respect of credit-card activity

	2013 Average annual interest rate		Consolidated		The Company	
			December 31		December 31	
	For daily balance	For transactions in the last month	2013	2012*	2013	2012*
	%	%	In NIS millions			
Debtors in respect of credit cards(1) (3)	-	-	10,829	10,522	10,829	10,522
Credit to cardholders(2) (3)	9.01	8.65	725	683	-	-
Credit to merchants(4)	4.04	3.37	770	765	422	468
Total debtors and credit to credit-card holders and merchants(5) (6)			**12,324**	**11,970**	**11,251**	**10,990**
Less: Allowance for credit losses			(84)	(81)	(36)	(39)
Total debtors and credit to credit-card holders and merchants, net			**12,240**	**11,889**	**11,215**	**10,951**
Companies and international credit-card organization(7)			1,306	1,670	930	1,290
Income receivable(8)			22	20	14	10
Others			5	4	5	4
Total debtors in respect of credit-card activity, net			**13,573**	**13,583**	**12,164**	**12,255**
(1) Of which, under the responsibility of banks			9,250	8,944	9,250	8,944
(2) Of which, under the responsibility of banks			86	83	-	-

(3) Debtors in respect of credit cards – non-interest bearing. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions. Credit to cardholders – interest bearing, including credit in installments, revolving credit transactions, direct credit, and other transactions.

(4) Includes advance payments and balance-sheet discounting for merchants, consolidated and at the Company, in the amount of NIS 415 million (Dec. 31, 2012: NIS 459 million).

(5) Of which, NIS 706 million and NIS 428 million (consolidated and at the Company, respectively) 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, 2012: NIS 688 million and NIS 460 million, consolidated and at the Company, respectively). For further details, see Note 3A.A.2 below.

(6) Of which, NIS 11,618 million and NIS 10,823 million (consolidated and at the Company, respectively) in debts not examined on an individual basis, the allowance for credit losses in respect of which was calculated on a collective basis (Dec. 31, 2012: NIS 11,282 million and NIS 10,530 million, consolidated and at the Company respectively). For further details, see Note 3A.A.2 below.

(7) Of which, allowance for credit losses in the amount of NIS 4 million, consolidated (Dec. 31, 2012: NIS 2 million); of which, allowance for credit losses in the amount of NIS 3 million at the Company (Dec. 31, 2012: NIS 1 million).

(8) Of which, an allowance for credit losses in an amount lower than NIS 0.5 million, in 2013 and 2012, consolidated and at the Company.

* Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses

Reported amounts

In NIS millions

Consolidated

A. Off-Balance Sheet Debts and Credit Instruments[3]

1. Change in allowance for credit losses

	For the year ended December 31, 2013						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	**Responsibility of banks**	**Credit to merchants**	**Other[2]**	**Total**	**Banks**	**Total**
Allowance for credit losses as at Dec. 31, 2012[5]	81	2	17[4]	5[4]	105	*-	105
Provision (income) for credit losses	(2)	2	4	3	7	*-	7
Charge-offs	(25)	-	(1)	(1)	(27)	-	(27)
Recovery of debts charged off in previous years	24	-	-[1]	*-	24	-	24
Net charge-offs	(1)	-	(1)	(1)	(3)	-	(3)
Allowance for credit losses as at Dec. 31, 2013**	**78**	**4**	**20**	**7**	**109**	***-**	**109**
** Of which: in respect of off-balance-sheet credit instruments	13	1	4	1	19	-	19

* Amount lower than NIS 0.5 million.

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

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

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 above).

(4) Reclassified.

(5) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

Consolidated

A. Off-Balance Sheet Debts and Credit Instruments[3] (cont.)

1. Change in allowance for credit losses (cont.)

	For the year ended December 31, 2012[5]						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2011	64	3	12	5	84	*-	84
Provision (income) for credit losses	20	(1)	13[4]	5[4]	37	*-	37
Charge-offs	(27)[4]	-	(8)	(5)	(40)	-	(40)
Recovery of debts charged off in previous years	24[4]	-	-[1]	*-	24	-	24
Net charge-offs	(3)	-	(8)	(5)	(16)	-	(16)
Allowance for credit losses as at Dec. 31, 2012**	**81**	**2**	**17**	**5**	**105**	***-**	**105**
** Of which: in respect of off-balance-sheet credit instruments	13	1	5	1	20	-	20

* Amount lower than NIS 0.5 million.

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

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

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 above).

(4) Reclassified.

(5) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

ISRACARD

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

Consolidated

A. Off-Balance Sheet Debts and Credit Instruments[3] (cont.)

1. Change in allowance for credit losses (cont.)

	For the year ended December 31, 2011[5]						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2010	75	-	4	5	84	-	84
Net charge-offs recognized as at Jan. 1, 2011	(62)	-	(5)	-	(67)	-	67
Other changes in the allowance as at Jan. 1, 2011	53	1	7	*-	61	-	61
Provision for credit losses	32	2	7	9	50	*-	50
Charge-offs	(57)[4]	-	(1)	(9)	(67)	-	(67)
Recovery of debts charged off in previous years	23[4]	-	-[1]	*-	23	-	23
Net charge-offs	(34)	-	(1)	(9)	(44)	-	(44)
Allowance for credit losses as at Dec. 31, 2011**	**64**	**3**	**12**	**5**	**84**	***-**	**84**
** Of which: in respect of off-balance-sheet credit instruments	10	1	4	*-	15	-	15

* Amount lower than NIS 0.5 million.

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

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

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 above).

(4) Reclassified.

(5) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

A. Off-Balance Sheet Debts and Credit Instruments[(3)]

1. Change in allowance for credit losses

	For the year ended December 31, 2013						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[(2)]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2012[(4)]	42	2	5	2	51	*-	51
Provision (income) for credit losses	(5)	2	(1)	3	(1)	*-	(1)
Charge-offs	(17)	-	(*-)	(1)	(18)	-	(18)
Recovery of debts charged off in previous years	17	-	-[(1)]	*-	17	-	17
Net charge-offs	(*-)	-	*-	(1)	(1)	-	(1)
Allowance for credit losses as at Dec. 31, 2013**	**37**	**4**	**4**	**4**	**49**	***-**	**49**
** Of which: in respect of off-balance-sheet credit instruments	8	1	*-	1	10	-	10

* Amount lower than NIS 0.5 million.

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

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

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 above).

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

The Company

A. Off-Balance Sheet Debts and Credit Instruments[3] (cont.)

1. Change in allowance for credit losses (cont.)

	For the year ended December 31, 2012[5]						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2011	30	3	5	2	40	*-	40
Provision (income) for credit losses	12	(1)	9	4	24	*-	24
Charge-offs	(17)[4]	-	(9)	(4)	(30)	-	(30)
Recovery of debts charged off in previous years	17[4]	-	-[1]	*-	17	-	17
Net charge-offs	(*-)	-	(9)	(4)	(13)	-	(13)
Allowance for credit losses as at Dec. 31, 2012**	**42**	**2**	**5**	**2**	**51**	***-**	**51**
** Of which: in respect of off-balance-sheet credit instruments	8	1	1	1	11	-	11

* Amount lower than NIS 0.5 million.

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

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

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 above).

(4) Reclassified.

(5) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

The Company

A. Off-Balance Sheet Debts and Credit Instruments[3] (cont.)

1. Change in allowance for credit losses (cont.)

	For the year ended December 31, 2011[5]						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Allowance for credit losses as at Dec. 31, 2010	19	-	2	3	24	-	24
Net charge-offs recognized as at Jan. 1, 2011	(24)	-	(3)	-	(27)	-	(27)
Other changes in the allowance as at Jan. 1, 2011	30	1	3	*-	34	-	34
Provision (income) for credit losses	22	2	4	8	36	*-	36
Charge-offs	30[4]	-	(1)	(9)	(40)	-	(40)
Recovery of debts charged off in previous years	13[4]	-	-[1]	*-	13	-	13
Net charge-offs	(17)	-	(1)	(9)	(27)	-	(27)
Allowance for credit losses as at Dec. 31, 2011**	**30**	**3**	**5**	**2**	**40**	***-**	**40**
** Of which: in respect of off-balance-sheet credit instruments	8	*-	1	1	10	-	10

* Amount lower than NIS 0.5 million.

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

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

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 above).

(4) Reclassified.

(5) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

A. Off-Balance Sheet Debts and Credit Instruments[1] (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts

	December 31, 2013						
	Allowance for credit losses						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Recorded debt balance of debts							
Examined on an individual basis	55	-	651	430	1,136	-	1,136
Examined on a collective basis	2,163	9,336	119	1,075	12,693	378	13,071
Total debts	2,218	9,336	770	1,505	13,829	378	14,207
Allowance for credit losses in respect of debts							
Examined on an individual basis	11	-	14	2	27	-	27
Examined on a collective basis	54	3	2	4	63	*-	63
Total allowance for credit losses	**65**	**3**	**16**	**6**	**90**	***-**	**90**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 below).

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

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

A. Off-Balance Sheet Debts and Credit Instruments[1] (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts (cont.)

	December 31, 2012[3][4]						
	Allowance for credit losses						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Recorded debt balance of debts							
Examined on an individual basis	45	-	643	344	1,032	-	1,032
Examined on a collective basis	2,133	9,027	122	1,502[5]	12,784	461	13,245
Total debts	2,178	9,027	765	1,846	13,816	461	14,277
Allowance for credit losses in respect of debts							
Examined on an individual basis	13	-	8	2	23	-	23
Examined on a collective basis	55	1	4	2	62	*-	62
Total allowance for credit losses	**68**	**1**	**12**	**4**	**85**	***-**	**85**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 below).

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

(3) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.F.3 and 1.G.4 above.

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

(5) Reclassified.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

A. Off-Balance Sheet Debts and Credit Instruments[1] (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts

	December 31, 2013						
	Allowance for credit losses						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Recorded debt balance of debts							
Examined on an individual basis	47	-	381	4	432	-	432
Examined on a collective basis	1,532	9,250	41	956	11,779	373	12,152
Total debts	1,579	9,250	422	960	12,211	373	12,584
Allowance for credit losses in respect of debts							
Examined on an individual basis	7	-	3	*-	10	-	10
Examined on a collective basis	22	3	1	3	29	*-	29
Total allowance for credit losses	**29**	**3**	**4**	**3**	**39**	***-**	**39**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 below).

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

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

A. Off-Balance Sheet Debts and Credit Instruments[1] (cont.)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts and the underlying debts (cont.)

	December 31, 2012[3][4]						
	Allowance for credit losses						
	Debtors and credit in respect of credit cards						
	Private		Commercial				
	Responsibility of the Company	Responsibility of banks	Credit to merchants	Other[2]	Total	Banks	Total
Recorded debt balance of debts							
Examined on an individual basis	39	-	421	-	460	-	460
Examined on a collective basis	1,539	8,944	47	1,312	11,842	457	12,299
Total debts	1,578	8,944	468	1,312	12,302	457	12,759
Allowance for credit losses in respect of debts							
Examined on an individual basis	10	-	3	-	13	-	13
Examined on a collective basis	24	1	1	1	27	*-	27
Total allowance for credit losses	**34**	**1**	**4**	**1**	**40**	***-**	**40**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 2 below).

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

(3) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.F.3 and 1.G.4 above.

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

B. Debts[(2)]

1. Credit quality and arrears

	December 31, 2013					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Private						
Debtors and credit in respect of credit cards under the responsibility of banks	9,336	-	-	9,336	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	2,198	5	15	2,218	-	5
Commercial						
Credit to merchants	762	2[(1)]	6	770	-	1
Other[(3)]	1,504	1	*-	1,505	-	1
Banks	378	-	-	378	-	-
Total	**14,178**	**8**	**21**	**14,207**	**-**	**7**

* Amount lower than NIS 0.5 million.

(1) Of which, debts in the amount of NIS 1 million classified as under special supervision.

(2) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 3 below).

(3) Includes companies and the international credit-card organization, income receivable, and other debts.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

B. Debts[2] (cont.)

1. Credit quality and arrears (cont.)

	December 31, 2012[4][5]					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Private						
Debtors and credit in respect of credit cards under the responsibility of banks	9,027	-	-	9,027	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	2,150	7	21	2,178	-	7
Commercial						
Credit to merchants	760	3[1]	2	765	-	2
Other[3]	1,844	1	1	1,846	-	1
Banks	461	-	-	461	-	-
Total	**14,242**	**11**	**24**	**14,277**	**-**	**10**

(1) Of which, debts in the amount of NIS 1 million classified as under special supervision.

(2) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 3 below).

(3) Includes companies and the international credit-card organization, income receivable, and other debts.

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

(5) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.F.3 and 1.G.4 above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

B. Debts[(1)]

1. Credit quality and arrears

	December 31, 2013					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Private						
Debtors and credit in respect of credit cards under the responsibility of banks	9,250	-	-	9,250	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	1,567	3	9	1,579	-	3
Commercial						
Credit to merchants	421	1	*-	422	-	1
Other[(2)]	959	*-	1	960	-	*-
Banks	373	-	-	373	-	-
Total	**12,570**	**4**	**10**	**12,584**	**-**	**4**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 3 below).

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

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

B. Debts[1] (cont.)

1. Credit quality and arrears (cont.)

	December 31, 2012[3][4]					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Private						
Debtors and credit in respect of credit cards under the responsibility of banks	8,944	-	-	8,944	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	1,559	5	14	1,578	-	5
Commercial						
Credit to merchants	466	1	1	468	-	1
Other[2]	1,311	1	*-	1,312	-	1
Banks	457	-	-	457	-	-
Total	**12,737**	**7**	**15**	**12,759**	**-**	**7**

* Amount lower than NIS 0.5 million.

(1) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 3 below).

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

(3) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

(4) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.F.3 and 1.G.4 above.

Credit Quality

Arrears are monitored routinely, and constitute one of the key indicators of credit quality. The state of the arrears affects the classification of debts evaluated on a collective basis (the classification is more severe with more extensive arrears). After 150 days of arrears, the Company charges off the debt.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

B. Debts[3] (cont.)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2013				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Balance of individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Private					
Debtors and credit in respect of credit cards under the responsibility of banks	-	-	-	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	11	11	4	15	15
Commercial					
Credit to merchants	6	6	*-	6	6
Other[4]	-	-	*-	*-	*-
Banks	-	-	-	-	-
Total**	**17**	**17**	**4**	**21**	**21**
** Of which: Debts in troubled debt restructuring	**9**	**9**	**-**	**9**	**9**

* Amount lower than NIS 0.5 million.

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 4 below).

(4) Includes companies and the international credit-card organization, income receivable, and other debts.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

Consolidated

B. Debts[3] (cont.)

2. Additional information regarding impaired debts (cont.)

a. Impaired debts and individual allowance (cont.)

	December 31, 2012[5][6]				
	Balance[1] of impaired debts for which an individual allowance exists[2]	**Balance of individual allowance[2]**	**Balance[1] of impaired debts for which no individual allowance exists[2]**	**Total balance[1] of impaired debts**	**Balance of contractual principal of impaired debts**
Private					
Debtors and credit in respect of credit cards under the responsibility of banks	-	-	-	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	13	13	8	21	21
Commercial					
Credit to merchants	1	1	1	2	2
Other[4]	-	-	1	1	1
Banks	-	-	-	-	-
Total*	**14**	**14**	**10**	**24**	**24**
* Of which: Debts in troubled debt restructuring	**12**	**12**	**-**	**12**	**12**

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 4 below).

(4) Includes companies and the international credit-card organization, income receivable, and other debts.

(5) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.F.3 and 1.G.4 above.

(6) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

B. Debts[3] (cont.)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2013				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Balance of individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Private					
Debtors and credit in respect of credit cards under the responsibility of banks	-	-	-	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	7	7	2	9	9
Commercial					
Credit to merchants	*-	*-	*-	*-	*-
Other[4]	-	-	1	1	1
Banks	-	-	-	-	-
Total**	**7**	**7**	**3**	**10**	**10**
** Of which: Debts in troubled debt restructuring	**6**	**6**	**-**	**6**	**6**

* Amount lower than NIS 0.5 million.

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 4 below).

(4) Includes companies and the international credit-card organization, income receivable, and other debts.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses (cont.)

Reported amounts

In NIS millions

The Company

B. Debts[3] (cont.)

2. Additional information regarding impaired debts (cont.)

a. Impaired debts and individual allowance (cont.)

	December 31, 2012[5][6]				
	Balance[1] of impaired debts for which an individual allowance exists[2]	**Balance of individual allowance[2]**	**Balance[1] of impaired debts for which no individual allowance exists[2]**	**Total balance[1] of impaired debts**	**Balance of contractual principal of impaired debts**
Private					
Debtors and credit in respect of credit cards under the responsibility of banks	-	-	-	-	-
Debtors and credit in respect of credit cards under the responsibility of the Company	10	10	4	14	14
Commercial					
Credit to merchants	*-	*-	1	1	1
Other[4]	-	-	*-	*-	*-
Banks	-	-	-	-	-
Total**	**10**	**10**	**5**	**15**	**15**
** Of which: Debts in troubled debt restructuring	**9**	**9**	**-**	**9**	**9**

* Amount lower than NIS 0.5 million.

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other (see footnote 4 below).

(4) Includes companies and the international credit-card organization, income receivable, and other debts.

(5) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.F.3 and 1.G.4 above.

(6) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

B. Debts[3] (cont.)

2. Additional information regarding impaired debts (cont.)

b. Average balance of impaired debts

	Consolidated		The Company	
	For the year ended December 31		For the year ended December 31	
	2013	2012[4]	2013	2012[4]
Average recorded debt balance of impaired debts examined individually during the reported period	15	9	9	7

c. Troubled debt restructuring[1]

	Consolidated		The Company	
	For the year ended December 31		For the year ended December 31	
	2013	2012[2][4]	2013	2012[2][4]
Private				
Debtors and credit in respect of credit cards under the responsibility of the Company	9	12	6	9
Commercial				
Credit to merchants	*-	*-	*-	*-
Total	**9**	**12**	**6**	**9**

* Amount lower than NIS 0.5 million.

(1) Troubled debts in restructuring do not accrue interest income.

(2) The Company implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time, in its report for 2012. Comparative figures for 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1.F.3 and 1.G.4 above.

(3) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other.

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 3A – Credit Risk, Debtors in Respect of Credit Card Activity, and Allowance for Credit Losses – Consolidated (cont.)

Reported amounts

In NIS millions

B. Debts[2] (cont.)

2. Additional information regarding impaired debts (cont.)

c. Troubled debt restructuring[1] (cont.)

	For the year ended December 31, 2013[1]				
	Debt restructured during the reported period[3]			Failed debt restructuring**	
Consolidated	**Number of contracts**	**Recorded debt balance before restructuring**	**Recorded debt balance after restructuring**	**Number of contracts**	**Recorded debt balance**
Private					
Debtors and credit in respect of credit cards under the responsibility of the Company	3,884	20	19	556	4
Commercial					
Credit to merchants	16	*-	*-	-	-
Total	**3,900**	**20**	**19**	**556**	**4**

* Amount lower than NIS 0.5 million.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

(1) Pursuant to the directives of the Supervisor of Banks concerning the update of the disclosure of credit quality of debts and the allowance for credit losses, among other matters, new disclosures are required with regard to troubled debt restructuring; the transitional directives state that such disclosures should be included beginning with the financial statements as at March 31, 2013. The new disclosure requirements are to be implemented prospectively. Also see Note 1.G.4, above.

(2) Debts – debtors in respect of credit-card activity, cash and deposits with banks, and other.

(3) The recorded debt balance represents the balance at the date of restructuring of the debt and is not the recorded balance at the date of the report.

ISRACARD

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

Consolidated

	December 31, 2013			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,250,167	1,738	1,658	380
Borrower balances over 5 and up to 10	421,862	2,449	2,254	574
Borrower balances over 10 and up to 15	210,026	1,777	1,550	797
Borrower balances over 15 and up to 20	122,827	1,252	999	882
Borrower balances over 20 and up to 30	158,201	1,624	1,200	2,273
Borrower balances over 30 and up to 40	73,661	1,022	654	1,498
Borrower balances over 40 and up to 80	62,773	1,259	709	1,872
Borrower balances over 80 and up to 150	5,237	270	163	232
Borrower balances over 150 and up to 300	627	96	56	29
Borrower balances over 300 and up to 600	229	72	33	22
Borrower balances over 600 and up to 1,200	120	62	23	25
Borrower balances over 1,200 and up to 2,000	57	52	15	21
Borrower balances over 2,000 and up to 4,000	39	61	18	31
Borrower balances over 4,000 and up to 8,000	26	65	4	53
Borrower balances over 8,000 and up to 20,000	16	132	*-	40
Borrower balances over 20,000 and up to 40,000	4	72	-	45
Borrower balances over 40,000 and up to 200,000	6	491	-	54
Borrower balances over 200,000 and up to 400,000	1	399	-	-
Borrower balances over 400,000 and up to 800,000	1	741	-	-
Total	**2,305,880**	**13,634**	**9,336**	**8,828**
Income receivable and others	-	27	-	-
Total	**2,305,880**	**13,661**	**9,336**	**8,828**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and off-balance-sheet credit risk.

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

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

Consolidated

	December 31, 2012(4)			
		Debtors in respect of credit-card activity		
	Number of borrowers(2)	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk(3)
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,238,576	1,718	1,633	356
Borrower balances over 5 and up to 10	402,912	2,377	2,193	507
Borrower balances over 10 and up to 15	188,792	1,682	1,486	632
Borrower balances over 15 and up to 20	116,530	1,184	944	843
Borrower balances over 20 and up to 30	142,402	1,464	1,097	2,033
Borrower balances over 30 and up to 40	79,949	947	617	1,873
Borrower balances over 40 and up to 80	81,370	1,360	750	2,680
Borrower balances over 80 and up to 150	9,873	319	167	592
Borrower balances over 150 and up to 300	723	92	52	48
Borrower balances over 300 and up to 600	272	75	38	34
Borrower balances over 600 and up to 1,200	127	66	24	33
Borrower balances over 1,200 and up to 2,000	89	65	26	57
Borrower balances over 2,000 and up to 4,000	23	50	-	16
Borrower balances over 4,000 and up to 8,000	30	55	-	81
Borrower balances over 8,000 and up to 20,000	17	128	-	49
Borrower balances over 20,000 and up to 40,000	5	76	-	80
Borrower balances over 40,000 and up to 200,000	8	450	-	86
Borrower balances over 200,000 and up to 400,000	-	-	-	-
Borrower balances over 400,000 and up to 800,000	1	716	-	-
Borrower balances over 800,000 and up to 1,200,000	1	818	-	-
Total	2,261,700	13,642	9,027	10,000
Income receivable and others	-	24	-	-
Total	**2,261,700**	**13,666**	**9,027**	**10,000**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and off-balance-sheet credit risk.

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

(4) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 5 – Securities

Reported amounts

In NIS millions

	December 31, 2013			
	Balance-sheet value	Depreciated cost (in shares – cost)	Accumulated other comprehensive income***	Fair value**
Securities available for sale:				
Shares of others*	38	17	21	38
Total securities available for sale	**38**	**17**	**21**	**38**

	December 31, 2012			
	Balance-sheet value	Depreciated cost (in shares – cost)	Accumulated other comprehensive income***	Fair value**
Securities available for sale:				
Shares of others*	79	37	42	79
Total securities available for sale	**79**	**37**	**42**	**79**

* Includes shares for which no fair value is available, which are presented at cost, less impairment, in the amount of approximately NIS 11 million as at December 31, 2013 (Dec. 31, 2012: NIS 11 million).

** Fair-value data are based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from the sale of a large volume of securities.

*** Included in the statement of comprehensive income.

Shares of MasterCard Incorporated ("MC")

On December 13, 2007, the Company purchased 150,380 Class B Common Stock shares of MC from Europay, in consideration for a total of approximately NIS 101 million. The amount of the purchase reflects the fair value of the investment at that date. During 2008, 2011, 2012, and 2013, the Company sold some of the MC shares on the stock exchange. As at December 31, 2013, 9,249 shares of MC remain under the ownership of the Company.

Note 6 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies

Reported amounts

In NIS millions

1. Composition

A. Consolidated

	December 31, 2013			December 31, 2012		
	Associates	Consolidated companies	Total	Associates	Consolidated companies	Total
Investments in shares by equity method	*-	-	*-	*-	-	*-
Other investments						
Owners' loans	5	-	5	2	-	2
Total investments	5	-	5	2	-	2
Of which: profits (losses) accrued since acquisition date	(2)	-	(2)	(2)	-	(2)
Items accrued in equity since acquisition date						
Details of goodwill:						
Original amount	-	10	10	-	10	10
Book balance	-	-	-	-	-	-

B. The Company

Investments in shares by equity method	*-	253	256	*-	241	241
Other investments						
Owners' loans	3	-	-	-	-	-
Total investments	**3**	**253**	**256**	***-**	**241**	**241**
Of which: profits (losses) accrued since acquisition date	(2)	184	182	(2)	141	139

* Amount lower than NIS 0.5 million.

Note 6 – Investments in Investee Companies (in the Consolidated Report: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

2. The Company's share in profits or losses of investee companies (consolidated: associates)

	Consolidated			The Company		
	For the year ended December 31					
	2013	2012	2011	2013	2012	2011
The Company's share in profits before taxes of investee companies (consolidated: associates)	*-	*-	*-	63	51	39
Losses from impairment of investee companies (consolidated: associates)	-	(*-)	(2)	-	(*-)	(2)
Provision for taxes:						
Current taxes	*-	*-	*-	22	18	14
Deferred taxes	*-	*-	*-	(2)	(3)	(5)
Total provision for taxes	*-	*-	*-	20	15	9
The Company's share in profits (losses) after taxes of investee companies (consolidated: associates)	***-**	**(*-)**	**(2)**	**43**	**36**	**28**

* Amount lower than NIS 0.5 million.

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

3. Details

A. Consolidated subsidiaries

Company name and activity[1][2]	Share in capital granting the right to receive profits		Share in voting rights		Investment	
					By equity method[2]	
	2013	2012	2013	2012	2013	2012
	In percent				In NIS millions	
Isracard Mimun Ltd.						
Activity: Credit granting	100%	100%	100%	100%	68	37
Isracard Nechasim Ltd.						
Activity: Asset company	100%	100%	100%	100%	79	102
Global Factoring Ltd.						
Activity: Debt discounting	100%	100%	100%	100%	7	6
Europay (Eurocard) Israel Ltd.[4]						
Activity: Banking auxiliary corporation	100%	100%	100%	100%	2	7
Tzameret Mimunim Ltd.						
Activity: Credit-card discounting	100%	100%	100%	100%	97	89

B. Associates

Kidum Mivne Iguach Ltd.						
Activity: Granting vehicle loans	20%	20%	20%	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.						
Activity: Granting vehicle loans	20%	20%	20%	20%	-	-
Life Style Financing Ltd.						
Activity: Credit granting	15%	15%	15%	15%	*-	*-

* Amount lower than NIS 0.5 million.

(1) Details in accordance with Section 32G of the Public Reporting Directives, Annual Financial Statements.

(2) All of the companies are held directly by the Company.

(3) Including balances of surplus attributed costs and goodwill, net of cumulative losses from impairment.

(4) As a banking auxiliary corporation, Europay complies with the regulatory capital requirements pursuant to Proper Conduct of Banking Business Directives No. 201-211.

Dividend recorded		Other capital investments		Contribution to net profit attributed to shareholders of the Company		Loss from impairment	
2013	2012	2013	2012	2013	2012	2013	2012
In NIS millions							
-	-	-	-	31	23	-	-
31	-	-	-	7	7	-	-
-	-	-	-	2	1	-	-
-	170	-	-	(5)	(4)	-	-
-	-	-	-	8	9	-	-
-	-	-	-	*-	*-	-	-
-	-	-	*-	(*-)	(*-)	-	(*-)
-	-	-	-	*-	*-	-	-

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates

1. Condensed information on financial position

	Ownership rate	Total assets	Total liabilities	Equity attributed to owners of the company	Book value of investment in associate
2013					
Kidum Mivne Iguach Ltd.(2)	20%	22	21	1	2
I.M.T. - The Central Vehicle Distribution Company Ltd. (2)(3)	20%	160	165	(5)	3
Life Style Financing Ltd.(1)	15%	75	72	3	*-

	Ownership rate	Total assets	Total liabilities	Equity attributed to owners of the company	Book value of investment in associate
2012					
Kidum Mivne Iguach Ltd.(2)	20%	25	24	1	2
I.M.T. - The Central Vehicle Distribution Company Ltd. (2)(3)	20%	113	117	(4)	(*-)
Life Style Financing Ltd.(1)	15%	71	69	2	*-

* Amount lower than NIS 0.5 million.

(1) The Company accounts for Life Style Financing Ltd. based on the equity method, despite the fact that its holding is at a rate of less than 20%, due to the existence of qualitative indicators of material influence, including representation on its board of directors.

(2) Includes an owners' loan.

(3) After a provision for impairment of NIS 2 million.

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates (cont.)

2. Condensed information on results of operations

	Ownership rate	Annual net profit (loss)	Profit (loss) attributed to owners of the Company
2013			
Kidum Mivne Iguach Ltd.	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(*-)	(*-)
Life Style Financing Ltd.	15%	1	1
2012			
Kidum Mivne Iguach Ltd.	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(*-)	(*-)
Life Style Financing Ltd.	15%	1	1
2011			
Kidum Mivne Iguach Ltd.	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(*-)	(*-)
Life Style Financing Ltd.	15%	*-	*-

* Amount lower than NIS 0.5 million.

D. Changes in rates of holdings in subsidiaries without loss of control

On May 9, 2012, the Company acquired 7,699 common shares of Europay, in consideration for the balance-sheet value, from Mizrahi Tefahot Bank Ltd., constituting 1.8% of the issued and paid-up common share capital of Europay. Following the completion of this transaction, the Company holds 100% of the shares of Europay.

Note 7 – Buildings and Equipment

Reported amounts
In NIS millions

Consolidated

A. Composition

	Buildings and land	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Investment property	Total
Cost:									
As at December 31, 2012(2)	48	84	141	429	1	51	39	21	814
Additions	-	4	33	72	-	4	1	-	114
Disposals	-	-	(5)	(1)	-	-	-	-	(6)
As at December 31, 2013	48	88	169	500	1	55	40	21	922
Accrued depreciation:									
As at December 31, 2012(2)	10	38	112	315	1	33	37	4	550
Additions	1	4	19	66	*-	2	1	*-	93
Disposals	-	-	(5)	(1)	-	-	-	-	(6)
As at December 31, 2013	11	42	126	380	1	35	38	4	637
Depreciated balance as at December 31, 2013	**37**	**46**	**43**	**120**	***-**	**20**	**2**	**17**	**285**
Depreciated balance as at December 31, 2012	**38**	**46**	**29**	**114**	***-**	**18**	**2**	**17**	**264**
Average weighted depreciation rate in 2013 (%)	2.0	8.0	23.7	29.9	15.0	8.3	25.0	2.0	
Average weighted deprecation rate in 2012 (%)	2.0	8.0	24.7	25.0	15.0	8.6	25.0	2.0	

* Amount lower than NIS 0.5 million.

(1) Includes capitalized costs related to the development of software for internal use, which totaled NIS 280 million as at December 31, 2013 (Dec. 31, 2012: NIS 225 million). With regard to the policy on capitalization of software costs, see Note 1.F.13, above.

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

B. Additional Disclosure Regarding Investment Property

- Fair value is measured based on capitalization of forecast cash flows, which are based on reliable estimates of future cash flows, supported by the terms of any lease or other existing contract, as well as the use of discount rates reflecting current market estimates of uncertainty regarding the amount and timing of the cash flows. A discount rate of 8% was used.
- The fair value of investment property assets as at December 31, 2013, amounts to NIS 29 million (Dec. 31, 2012: NIS 41 million).
- Rental income from investment property amounted to approximately NIS 4 million in 2013, similar to 2012 and 2011.

Note 7 – Buildings and Equipment (cont.)

Reported amounts

In NIS millions

The Company

A. Composition

	Installations and improvements to rental properties	Computers and peripheral equipment	Software costs(1)	Vehicles	Furniture and office equipment	Other	Total
Cost:							
As at December 31, 2012(2)	27	139	420	1	49	39	675
Additions	4	33	67	-	4	1	109
Disposals	-	(5)	(1)	-	-	-	(6)
As at December 31, 2013	31	167	486	1	53	40	778
Accrued depreciation:							
As at December 31, 2012(2)	8	110	309	1	31	37	496
Additions	3	19	66	*-	2	1	91
Disposals	-	(5)	(1)	-	-	-	(6)
As at December 31, 2013	11	124	374	1	33	38	581
Depreciated balance as at December 31, 2013	**20**	**43**	**112**	***-**	**20**	**2**	**197**
Depreciated balance as at December 31, 2012	**19**	**29**	**111**	***-**	**18**	**2**	**179**
Average weighted depreciation rate in 2012 (%)	10.0	23.7	29.9	15.0	8.4	25.0	
Average weighted deprecation rate in 2011 (%)	9.9	24.7	25.0	15.0	8.7	25.0	

* Amount lower than NIS 0.5 million.

(1) Includes capitalized costs related to the development of software for internal use, which totaled NIS 268 million as at December 31, 2013 (Dec. 31, 2012: NIS 218 million). With regard to the policy on capitalization of software costs, see Note 1.F.13, above.

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 8 – Other Assets

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2013	2012[(1)]	2013	2012[(1)]
Deferred taxes receivable (see Note 25)	99	86	60	50
Surplus of advance income-tax payments over current provisions	15	22	15	22
Other debtors and debit balances:				
Loans to employees	3	3	3	3
Prepaid expenses	34	38	33	38
Related companies	1	1	2,129	1,832
Debtors in respect of discounting	130	118	-	-
Debtors in respect of gift certificates and prepaid cards	33	24	5	1
Others	11	13	6	8
Total other debtors and debit balances	212	197	2,176	1,882
Total other assets	**326**	**305**	**2,251**	**1,954**

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 9 – Credit from Banking Corporations

Reported amounts

	December 31, 2013					
	Average annual interest rate					
			Consolidated		The Company	
			December 31		December 31	
	For daily balance	For transactions in the last month	2013	2012[(1)]	2013	2012[(1)]
	%	%	In NIS millions		In NIS millions	
Credit in current drawing accounts	**1.0**	**0.9**	**18**	**37**	**18**	**23**

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 10 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2013	2012[(2)]	2013	2012[(2)]
Merchants[(1)]	11,583	11,439	12,321	11,962
Liabilities in respect of deposits	1	2	1	2
Credit-card company	-	392	-	392
Prepaid income	11	12	3	3
Benefit program for cardholders	85	87	85	87
Expenses payable	99	108	99	108
Others	101	90	101	90
Total creditors in respect of credit-card activity	**11,880**	**12,130**	**12,610**	**12,644**

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 491 million as at December 31, 2013 (Dec. 31, 2012: NIS 457 million). In the consolidated report – offset by an existing balance with an investee subsidiary in the amount of NIS 1,022 million (Dec. 31, 2012: NIS 785 million).

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 11 – Other Liabilities

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2013	2012(1)	2013	2012(1)
Provision for deferred taxes (see Note 25)	7	6	-	-
Surplus of provision for employee benefits over amount funded (see Note 13)	81	75	81	75
Other creditors and credit balances:				
Expenses payable in respect of wages and related expenses	74	70	73	69
Suppliers of services and equipment	4	73	1	72
Expenses payable	47	39	47	38
Institutions	10	13	8	9
Related companies	424	390	432	418
Allowance for credit losses in respect of off-balance-sheet credit facilities	19	20	10	11
Creditors in respect of discounting	6	11	-	-
Creditors in respect of gift certificates and prepaid cards	69	45	40	23
Travelers' checks in circulation, net	9	11	9	11
Others	9	4	2	2
Total other creditors and credit balances	671	676	622	653
Total other liabilities	**759**	**757**	**703**	**728**

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 12A – Equity

A. Composition

	December 31, 2013		December 31, 2012	
	Registered	Issued and paid-up	Registered	Issued and paid-up
	In NIS			
Common shares of NIS 0.0001 (1)	100	73	100	73
Special share of NIS 0.0001 (2)	-	-	-	-
	100	**73**	**100**	**73**

(1) During 2012, the Company issued 1,926 common shares with a face value of NIS 0.0001 each.

(2) One share registered, issued, and paid-up.

B. Share rights

The special share grants its holder the following rights, in addition to the right to receive invitations to, participate in, and vote in the Company's general assemblies:

(A) In every general assembly of the Company, the owner of the special share shall have 51% of the total votes to which all shareholders of the Company are entitled at that time.

(B) The rights attached to the special share cannot be changed except by written consent of its holder.

Note 12B – Capital Adequacy According to the Directives of the Supervisor of Banks[1]

Reported amounts

A. In consolidated data

1. Capital for the calculation of the capital ratio

	December 31, 2013	December 31, 2012[2]
	In NIS millions	
Core Tier 1 capital	1,933	1,707
Tier 2 capital	9	50
Total overall capital	**1,942**	**1,757**

2. Weighted balances of risk-adjusted assets

	December 31, 2013		December 31, 2012[2]	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	9,098	819	9,307	838
Market risks – foreign currency exchange rate risk	23	2	65	6
Operational risk	1,876	169	1,777	160
Total weighted balances of risk-adjusted assets	**10,997**	**990**	**11,149**	**1,004**

3. Ratio of capital to risk-adjusted assets

	December 31, 2013	December 31, 2012[2]
	In percent	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	17.6	15.3
Ratio of total capital to risk-adjusted assets	17.7	15.8
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

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

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 12B – Capital Adequacy According to the Directives of the Supervisor of Banks[1] (cont.)

Reported amounts

In NIS millions

B. Capital components for the calculation of the capital ratio (in consolidated data)

	December 31, 2013	December 31, 2012[2]
1. Tier 1 capital		
Equity	1,948	1,739
Less: Net profits in respect of adjustments to fair value of securities available for sale	15	32
Total Tier 1 capital	**1,933**	**1,707**
2. Tier 2 capital		
Subordinated notes	-	31
45% of net unrealized profit, before the effect of the related tax, in respect of adjustments to fair value of securities available for sale	9	19
Total Tier 2 capital	**9**	**50**

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

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Expected Effect of the Adoption of the Basel III Directives on January 1, 2014

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 concerning capital measurement and adequacy, in order to adjust them to the Basel III directives. The amendments to the aforesaid directives will be in effect as of January 1, 2014. Implementation will be gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive No. 299, Capital Measurement and Adequacy - Supervisory Capital - Transitional Directives.

In addition, on August 29, 2013, the Supervisor of Banks issued a circular concerning Basel disclosure requirements pertaining to the composition of capital. The circular established updated disclosure requirements which banks and credit-card companies will be required to incorporate as part of the adoption of the Basel III directives. The disclosure requirements will be in effect from January 1, 2014 forward. However, in annual financial statements for 2013, banks and credit-card companies were required to include disclosure of the expected effect of the implementation of Basel III.

The expected effect of the adoption of the Basel III directives on January 1, 2014, is presented below, based on the position of the Company on December 31, 2013. The calculation of the expected effect of the adoption of the Basel III directives on January 1, 2014 takes the transitional directives described above into consideration.

Note 12B – Capital Adequacy According to the Directives of the Supervisor of Banks(1) (cont.)

Reported amounts

NIS millions

	According to directives of the Supervisor of Banks applicable December 31, 2013 – Basel II	Expected effect of implementation of Basel III	According to Basel III directives
A. Regulatory capital after supervisory deductions and adjustments			
Core capital	1,933	(1,933)	-
Common equity Tier 1 capital	-	1,948	1,948
Tier 2 capital	9	83	92
Total capital	**1,942**	**98**	**2,040**
B. Weighted balances of risk-adjusted assets			
Credit risk	9,098	210	9,308
Market risk	23	-	23
Operational risk	1,876	-	1,876
Total weighted balances of risk-adjusted assets	**10,997**	**210**	**11,207**
C. Ratio of capital to risk-adjusted assets			
Ratio of core capital to risk-adjusted assets	17.6%		-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-		17.4%
Ratio of total capital to risk-adjusted assets	17.7%		18.2%
Minimum capital ratio required by the directives of the Supervisor of Banks			
Ratio of core capital to risk-adjusted assets	7.5%		-
Ratio of common equity Tier 1 capital to risk-adjusted assets	-		*7.5%
Ratio of total capital to risk-adjusted assets	9.0%		*9.0%

* See minimum capital requirements in the section “Capital Adequacy Target,” below.

Note 12B – Capital Adequacy According to the Directives of the Supervisor of Banks[1] (cont.)

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 Group, 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, 2013, the Supervisor of Banks issued a guidance letter, "The Basel III Framework – Minimum Core Capital Ratios." The letter requires banks and credit-card companies to maintain a common equity Tier 1 capital (core capital) ratio of 9% (instead of the current 7.5%), and a total capital ratio of 12.5%, by January 1, 2015. Further, banks whose total balance-sheet assets on a consolidated basis constitute at least 20% of the total assets of the banking system will be required to raise their minimum common equity Tier 1 capital (core capital) ratio by one percentage point, and maintain a ratio of 10%, and a total capital ratio of 13.5%, by January 1, 2017.

Note that the definitions of core capital and total capital and the supervisory adjustments (deductions from capital) established by the Supervisor of Banks as part of the adoption of the Basel III directives are significantly different from the definitions included in the Basel II directives.

Dividend distribution will be possible on the condition that it does not impair the Company's ability to comply with the new capital requirements. 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 common equity Tier 1 capital (core capital) ratio requirements.

Note 13 – Employee Benefits and Share-Based Payment

A. Retirement Compensation and Pensions

The pension rights of employees reaching retirement age are mainly covered by the amounts accrued in allowance-based provident funds, compensation funds, and senior employees' insurance policies, while the remainder of such rights is covered by a liability included in the financial statements.

B. Share-Based Payment Transactions

(1) The following are details of share-based payment arrangements that existed at the Company during the period ended December 31, 2013.

(A) Equity compensation for the Chairperson of the Board of Directors and the Chief Executive Officer of the Company

With regard to equity compensation for the Chairperson of the Board of Directors and the Chief Executive Officer of the Company, see Sections G and H below.

(B) Phantom units for senior employees

Until the approval of the remuneration plan for senior employees (see Section B.1.c below), Bank Hapoalim granted the group of senior employees, including employees of the Bank on loan to the Company, restricted phantom units entitling the employee to a monetary grant, at the exercise date, based on the difference between the price of the Bank's share on the stock exchange at the exercise date and the exercise price established in the employment agreements (derived from the average share price on the stock exchange during the period preceding the beginning of the period of the employment agreement). The exercise price is subject to the customary adjustments, including in the event of dividend distribution.

(C) Restricted phantom shares

Bank Hapoalim granted restricted phantom shares to senior employees, including employees of the Bank on loan to the Company, in accordance with the Remuneration Plan 2010. The phantom shares were granted at no cost, and were exercised automatically, in equal annual installments, according to the period of the agreement (usually three years), upon fulfillment of the conditions for exercise thereof. The number of units granted to each employee was based on the employee's position and rank.

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

(D) Restricted stock units

Bank Hapoalim granted restricted stock units (hereinafter: "**RSU**") to senior executives in exchange for restricted phantom shares that had been granted, the restriction period of which ended on December 31, 2013, or later. RSU are units of restricted shares, which upon fulfillment of the appropriate vesting conditions are automatically exercised into ordinary shares of the Bank, without the payment of any exercise price. The vesting and restriction periods of the RSU shall be identical, as a rule, to those of the restricted phantom shares that they are replacing (see Section B.1.b above). The RSU are allocated according to the capital gains track pursuant to Section 102(B)(2) of the Income Tax Ordinance [New Version], 1961.

(E) Options and phantom units for employees of Bank Hapoalim on loan to the Company

1. In May 2004, the Board of Directors of Bank Hapoalim approved a program for the allocation of non-tradable options to its employees, at no cost, for 2004-2009. Within the program, permanent Bank Hapoalim employees, including employees of the Bank on loan to the Company, were granted options exercisable into common shares of NIS 1 each, in the six years from 2004 to 2009. Each portion of options had a vesting period of four years from the beginning of the year in which the options were allocated, and was exercisable for a period of one year after the end of the vesting period. The number of options distributed to each employee was determined according to the employee's seniority, job description, and rank.

2. On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Bank on loan to the Company, would receive options to purchase shares of the Bank at a price of NIS 1 per option. These options were allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program are similar to those of the option plan for employees for 2004-2009. The option notes will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

3. In March 2013, the Board of Directors of the Bank approved a program for the allocation of phantom units in 2013-2017, pursuant to which permanent employees of the Bank, including employees of the Bank on loan to the Company, will receive phantom units. These phantom units, which are exercised into cash, will be allocated at no cost, in five portions, in each of the years 2013-2017. The terms of the program are similar to those of the options granted to permanent employees of the Bank in previous years. The phantom units will be exercised automatically one year after a four-year vesting period.

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

(F) In 2007, a memorandum of principles was signed by the Company and Mizrahi Bank Ltd. (hereinafter: "**Mizrahi Bank**"), which stated, among other matters, that Mizrahi Bank would continue the existing contractual arrangements between the parties with regard to the issuance of cards for an additional period of ten years. In accordance with the memorandum of principles, the Company allocated shares to Mizrahi Bank, at a rate of 1.8% of the share capital of the Company, for the extension of the term of the existing agreements.

(G) Options under previous employment agreements

1. Pursuant to the employment agreement of the former Chairperson of the Board of Directors of the Company, which expired on December 31, 2011, she was allocated 6,293 non-tradable options exercisable into 6,293 common shares of the Company at an exercise price of NIS 3,410 each. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 6,588 thousand, was calculated according to the Black-Scholes model and allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The Wage and Remuneration Committee, the Audit Committee, the Board of Directors, and the general assembly of shareholders of the Company approved the exercise of the options granted to the former Chairperson of the Board of Directors of the Company under her previous employment agreement, which ended December 31, 2011. The acquisition of the shares arising from these options by the Company was subject to approval by the Supervisor of Banks. Because the Supervisor did not grant approval for the purchase of the shares by the Company, 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 former Chairperson of the Board of Directors no longer holds options of the Company under her previous employment agreement.

2. Pursuant to his employment agreement, which expired on January 31, 2012, 7,404 non-tradable options exercisable into 7,404 common shares of the Company at an exercise price of NIS 3,410 each were allocated to the CEO of the Company. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 7,545 thousand, was calculated according to the Black-Scholes model and allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The Wage and Remuneration Committee, the Audit Committee, and the Board of Directors of the Company approved the exercise of the options granted to the CEO of the Company under his previous employment agreement, which ended January 31, 2012. The acquisition of the shares arising from these options by the Company was subject to approval by the Supervisor of Banks. Because the Supervisor did not

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

grant approval for the purchase of the shares by the Company, 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 the Company under his previous employment agreement.

(H) Personal Contracts – Former Chairperson of the Board of Directors and CEO of the Company

a. Former Chairperson of the Board of Directors Ms. Irit Izakson – Employment Agreement

The former 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 Europay (Eurocard) Israel Ltd. from October 1, 2008 to December 31, 2011. From January 1, 2009, Ms. Izakson also served as Chairperson of the Board of Directors of Aminit Ltd. (until its merger into the Company on October 1, 2013) and Poalim Express Ltd.

Subsequent to approval by the Wage and Remuneration Committee and the Audit Committee, on April 30, 2012, the Board of Directors of the Company 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) was subject to approval by the Supervisor of Banks (hereinafter: the "**Employment Agreement"**).

The Employment Agreement was also approved by the general assembly of shareholders of the Company. Pursuant to the Employment Agreement, notwithstanding the foregoing, the parties were 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 was not obtained, it would be seen as termination of the Company's contractual engagement with Ms. Izakson. If her employment had been terminated at the initiative of the Company, or at her own initiative under circumstances that entitled her to severance pay according to law, Ms. Izakson would be entitled to a full supplement of the severance pay amount to 250% of her last monthly salary.

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

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

Pursuant to the Employment Agreement, the former 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 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.

The former 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 that Bank Hapoalim distributes a dividend, prior to the exercise date of any of the RSU, the former 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.

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

In August 2012, the Company paid Bank Hapoalim the value of the RSU at the date of the grant.

The 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 former Chairperson of the Board of Directors was also a member of the Board of Directors of Bank Hapoalim.

The employment of Ms. Izakson was terminated by the Company on December 31, 2013, due to the fact that the Supervisor of Banks did not grant approval for her continued employment as active Chairperson of the Board of Directors of the Company concurrently with her service as a member of the board of directors of Bank Hapoalim.

b. Chief Executive Officer Mr. Dov Kotler – 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 Europay (Eurocard) Israel Ltd. and Poalim Express Ltd. Mr. Kotler served as CEO of Aminit Ltd. until its merger into the Company on October 1, 2013.

On January 25, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of the Company, the Board of Directors approved the extension of Mr. Dov Kotler's term of service as CEO of the Company by three additional years, from February 1, 2012 to January 31, 2015 (hereinafter: the "**Employment Agreement**").

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 six months' advance notice; and Mr. Kotler may terminate the contractual engagement pursuant to the employment agreement with three 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 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 former Chairperson of the Board of Directors and the CEO of the Company, see below.

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

Pursuant to the 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 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 former 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 former Chairperson of the Board of Directors of the Company. In August 2013, the Board of Directors of Bank Hapoalim resolved to change the terms of the Contingent RSU that had been granted to the CEO of the Company: the quantity of RSU to vest each year, out of the relevant parcel of Contingent RSU, will be calculated in a proportional and linear manner, based on the attainment of an ROE difference between 0.5% (0.75% for 2013) and 2%; and the shares from the exercise of the Contingent RSU will be restricted for a period of four (4) years after the end of the year in respect of which they are granted.

In July 2012, the Company paid Bank Hapoalim the value of the RSU at the date of the grant.

The Employment Agreement, including the bonus plan and the grants of the RSU, as well as the sale of shares of the Company 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.

(2) Estimated fair value of equity instruments granted

- With regard to equity compensation for the former Chairperson of the Board of Directors and the Chief Executive Officer of the Company, see Sections G and H above.
- The fair value of the restricted phantom shares granted, which are to be settled in equity instruments, is equal to the share price of the Bank on the date of the grant.
- The fair value of the options granted to employees of the Bank under the plan for 2004-2009 is measured on the date of the grant, calculated using the Black-Scholes model.
- The fair value of the options granted to employees of the Bank under the plan for 2010-2012 was calculated on the date of the grant, using the Black-Scholes model.
- The fair value of the amount owed to the employees of the Company, as employees of the Company, including phantom units within the 2013-2017 plan, in respect of rights to the increase in the value of shares, settled in cash or equity instruments of the Parent Company, is remeasured at every reporting period until the date of settlement.

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

(3) Additional information regarding restricted phantom units and contingent restricted phantom shares:

	Consolidated and the Company		
	Number of units for the year		
	2013	**2012**	**2011**
In circulation at beginning of year	617,612	107,042	26,702
Granted during the year	237,253	538,405	80,340
Forfeited during the year	(63,751)	(27,835)	-
Exercised during the year	(375,817)	-	-
In circulation at end of year	**415,297**	**617,612**	**107,042**

1. The weighted average exercise price is NIS 1 for all of the options.
2. The weighted average fair value of the share options granted during the year, at the date of measurement, is NIS 16.85 per option (2012: NIS 11.99; 2011: NIS 16.71).

(4) Additional information regarding option note units for employees of Bank Hapoalim on loan to the Company:

	Consolidated and the Company		
	Number of units for the year		
	2013	**2012***	**2011***
In circulation at beginning of year	272,937	273,524	300,597
Granted during the year	-	83,359	76,248
Forfeited during the year	(17,031)	(15,499)	(28,657)
Exercised during the year	(71,830)	(68,447)	(74,664)
In circulation at end of year	**184,076**	**272,937**	**273,524**

1. The weighted average exercise price is NIS 1 for all of the options.
2. The weighted average fair value of the share options granted during previous years was NIS 12.38 in 2012 and NIS 13.09 in 2011.
3. The weighted average share price at the exercise date of the share options exercised during the year was NIS 17.57 (NIS 13.43 per option in 2012; NIS 16.25 in 2011).

* Restated.

Note 13 – Employee Benefits and Share-Based Payment (cont.)

B. Share-Based Payment Transactions (cont.)

(5) Additional information regarding phantom units for employees of Bank Hapoalim on loan to the Company:

	Consolidated and the Company
	Number of units in 2013
Granted during the year	60,324
In circulation at end of year	**60,324**

(6) Liabilities arising from share-based payment transactions settled in cash

	Consolidated and the Company	
	December 31	
	2013	2012
	In NIS millions	
Total liabilities arising from share-based payment transactions	1	1
Internal value of liabilities where the counterparty's right to cash or other assets vested by the end of the year	1	1

(7) Effect of share-based payment transactions on profit and loss for the period

	For the year ended December 31		
	2013	2012	2011
	In NIS millions		
Expense arising from share-based payment plans	8	11	7

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

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

The Plan stated that the threshold profit for compensation with regard to the former Chairperson of the Board of Directors and the CEO of the Company each year would 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 would also be subject to approval by the Human

Note 13 – Employee Benefits and Share-Based Payment (cont.)

C. Bonus Plan for the Former Chairperson of the Board of Directors and the Chief Executive Officer of the Company (cont.)

Resources, Salaries, and Remuneration Committee of Bank Hapoalim (with regard to the former 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 former Chairperson of the Board of Directors and the CEO of the Company in any year would not be lower than NIS 174 million.

Pursuant to the Plan, a positive or negative personal budget is established each year for each of the former 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), and the threshold profit for compensation established as noted above with regard to the former 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 former 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 former Chairperson of the Board of Directors or the CEO of the Company. In addition, the positive or negative bonus budget to be established as 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 the Company (with regard to the former 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 former 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 was 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 former 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 former 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 former 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

Note 13 – Employee Benefits and Share-Based Payment (cont.)

C. Bonus Plan for the Former Chairperson of the Board of Directors and the Chief Executive Officer of the Company (cont.)

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 former 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.

D. Bonuses

1. In September 2011, the Board of Directors of the Company approved a remuneration plan for the Company's employees, derived from the profitability of the Company. The plan established a threshold level of profit, similar to the profit threshold established in the remuneration plan for the senior executives of the Company. The plan includes a link to the profitability of Bank Hapoalim. This link can cause an increase or decrease of up to 20% in the bonus, based on the return of Bank Hapoalim.

2. The annual bonus to which some employees of Bank Hapoalim are entitled is determined based on the rate of net return on equity as it appears in the consolidated annual financial statements of the Bank Group. The basic threshold for the payment of this bonus is a return on equity of 7.5%. The annual bonus is in the amount of up to three monthly salaries. Part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance. The Company employs employees who are on loan from the Bank, and as such are entitled to the aforesaid bonus.

3. A remuneration plan for senior executives of the Company who report directly to the CEO of the Company or to the rank reporting directly to the CEO and who have an employment agreement with the Company (unless resolved otherwise by the Board of Directors) (hereinafter: the "**Executives**") took effect in September 2011 and applies from January 1, 2011 forward (hereinafter: the "**Plan**"). The Plan was approved by the Audit Committee of the Board of Directors of the Company.

   The main points of the Plan are the following:

   - Separate mechanisms for setting bonus budgets and formats have been established for business functions and control and supervision functions.

Note 13 – Employee Benefits and Share-Based Payment (cont.)

D. Bonuses (cont.)

- Establishing the bonus budget for Executives

  The bonus budget for Executives in any given year (the "**Executives' Bonus Budget**") is based on the difference between the aggregate net operating accounting profit of the Company in that year (as it appears in the annual financial statements, net of amounts allocated for bonuses pursuant to the Plan) (hereinafter: the "**Actual Profit**") and the profit threshold for remuneration approved by the Board of Directors of the Company in accordance with the directives of the Plan for that year (hereinafter: the "**Actual Profit Difference**").

  Positive bonus budget – When the Profit Difference is positive, the total positive bonus budget for Executives shall be calculated in accordance with the Actual Profit Difference and the average monthly salary of an Executive. The bonus budget is calculated according to progressively rising increments of the Actual Profit Difference, from an Actual Profit Difference of 2% to a ceiling of 30%. In a year in which the Actual Profit Difference is in the range of 0% to 2%, the Board of Directors may, at its sole discretion, according to the recommendation of the Company's CEO, approve an annual bonus in a (limited) positive amount for an Executive. In addition, the positive bonus budget shall be adjusted to the actual ROE difference of Bank Hapoalim in the relevant year; such adjustment may increase or decrease the positive bonus budget by up to 20%.

  Negative bonus budget – Except in respect of the first year of the Plan (2011), and except in respect of the first year of work of an Executive who joins the Company after the adoption of the Plan, in a year in which the Actual Profit Difference is negative, the total negative bonus budget for the Executives shall be calculated as a negative amount, in accordance with the Actual Profit Difference and the average monthly salary of an Executive, from a negative Actual Profit Difference of 2% to a negative ceiling of 30%. In addition, the negative bonus budget shall be adjusted to the actual ROE difference of the Bank in the relevant year; such adjustment may increase or decrease the negative bonus budget by up to 20%.

  The Board of Directors is authorized to increase or reduce the (positive or negative) Executives' Bonus Budget by up to 10%. In the event that the Executives' Bonus Budget in respect of a certain year is negative due to special external circumstances that affect the entire market in which the Company operates in that year, the Board of Directors may reduce or cancel the negative Executives' Bonus Budget in respect of that year.

- Distribution of the bonus budget among the Executives

  Each year, the (positive or negative) bonus budget shall be distributed to the Executives in respect of the preceding year, proportionally to the personal grade of each Executive. Part of the personal grade shall be fixed; part of the personal grade shall be assigned according to the Executive's achievement of predefined performance targets established

Note 13 – Employee Benefits and Share-Based Payment (cont.)

D. Bonuses (cont.)

in advance by the CEO of the Company; and part of the personal grade shall be assigned according to the recommendation of the Company's CEO, based on his opinion. The distribution of the bonus budget and the establishment of the annual bonus shall be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law).

The positive or negative annual bonus for an Executive shall not exceed the ceilings established in the Plan; and, in any event, the negative balance in the bonus account of an Executive shall not exceed the ceiling established in the Plan.

The bonus mechanism for Executives defined as serving in control and supervision functions was adjusted such as to disconnect the amount of the bonus from the business results of the Company. Performance targets for supervision and reporting functions are in accordance with the recommendations of the Chairperson of the Board of Directors and the CEO of the Company. The personal grade is also determined by the Chairperson of the Board of Directors and the CEO of the Company.

♦ Payment mechanism – spreading of the annual bonus and the annual payment

Each year, the amount of the (positive or negative) annual bonus determined in respect of the previous year shall be added to or subtracted from the bonus account of each Executive (hereinafter: the "**Annual Deposit**").

Each year, a payment shall be made to the Executive in an amount equal to 60% of the balance in the bonus account after the Annual Deposit in respect of the previous year (assuming that the bonus account balance is positive) (the "**Annual Payment**"), unless, in a certain year, the Company has an aggregate net operating loss for the year and/or a deviation from the required capital adequacy ratio. In such cases, the subsequent Annual Payment shall be performed only after the release of annual financial statements of the Company (or quarterly financial statements, pursuant to a decision by the Board of Directors, in the case of a deviation of the capital ratio) presenting aggregate net operating profit, or the cessation of the deviation from the required capital adequacy ratio, as relevant.

♦ Termination of employment

In the year following the year in which the day of the termination of employment occurs, account settlement shall be performed in the Executive's bonus account, but the Annual Payment shall not be performed (except in the event of the death of the Executive), and the balance of the bonus account (if positive) shall only be paid to the Executive after 24 months have elapsed from the day of termination. The Board of Directors shall be entitled, at its discretion, to reduce the amount of the bonus account balance in the

Note 13 – Employee Benefits and Share-Based Payment (cont.)

D. Bonuses (cont.)

event of a deterioration in the financial results of the Company during the period following the year of the termination of employment, but the amount of such a reduction shall not exceed the amount of the negative bonuses that would have been subtracted from the Executive's bonus account pursuant to the Plan, if the Executive had continued to be employed by the Company during that period.

♦ Bonus in respect of profits from extraordinary transactions

The methodology for distribution of bonuses in respect of extraordinary transactions (arising from the realization of assets), insofar as shall be distributed, shall be determined by the Board of Directors at its sole discretion.

E. Details of Liabilities in Respect of Employee Benefits

	December 31	
	2013	**2012**
	In NIS millions	
Early retirement	46	36
Pension for employees on loan who have retired	16	16
Severance pay due to termination of employer-employee relationship	59	58
Long service bonus	*-	*-
Provision for bonus in respect of unutilized sick days	6	6
Other post-employment benefits	1	4
Total	**128**	**120**

* Amount lower than NIS 0.5 million.

The Company's obligations in respect of benefits after the termination of the employer-employee relationship and/or other long-term benefits, granted according to law and/or agreements and/or custom at the Company, are calculated according to the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, such calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The calculation also includes active employees expected to retire with preferred retirement terms, before the legal retirement age.

Note 13 – Employee Benefits (cont.)

F. Amounts of Reserves and Amounts Funded for Employee Benefits

The amounts of reserves and amounts funded for employee benefits, as stated in the balance sheet, are as follows:

	December 31	
	2013	**2012**
	In NIS millions	
Amount of provision	128	120
Amount funded	47	45
Surplus of provision over amount funded*	**81**	**75**

* Included under the item "other liabilities."

G. Vacations

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision at the balance-sheet date totaled approximately NIS 3 million (December 31, 2012: NIS 3 million).

H. Agreement with Employee Union

On December 25, 2013, the Company signed a collective agreement, which will be in effect until December 31, 2017. The agreement covers organizational and economic matters, including agreements reached with regard to wage increases and related terms to apply to the employees of the Company. In addition, function descriptions were agreed upon.

I. New Remuneration Policy for All Employees of the Company

Proper Conduct of Banking Business Directive No. 301A of the Supervisor of Banks was issued on November 19, 2013. Pursuant to this directive, the Company is required to adopt a new remuneration policy for all of its employees, including key employees (as defined by management; the directive sets forth detailed guidelines and limits on the remuneration of key employees), by June 30, 2014. Following the adoption of a new remuneration policy, as noted, the Company will update the remuneration plan for its executives (or adopt new remuneration plans), as required according to the aforesaid remuneration policy.

Note 14 – Assets and Liabilities by Linkage Base – Consolidated

Reported amounts

In NIS millions

	December 31, 2013					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	349	5	15	9	-	378
Debtors in respect of credit-card activity, net	13,394	73	90	16	-	13,573
Securities	-	-	-	-	38	38
Investments in associated companies	-	-	-	-	5	5
Buildings and equipment	-	-	-	-	285	285
Other assets	290	3	-	-	33	326
Total assets	**14,033**	**81**	**105**	**25**	**361**	**14,605**
Liabilities						
Credit from banking corporations	1	-	6	11	-	18
Creditors in respect of credit-card activity	11,707	56	97	9	11	11,880
Other liabilities	747	-	7	4	1	759
Total liabilities	**12,455**	**56**	**110**	**24**	**12**	**12,657**
Difference	1,578	25	(5)	1	349	1,948

(1) Including foreign-currency linked.

Note 14 – Assets and Liabilities by Linkage Base – Consolidated (cont.)

Reported amounts

In NIS millions

	December 31, 2012[2]					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	430	6	14	11	-	461
Debtors in respect of credit-card activity	13,432	69	57	25	-	13,583
Securities	-	-	-	-	79	79
Investments in associated companies	-	-	-	-	2	2
Buildings and equipment	-	-	-	-	264	264
Other assets	263	3	-	*-	39	305
Total assets	**14,125**	**78**	**71**	**36**	**384**	**14,694**
Liabilities						
Credit from banking corporations	16	-	7	14	-	37
Creditors in respect of credit-card activity	11,989	51	69	9	12	12,130
Subordinated notes	31	-	-	-	-	31
Other liabilities	745	-	10	1	1	757
Total liabilities	**12,781**	**51**	**86**	**24**	**13**	**12,955**
Difference	1,344	27	(15)	12	371	1,739
Effect of non-hedging derivative instruments						
Derivative instruments	(3)	-	3	-	-	-
Total	**1,341**	**27**	**(12)**	**12**	**371**	**1,739**

* Amount lower than NIS 0.5 million.

(1) Including foreign-currency linked.

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above..

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2013[7]					
	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**
Israeli currency (including linked to foreign currency)						
Assets	7,853	2,693	2,720	623	181	27
Liabilities	7,402	2,265	2,159	375	90	4
Difference	451	428	561	248	91	23
Foreign currency[3]						
Assets	97	6	7	-	-	-
Liabilities	91	11	1	-	-	-
Difference	6	(5)	6	-	-	-
Of which: difference in USD	(3)	4	7	-	-	-
Total						
Assets**	7,950	2,699	2,727	623	181	27
Liabilities	7,493	2,276	2,160	375	90	4
Difference	457	423	567	248	91	23
Of which: debtors in respect of credit-card activity	7,505	2,602	2,703	622	180	23

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 14, “Assets and Liabilities by Linkage Base,” including off-balance-sheet amounts in respect of derivatives not settled in net amounts.

(3) Excluding Israeli currency linked to foreign currency.

(4) Including assets in Israeli currency whose maturity date has elapsed in the amount of NIS 15 million (December 31, 2012: NIS 13 million).

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

(6) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

(7) The format of the disclosure in the note on assets and liabilities by linkage base and by term to maturity has been updated, in accordance with the directives set forth in the circular of the Supervisor of Banks, "Assets and Liabilities by Linkage Base and by Term to Maturity," dated September 30, 2013. The circular revised the differentiation required between assets and liabilities in Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. In addition, cash flows in respect of derivative instruments settled on a net basis are to be classified as Israeli currency or foreign currency, based on the currency in which they will be settled (a report of off-balance sheet amounts shall not be performed in respect of such derivative instruments). For further information, see Note 1.F.6 above. The Company implemented this directive retroactively; comparative figures were classified accordingly.

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

				Balance-sheet balance[2]			
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return[5]
4	1	-	-	14,102	456	14,495	1.63%
9	9	12	12	12,337	132	12,544	0.58%
(5)	(8)	(12)	(12)	1,765	324	1,951	
-	-	-	-	110	-	110	0.36%
-	-	-	-	103	10	113	-
-	-	-	-	7	(10)	(3)	-
-	-	-	-	8	(11)	(3)	
4	1	-	-	14,212	456	14,605	1.63%
9	9	12	12	12,440	142	12,657	0.58%
(5)	(8)	(12)	(12)	1,772	314	1,948	
4	1	-	-	13,640	(4)	13,573	

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2012[(6)(7)]					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	7,745	2,704	2,726	652	197	22
Liabilities	7,246	2,424	2,198	445	124	6
Difference	499	280	528	207	73	16
Effect of derivative instruments	*-	-	-	-	-	-
Total	**499**	**280**	**528**	**207**	**73**	**16**

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 14, “Assets and Liabilities by Linkage Base,” including off-balance-sheet amounts in respect of derivatives not settled in net amounts.

(3) Excluding Israeli currency linked to foreign currency.

(4) Including assets in Israeli currency whose maturity date has elapsed in the amount of NIS 15 million (December 31, 2012: NIS 13 million).

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

(6) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

(7) The format of the disclosure in the note on assets and liabilities by linkage base and by term to maturity has been updated, in accordance with the directives set forth in the circular of the Supervisor of Banks, "Assets and Liabilities by Linkage Base and by Term to Maturity," dated September 30, 2013. The circular revised the differentiation required between assets and liabilities in Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. In addition, cash flows in respect of derivative instruments settled on a net basis are to be classified as Israeli currency or foreign currency, based on the currency in which they will be settled (a report of off-balance sheet amounts shall not be performed in respect of such derivative instruments). For further information, see Note 1.F.6 above. The Company implemented this directive retroactively; comparative figures were classified accordingly.

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

				Balance-sheet balance(2)			
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows(1)	No maturity date(4)	Total	Contractual rate of return(5)
7	1	-	-	14,054	457	14,694	1.18%
5	58	13	9	12,528	111	12,955	0.53%
2	(57)	(13)	(9)	1,526	346	1,739	0.65%
-	-	-	-	*-	-	*-	
2	**(57)**	**(13)**	**(9)**	**1,526**	**346**	**1,739**	

Note 16 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2013	2012(1)	2013	2012(1)
Unutilized credit-card credit lines:				
Credit risk on the Company	8,093	9,129	7,555	8,569
Credit risk on banks	24,552	24,850	24,552	24,850
Credit risk on others	409	427	*-	*-
Allowance for credit losses	(14)	(15)	(9)	(9)
Unutilized credit-card credit lines, net	33,040	34,391	32,098	33,410
Guarantees and other liabilities:				
Exposure in respect of check assurance	80	83	80	83
Exposure in respect of other guarantees	57	51	57	51
Liability in respect of debt discounting	47	34	-	-
Exposure in respect of other liabilities	80	75	4	4
Exposure in respect of merchant credit lines	62	201	8	119
Allowance for credit losses	(5)	(5)	(1)	(2)
Guarantees and other liabilities, net	321	439	148	255

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

B. Activity in Derivative Instruments – Volume and Maturity Dates

On November 3, 2012, the Company entered into an IRS (interest-rate swap) transaction with Bank Hapoalim B.M., in the amount of NIS 40 million (face value), maturing in November 2014. The transaction is presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

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

C. Antitrust Issues

1. Pursuant to an arrangement between the Company and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "**Arrangement**"), the average issuer fee stands at 0.735% as of July 1, 2013, and the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement. The reduction of the issuer fee approved by the Antitrust Tribunal may have a material adverse effect on the financial results of the Company in the future; however, the Company cannot estimate the actual volume of this effect.

2. An agreement was signed between the Company and Leumi Card in April 2012, and an agreement was signed between the Company and CAL in May 2012, both in connection with the implementation of Amendment 18 to the Banking (Licensing) Law, 1981 (hereinafter: the "**Agreements**"). Pursuant to the Agreements, Leumi Card and CAL were granted licenses to clear Isracard brand charge cards, under the terms agreed upon by the parties. The Company estimates that granting licenses in accordance with this law will have a material negative effect on the Company; however, at this stage the Company cannot estimate the actual extent of this effect. On September 13, 2012, the Commissioner granted a restrictive arrangement exemption permitting Leumi Card and CAL to clear Isracard brand cards, with the payment of an issuer fee, a one-time licensing fee, and an additional amount, the content and extent of which has been deemed confidential by the Antitrust Tribunal. Following the Commissioner's refusal to permit the collection of a licensing fee as agreed upon by the parties, on February 6, 2013, the Company petitioned the Antitrust Tribunal for approval of the Agreements. The position of the Commissioner, objecting to the approval of the Agreements as they stand, was submitted in June 2013. Discussions on this matter are being conducted by the Antitrust Tribunal.

D. Legal Proceedings and Pending Claims

1. As at the date of the report, several legal claims have been filed against the Company and a consolidated company, arising in the ordinary course of their business, in the aggregate amount of approximately NIS 7 million. Based on the opinion of its legal advisors, the Company estimates that the financial statements include adequate provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

2. In May 2012, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 1,231, and the class-action suit is in an estimated amount of NIS 373.3 million. According to the claimant, the Company clears credit-card transactions on websites (transactions with a missing document) with no examination of the credit-card data entered into the website, other than the number and expiration date of the card, and without cross-referencing the data transferred to it. The court approved withdrawal on July 28, 2013. The personal claim was dismissed and the petition for certification was expunged.

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

D. Legal Proceedings and Pending Claims (cont.)

3. A claim and a petition to certify the claim as a class action against the Company were filed in November 2012, with regard to currency conversion fees collected by the Company. The amount of the claim has been set at a total of approximately NIS 150 million. According to the claimant, Isracard misled credit-card holders with regard to the rate for euro currency conversion, in violation of the Consumer Protection Law, gaining unjust enrichment. The claimant seeks to represent Isracard credit-card holders who executed purchases of products outside Israel and were charged currency conversion fees despite the fact that no such fee is listed in the list of charges. The court approved withdrawal on August 29, 2013. The personal claim was dismissed and the petition for certification was expunged.

4. A claim and a petition to certify the claim as a class action against five fuel companies and three credit-card companies (Isracard, Leumi Card, and CAL) was received in October 2013. The amount of the claim of the customer suing Isracard stands at approximately NIS 1,000. The amount of the class-action suit was not noted. According to the claimants, a covert arrangement exists between the credit-card companies and the fuel companies wherein the credit-card companies charge customers who purchase fuel a sum of NIS 150 to NIS 600 per fuel purchase, either through "seizure of collateral from the cardholder's credit limit" or through "debiting the account in another transaction for a purchase that was not executed," for several days, until the amount of the credit limit is updated or the amounts charged are refunded. In the opinion of the Company's legal advisors, at this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

5. In December 2013, a claim and a petition to certify the claim as a class action were filed against the Company with regard to the addition of advertisements to the monthly statement sent by e-mail. The amount of the personal claim has been set at NIS 1,000. The amount of the class-action suit has been set at NIS 50 million. According to the claimant, the Company added advertisements for its customers without having received their consent, and continued to do so after being asked to cease, in violation of the conditions established in the Communications Law (Telecommunications and Broadcast), 1982. The Company thereby allegedly committed offenses of violation of a legislated duty and unjust enrichment. In light of clarifications received from the Company, the applicant filed to withdraw from the petition for certification. The court ruled to approve the withdrawal on February 20, 2014.

6. During 2011, the Board of Directors of the Company approved the granting of a letter of indemnification to consolidated companies (Isracard Mimun, Isracard Nechasim, Tzameret Mimunim, and Global) in respect of all of their liabilities, in an unlimited amount, pursuant to Proper Conduct of Banking Business Directive No. 313 ("Limits on the Indebtedness of a Single Borrower") and Proper Conduct of Banking Business Directives No. 201-211 ("Capital Measurement and Adequacy").

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

E. Indemnification of Directors

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

F. Agreements with Subsidiaries and Sister Companies

The Company has agreements with Europay, Tzameret, Global, and Poalim Express, which are subsidiary and sister companies (hereinafter: the “**Companies**”), for the operation of their credit-card systems and/or service agreements.

The Company operates the credit-card issuance and clearing activity of Poalim Express and Europay, as well as the clearing of transactions executed in Israel using cards issued abroad. The Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of this arrangement.

G. 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), Mizrahi Bank, Bank Yahav for Government Employees Ltd., First International Bank Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., and Union Bank (jointly, the "**Banks Under Arrangement**").

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

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

H. Special Contractual Engagements

Special contractual engagements include long-term agreements in respect of property rentals, software, and operational agreements in respect of motor vehicles.

The following table lists the balances of expected amounts in respect of these contractual engagements, by year.

	December 31	
	2013	2012
	In NIS millions	
First year	29	30
Second year	13	14
Third year	4	10
Fourth year	3	3
Fifth year	2	3
Over five years	5	6

J. Contractual Engagements with Customer Clubs

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

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Note 17 – Fair Value of Financial Instruments

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A “market price” cannot be obtained for the Company’s financial instruments, because no active market exists in which they are traded, with the exception of some securities. The fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note 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, net of impairment.

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 17 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2013				
		Fair value[(a)]			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	378	43	335	-	378
Debtors in respect of credit-card activity, net	13,573	-	-	13,529	13,529
Securities[(b)]	38	27	-	11	38
Other financial assets	173	-	33	139	172
Total financial assets	***14,162**	**70**	**368**	**13,679**	**14,117**
Financial liabilities:					
Credit from banking corporations	18	18	-	-	18
Creditors in respect of credit-card activity	11,869	-	-	11,827	11,827
Other financial liabilities	656	-	68	587	655
Total financial liabilities	***12,543**	**18**	**68**	**12,414**	**12,500**

* Of which: assets and liabilities in the amount of NIS 70 million and NIS 18 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Notes 17A and 17B, below.

(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.

(b) Includes shares for which no fair value is available, which are presented at cost, net of impairment, in the amount of NIS 11 million.

Note 17 – Fair Value of Financial Instruments (cont.)

Reported amounts

In NIS millions

3. Balances and Fair-Value Estimates of Financial Instruments (cont.)

	December 31, 2012[1]				
		Fair value[a]			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	461	33	428	-	461
Debtors in respect of credit-card activity, net	13,583	-	-	13,538	13,538
Securities[b]	79	68	-	11	79
Other financial assets	152	-	22	128	150
Total financial assets	***14,275**	**101**	**450**	**13,677**	**14,228**
Financial liabilities:					
Credit from banking corporations	37	23	14	-	37
Creditors in respect of credit-card activity	12,118	-	-	12,073	12,073
Subordinated notes	31	-	31	-	31
Other financial liabilities	658	-	55	602	657
Total financial liabilities	***12,844**	**23**	**100**	**12,675**	**12,798**

* Of which: assets and liabilities in the amount of NIS 101 million and NIS 23 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis, see Notes 17A and 17B, below.

(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.

(b) Includes shares for which no fair value is available, which are presented at cost, net of impairment, in the amount of NIS 11 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 17A – Items Measured at Fair Value on a Recurring Basis, Consolidated

Reported amounts

In NIS millions

	December 31, 2013		
	Fair-value measurements using:		
	Prices quoted on an active market (level 1)	Other significant observable inputs (level 2)	Total fair value
Assets			
Securities available for sale	27	-	27
Assets in respect of derivative instruments	-	-	-
Total assets	**27**	**-**	**27**
Liabilities			
Liabilities in respect of derivative instruments	-	*-	*-
Total liabilities	**-**	***-**	***-**

	December 31, 2012		
	Fair-value measurements using:		
	Prices quoted on an active market (level 1)	Other significant observable inputs (level 2)	Total fair value
Assets			
Securities available for sale	68	-	68
Assets in respect of derivative instruments	-	-	-
Total assets	**68**	**-**	**68**
Liabilities			
Liabilities in respect of derivative instruments	-	*-	*-
Total liabilities	**-**	***-**	***-**

* Amount lower than NIS 0.5 million.

Note 17B – Items Measured at Fair Value on a Non-Recurring Basis, Consolidated

During the years ended on December 31, 2013 and 2012, the Company had no items not measured at fair value on a recurring basis with respect to which signs of impairment existed.

Note 17C – Transfers between Levels 1 and 2 of the Fair Value Hierarchy

During the years ended December 31, 2013 and 2012, there were no transfers from Level 2 to Level 1.

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Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries

Reported amounts

In NIS millions

A. Balances

	December 31, 2013							
	Interested parties				Related parties			
	Controlling shareholders		Key executives[2]		Associated companies		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]	Year-end balance	Highest balance during the year[4]
Assets								
Cash on hand and deposits with banks	367	938	-	-	-	-	-	-
Debtors in respect of credit-card activity, net[1]	1	1	1	2	100	100	141	340
Investments	-	-	-	-	5	5	-	-
Other assets	-	-	-	-	*-	*-	1	1
Liabilities								
Credit from banking corporations	18	43	-	-	-	-	-	-
Creditors in respect of credit-card activity	65	82	-	-	*-	1	845	853
Other liabilities	6	7	9	9	-	-	424	515
Shares (included in equity)	*-	*-	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	16,617	16,770	9	11	54	54	-	-
Guarantees given by banks	5,334	5,474	-	-	-	-	-	-
Guarantees given by the Company	48	48	-	-	-	-	-	-
Discounting balance with related party	-	-	-	-	38	38	-	-

* Amount lower than NIS 0.5 million.

(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.

(5) In addition, the Company has a balance of debtors in respect of gift cards, deposited with the Parent Company, in the amount of NIS 28 million (highest balance during the year: NIS 31 million).

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

A. Balances

	December 31, 2012[6]							
	Interested parties				Related parties			
	Controlling shareholders		Key executives[2]		Associated companies		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]	Year-end balance	Highest balance during the year[4]
Assets								
Cash on hand and deposits with banks	452	849	-	-	-	-	-	-
Debtors in respect of credit-card activity, net[1]	1	2	1	1	70	70	109	109
Investments	-	-	-	-	2	3	-	-
Other assets	-[5]	2[5]	-	-	1	1	-	-
Liabilities								
Credit from banking corporations	37	51	-	-	-	-	-	-
Creditors in respect of credit-card activity	43	69	-	-	-	-	850	850
Subordinated notes	31	32	-	-	-	-	-	-
Other liabilities	2	3	9	9	-	-	391	403
Shares (included in equity)	*-	*-	-	-	-	-	-	-
Credit risk in off-balance-sheet financial instruments	16,531	16,589	6	7	73	73	-	-
Guarantees given by banks	5,196	5,559	-	-	-	-	-	-
Guarantees given by the Company	47	47	-	-	-	-	-	-
Discounting balance with related party	-	-	-	-	29	29	-	-

* Amount lower than NIS 0.5 million.

(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.

(5) In addition, the Company has a balance of debtors in respect of gift cards, deposited with the Parent Company, in the amount of NIS 28 million (highest balance during the year: NIS 22 million).

(6) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

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

	For the year ended December 31, 2013			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associated companies	Others[2]
Income from credit-card transactions	-	*-	2	174
Net interest income	1	*-	6	(1)
Other income	4	-	-	19
Operating expenses	(6)	-	-	-
General and administrative expenses	-	(24)	-	-
Payments to banks	(189)	-	-	-
Total	**(190)**	**(24)**	**8**	**192**

	For the year ended December 31, 2012[1]			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associated companies	Others[2]
Income from credit-card transactions	-	*-	2	163
Net interest income	2	*-	4[3]	(2)
Other income	3	-	-	17
Operating expenses	(7)	-	-	-
General and administrative expenses	-[4]	(27)	-	-
Payments to banks	(200)	-	-	-
Total	**(202)**	**(27)**	**6**	**178**

	For the year ended December 31, 2011[1]			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associated companies	Others[2]
Income from credit-card transactions	-	*-	1	163
Net interest income	(5)	*-	4[3]	(1)
Other income	4	-	-	15
Operating expenses	(7)	-	-	-
General and administrative expenses	-[4]	(25)	-	-
Payments to banks	(222)	-	-	-
Total	**(230)**	**(25)**	**5**	**177**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

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

(3) In respect of credit to merchants.

(4) In addition, in 2013, 2012, and 2011, expenses in respect of current account settlement for professional services, in the amount of NIS 4 million, NIS 6 million, and NIS 6 million, respectively.

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31, 2013			
	Controlling shareholders		Key executives	
	Total benefits	Number of benefit recipients	Total benefits(1)	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	24	24

(1) Of which: short-term employee benefits, NIS 19 million; post-employment benefits, an amount lower than NIS 0.5 million; severance benefits, an amount lower than NIS 0.5 million; other long-term benefits, NIS 3 million; share-based payment, NIS 1 million.

	For the year ended December 31, 2012(2)			
	Controlling shareholders		Key executives	
	Total benefits	Number of benefit recipients	Total benefits(1)	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	27	24

(1) Of which: short-term employee benefits, NIS 19 million; post-employment benefits, NIS 1 million; severance benefits, an amount lower than NIS 0.5 million; other long-term benefits, NIS 2 million; share-based payment, NIS 4 million.

	For the year ended December 31, 2011(2)			
	Controlling shareholders		Key executives	
	Total benefits	Number of benefit recipients	Total benefits(1)	Number of benefit recipients
Interested party employed by the corporation or on its behalf	-	-	25	29

(1) Of which: short-term employee benefits, NIS 20 million; post-employment benefits, an amount lower than NIS 0.5 million; severance benefits, an amount lower than NIS 0.5 million; other long-term benefits, NIS 2 million; share-based payment, NIS 2 million.

(2) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

In addition, in 2013, the Company had salary and related expenses in the amount of approximately NIS 46 million (NIS 42 million and NIS 44 million in the years ended December 31, 2012 and December 31, 2011, respectively) in respect of employees on loan from Bank Hapoalim (2013: 107 employees; 2012: 112 employees; 2011: 114 employees).

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

D. Information Regarding Transactions and Balances with Related and Interested Parties

- In December 2012, Aminit distributed a dividend to Bank Hapoalim in a total amount of NIS 5 million.
- In July 2013, the Company acquired the full holdings of Bank Hapoalim in Aminit, in consideration for NIS 69 million. For further information, see Note 1.I above.
- In October 2013, the Company redeemed the subordinated notes issued by Aminit to Bank Hapoalim in the past, in the amount of NIS 31 million. For further information, see Note 1.I above.
- See Note 13 – Employee Benefits and Share-Based Payment.
- See Note 16 – Contingent Liabilities and Special Agreements.

Note 19 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Income from merchants						
Merchant fees	1,067	*1,121	*1,148	1,069	*1,123	*1,150
Other income	10	9	13	10	9	13
Total gross income from merchants	1,077	1,130	1,161	1,079	1,132	1,163
Less fees to other issuers	198	178	166	198	178	166
Total net income from merchants	879	952	995	881	954	997
Income in respect of credit-card holders						
Issuer fees	171	139	112	171	139	112
Service fees	193	175	158	193	175	158
Fees from transactions abroad	38	36	34	38	36	34
Total income in respect of credit-card holders	402	350	304	702	350	304
Total income from credit-card transactions	**1,281**	**1,302**	**1,299**	**1,283**	**1,304**	**1,301**

* Reclassified.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 20 – Net Interest Income

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
A. Interest income						
From credit to cardholders	63	66	65	2	1	*-
From credit to merchants	67	72	64	15	20	19
From deposits with banks	5	8	8	5	7	6
From other assets	10	7	4	30	43	45
Total interest income	**145**	**153**	**141**	**52**	**71**	**70**
B. Interest expenses						
To banking corporations	10	9	12	10	9	12
On other liabilities	2	3	3	2	5	8
Total interest expenses	**12**	**12**	**15**	**12**	**14**	**20**
Total net interest income	**133**	**141**	**126**	**40**	**57**	**50**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 21 – Other Income

Reported amounts

In NIS millions

A. Other Income

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
From rental of assets	4	4	4	-	-	-
Operating fees from related parties	19	17	15	20	17	16
Non-interest financing income, net(b)	61	39	25	60	39	26
Others	16	*15	*17	15	*13	*16
Total other income	**100**	**75**	**61**	**95**	**69**	**58**

* Reclassified.

(b) See Note 21.B below.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

B. Non-Interest Financing Income, Net

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Net exchange-rate differences	24	19	18	23	19	19
Net income (expenses) in respect of derivative instruments	(*-)	(1)	*-	(*-)	(1)	*-
Profits from investments in shares:						
Profits (losses) from sale of shares available for sale and provision for impairment	37	21	7	37	21	7
Dividend from shares available for sale	*-	*-	*-	*-	*-	*-
Total profits from investment in shares	37	21	7	37	21	7
Total non-interest financing income, net	**61**	**39**	**25**	**60**	**39**	**26**

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 22 – Operating Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	**2012(1)**	**2011(1)**	**2013**	**2012(1)**	**2011(1)**
Wages and related expenses**	184	167	182	178	162	178
Data processing and computer maintenance	36	29	38	34	28	37
Automatic Bank Services (ABS)	18	18	16	18	17	16
Incoming and outgoing tourism	45	46	42	45	46	42
Amortization and depreciation	93	89	84	91	86	81
Communications	8	8	6	8	8	6
Production and delivery	64	66	70	63	65	69
Damages from abuse of credit cards	7	8	7	7	8	7
Rent and building maintenance	31	28	25	37	34	32
Others	21	19	19	12	11	11
Total operating expenses	**507**	**478**	**489**	**493**	**465**	**479**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	1	*-	*-	1	*-	*-

* Amount lower than NIS 0.5 million.

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

Note 23 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Wages and related expenses**	59	58	55	55	55	51
Advertising	70	81	67	70	82	67
Customer retention and recruitment**	17	36	18	17	35	18
Gift campaigns for credit-card holders	19	32	60	19	32	60
Vehicle maintenance	7	7	6	6	6	6
Club management fees	36	37	34	36	37	34
Others	5	6	6	5	5	6
Total sales and marketing expenses	**213**	**257**	**246**	**208**	**252**	**242**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	5	6	5	5	6	5

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above. above.

Note 24 – General and Administrative Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	2012(1)	2011(1)	2013	2012(1)	2011(1)
Wages and related expenses*						
Professional services	31	34	27	28	32	25
Insurance	16	15	16	13	13	15
Benefit due to share allocation(1)	6	5	5	6	5	5
Others	19	18	16	18	17	16
Total general and administrative expenses	72	72	64	65	67	61
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	2	4	2	2	4	2

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above. above.

Note 25 – Provision for Taxes on Profit

Reported amounts

In NIS millions

1. Item composition:

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Current taxes for the tax year	102	99	85	80	80	71
Deferred taxes for the tax year	(7)	(12)	(35)	(4)	(9)	(30)
Taxes for previous years	*-	*-	2	*-	(*-)	2
Provision for taxes on income	**95**	**87**	**52**	**76**	**71**	**43**

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

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Tax rate applicable to the Company in Israel	25%	25%	24%	25%	25%	24%
Tax amount based on statutory tax rate	95	81	60	79	68	50
Tax increment (saving) in respect of:						
Amortization differences, amortization adjustment, and capital gains	(1)	(*-)	(*-)	(1)	(*-)	(*-)
Unrecognized expenses	1	4	2	1	3	1
Exempt expenses	(*-)	(*-)	(*-)	(*-)	(*-)	(*-)
Benefit from loss and tax credit from a previous period used to reduce current taxes	(*-)	(2)	(2)	-	-	-
Benefit from temporary differences for a previous period used to reduce deferred taxes	(*-)	(1)	-	(*-)	-	-
Change in balance of deferred taxes due to changes in tax rates	(5)	*-	(13)	(3)	-	(10)
Tax expenses for previous years	*-	*-	2	*-	(*-)	2
Timing differences that do not carry deferred taxes	*-	1	*-	-	-	-
Difference in tax rate on financial institutions	5	4	3	-	-	-
Provision for taxes on income	**95**	**87**	**52**	**76**	**71**	**43**

* Amount lower than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2009. Final tax assessments have been issued to the subsidiaries up to and including the tax year 2009, including tax assessments considered to be final under the Income Tax Ordinance.

Note 25 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

4. Deferred tax balances and provision for deferred taxes (consolidated)

	Deferred taxes receivable		Average tax rate		Provision for deferred taxes		Average tax rate	
	December 31		December 31		December 31		December 31	
	2013	2012	2013	2012	2013	2012	2013	2012
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	66	63(1)	33.0	30.0	-	-	-	-
From provision for vacations, bonuses, and options	16	13	26.5	25.0	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded	21	19	26.5	25.0	-	-	-	-
From adjustment of depreciable non-monetary assets	-	-	-	-	7	6	26.5	25.0
From adjustments of securities and derivatives	(5)	(10)	26.5	25.0	-	-	-	-
Other	1	1	26.5	25.0	-	-	-	-
Total	**99**	**86**			**7**	**6**		

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above. above.

Deferred Tax Balances and Provision for Deferred Taxes (the Company)

	Deferred taxes receivable		Average tax rate		Provision for deferred taxes		Average tax rate	
	December 31		December 31		December 31		December 31	
	2013	2012	2013	2012	2013	2012	2013	2012
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	27	27	26.5	25.0	-	-	-	-
From provision for vacations, bonuses, and options	15	13	26.5	25.0	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded		19	26.5	25.0	-	-	-	-
From adjustments of securities and derivatives		(10)	26.5	25.0	-	-	-	-
Other		1	26.5	25.0	-	-	-	-
Total	**60**	**50**			**-**	**-**		

Note 25 – Provision for Taxes on Operating Profit (cont.)

5. Taxes on Income Recognized Outside the Statement of Profit and Loss

Cumulative amount of taxes on items allocated directly to capital:

	December 31	
	2013	2012
	In NIS millions	
Deferred taxes	4	10

6. Changes in tax rates

A. Corporation tax

Rates of corporation tax relevant to the Company for 2011-2013:
2011: 24%
2012: 25%
2013: 25%

An economic plan for 2013-2014 (the Budget Law) was approved by the Knesset plenum on July 30, 2013. Among other matters, the plan includes an increase of the rate of corporation tax from 25% to 26.5% beginning January 1, 2014. The aforesaid change in the rate of corporation tax under the Budget Law, and the change in the rate of profit tax, as detailed below, raised the statutory rate of tax applicable to financial institutions from 36.21% in 2013 to 37.7% from 2014 forward.

The change in the rate of corporation tax led to an increase in net balances of deferred taxes receivable at the beginning of the third quarter, in the amount of approximately NIS 5 million.

B. Value Added Tax and National Insurance

On May 28, 2013, the Minister of Finance signed an order to raise the rate of value-added tax on transactions and imports of goods from 17% to 18%, effective June 2, 2013.

The Value Added Tax Order (Rate of Tax on Non-Profit Associations and Financial Institutions) (Amendment), 2013, was published in the Official Gazette of the Government of Israel on June 2, 2013. The amendment adjusted the rate of wage tax and profit tax applicable to financial institutions to 18% beginning June 2, 2013. As a result of this change, the statutory tax rate applicable to financial institutions rose from 35.59% to 36.21% in 2013. In addition, the rate of wage tax applicable to financial institutions rose from 17% to 18% for wages paid for labor from June 2013 forward.

The Law for Reduction of the Deficit and Change of the Tax Burden (Legislative Amendments), 2012 (hereinafter: the "**Law**"), was published on August 13, 2012. Pursuant to the Law, beginning in January 2013, the rate of National Insurance fees collected from employers with respect to the part of wages exceeding 60% of the average wage in the Israeli economy rose from 5.9% to 6.5%. The Law was revised in 2014, and the rate was set at 6.75% and 7.25% in 2014 and 2015, respectively. This rate will stand at 7.5% from January 1, 2016 forward.

Note 26 – Operating Segments

A. General

The Company issues, clears, and operates Isracard credit cards (a private brand owned by the Company), which are issued for use in Israel only. The Company also issues credit cards, jointly with Europay, which combine the Isracard and MasterCard brands (hereinafter: "**MasterCard cards**"). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers, executed with merchants with which it has agreements; and transactions executed in Israel with the aforesaid merchants using cards issued abroad, and paid to the merchants in Israeli currency. Transactions in MasterCard cards issued abroad, executed in Israel with merchants that have agreements with Europay and paid to the merchants in foreign currency, are cleared by Europay. Issuance and clearing of MasterCard cards are performed under a license from MasterCard International Incorporated ("MC"). The Company also issues, acquires, and operates Visa credit cards for use in Israel and abroad, under a license granted to the Company by the Visa International Service Association.

The Issuance Segment

The Company issues and operates Isracard, MasterCard, and Visa credit cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards. All income and expenses related to customer recruitment and routine handling, including customer-club management, were allocated to the Issuance Segment. Main income items associated with this segment: interchange fees, card fees, deferred-debit fees, and fees from transactions abroad, as well as net financing income attributed to the segment. Interchange fees are fees paid by clearers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the clearer. Main expenses associated with this segment: marketing, advertising, and management of customer clubs; benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, such as marketing and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and sales-promotion campaigns. All income and expenses related to recruitment and routine handling of merchants were allocated to this segment. Main income items associated with this segment: fees from merchants, net of interchange fees, which are allocated to the Issuance Segment; and net financing income attributed to the segment. Main expenses associated with this segment: recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

Note 26 – Operating Segments (cont.)

The Financing Segment

The Financing Segment serves the customers of the Company, focusing on the provision of financial services and solutions through products tailored to customers' needs, at a high level of service. The Company offers unique credit products to its customers, in response to their needs, taking into account the type of customer (consumer or corporate) and the customer's financial condition and repayment capability. All income and expenses related to the Company's interest-bearing activities, including discounting, advance payments, factoring, revolving credit (More), and various types of loans, were attributed to the Financing Segment.

Other

This segment includes all of the Company's other activities that do not belong to the Issuance, Clearing, and/or Financing Segment, each of which does not constitute a reportable segment. This segment also includes income from the sale of shares of MC.

Note 26 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2013				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from external customers	395	881	1	4	1,281
Inter-segmental fees	571	(571)	-	-	-
Total	966	310	1	4	1,281
Net interest income	24	2	105	2	133
Other income	16	10	1	73	100
Total income	**1,006**	**322**	**107**	**79**	**1,514**
Expenses (income)					
Provision for credit losses	(5)	3	8	1	7
Operating expenses	325	158	21	3	507
Sales and marketing expenses	153	50	10	-	213
General and administrative expenses	39	25	8	-	72
Payments to banks (receipts from banks)	336	(2)	-	1	335
Total expenses	**848**	**234**	**47**	**5**	**1,134**
Profit before taxes	158	88	60	74	380
Provision for taxes on profit	40	21	15	19	95
Profit after taxes	118	67	45	55	285
The Company's share in profits of associates after tax	-	-	-	*-	*-
Net profit					
Before attribution to non-controlling interests	118	67	45	55	285
Attributed to non-controlling interests	-	-	-	-	-
Attributed to shareholders of the Company	118	67	45	55	285
Return on equity (percent net profit out of average capital)	6.4	3.6	2.5	3.0	15.5
Average balance of assets	11,237	1,714	1,877	113	14,941
Of which: investments in associated companies	-	-	-	4	4
Average balance of liabilities	799	11,491	310	502	13,102
Average balance of risk-adjusted assets	8,179	1,239	1,490	123	11,031

* Amount lower than NIS 0.5 million.

(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.

Note 26 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2012[(2)]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from external customers	344	954[(3)]	1	3	1,302
Inter-segmental fees	639	(639)	-	-	-
Total	983	315	1	3	1,302
Net interest income	33	3	104	1	141
Other income	12	9	1	53[(3)]	75
Total income	**1,028**	**327**	**106**	**57**	**1,518**
Expenses					
Provisions for doubtful debts	12	6	14	5	37
Operations	297	159	18	4	478
Sales and marketing	179	68	9	1	257
General and administrative	38	28	6	-	72
Payments to banks	340	8	-	-	348
Total expenses	**866**	**269**	**47**	**10**	**1,192**
Profit before taxes	162	58	59	47	326
Provision for taxes on profit	44	16	15	12	87
Profit after taxes	118	42	44	35	239
The Company's share in losses of associates after tax	-	-	-	(*-)	(*-)
Net profit					
Before attribution to non-controlling interests	118	42	44	35	239
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	118	42	44	35	239
Return on equity (percent net profit out of average capital)	7.3	2.6	2.7	2.2	14.8
Average balance of assets	10,926	1,608	1,813	132	14,479
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	652	11,518	260	433	12,863
Average balance of risk-adjusted assets	8,019	1,124	1,392	176	10,711

* Amount lower than NIS 0.5 million.

(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) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

(3) Reclassified.

Note 26 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2011[(2)]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[(1)]**	**Total**
Income					
Fees from external customers	299	998[(3)]	-	2	1,299
Inter-segmental fees	714	(714)	-	-	-
Total	1,013	284	-	2	1,299
Net interest income	35	9	80	2	126
Other income	15	10	1	35[(3)]	61
Total income	**1,063**	**303**	**81**	**39**	**1,486**
Expenses					
Provisions for doubtful debts	23	4	16	7	50
Operations	329	144	12	4	489
Sales and marketing	196	43	5	2	246
General and administrative	36	24	3	1	64
Payments to banks	372	8	-	-	380
Write-down and impairment of goodwill	-	-	7	-	7
Total expenses	956	223	43	14	1,236
Profit before taxes	107	80	38	25	250
Provision for taxes on profit	22	17	8	5	52
Profit after taxes	85	63	30	20	198
The Company's share in losses of associates after tax	-	-	-	(2)	(2)
Net profit					
Before attribution to non-controlling interests	85	63	30	18	196
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	85	63	30	18	196
Return on equity (percent net profit out of average capital)	6.2	4.6	2.2	1.3	14.4
Average balance of assets	10,422	1,366	1,507	136	13,431
Of which: investments in associated companies	-	-	-	3	3
Average balance of liabilities	579	11,302	51	137	12,069
Average balance of risk-adjusted assets	7,779	1,001	1,097	198	10,075

* Amount lower than NIS 0.5 million.

(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) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.

(3) Reclassified.

Note 27 – Cumulative Other Comprehensive Income (Loss)

Reported amounts

NIS millions

A. Changes in cumulative other comprehensive income (loss), after tax

	Adjustments for presentation of securities available for sale at fair value	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Company
Balance as at Dec. 31, 2010	8	-	8
Net change during the period	26	-	26
Balance as at Dec. 31, 2011	**34**	**-**	**34**
Balance as at Dec. 31, 2011	34	-	34
Net change during the period	(2)	-	(2)
Balance as at Dec. 31, 2012	**32**	**-**	**32**
Balance as at Dec. 31, 2012	32	-	32
Net change during the period	(17)	-	(17)
Balance as at Dec. 31, 2013	**15**	**-**	**15**

B. Changes in components of cumulative other comprehensive income (loss), before and after tax

	For the year ended December 31, 2013		
	Before tax	**Tax effect**	**After tax**
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests			
Adjustments for presentation of securities available for sale at fair value			
Net unrealized gains (losses) from adjustments to fair value	15	(3)	12
Gains (losses) in respect of securities available for sale reclassified to the statement of profit and loss	(37)	8	(29)
Net change during the period	(22)	5	(17)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests			
Net change during the period	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Company			
Total net change during the period	**(22)**	**5**	**(17)**

Note 27 – Cumulative Other Comprehensive Income (Loss) (cont.)

Reported amounts

NIS millions

B. Changes in components of cumulative other comprehensive income (loss), before and after tax (cont.)

	For the year ended December 31, 2012		
	Before tax	**Tax effect**	**After tax**
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests			
Adjustments for presentation of securities available for sale at fair value			
Net unrealized gains (losses) from adjustments to fair value	19	(5)	14
Gains (losses) in respect of securities available for sale reclassified to the statement of profit and loss	(21)	5	(16)
Net change during the period	(2)	*-	(2)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests			
Net change during the period	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Company			
Total net change during the period	**(2)**	***-**	**(2)**

* Amount lower than NIS 0.5 million.

	For the year ended December 31, 2011		
	Before tax	**Tax effect**	**After tax**
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests			
Adjustments for presentation of securities available for sale at fair value			
Net unrealized gains (losses) from adjustments to fair value	45	(11)	34
Gains (losses) in respect of securities available for sale reclassified to the statement of profit and loss	(10)	2	(8)
Net change during the period	35	(9)	26
Changes in components of other comprehensive income (loss) attributed to non-controlling interests			
Net change during the period	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Company			
Total net change during the period	**35**	**(9)**	**26**

Note 28 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2013	2012[(1)]
Total assets	15,264	15,203
Total liabilities	13,331	13,480
Equity	1,933	1,723
Nominal net profit	285	239

(1) Restated following the acquisition and merger of a sister company during 2013; see Note 1.I above.