Isracard Ltd. and its Consolidated Companies

Annual Report

For the year ended December 31, 2012

Report as at December 31, 2012

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Isracard Ltd. and its Consolidated Companies

Board of Directors' Report

For the Year Ended December 31, 2012

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

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

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 operating in three main segments of activity, constituting the core of its operations: credit-card issuing, credit-card clearing, and financing. The Company is 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**").

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

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 deposits that contain the proceeds from the sale of gift cards by Isracard, from the date on which the funds are received until the date of payment to the merchant.

- **Global Factoring Ltd.** (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.

- **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, with the aim of providing credit-card discounting services. Tzameret Mimunim commenced commercial operations in May 2000, and is a wholly owned and controlled subsidiary of the Company.

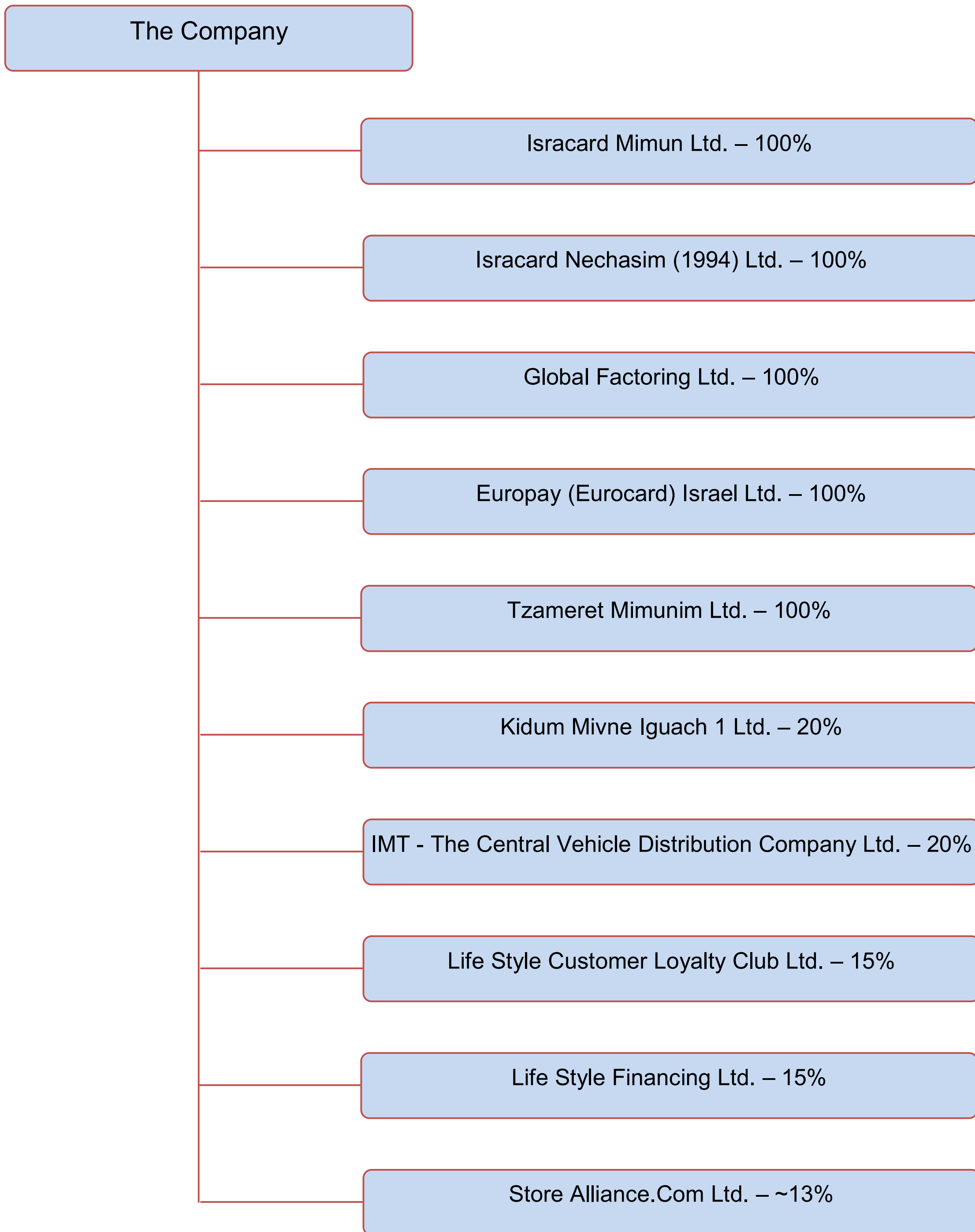
In addition, the Company has holdings in the following companies:

- 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.

ISRACARD

Holding Structure of the Company as at December 31, 2012



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

Developments in the Global Economy

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

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

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

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

The Israeli Economy

Economic Activity in Israel

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

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

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

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

Fiscal and Monetary Policy

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

An expansionary monetary policy was maintained over the last year. The central bank’s interest rate was lowered from 2.75% in January to 2.0% in December, and to 1.75% in January 2013. This policy was influenced by the low interest rates in the developed countries, the cooling of the local economy, and the lack of danger to price stability in the short term. The central bank took several steps aimed at halting the increase in mortgages and cooling down the housing market over the last year.

Inflation and Exchange Rates

The consumer price index rose by 1.6% in 2012, slightly below the midpoint of the target range. Government actions led to relatively large price changes, such as a 70% decrease in prices of

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

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

The Credit-Card Industry in Israel

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

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

Operational Data

Number of Credit Cards (in thousands)

Number of valid credit cards as at December 31, 2012

	Active cards	Inactive cards	Total
Bank cards	2,035	337	2,372
Non-bank cards –			
Credit risk on the Company	516	130	646
Credit risk on others	45	52	97
	561	182	743
Total	**2,596**	**519**	**3,115**

Number of valid credit cards as at December 31, 2011

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

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

	For the year ended December 31	
	2012	**2011**
Bank cards	76,079	71,757
Non-bank cards –		
Credit risk on the Company	12,252	10,829
Credit risk on others	1,487	1,898
	13,739	12,727
Total	**89,818**	**84,484**

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 a bank.

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

Profit and Profitability in the Consolidated Report

The Company's **net profit** in 2012, excluding profit from the sale of shares of MC, totaled NIS 222 million, compared with NIS 187 million, excluding profit from the sale of shares of MC, in the preceding year, an increase of 18.7%.

The Company's net profit in 2012 totaled NIS 238 million, compared with NIS 195 million in 2011, an increase of 22.1%.

Net return on average equity reached 15.4% in 2012, compared with 14.8% in 2011. Net return, excluding profit from the sale of shares of MC, on average equity reached 14.3% in 2012.

Developments in Income and Expenses

Income totaled NIS 1,462 million in 2012, compared with NIS 1,433 million in 2011, an increase of 2.0%.

Income from credit-card transactions totaled NIS 1,237 million in 2012, compared with NIS 1,242 million in 2011, a decrease of 0.4%. The decrease resulted from the following factors:

- Net income from merchants totaled NIS 898 million, compared with NIS 948 million in 2011. The 5.3% decrease mainly resulted from a decrease in the rate of merchant fees.
- Income in respect of credit-card holders totaled NIS 339 million, compared with NIS 294 million in 2011, an increase of 15.3%, 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 136 million in 2012, compared with NIS 121 million in 2011, an increase of 12.4%, which mainly resulted from an increase in credit activity.

Other income totaled NIS 89 million in 2012, compared with NIS 70 million in 2011, an increase of 27.1%. The increase mainly resulted from income in respect of the sale of shares of MC in the amount of NIS 21 million in 2012 , compared with income in respect of the sale of shares of MC in the amount of NIS 10 million in 2011.

Expenses before payments to banks, write-downs, and impairment of goodwill totaled NIS 797 million in 2012, compared with NIS 805 million in 2011, a decrease of 1.0%.

Expenses including payments to banks, write-downs, and impairment of goodwill totaled NIS 1,137 million in 2012, compared with NIS 1,184 million in 2011, a decrease of 4.0%.

The provision for credit losses totaled NIS 37 million, compared with NIS 49 million in 2011, a decrease of 24.5%.

Operating expenses totaled NIS 445 million in 2012, compared with NIS 458 million in 2011, a decrease of 2.8%.

Sales and marketing expenses totaled NIS 248 million in 2012, compared with NIS 238 million in 2011, an increase of 4.2%. The increase 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 67 million in 2012, compared with NIS 60 million in 2011, an increase of 11.7%.

Payments to banks under agreements with the banks totaled NIS 340 million in 2012, compared with NIS 372 million in 2011, a decrease of 8.6%.

Write-downs and impairment of goodwill totaled NIS 7 million in 2011, as a result of a write-down performed by the Company in respect of its investment in Global during the second quarter of 2011.

The ratio of expenses to income before payments to banks and before write-downs and impairment of goodwill reached 54.5% in 2012, compared with 56.2% in 2011.

Profit before taxes totaled NIS 325 million in 2012, compared with NIS 249 million in 2011, an increase of 30.5%.

The return of profit before taxes on average equity reached 21.0% in 2012, compared with 18.9% in 2011. The return of profit before taxes on average equity, excluding profit from the sale of shares of MC, reached 19.6%, compared with 18.2% in 2011, excluding profit from the sale of shares of MC.

The provision for taxes on profit totaled NIS 87 million in 2012, compared with NIS 52 million in 2011. The effective rate of tax of total operating profit before taxes reached 26.8%, compared with 20.9% in 2011 (at the subsidiary that is a financial institution, as defined in the Value Added Tax Law, 1975, the statutory tax rate in 2012 was 35.53%, compared with 34.5% in 2011).

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

Developments in Balance-Sheet Items in the Consolidated Report

The balance sheet as at December 31, 2012 totaled NIS 13,528 million, compared with NIS 13,125 million on December 31, 2011.

Developments in the principal balance-sheet items:

	December 31			
	2012	2011	Change	
	NIS millions		NIS millions	%
Total balance sheet	13,528	13,125	403	3
Debtors in respect of credit-card activity, net	12,432	12,132	300	2
Cash on hand and deposits with banks	449	378	71	19
Securities	79	96	(17)	(18)
Creditors in respect of credit-card activity	11,025	11,011	14	*-
Shareholders' equity	1,675	1,433	242	17

* Rate lower than 0.5%.

Debtors in respect of credit-card activity, net, totaled NIS 12,432 million on December 31, 2012, compared with NIS 12,132 million at the end of 2011. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. 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 449 million on December 31, 2012, compared with NIS 378 million at the end of 2011. The increase mainly resulted from a loan received from a sister company.

Securities totaled NIS 79 million on December 31, 2012, compared with NIS 96 million at the end of 2011. The decrease mainly resulted from the sale of shares of MC in the first quarter of 2012, for a consideration of NIS 36 million, which was offset by an increase in the fair value of the shares of MC held by the Company on December 31, 2012.

Buildings and equipment totaled NIS 264 million on December 31, 2012, compared with NIS 262 million at the end of 2011.

Creditors in respect of credit-card activity totaled NIS 11,025 million on December 31, 2012, compared with NIS 11,025 million at the end of 2011. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date.

Shareholders' equity totaled NIS 1,675 million on December 31, 2012, compared with NIS 1,433 million at the end of 2011. The increase mainly resulted from net profit.

The ratio of shareholders' equity to the balance sheet reached 12.4% on December 31, 2012, compared with 10.9% at the end of 2011.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 15.7% on December 31, 2012, compared with 14.0% at the end of 2011.

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

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

Expenses and Investments of the Company in Information Technology Systems

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

Definitions relevant to the information presented:

Expenses for information-technology systems: 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 who maintain existing systems.

Assets in respect of information-technology systems: Software acquisition, products, and project manpower. Development of new systems for internal use, purchasing of new systems, purchasing of new products, and personnel who develop 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 expended by the information-technology system.

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

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

	Software	Hardware[(1)]	Other	Total
Expenses for wages and related costs	18	9	3	30
Expenses for acquisitions or usage licenses not capitalized as assets	13	-	9	22
Expenses for outsourcing	21	-	-	21
Expenses for depreciation	70	10	2	82
Other expenses	5	4	(6)[(4)]	3
Total	**127**	**23**	**8**	**158**

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

	Software	Hardware[(1)]	Other	Total
Costs of wages and related costs	26	*-	-	26
Outsourcing costs	17	*-	-	17
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 the information-technology system (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 systems 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.

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, Aminit, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

Bank cards issued by the Company are distributed to owners of accounts at banks with which the Company and Europay have agreements, including Bank Hapoalim (the parent company), 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**"). See also "Restrictions and Supervision of the Company's Operations," below.

Critical success factors in the operating segment. In the opinion of the Company, the main critical success factors in the Issuance Segment, and the factors which the Company invests efforts and resources to achieve, are the following: (1) the ability to issue credit cards under an international license; (2) the collaboration with 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 size advantage.

Key entry barriers in the operating segment. The key entry barriers in the provision of credit-card issuance services are the following: (1) the need to obtain a license from an international organization to issue the brand and receive the right to use its logo, which may involve high monetary costs; (2) compliance with certain qualifications as a condition of receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and the investments in technological infrastructures, including an operational system, sophisticated information and communications systems, a risk-

management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the structure of the credit-card industry in Israel, which has a high penetration rate; and (5) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment. Payment methods such as cash, direct debits, electronic bank transfers, checks, 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 credit cards (a private brand) and MasterCard cards. The cards are issued both as bank cards and as non-bank cards, and used as means of payment for transactions and to withdraw cash, locally and internationally.

The Company also issues and operates a variety of products and services, including More brand revolving credit cards, allowing cardholders to determine the terms of repayment; fuel cards and refueling devices; gift 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 2012.

Marketing and Distribution

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

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

Institute of Certified Public Accountants in Israel, cards for Rafael Advanced Defense Systems Ltd., cards of retail chains, and more.

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

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

The Company invests significant efforts in attaining 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; and Pay Ware Sail, for accepting credit-card payments via smartphone.

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 own credit cards or who own credit cards of competing companies) for a credit-card arrangement with the Company, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; (2) competition for cardholders' "wallet" (which may hold charge cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company, and/or increasing the volume of use of such products; and (3) offering non-bank credit services through revolving credit cards or through loans to cardholders constituting an addition and/or substitute to credit granted by banks and other financial entities.

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

In order to cope with the competition in this sector, the Company takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers,

and increase customer loyalty; (2) 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, Aminit, Leumi Card, CAL, and Diners. Competition in this field is intense, encompassing all areas of activity within the segment.

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, such as loans, 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 will continue for another year, until April 2013, both for merchants included in the earlier offer and for new merchants who joined during the period of the previous offer. In November 2012, the Company lowered fees by 30% for approximately 7,000 merchants in southern Israel and in the conflict areas, with the option to suspend loan principal payments for three months.

Credit-card companies authorized to issue Visa and MasterCard cards and to clear transactions executed using these cards can clear Visa and MasterCard cards, according to each company's authorizations. In addition, beginning on May 15, 2012, the market has been open for cross-clearing of the Isracard brand, and merchants can switch clearers for this brand. With regard to the reduction of the interchange fee, beginning on November 1, 2011, and with regard to the approval of the arrangement, including all of its terms, see Note 16.C.1 to the Financial Statements. With regard to the government bill passed by the Knesset plenum in August 2011, see Note 16.D.2 to the Financial Statements.

Critical success factors in the operating segment, and changes therein – In the opinion of the Company, the main critical success factors in the Clearing Segment are the following: (1) the ability to clear credit cards under an international license; (2) available sources of financing for investment in new technological infrastructures necessary in order to provide clearing services and upgrades of existing infrastructures; (3) specification and development of suitable clearing systems and maintaining a high technological level; (4) high-quality, experienced human capital; (5) quality of service to customers of the Clearing Segment – merchants – and the ability to recruit and retain merchants through a 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.

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, business cards, joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures. In addition, the Company offers clearing of gift 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 2012.

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.

In the opinion of the Management of the Company, the Company is the leader in this area in Israel. 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,” below. Competition in the clearing sector is focused on recruiting new merchants for clearing agreements with the Company, retaining existing merchants as customers of the Clearing Segment, and preventing desertion to competitors, which requires the investment of extensive efforts and resources and high sales and marketing expenses.

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

In order to cope with the competition in this sector, the Company takes the following main actions: (1) a competitive, prudent rate policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to 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 in 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."

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 discounting and factoring 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 equity in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted

assets; (4) a broad system of sales and collaborations; and (5) training professional, skilled personnel.

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

Products and Services

The Company offers financial services to merchants, 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, factoring companies, and discounting companies. The competition in this industry is reflected in the level of service and in the range of products, prices, conditions for providing the required 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 subsidiaries of Bank Hapoalim in relation to credit cards which those companies are licensed to issue and clear (Poalim Express, which issues and clears American Express cards; and Aminit, which issues and clears Visa cards); the activity of Isracard Nechasim; the Company's activity in the area of check settlement guaranteeing and check discounting; and income from holding and selling shares of MC.

Financial Information on the Company's Operating Segments – Consolidated

Quantitative Data on Operating Segments

Reported amounts

In NIS millions

	For the year ended December 31, 2012				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[1]**	**Total**
Income					
Fees from external customers	336	897	1	3	1,237
Intersegmental fees	638	(638)	-	-	-
Total	**974**	**259**	**1**	**3**	**1,237**
Net interest income	33	10	92	1	136
Other income	12	7	1	69	89
Total income	**1,019**	**276**	**94**	**73**	**1,462**
Expenses					
Provisions for credit losses	12	6	14	5	37
Operations	294	129	18	4	445
Sales and marketing	176	62	9	1	248
General and administrative	38	23	6	-	67
Payments to banks	340	-	-	-	340
Total expenses	**860**	**220**	**47**	**10**	**1,137**
Profit before taxes	**159**	**56**	**47**	**63**	**325**
Provision for taxes on profit	42	15	13	17	87
Profit after taxes	**117**	**41**	**34**	**46**	**238**
The Company's share in losses of associates after tax	-	-	-	(*-)	(*-)
Net profit					
Before attribution to non-controlling interests	117	41	34	46	238
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	**117**	**41**	**34**	**46**	**238**
Return on equity (percent net profit out of average capital)	7.6	2.6	2.2	3.0	15.4
Average balance of assets	10,862	497	1,937	121	13,417
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	651	10,481	259	476	11,867
Average balance of risk-adjusted assets	7,949	657	1,429	170	10,205

* 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, 2011[2]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[1]**	**Total**
Income					
Fees from external customers	291	949	-	2	1,242
Intersegmental fees	713	(713)	-	-	-
Total	**1,004**	**236**	**-**	**2**	**1,242**
Net interest income	35	7	77	2	121
Other income	15	9	1	45	70
Total income	**1,054**	**252**	**78**	**49**	**1,433**
Expenses					
Provisions for doubtful debts	23	3	16	7	49
Operations	326[3]	116[3]	12	4	458
Sales and marketing	193[3]	38[3]	5	2	238
General and administrative	37	19	3	1	60
Payments to banks	372	-	-	-	372
Write-downs and impairment of goodwill	-	-	7	-	7
Total expenses	**951**	**176**	**43**	**14**	**1,184**
Profit before taxes	**103**	**76**	**35**	**35**	**249**
Provision for taxes on profit	22	16	7	7	52
Profit after taxes	**81**	**60**	**28**	**28**	**197**
The Company's share in losses of associates after tax	-	-	-	(2)	(2)
Net profit					
Before attribution to non-controlling interests	81	60	28	26	195
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	**81**	**60**	**28**	**26**	**195**
Return on equity (percent net profit out of average capital)	6.6	4.3	2.1	1.8	14.8
Average balance of assets	10,352	448	1,585	139	12,524
Of which: investments in associated companies	-	-	-	3	3
Average balance of liabilities	577	10,450	51	130	11,208
Average balance of risk-adjusted assets	7,733	576	1,119	195	9,623

* 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) Reclassified; see footnote 1 to the statement of profit and loss.

(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, 2010[2]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[1]**	**Total**
Income					
Fees from external customers	268	928	1	1	1,198
Intersegmental fees	727	(727)	-	-	-
Total	**995**	**201**	**1**	**1**	**1,198**
Net interest income	21	1	65	1	88
Other income	9	6	1	32	48
Total income	**1,025**	**208**	**67**	**34**	**1,334**
Expenses					
Provisions for doubtful debts	6	3	27	2	38
Operations	296[3]	105[3]	9	5	415
Sales and marketing	132[3]	32[3]	5	3	172
General and administrative	38	19	3	1	61
Payments to banks	388	4	-	-	392
Write-downs and impairment of goodwill	-	-	2	-	2
Total expenses	**860**	**163**	**46**	**11**	**1,080**
Profit before taxes	**165**	**45**	**21**	**23**	**254**
Provision for taxes on profit	44	12	6	6	68
Profit after taxes	**121**	**33**	**15**	**17**	**186**
The Company's share in profits of associates after tax	-	-	-	*-	*-
Net profit					
Before attribution to non-controlling interests	120	33	15	17	186
Attributed to non-controlling interests	-	-	-	(1)	(1)
Attributed to shareholders of the Company	**120**	**33**	**15**	**16**	**185**
Return on equity (percent net profit out of average capital)	10.7	3.0	1.2	1.3	16.2
Average balance of assets	9,074	990	1,387	272	11,723
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	433	9,841	197	122	10,593
Average balance of risk-adjusted assets	6,391	866	1,174	240	8,671

* 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) Reclassified; see footnote 1 to the statement of profit and loss.

(3) Reclassified.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 117 million, compared with NIS 81 million in 2011, an increase of 44.4%.

Net return on average equity reached 7.6%, compared with 6.6% in 2011.

Developments in Income and Expenses

The segment's income totaled NIS 1,019 million, compared with NIS 1,054 million in 2011, a decrease of 3.3%.

Income from fees totaled NIS 974 million, compared with NIS 1,004 million in 2011, a decrease of 3.0%.

Net interest income totaled NIS 33 million, compared with NIS 35 million in 2011, a decrease of 5.7%, which mainly resulted from a decrease in the interest rate.

Other income totaled NIS 12 million, compared with NIS 15 million in 2011, a decrease of 20.0%.

The segment's expenses before payments to banks totaled NIS 520 million, compared with NIS 579 million in 2011, a decrease of 10.2%.

The segment's expenses including payments to banks totaled NIS 860 million, compared with NIS 951 million in 2011, a decrease of 9.6%.

The provision for credit losses totaled NIS 12 million, compared with NIS 23 million in 2011, a decrease of 47.8%.

Operating expenses totaled NIS 294 million, compared with NIS 326 million in 2011, a decrease of 9.8%.

Sales and marketing expenses totaled NIS 176 million, compared with NIS 193 million in 2011, a decrease of 8.8%.

General and administrative expenses totaled NIS 38 million, compared with NIS 37 million in 2011, an increase of 2.7%.

Payments to banks under agreements with the banks totaled NIS 340 million, compared with NIS 372 million in 2011, a decrease of 8.6%.

The ratio of expenses to income in the segment, before payments to banks, reached 51.0%, compared with 54.9% in 2011.

The segment's profit before taxes totaled NIS 159 million, compared with NIS 103 million in 2011, an increase of 54.4%.

The provision for taxes on profit in the segment totaled NIS 42 million, compared with NIS 22 million in 2011. The 90.9% increase resulted from an increase in the Company's profit before tax, and from an adjustment of the rate of deferred taxes, in accordance with the Tax Burden Amendment Law.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 41 million, compared with NIS 60 million in 2011, a decrease of 31.7%, which resulted from a reduction of the rate of fees for merchants.

Net return on average equity reached 2.6%, compared with 4.3% in 2011.

Developments in Income and Expenses

The segment's income totaled NIS 276 million, compared with NIS 252 million in 2011, an increase of 9.5%.

Income from fees totaled NIS 259 million, compared with NIS 236 million in 2011, an increase of 9.7%.

Net interest income totaled NIS 10 million, compared with NIS 7 million in 2011, an increase of 42.9%.

Other income totaled NIS 7 million, compared with NIS 9 million in 2011, a decrease of 22.2%.

The provision for credit losses totaled NIS 6 million, compared with NIS 3 million in 2011, an increase of 100%.

Operating expenses totaled NIS 129 million, compared with NIS 116 million in 2011, an increase of 11.2%.

Sales and marketing expenses totaled NIS 62 million, compared with NIS 38 million in 2011, an increase of 63.2%, which mainly resulted from an increase in merchant retention expenses.

General and administrative expenses totaled NIS 23 million, compared with NIS 19 million in 2011, an increase of 21.1%.

The ratio of expenses to income in the segment reached 79.7%, compared with 69.8% in 2011.

The segment's profit before taxes totaled NIS 56 million, compared with NIS 76 million in 2011, a decrease of 26.3%.

The provision for taxes on profit in the segment totaled NIS 15 million, compared with NIS 16 million in 2011, a decrease of 6.3%.

Profit and Profitability – Financing Segment

The segment's net profit totaled NIS 34 million, compared with NIS 28 million in 2011, an increase of 21.4%, which resulted from an increase in credit granting.

Net return on average equity reached 2.2%, compared with 2.1% in 2011.

Developments in Income and Expenses

The segment's income totaled NIS 94 million, compared with NIS 78 million in 2011, an increase of 20.5%.

Net interest income totaled NIS 92 million, compared with NIS 77 million in 2011, an increase of 19.5%.

Other income totaled NIS 1 million, similar to 2011.

The segment's expenses before write-downs and impairment of goodwill totaled NIS 47 million, compared with NIS 36 million in 2011, an increase of 30.6%.

The provision for credit losses totaled NIS 14 million, compared with NIS 16 million in 2011, a decrease of 12.5%.

Operating expenses totaled NIS 18 million, compared with NIS 12 million in 2011, an increase of 50%.

Sales and marketing expenses totaled NIS 9 million, compared with NIS 5 million in 2011, an increase of 80%.

General and administrative expenses totaled NIS 6 million, compared with NIS 3 million in 2011, an increase of 100%.

Write-downs and impairment of goodwill totaled NIS 7 million in 2011, as a result of a write-down performed by the Company in respect of its investment in Global during the second quarter of 2011.

The ratio of expenses to income in the segment reached 50.0%, compared with 55.1% in 2011.

The segment's profit before taxes totaled NIS 47 million, compared with NIS 35 million in 2011, an increase of 34.3%.

The provision for taxes on profit in the segment totaled NIS 13 million, compared with NIS 7 million in 2011, an increase of 85.7%.

Profit and Profitability – Other Segment

The segment's net operating profit totaled NIS 46 million, compared with NIS 26 million in 2011, an increase of 76.9%. 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 1.8% in 2011.

Developments in Income and Expenses

The segment's income totaled NIS 73 million, compared with NIS 49 million in 2011, an increase of 49.0%.

Operating and other income totaled NIS 69 million, compared with NIS 45 million in 2011, an increase of 53.3%.

The segment's expenses totaled NIS 10 million, compared with NIS 14 million in 2011.

The ratio of expenses to income in the segment reached 13.7%, compared with 28.6% in 2011.

The segment's profit before taxes totaled NIS 63 million, compared with NIS 35 million in 2011.

The provision for taxes on profit in the segment totaled NIS 17 million, compared with NIS 7 million in 2011.

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 credit-card issuance and clearing. These systems include mainframe computers (including for backup), open systems, hardware, and software used by the Company in its routine operations in 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 holds a long-term license from the MasterCard Organization for the issuance and clearing of MasterCard cards in Israel. The Company owns the trademark "Isracard." 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.

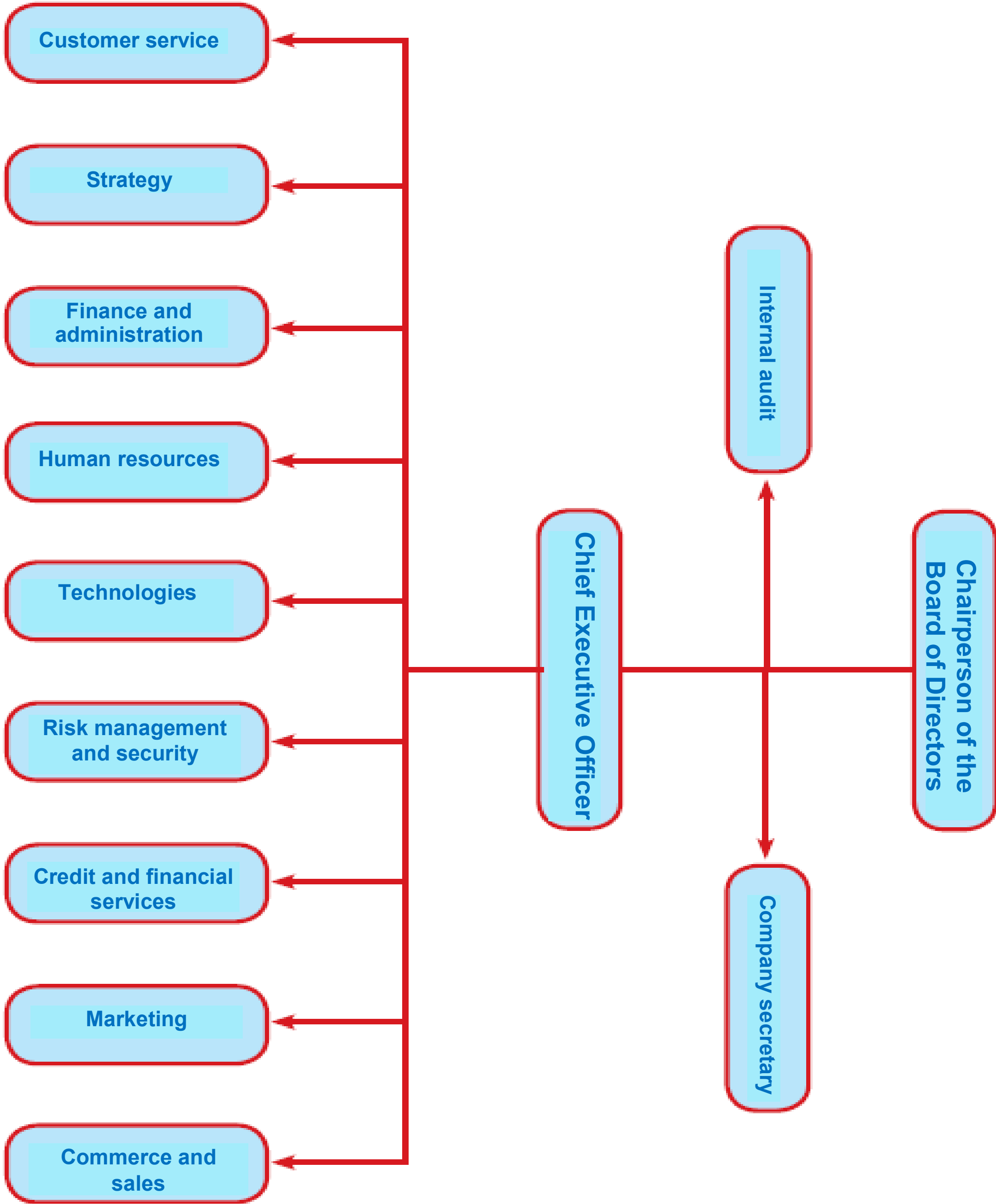
In the course of its operations, the Company is subject to the provisions of the Protection of Privacy Law, 1981, and the regulations enacted under that law, including the duty to register a database (as defined in the Protection of Privacy Law) in accordance with the requirements of the law and in accordance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

Units of the Company



Personnel

Total employee positions at the Company include:

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

(2) Employees 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 Company's number of employees in 2012 remained similar to 2011.

	2012	2011
Average positions on a monthly basis	1,252	1,239
Total positions at year end	1,251	1,249

The number of employees includes positions allocated to other companies in the Group through expense-sharing arrangements. 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 areas of trading and service. 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.

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 2012, 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. Encouragement of volunteering through organizational units, individual activities, and recurring activities, in order to promote the value of giving back to the community.

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

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

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

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

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

9. Collective agreement – 2011 was the first year in which a collective agreement for Isracard employees was in place. In 2012, stable, peaceful labor relations were maintained, with continual dialogue between the partners in the relationship, based on common goals and a comprehensive organizational understanding and vision.

Ethical Code

In 2009-2012, since the introduction of the ethical code, the Senior Ethics Committee and representatives of the various departments worked to encourage a conversation about ethics and to instill the values and behaviors derived from the ethical code of the Group. During 2012, meetings with the ethics trustees of the Group were held, and routine updates were issued to all employees of the Group.

Regulation

During the year, regulatory changes in the labor market were addressed, in the areas of instructions concerning the protection of personal information, the Protection of Privacy Law, and increased enforcement of labor laws.

Professional Training

Key objectives in 2012 were to support and aid the promotion of the business goals and objectives of the organization, employee and executive development, and improvement of the service and sales skills of service representatives. This year, activity focused on the absorption of new products and services, and on structural and organizational changes at the various divisions, at the Company as a whole, and for specific target populations. 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, 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

A computerized performance evaluation process was successfully launched this year, as part of the implementation of a new approach – a culture of objective-based performance – throughout the organization. Based on the philosophy that feedback and a reflection of the condition of the organization can provide a foundation for learning and growth, several intra-organizational surveys were conducted during the year. Following the surveys, the findings were communicated and served as the basis for managerial decisions and for plans for improvement throughout the organization.

Occupational Stability

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

Promotion of Diversity

The Group has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups. In 2012, 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.

Community Involvement and Contribution

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

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

Notable Contributions to the Community

Empowerment of Women

The Group supports and aids various foundations engaged in the empowerment of women, and is committed to the advancement of women in Israel. These foundations target diverse population segments – Jewish, Arab, and ultra-orthodox.

Among other activities, the foundations operate programs that encourage women to launch business initiatives and open small businesses, according to each woman's abilities and strengths.

Education and Advancement of Youth

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

Donations and Aid for Children in Need

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

Health and Advancement of Children at Risk

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

Encouraging Ultra-Orthodox Workers to Join the Labor Force

Sponsorship of programs making higher education accessible to ultra-orthodox men and women, in order to help them join the labor force.

"Adopt a Soldier"

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

Remembrance

Financing for the Gideonites program, in which young people travel to Poland to renovate Jewish cemeteries; 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. The Group financed a fifth annual voyage to Poland for a delegation of employees and managers.

- 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.
- **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 transactions executed using credit cards in Israel, collates information regarding transactions executed with the various merchants, sorts the transactions by the identity of the relevant clearer with which the merchant has an agreement, and transmits electronic messages to the clearers for approval of execution of the transaction. In addition, ABS operates transactions between credit-card companies on their behalf in connection with cross-transactions and clearing transactions. The Company, like the other credit-card companies in Israel, is materially dependent upon the services provided by ABS. Failure to receive such services from ABS could cause significant damage to the Company's operations.

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

Financing

The Company mainly finances its operations through its own means and through daily short-term 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

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from the tax year 2016 forward. In accordance with the aforesaid amendments, the corporation tax rates applicable in the tax years 2010 and 2011 were 25% and 24%, respectively.

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

Other Matters

1. On May 9, 2012, Europay distributed a dividend to its shareholders in a total amount of NIS 174 million. Following the distribution of the dividend, the Company acquired 7,699 common shares from Mizrahi Bank, 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.

2. With regard to the bonus plan for senior executives, see Note 13.D.3 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 (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. Following talks held between the Company, the credit-card companies Leumi Card and CAL (the three companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Commissioner, the Credit-Card Companies reached an arrangement among themselves (hereinafter: the "**Arrangement**"), under which the Credit-Card Companies and the banks that control them will enter into a detailed domestic agreement among themselves regarding full local clearing in Israel, including the operation of an appropriate technical interface (hereinafter: the "**Technical Interface**"), of transactions in Visa and MasterCard credit cards. The Arrangement was signed in May 2007 between the Credit Card Companies, Aminit, Bank Leumi LeIsrael B.M., Discount Bank Ltd., and First International Bank of Israel Ltd.

   The Credit-Card Companies, together with the banks that control them – Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd., respectively – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. An amended cross-clearing arrangement, revising the earlier agreements, was submitted to the Tribunal on December 28, 2011; this arrangement is in effect from the date of its approval until December 31, 2018. A ruling handed down by the Antitrust Tribunal on March 7, 2012 approved the amended arrangement, including all of the terms thereof. The terms of the amended arrangement approved by the ruling of the Tribunal include, among other matters, a commitment by the parties to petition the Tribunal or the Commissioner regarding the period following the end of the Arrangement, should the parties wish to continue cross-clearing; various rules of conduct to apply to the Credit-Card Companies in their agreements with merchants to enter into clearing arrangements with them, including a prohibition on ligation of different cards and various prohibitions on discrimination; and in addition, a commitment by the banks listed above to apply the aforesaid rules of conduct to themselves as well, and to undertake rules of conduct in their relationships with credit-card holders and with merchants that accept credit cards, essentially prohibitions on discrimination, ligation, or influence in manners prohibited in the Arrangement with regard to transferring to a particular credit card or clearing with any of the Credit-Card Companies.

   Issuer fees established in the Arrangement: in the last quarter of 2012, the average issuer fee was 0.8%. The average issuer fee will stand at 0.75% starting January 1, 2013; 0.735% starting July 1, 2013; and 0.7% from July 1, 2014 to the end of the period of the Arrangement (December 31, 2018).

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

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 an 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, in particular the collection of the agreed-upon licensing fee.

For further details, see the chapter Additional Regulation, Section 2, below.

Additional Regulation

1. A private bill was submitted to the Knesset in March 2010, according to which credit-card companies must note in their statements to cardholders whether a transaction performed by the cardholder constitutes a transaction in a missing document. This bill was passed in a preliminary reading on May 26, 2010, and transferred to the Economics Committee to be prepared for a first reading. On May 23, 2010, a ministerial committee made the decision to promote this bill through regulations, in coordination with the Ministry of Justice.

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

   The private bill on reporting of transactions in a missing document passed in the first reading in August 2011. If the matters addressed by the bill are included in the Directive, as noted above, it is likely that the legislation on this matter will not be promoted.

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

2. A government bill approved by the Knesset plenum and published in the Official Gazette of the Government of Israel in August 2011 concerns, among other matters, the area of discounting, as well as a directive whereby an issuer that issues ten percent or more of the number of charge cards issued in Israel, or an issuer of charge cards used to execute at least ten percent of the amount of transactions executed in Israel, shall be required to contract with a clearer for cross-clearing of transactions in the charge card which it issues. The directives of this law have been in effect from May 15, 2012. This law has a negative effect on the Company; however, at this stage the Company cannot estimate the full actual extent of this effect. For further details, see the chapter Antitrust Issues, Section 2, above.

3. Pursuant to an instruction published by the Bank of Israel in November 2011, banking corporations and credit-card companies must provide disclosure in their board of directors' reports of any group of borrowers whose net indebtedness on a consolidated basis (after the permitted deductions) exceeds 15% of the capital of the banking corporation or credit-card company, as detailed in the instruction. This instruction shall apply from the financial statements as at September 30, 2011, to the financial statements as at September 30, 2012. The duration of the instruction was extended to September 2013 in January 2013. As at the date of this report, there is no group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the Company (as defined in Directive 313).

4. In December 2011, a government bill was passed in the first reading and transferred to the Constitution, Law, and Justice Committee to be prepared for the second and third readings. The bill sets forth several amendments to the Prohibition of Money Laundering Law and the Prohibition of Terrorism Financing Order, including with regard to reporting duties and the duty to receive identifying information. Discussions are also being conducted by the Constitution, Law, and Justice Committee regarding various amendments to the Money Laundering Prohibition Order applicable to banking corporations.

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

5. In February 2012, the Constitution, Law, and Justice Committee approved an amendment to the Charge Card Regulations, pursuant to which the Supervisor will be able to issue directives that differ from the current text of the regulations with regard to the delivery of statements to customers. Directive 470 was amended accordingly in September 2012. The Company estimates that this amendment will have no effect on the Company.

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

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

8. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions considered depriving conditions in uniform

contracts, and establish rules with regard to the authority of the Uniform Contracts Court. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

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

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

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

12. In August 2012, the Knesset plenum approved an increase of the rate of value-added tax by 1 percent, beginning on September 1, 2012. The Knesset plenum also approved an increase of the rate of income tax on individuals and the rate of employers' contributions to National Insurance. For further details, see Note 25 to the Financial Statements.

13. In October 2012, the Economics Committee passed a private bill, in a second and third reading, according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is

initiated, as detailed in the bill. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company.

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

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

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

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

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

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

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

ISRACARD

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 6 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 July 2011, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 98, and the amount of the class-action suit is estimated at NIS 14.7 million. According to the claimant, in transactions in installments, the Company illegally charges a deferred-debit fee in respect of the first installment. Before the Company had submitted its response to the petition for certification, the claimant filed a request to withdraw. On February 4, 2013, the court approved the claimant's withdrawal, and the petition was expunged.

3. In November 2011, it came to the attention of the Company, through publications in the media, that a petition to certify a class action had been filed against three credit-card companies, including the Company, and against banks including Bank Hapoalim B.M. (hereinafter: the "**Bank**").

   According to these publications, the claim is in the amount of NIS 4.9 billion, and concerns the rates of fees collected by the credit-card companies. The Company and the Bank did not receive the aforesaid petition; the Company therefore does not know the amount of the claim attributed to it and to the Bank, and cannot formulate a position with regard to the petition. The claim was expunged on December 6, 2012.

4. In November 2011, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 6.90, and the amount of the class-action suit is estimated at NIS 6.7 million. According to the claimant, the Company and others charge a payment for travel in a taxicab that is higher than the amount indicated by the meter at the end of the ride. The Company filed its response to the petition for certification, in which it argued that the petition should be dismissed *in limine*, due to lack of opponency, or due to a lack of cause, or because the petition is not worthy of hearing as a class-action suit. According to the Company's legal advisors, the probability that the petition for certification will succeed is remote, and in any event, the Company's exposure if the petition should succeed is remote. The petitioner decided to withdraw from the petition for certification, without an expense order. The petition for withdrawal was approved by the court during September 2012.

5. In January 2012, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 5 thousand, and the class-action suit is in an estimated amount of NIS 75 million. According to the petitioners, the Company was negligent in failing to supervise or audit shopping websites approved by credit-card companies, or in that its supervision is lacking. The requested remedy is NIS 5 thousand, multiplied by an estimated number of group members. The Company filed for dismissal *in limine*, as it believes that the petition is missing factual infrastructure, lacks cause, and does not discover opponency between the group and the Company, and that there is no cause for a personal claim. It should be noted that concurrently with the filing of the request for dismissal *in limine*, a request was filed to extend the deadline for submission of a response to the petition for certification, until after the ruling on the request for dismissal. In a hearing held in January 2013, the petitioners stated their intention to withdraw from the petition for certification. On February 13, 2013, the petition for withdrawal was approved and the claim was expunged.

6. 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. According to the claimant, the Company thereby acted negligently, and therefore violated the contract signed with the claimant. The claimant seeks to represent "merchants who execute transactions with missing documents." The requested remedy is in respect of two types of damage caused to the members of the group according to the claimant: fees paid for denied transactions, and the value of goods supplied to customers after approval by the defendant of the transaction which was subsequently denied. In the opinion of the Company's legal advisors, the probability of success of the petition for certification, with regard to most of the claimed amount, is remote; with regard to a small amount out of the claimed amount, such success is possible, but the probability that the arguments will be accepted is still lower than the probability that the arguments will be rejected.

7. 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. 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.

8. 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). In addition, Aminit received a letter of indemnification from the Company with regard to compliance with the ICAAP rules.

9. In July 2010, Europay filed an appeal of its income-tax assessment for 2006. The dispute between Europay and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of Europay, the sale should be treated as an event requiring capital-gains tax, rather than as an event of redemption of shares, which carries a different taxation rate. Following a preliminary hearing held at the District Court of Tel Aviv, and after Europay submitted its summations, Europay and the Tax Assessment Officer reached a settlement in which Europay will pay a total of NIS 850,000. On December 31, 2012, the District Court approved the settlement and granted it the status of a ruling.

10. **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 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, clubs, merchants, and cardholders.

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

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

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

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

Risk Management Policy

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

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

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

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

The Risk Management Committee of the Board of Directors was established during 2011.

The Risk Management Forum headed by the CEO began to operate in 2011. The forum convenes quarterly, with the aim of ensuring adequate control coverage for risk-management processes

and formulating an ongoing process for the improvement of effectiveness of risk-management control mechanisms at the Company, at the level of the risk-taking divisions, the independent control units in the divisions, and the Risk Management and Security Division.

Operational Risks

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

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

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

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

The Company's market risk management policy is based on common practices in the banking system in Israel and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy) regarding market risk management, adjusted to the unique risk profile of the Company. This policy was approved

by the Board of Directors of the Company in May 2012. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and in rates of interest, foreign currency, the CPI, and shares. The Board of Directors of the Company updates these limits from time to time. The market risk management philosophy is congruent with the policy described in the Company's basic risk-management document.

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

ISRACARD

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

	December 31, 2012				
	In NIS millions				
	Israeli currency		Foreign currency*		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	12,842	73	119	34	13,068
Amounts receivable in respect of derivative financial instruments	40	-	3	-	43
Financial liabilities	11,567	50	62	22	11,701
Amounts payable in respect of derivative financial instruments	43	-	-	-	43
Net fair value of financial instruments	**1,272**	**23**	**60**	**12**	**1,367**

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

* Including Israeli currency linked to foreign currency.

(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, 2012							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	1,272	23	60	12	-	1,367	*-	-
Immediate parallel increase of 0.1%	1,272	23	60	12	-	1,367	*-	-
Immediate parallel decrease of 1%	1,272	23	60	12	-	1,367	*-	-

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

* 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.

C. Exposure to the value of securities

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

D. Derivative financial instruments

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

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

2. Liquidity Risk Exposure and Management

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

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

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

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

Credit Risk

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

The Company's credit policy is approved each year by the Board of Directors of the Company. The credit policy addresses principles for granting credit, the type of exposure in each segment of activity, quantitative and qualitative exposure limits, credit concentration, pricing and collateral, handling customers experiencing difficulties, and the hierarchy of credit authorizations.

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

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

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

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

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

Credit Risk in Respect of Exposure to a Group of Borrowers

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

Credit Control Unit

The 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 the 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.

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

	Balance as at December 31, 2012	Balance as at December 31, 2011
	Reported amounts	
Consolidated	In NIS millions	
1. Non-performing assets		
Impaired debtors in respect of credit card activity not accruing interest income:		
Examined on an individual basis	14	3
Examined on a group basis	9	11
Total impaired debts not accruing interest income	23	14
Total nonperforming assets	**23**	**14**
2. Unimpaired debts in arrears of 90 days or more	-	-

Risk and Credit Indices

		December 31	
		2012	2011
		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	0.18	0.11
(B)	Balance of unimpaired debtors in respect of credit-card activity in arrears of 90 days or more, as a percentage of the balance of debtors in respect of credit-card activity	-	-
(C)	Balance of 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	0.66	0.53
(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)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.30	0.42
(F)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the average balance of debtors in respect of credit-card activity	0.12	0.38
(G)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the allowance for credit losses for debtors in respect of credit-card activity	18.29	67.69

* Greater than 100%.

Credit Exposure to Foreign Financial Institutions and Foreign Countries

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

Capital Measurement and Adequacy

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

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

The Basel II recommendations establish three pillars, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211:

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

Basel III

1. On October 26, 2011, the Supervisor of Banks issued a letter entitled "Preparation for the Adoption of the Basel III Recommendations." According to the letter, the banking system in Israel will adopt the recommendations of "Basel III: A regulatory framework for more resilient banks and banking systems," published in December 2010, after formulation and with adjustments. On December 11, 2011, the Supervisor of Banks issued a letter entitled "Draft Translation of Amendments to the Framework for Capital Measurement and Adequacy – Basel II," which contains amendments to the Basel II directives concerning securitization and market risks. On May 28, 2012, the Supervisor of Banks issued a letter entitled "Basel III – The position of the Supervisor of Banks."

   The Basel III directives change the structure of regulatory capital, including through a focus on reinforcement of the components of capital, and the imposition of limits on the types of

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

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

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

The Company is studying this directive and its expected implications in connection with the formulation of a revised capital plan, with the aim of ensuring the implementation of the directive and compliance with the new core capital ratio requirements. In the long term, as part of the gradual process of adoption of the Basel III guidelines in Israel by January 1, 2015, the Company, in coordination with the Parent Company, will prepare for the establishment of a minimum core capital ratio of 9% to 10%, in accordance with the instructions of the Bank of Israel.

Risk Appetite

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

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

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

Capital Adequacy Target

The capital target of the Company is the appropriate level of capital required in respect of the various risks to which the Company is exposed, as identified, estimated, and evaluated by the Company. This target is higher than the minimum regulatory capital requirement, and includes the capital requirements with respect to Tier 1 risks, in addition to capital with respect to Pillar II risks and a capital "cushion" enabling the Company to withstand losses in the event of external crisis events (extreme scenarios), while complying with the minimum regulatory capital requirement. This target takes into account actions by the Management of the Company aimed at reducing the risk level and/or enlarging the capital base.

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

The Company's target ratio of core capital to risk-adjusted assets is 7.5%. See also "Basel III," above.

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

Capital Management

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

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

Guiding Principles in Capital Management

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

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

The following table lists the required disclosures under Pillar III.

Subject	Page number
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Capital Adequacy

Consolidated data

1. Capital for the calculation of the capital ratio

	December 31, 2012	December 31, 2011
	In NIS millions	
Core capital and Tier 1 capital	1,643	1,402
Tier 2 capital	19	20
Total overall capital	**1,662**	**1,422**

2. Weighted balances of risk-adjusted assets

	December 31, 2012		December 31, 2011	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	8,859	797	8,560	770
Market risks – foreign currency exchange rate risk	69	6	92	8
Operational risk	1,680	152	1,495	135
Total weighted balances of risk-adjusted assets	**10,608**	**955**	**10,147**	**913**

3. Ratio of capital to risk-adjusted assets

	December 31, 2012	December 31, 2011
	In percent	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	15.5	13.8
Ratio of total capital to risk-adjusted assets	15.7	14.0
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

The Company is examining the effects of the Basel III directives, based on the drafts and position statements of the Supervisor of Banks, as published from time to time, including the effect of the gradual implementation arrangements that have been established. The initial implementation date of the aforesaid directives has not yet been determined.

The estimated effect, as at December 31, 2012, assuming full implementation of the directives, is an increase of 0.2% in the core capital ratio. As noted, this estimate is based on the drafts and position statements of the Supervisor of Banks; there may be changes to the final directives that may affect the Company's aforesaid estimate.

Applicability of Implementation

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

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 requirements of the Company are based on its consolidated financial statements, which are prepared according to Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy). As at December 31, 2012, 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 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 includes equity (not including unrealized gains of securities available for sale at fair value), and non-controlling interests in the capital of consolidated companies.

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.

Structure of Capital

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

	December 31, 2012	December 31, 2011
	In NIS millions	
Tier 1 capital		
Paid-up common share capital	*-	*-
Retained earnings	1,598	1,360
Other capital reserves	45	39
Non-controlling interests	-[(1)]	3
Total core capital and Tier 1 capital	1,643	1,402
Tier 2 capital		
45% of total net profits before tax in respect of fair-value adjustments of securities available for sale	19	20
Total eligible capital	**1,662**	**1,422**

* Amount lower than NIS 0.5 million.

(1) Following the acquisition of shares of the subsidiary Europay, non-controlling interests were subtracted from Tier 1 capital; also see the section "Other Matters," above.

Capital Adequacy

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

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

Risk-Adjusted Assets and Capital Requirement

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

	December 31, 2012		December 31, 2011	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Sovereign	-	-	-	-
Public-sector entities	1	*-	1	*-
Banking corporations	4,709	424	4,564	411
Corporations	1,504	135	1,311	118
Retail loans to individuals	2,100	189	2,020	182
Small businesses	66	6	163	14
Other assets	479	43	501	45
Total credit risk	8,859	797	8,560	770
Market risks – foreign currency exchange rate risk	69	6	92	8
Operational risk	1,680	152	1,495	135
Total weighted balances of risk-adjusted assets / capital requirements	10,608	955	10,147	913

* Amount lower than NIS 0.5 million.

	December 31, 2012	December 31, 2011
Total capital ratio and Tier 1 capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	1,662	1,422
Ratio of core capital and Tier 1 capital to risk-adjusted assets	15.5%	13.8%
Ratio of total capital to risk-adjusted assets	15.7%	14.0%
Minimum capital ratio required by Supervisor of Banks – Pillar I	8.0%	8.0%
Minimum capital ratio required by Supervisor of Banks – Pillar II	1.0%	1.0%
Total minimum capital ratio required by Supervisor of Banks	9.0%	9.0%

Credit Risk – General Disclosure Requirements

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and the allowance for credit losses, and the amendment of the directives on the treatment of problematic debts, beginning on January 1, 2011, the Company has implemented the American accounting standards in this area (ASC 310) and the position statements of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives. In addition, beginning on that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts. For further details, see Note 1.F.4 to the Financial Statements.

Credit Risk Management

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

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

- The Company sets limits on 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 Directive No. 313, Limits on the Indebtedness of a Single Borrower and of a Group of Borrowers. Working according to this directive and setting internal limits reduces borrower concentration risk.
- The Company has set internal limits on its exposure to financial institutions, in congruence with the risk appetite approved by the Board of Directors.
- The Company monitors and supervises transactions with related persons, in accordance with Proper Conduct of Banking Business Directive No. 312, and files reports pursuant to Directive No. 815.
- The Company tracks damages arising from the abuse of credit cards. See Note 22 to the Financial Statements.

Principles of Credit Concentration Risk Management

- In accordance with the second pillar of Basel II, the Company calculates an internal capital allocation, as required, against concentration risks.
- Borrower concentration – routine monitoring of the major borrowers of the Company; compliance with limits required in Proper Conduct of Banking Business Directive No. 313 (Single Borrowers and Borrower Groups) of the Bank of Israel. In addition, the Company reports to the Bank of Israel on a quarterly basis, in accordance with the directive.
- 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 customers' accounts at Israeli banks. In addition, deposits and hedging transactions create exposure to the bank with which the transaction was executed.
- Foreign financial institutions – Activity with overseas entities or activity by foreigners in Israel: deposits of foreign currency with financial institutions abroad. The Company's exposure is immaterial.
- The Company routinely monitors these exposures and reports exceptions from limits.

Credit exposure to financial institutions results 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 201-211 (Capital Measurement and Adequacy), as described below:

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

* With regard to unutilized credit facilities of credit cards for holders of retail cards issued by the Company, the repayment capability of retail cardholders is effectively monitored through various control tools, including the use of behavioral rating models and monitoring activities performed routinely by the Security Department.

With regard to unutilized credit facilities of credit cards for holders of retail cards issued by the Banks Under Arrangement, approvals were received from the banks with regard to the existence of effective monitoring of the repayment capability of the holders of the retail cards.

Credit 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, 2012						
	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	649	449	1,098	*-	29	-	1,127
Corporations	1,817	-	1,817	-	3,036	48	4,901
Retail to individuals	9,901	-	9,901	-	30,542	161	40,604
Small businesses	293	-	293	-	493	-	786
Public sector	2	-	2	-	*-	-	2
Government	*-	-	*-	-	4	-	4
Other assets[1]	-	501	501	-	-	-	501
Total exposures	**12,662**	**950**	**13,612**	***-**	**34,104**	**209**	**47,925**

	December 31, 2011						
	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	657	378	1,035	2	29	-	1,066
Corporations	1,011	-	1,011	-	1,193	13	2,217
Retail to individuals	9,520	-	9,520	-	30,793	75	40,388
Small businesses	1,120	-	1,120	-	2,634	-	3,754
Public sector	3	-	3	-	*-	-	3
Government	*-	-	*-	-	6	-	6
Other assets[1]	-	502	502	-	-	-	502
Total exposures	**12,311**	**880**	**13,191**	**2**	**34,655**	**88**	**47,936**

* 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 201-211 reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments.

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

	December 31, 2012						
	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	668	474	1,142	1	29	-	1,172
Corporations	1,154	-	1,154	-	1,616	39	2,809
Retail to individuals	9,750	-	9,750	-	30,894	137	40,781
Small businesses	928	-	928	-	2,133	-	3,061
Public sector	3	-	3	-	*-	-	3
Government	*-	-	*-	-	5	-	5
Other assets(1)	-	501	501	-	-	-	501
Total exposures	**12,503**	**975**	**13,478**	**1**	**34,677**	**176**	**48,332**

	December 31, 2011						
	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	660	285	945	2	28	-	975
Corporations	889	-	889	-	899	13	1,801
Retail to individuals	9,403	-	9,403	-	30,349	70	39,822
Small businesses	1,103	-	1,103	-	2,600	-	3,703
Public sector	5	-	5	-	*-	-	5
Government	*-	-	*-	-	8	-	8
Other assets(1)	-	480	480	-	-	-	480
Total exposures	**12,060**	**765**	**12,825**	**2**	**33,884**	**83**	**46,794**

* 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 201-211 reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments.

Segmentation of the Portfolio by Remaining Contractual Term to Maturity

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

	December 31, 2012					
	Classified by term to maturity, in NIS millions					
	Up to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	5 years to 10 years
Cash on hand and deposits with banks	448	-	-	1	-	-
Credit:						
Debtors in respect of credit cards	9,950	397	86	*-	*-	-
Credit to cardholders and merchants	1,130	212	102	22	4	1
Companies and international credit-card organization	587	33	8	-	-	-
Income receivable and others	24	-	-	-	-	-
Other assets	176	*-	*-	-	3	-
Non-monetary assets	-	-	-	-	-	-
Transactions in derivative financial instruments	-	-	-	-	-	-
Off balance sheet – credit facilities and other	33,995	192	-	-	-	-
Total assets	**46,310**	**834**	**196**	**23**	**7**	**1**

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

* Amount lower than NIS 0.5 million.

			Balance-sheet balance	
	Total cash flows	No maturity period	Non-monetary assets	Total
	449	-	-	449
	10,433	10	-	10,432
	1,471	8	-	1,430
	628	-	-	628
	24	-	-	24
	179	87	-	266
	-	-	383	383
	-	-	-	-
	34,187	126	-	34,313
	47,371	**231**	**383**	**47,925**

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

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

		December 31, 2012						
		In NIS millions						
			Amount of unimpaired loans in arrears					
Exposure – credit	Credit risk	Amount of impaired loans	Over 30 days to 90 days	Over 90 days	Individual allowance for credit losses	Collective allowance for credit losses	Net allowance for credit losses recognized in statement of profit and loss	Net charge-offs recognized in statement of profit and loss
Retail to individuals	Balance sheet	19	9	-	11	51	11	12
Small businesses	Balance sheet	1	*-	-	1	2	(2)	*-
Corporations	Balance sheet	4	1	-	2	15	8	3
Banking corporations	Balance sheet	-	-	-	-	2	*-	-
Public sector	Balance sheet	-	-	-	-	*-	*-	-
Government	Balance sheet	-	-	-	-	*-	*-	-
Credit facilities and other	Off-balance-sheet	-	-	-	-	20	5	-
Total		**24**	**10**	**-**	**14**	**90**	**22**	**15**

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

* Amount lower than NIS 0.5 million.

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Credit Risk Mitigation (CRM)

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

Credit Risk Weighting

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

Before credit-risk mitigation

		December 31, 2012						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
		In NIS millions						
Retail to individuals	Unrated	-	-	-	40,524	-	4	40,528
Small businesses	Unrated	-	-	-	783	-	*-	783
Corporations	Unrated	-	-	-	-	4,862	*-	4,862
	Rated	-	-	-	-	16	-	16
Banking corporations	Unrated	-	321	325	-	-	-	646
	Rated	-	463	16	-	-	-	479
Public sector	Unrated	-	-	2	-	-	-	2
Government	Rated	4	-	-	-	-	-	4
Other assets	Unrated	22	-	-	-	479	-	501
Total		**26**	**784**	**343**	**41,307**	**5,357**	**4**	**47,821**

After credit risk mitigation

		December 31, 2012						
Exposure	**Rating**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Net credit exposure**
		In NIS millions						
Retail to individuals	Unrated	-	-	-	10,716	-	4	10,720
Small businesses	Unrated	-	-	-	185	-	*-	185
Corporations	Unrated	-	-	-	-	2,027	*-	2,027
	Rated	-	-	-	-	16	-	16
Banking corporations	Unrated	-	2,097	9,446	-	-	-	11,543
	Rated	-	3,343	19,480	-	-	-	22,823
Public sector	Unrated	-	-	2	-	-	-	2
Government	Rated	4	-	-	-	-	-	4
Other assets	Unrated	22	-	-	-	479	-	501
Total		**26**	**5,440**	**28,928**	**10,901**	**2,522**	**4**	**47,821**

* 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

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

Before credit-risk mitigation

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

After credit risk mitigation

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

* Amount lower than NIS 0.5 million.

Use of Eligible Collateral for Credit Risk Mitigation

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

			December 31, 2012			
Exposure	Credit risk	Type of exposure	Gross credit risk exposure	Exposure covered under the responsibility of banks		Net credit risk exposure
				Total amounts subtracted	Total amounts added	
			In NIS millions			
Retail to individuals	Balance sheet	Credit	9,839	(8,008)	-	1,831
	Off-balance sheet	Credit facility	30,532	(21,800)	-	8,732
	Off-balance sheet	Other	157	-	-	157
Small businesses	Balance sheet	Credit	290	(213)	-	77
	Off-balance sheet	Credit facility	493	(385)	-	108
Corporations	Balance sheet	Credit	1,800	(715)		1,085
	Off-balance sheet	Credit facility	3,031	(2,120)	-	911
	Off-balance sheet	Other	47	-	-	47
Banking corporations	Balance sheet	Credit	647	-	8,936	9,583
	Balance sheet	Deposits	449	-	-	449
	Transactions in derivative financial instruments		*-	-	-	*-
	Off-balance sheet	Credit facility	29	-	24,305	24,334
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	501	-	-	501
Total			**47,821**	**(33,241)**	**33,241**	**47,821**

* 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 doubtful debts).

			December 31, 2011			
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	9,469	(7,731)	-	1,738
	Off-balance sheet	Credit facility	30,783	(21,428)	-	9,355
	Off-balance sheet	Other	74	-	-	74
Small businesses	Balance sheet	Credit	1,115	(936)	-	179
	Off-balance sheet	Credit facility	2,634	(2,243)	-	391
Corporations	Balance sheet	Credit	1,002	(86)	-	916
	Off-balance sheet	Credit facility	1,189	(352)	-	837
	Off-balance sheet	Other	13	-	-	13
Banking corporations	Balance sheet	Credit	655	-	8,753	9,408
	Balance sheet	Deposits	378	-	-	378
	Transactions in derivative financial instruments		2	-	-	2
	Off-balance sheet	Credit facility	29	-	24,023	24,052
Public sector	Balance sheet	Credit	3	(*-)	-	3
	Off-balance sheet	Credit facility	*-	-	-	*-
Government	Balance sheet	Credit	*-	-	-	*-
	Off-balance sheet	Credit facility	6	-	-	6
Other assets	Balance sheet	Other assets	502	-	-	502
Total			**47,854**	**(32,776)**	**32,776**	**47,854**

* Amount lower than NIS 0.5 million.

Credit Risk Weighting

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

Credit rating agencies used:

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

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

Credit Risk Mitigation (CRM)

The Company has repayment sources (means of repayment of customers' debts) which are not recognized under Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy) for the purpose of minimizing credit risks, in the calculation of the capital allocation required according to the 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, 2012, 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 to hedge currency risk in long-term purchasing transactions.

As at December 31, 2012, one forward transaction is outstanding, with a maturity date after the balance-sheet date, presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

Disclosure by Companies Using the Standardized Approach

General

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

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

Strategy and Processes

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

The Company's strategy in the management of market risks is to minimize risks arising from its main 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 internal investment committee headed by the Chief Risk Controller; 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

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

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

Chief Risk Officer

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

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

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

Nature and Volume of Risk Reporting and Measurement Systems

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

Risks are measured in the following reports:

ALM reports: fair value, duration, internal rate of return, interest rate gap, cash flows.

Stress reports: tests of the sensitivity of the portfolio to changes in risk factors.

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

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

Foreign Currency Exposure Management

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

Capital Requirement in Respect of Foreign Currency Exchange Rate Risk

	Capital requirement	
	December 31, 2012	**December 31, 2011**
	In NIS millions	
Market risks – Foreign currency exchange rate risk*	6	8

* 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, 2012	**December 31, 2011**
	In NIS millions	
Operational risk	152	135

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

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

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

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

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

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

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

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

All events of damage at the Company are collected into a single database. All material events (the materiality threshold as at December 2012 is NIS 10,000) are reported on a quarterly basis to Management and the Board of Directors. The events are analyzed in order to ensure that a relevant operational process exists and that the existing controls are sufficient in order to reduce the risk of an additional event. If necessary, additional controls are added to the process.

Material operational risks are mitigated by:

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

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, 2012			
	In NIS millions			
	Balance-sheet balance	Fair value	Type of investment	Capital requirements
Store Alliance.Com Ltd.	8	-	Private	1
Life Style Customer Loyalty Club Ltd.	3	-	Private	*-
Life Style Financing Ltd.	*-	-	Private	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	*-	-	Private	*-
Kidum Mivne Iguach 1 Ltd.	2	-	Private	*-
MasterCard Incorporated (MC)	68	68	Marketable	6
Total	**81**	**68**		**7**

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

* Amount lower than NIS 0.5 million.

Store Alliance.Com Ltd.

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

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

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

Life Style Customer Loyalty Club Ltd. operates the Lifestyle customer club, jointly with the Company. Within the activity of the club, Lifestyle Multi Purpose credit cards are issued, including More cards, which operate based on the revolving credit method. In addition, Life Style Financing 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 stated in the financial statements based on the equity method and is a strategic investment, as part of the Company's financing activity.

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

Kidum extends loans to the general public for the purchase of pre-owned 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 stated in the financial statements based on the equity method and is a strategic investment, as part of the Company's financing activity.

Shares of MasterCard Incorporated ("MC")

The Company holds 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 (this directive was updated in December 2011).

Order for the Prohibition of Trade with the Enemy

The Company applies controls with regard to private customers and merchants defined as high risk. The Company maintains routine controls in several areas, in order to ensure that it possesses the required information and documents, in accordance with the directives. Any gaps are addressed and resolved. Employees are required to maintain current knowledge in this area through computerized tutorials. In addition, specific training sessions are held for the various departments concerned with the prohibition of money laundering and financing of terrorism.

The Company's procedures are updated and expanded from time to time in order to fully cover all topics in accordance with the requirements. The Compliance Officer coordinates the Compliance Committee, the Compliance Trustees Forum, and the Money Laundering Prohibition Team. Routine reports are submitted to the Israel Money Laundering Prohibition Authority regarding ordinary transactions (pursuant to the directives of the Order) and unusual transactions. In addition, monthly reports are submitted to the Bank of Israel.

Critical Accounting Policies

The financial statements of the Company are prepared in conformity with generally accepted accounting principles and in accordance with the directives of the Supervisor of Banks, the main points of which are described in Note 1 to the Financial Statements, "Significant Accounting Policies," in the section concerning the implementation of accounting principles. When preparing the financial statements, the Management of the Company uses assumptions, estimates, and

evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Company. Some of these estimates and evaluations involve uncertainty, and may be affected by possible future changes.

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

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

The provision made in the books in respect of unutilized Stars as at December 31, 2012 is NIS 73 million (December 31, 2011: NIS 90 million). The decrease in the provision resulted from the utilization of Stars during the reporting period. The effect of the decrease is included in sales and marketing expenses in the financial statements. The Stars program was terminated on June 30, 2012.

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.

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

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

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

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

Contingent Liabilities

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

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

ISRACARD

Discussion of Risk Factors

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

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

Risk factor		Brief description	Degree of effect of risk factor
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's revenue and capital arising from changes in interest rates, currency exposures, and exceptional changes in the consumer price index. Such changes may cause the Company to suffer losses and/or a reduction in 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 risk to reputation. Failures related to one of the aforesaid factors may cause possible damage to profitability. The Company has an operational risk management policy, and operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	Medium
5.	Legal risk	Present or future risk to the Company's revenue and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Company, which may cause damage to the Company's profitability.	Low
6.	Reputation risk	Damage to the Company's reputation as a stable, credible credit-card company in the eyes of customers, business partners, and regulatory agencies may lead to the transfer of customers' activity to other companies, causing damage to the Company's activity and profitability.	Low

Risk factor		Brief description	Degree of effect of risk factor
7.	Competition	The credit-card industry in Israel is characterized by a high level of competition, both in the area of bank cards and in the area of non-bank cards, as reflected in the loss of customers or reduction of customers' activity, or the termination of the contractual engagement with one of the Banks Under Arrangement, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants).	Medium
8.	Regulation and legislation	Present or future risk to the Company's revenue and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, revenue, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	Medium
9.	Strategic risk	The risk of damage to the Company's profit and capital as a result of business decisions and/or the implementation of business decisions. Strategic risk is influenced by external and internal risk factors.	Medium
10.	Cessation of operation of a bank in Israel	The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Medium

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.

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

Disclosure Regarding the Internal Auditor

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

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

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

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

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

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2012 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; embezzlement and fraud survey; updated organizational structure of the Company; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Chairperson of the Board of Directors and the CEO of the Company. The audit work plan also includes examination of the approval processes of material transactions, if any, all based on a comprehensive perspective with a focus on risks.

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

The Internal Auditor has the discretion to diverge from the work plan in response to changing,

unexpected needs. The work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Company management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors. 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 2012. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

Performing the audit – Internal Audit at the Company operates under laws, regulations, directives and guidelines of the Supervisor of Banks (including Proper Conduct of Banking Business Directive 307, The Internal Audit Function, which took effect on July 1, 2012), professional standards, professional guidelines of the Institute of Internal Auditors in Israel, and guidelines of the Audit Committee and of the Board of Directors.

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

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

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

Summary of Internal Audit activity – A summary of audit activities for 2011 was submitted to the Audit Committee in March 2012, and discussed by the committee on July 2, 2012. A summary of audit activities for 2012 is expected to be submitted to the Audit Committee during the first quarter of 2013.

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

The Board of Directors of the Company is the organ charged with overarching control at the Company. As part of the procedure for approval of the Company's financial statements by the

Board of Directors, a draft of the financial statements and a draft of the Board of Directors' report are delivered for perusal by the members of the Board of Directors several days prior to the meeting scheduled for the approval of the reports. The CEO of the Company reviews the ongoing activity of the Company and the effect of this activity on its results, and highlights material issues for the members of the Board of Directors.

During the meetings (the meeting of the Audit Committee and the meeting of the Board of Directors), the financial statements are discussed and approved, and the Head of Finance and Administration reviews main items in the financial statements, material issues in financial reporting, material evaluations and critical estimates implemented in the financial statements, the plausibility of the data, including an analysis of the results in relation to the results of the corresponding period in the previous year and in relation to the budget, and material changes in the accounting principles applied. This meeting is attended by representatives of the Company's external auditors, who add their comments and insights with regard to the financial statements and with regard to any clarification required by the members of the Board of Directors. Any significant flaws discovered in the establishment or operation of the internal control of financial reporting are also presented to the Audit Committee and to the Board of Directors. The reports are signed by the Chairperson of the Board of Directors, the CEO of the Company, and the Chief Accountant.

The Board of Directors

In 2012, the Board of Directors of the Company continued to set forth the Company's strategy, policy, and the guiding principles for its activity.

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 in plenary session and its committees – the Audit Committee, the Credit Committee, the Wage and Remuneration Committee, the Risk Management Committee, and the Information Technology Committee – held detailed discussions on various aspects of the Company's activities.

19 meetings of the plenum of the Board of Directors and 45 meetings of the committees of the Board of Directors were held in 2012.

Directors with Accounting and Financial Expertise

Pursuant to the Public Reporting Directives of the Supervisor of Banks, the Company must

specify the minimum number of directors with "accounting and financial expertise" which it has determined should serve on the Board of Directors and the Audit Committee. The Board of Directors of the Company has determined that the appropriate minimum number of directors with accounting and financial expertise on the Board of Directors and the Audit Committee is 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

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

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

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

Chairperson of the following Board Committees at Bank Hapoalim: the Finance and Prospectus Committee, and the Committee for Risk Management and Control and 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.

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

Director with accounting and financial expertise.

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

Avi Idelson

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

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

Member of the Board of Directors of the Company 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, Wage and Remuneration Committee.

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

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

Lilach Asher-Topilsky

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

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

Chairperson of the board of directors of the following companies: Poalim Mortgages Insurance Agency (2005) Ltd. and Poalim Ofakim Ltd. Also serves as a director at Europay.

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

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

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

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

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

Director with accounting and financial expertise.

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

Ilan Grinboim

CEO of Eurocom Cellular Communications Ltd. from 2004.

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

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

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

M.B.A., Tel Aviv University; B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Eldad Kahana

Attorney, Head of Central Legal Counsel Division, Bank Hapoalim B.M.

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

Member of the Audit Committee and the Risk Management Committee of the Board of Directors of the Company.

Also a member of the board of directors and audit committees of the following companies: Europay and Aminit.

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

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

Shmuel Lachman

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

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

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

CEO of Shiral 10 Ltd.

Also a member of the board of directors of the following companies: Europay, Aminit, Poalim Express, the Association for the Wellbeing of Israel's Soldiers Ltd., Shiral 10 Ltd., and the Computer Direct Group Ltd.

Chairman of the Finance Committee and Member of the Governing Board of Shenkar College.

Also serves as Chairperson of the Credit Committee of the Board of Directors of Aminit, and as a member of the audit committees of the board of directors of the following companies: Aminit, Poalim Express, and Europay.

In the last five years or during part of that period, served as a member of the board of directors of the following companies: Pangaea Israel (T.R.) Ltd., Dafron Ltd., One System Integration Ltd., IDB Holdings Ltd.; however, he no longer serves at these companies.

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

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

Director with accounting and financial expertise.

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

David Luzon

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

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

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

Member of the 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

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

Head of Finance, CFO at the Bank.

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

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

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

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

From 2008 to 2009, CFO of Intouch Insurance BV.

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

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

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

C.P.A.

Director with accounting and financial expertise.

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

Ruth Arad

Member of the Board of Directors of the Company from 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.

Also a member of the board of directors and audit committees of the following companies: Europay and Aminit.

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, 2012, also served as chairperson of Delek Israel Fuel Company Ltd.; from January 1, 2013, serves as a director at Delek Israel Fuel Company Ltd.

Also a member of the board of directors of the following companies: Europay; Delek Group Ltd.; Saint Lawrence Bank, Barbados; Poalim Capital Markets Investment Bank Ltd.; Mega Retail Ltd. (formerly Blue Square Chain Properties & Investments Ltd.); AFI Development Plc, Cyprus; Krol Ltd., Allied Real Estate Ltd., Cargal 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 on the board of directors of the following companies: The Phoenix Israel Insurance Company Ltd., Matav Cable Communication Systems Ltd., Bank Hapoalim Switzerland Ltd., Signature Bank New York Ltd.; and as Chairperson of the Board of Continental Bank Ltd. and Tempo Beer Industries Ltd.; however, he no longer serves at these companies.

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

Director with accounting and financial expertise.

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

Itzhak Amram	Member of the Board of Directors of the Company from September 25, 2011. 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 a member of the Board of Directors of Europay and a member of the Audit Committee of the Board of Directors of Europay. LL.B.; member of the Israel Bar Association. To the best of the knowledge of the Company and of Mr. I. Amram, he is not a family member of another interested party of the corporation.
Nitzana Adawi	Member of the Board of Directors of the Company from May 29, 2012. Also a member of the Audit 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. Lecturer on finance, member of the teaching staff at the Open University, MBA program. Economic advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc. Also a member of the Board of Directors of the following companies: Europay (from May 29, 2012) and Poalim Express. Member of the Audit Committee of the Board of Directors of Europay (from May 29, 2012). 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.
Yair Ben David	Served as an external director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks from May 1, 2006 to April 30, 2012. Member of the Audit Committee of the Board of Directors of the Company from April 26, 2012 to April 30, 2012.

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, Europay, and Aminit.

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.

Yigal Bareket

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

Head of Marketing.

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

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

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

Ronen Zaretsky

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

Head of Technology.

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

M.A. in Public Administration, Bar Ilan University; B.A. in Computer Science, Economics, and Criminology, Bar Ilan University.

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

Graduate of the IDF Command and Staff College.

Vice president of Project Management Institute P.M.I. Israel (R.A.)

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

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

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

Amir Kushilevitz-Ilan

Member of the Management of the Company from February 2011.

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

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

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

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

Ami Alpan

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

Head of Strategic Planning.

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

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

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

Ron Cohen

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

Head of Credit and Financial Services.

During his service at the Isracard Group, established the non-bank credit system. The credit system was constructed under his management, taking into consideration and adapting to periodically changing regulatory needs.

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

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.

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, Darby University; B.A. in Economics and Social Sciences, Bar Ilan University; B.A. in Psychology, Open University.

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

Ram Gev

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

Head of Finance and Administration.

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

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

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

C.P.A.

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

Maora Shalgi

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

Head of Human Resources.

M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University; B.A. in Social Sciences and Liberal Arts, Open University.

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

Ron Weksler

Member of the Management of the Company from October 2, 2011.

Head of Commerce and Sales.

Served as a director (with accounting and financial expertise) of Isracard and Europay, and as a member of the audit committees of these companies, until the end of September 2011.

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

Served in various positions at Bank Hapoalim B.M. beginning in 2002.

Doctor of Philosophy and Ph.D. in Public Administration, Bar Ilan University; M.B.A., Bar Ilan University; LL.B., Tel Aviv University; B.A. in Accounting, Tel Aviv University.

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

Controls and Procedures Regarding Disclosure and the Company’s Internal Controls over Financial Reporting

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Company must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Company's internal control 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 309 in September 2008, and the Public Reporting Directives were adjusted accordingly in June 2009.

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

- The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been implemented quarterly beginning with the financial statements as at June 30, 2007.

- The directive in Section 404 regarding the responsibility for the Company's internal control of financial reporting has been implemented at year end, beginning with the financial statements as at December 31, 2008.

The Company routinely updates and documents existing processes; maps and documents processes, including material new processes; and examines the effectiveness of the procedures for internal control of financial reporting through renewed examinations of the main controls.

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, 2012, there was no change in the Company's internal controls over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal control of 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, 2012

	Salary	Bonuses and other payments[2][5]	Share-based payment transactions[3]	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Dov Kotler	1,322	1,587	1,870	111	430
Irit Izakson	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

Wages of Senior Officers for the Year Ended December 31, 2011

	Salary	Bonuses and other payments[2]	Share-based payment transactions[3]	Value of additional benefits	Severance pay, compensation, pensions, study funds, vacation, National Insurance, etc.
Dov Kotler	1,301	1,962	1,048	115	605
Irit Izakson	1,097	1,474	658	129	334
Ron Cohen[4]	782	485	113	39	243
Ronen Zaretsky	788	493	-	78	293
Yigal Bareket	514	347	-	19	220

For explanations of these tables, see page 125.

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

	Total salaries and related expenses	Loans granted under benefit terms			Loans granted under ordinary terms[6]	Payments by controlling shareholders
		Balance as at Dec. 31, 2011	Average term to maturity (in years)	Benefit granted during the year[5]		
	5,031	-	-	-	48	-
	3,692	-	-	-	34	165
	1,662	-	-	-	51	-
	1,652	-	-	-	14	-
	1,100	-	-	-	14	-

Explanations of Tables on P. 123-124

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 Chairman 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(3) 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.

ISRACARD

Remuneration of Auditors[1][2]

	Consolidated		The Company	
	2012	2011	2012	2011
	(In NIS thousands)			
For audit activities[3]:				
Joint auditors	1,481	1,436	1,359	1,313
Total	1,481	1,436	1,359	1,313
For tax services[4]:				
Joint auditors	79	75	75	66
For other services[5]:				
Joint auditors	*(47)	260	*(47)	260
Total	32	335	28	326
Total remuneration of auditors	**1,513**	**1,771**	**1,387**	**1,639**

* 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, tax assessment discussions, and tax consulting.

(5) Mainly includes routine processes.

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

Tel Aviv, February 27, 2013

Isracard Ltd. and its Consolidated Companies

Management's Review

For the Year Ended December 31, 2012

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Consolidated Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Assets					
Cash on hand and deposits with banks	449	378	76	482	924
Debtors in respect of credit-card activity	12,514	12,197	11,944	10,575	9,289
Allowance for credit losses	(82)	(65)	(79)	(60)	(38)
Debtors in respect of credit-card activity, net	12,432	12,132	11,865	10,515	9,251
Securities	79	96	74	178	212
Investments in associated companies	2	2	3	2	21
Buildings and equipment	264	262	268	254	224
Goodwill	-	-	7	10	-
Other assets	302	255	205	185	106
Total assets	**13,528**	**13,125**	**12,498**	**11,626**	**10,738**
Liabilities					
Credit from banking corporations	35	6	76	47	6
Creditors in respect of credit-card activity	11,025	11,011(1)	10,847(1)	10,300(1)	9,446(1)
Other liabilities	793	672(1)	306(1)	213(1)	389(1)
Total liabilities	**11,853**	**11,689**	**11,229**	**10,560**	**9,841**
Shareholders' equity	1,675	1,433	1,263	1,061	897
Non-controlling interests	-	3	6	5	-
Total capital	1,675	1,436	1,269	1,066	897
Total liabilities and capital	**13,528**	**13,125**	**12,498**	**11,626**	**10,738**

(1) Reclassified.

ISRACARD

Consolidated Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Income					
From credit-card transactions	1,237	1,242(1)	1,198(1)	1,106(1)	1,092(1)
Net interest income	136	121(1)	88(1)	60(1)	70(1)
Other income	89	70(1)	48(1)	41(1)	58(1)
Total income	**1,462**	**1,433**	**1,334**	**1,207**	**1,220**
Expenses					
Provision for credit losses	37	49	38	29	14
Operating expenses	445	458(2)	415(2)	365(2)	336(2)
Sales and marketing expenses	248	238(2)	172(2)	175(2)	171(2)
General and administrative expenses	67	60(2)	61(2)	64(2)	46(2)
Payments to banks	340	372	392	372	416
Write-downs and impairment of goodwill	-	7(1)	2	*-	-
Total expenses	**1,137**	**1,184**	**1,080**	**1,005**	**983**
Profit before taxes	**325**	**249**	**254**	**202**	**237**
Provision for taxes on profit	87	52	68	55	64
Profit after taxes	**238**	**197**	**186**	**147**	**173**
The Company's share in profits (losses) of associated companies, after tax	(*-)	(2)	*-	*-	*-
Net profit					
Before attribution to non-controlling interests	238	195	186	147	173
Attributed to non-controlling interests	*-	*-	(1)	1	-
Attributed to shareholders of the Company	**238**	**195**	**185**	**148**	**173**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**324**	**266**	**253**	**201**	**235**

* Amount lower than NIS 0.5 million.

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

(2) Reclassified.

Rates of Income and Expenses on a Consolidated Basis

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2012			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Assets[3]	12,848	143	1.11	
Effect of derivatives, ALM derivatives	57	3		
Total	**12,905**	**146**		**1.13**
Liabilities[3]	11,405	(12)	(0.11)	
Effect of derivatives, ALM derivatives	77	(4)		
Total	**11,482**	**(16)**		**(0.14)**
Interest-rate gap			**1.00**	**0.99**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

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

ISRACARD

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2012			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Assets[3]	68	-	-	
Effect of derivatives, ALM derivatives	-	-		
Total	**68**	**-**		**-**
Liabilities[3]	49	-	-	
Effect of derivatives, ALM derivatives	-	-		
Total	**49**	**-**		**-**
Interest-rate gap			**-**	**-**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2012			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Assets[3][4]	86	9	10.47	
Effect of derivatives, ALM derivatives	20	*-		
Total	**106**	**9**		**8.49**
Liabilities[3][4]	96	9	9.38	
Effect of derivatives, ALM derivatives	-	-		
Total	**96**	**9**		**9.38**
Interest-rate gap			**19.85**	**17.87**

* Amount lower than NIS 0.5 million.

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

ISRACARD

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2012			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Monetary assets generating financing income[3]	13,002	152	1.17	
Effect of derivatives, ALM derivatives	77	3		
Total	**13,079**	**155**		**1.19**
Monetary liabilities generating financing expenses[3]	11,550	(3)	(0.03)	
Effect of derivatives, ALM derivatives	77	(4)		
Total	**11,627**	**(7)**		**(0.06)**
Interest-rate gap			**1.14**	**1.13**
Profit from financing activity in the old format[4]		148		
Fees from financing business and other financing expenses		6		
Net rate differences		(18)		
Net interest income before provision for credit losses		136		
Provision for credit losses		(37)		
Net interest income after provision for credit losses		**99**		

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) See Note 1E(1) to the Financial Statements.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2012
	Average balance[1][2]
	In NIS millions
Monetary assets generating financing income[3]	13,002
Assets arising from derivative instruments[4]	77
Other monetary assets	95
Allowance for credit losses	(74)
Total monetary assets	**13,100**
Monetary liabilities generating financing expenses[3]	11,550
Liabilities arising from derivative instruments[4]	77
Other monetary liabilities	301
Total monetary liabilities	**11,928**
Total surplus of monetary assets over monetary liabilities	1,172
Non-monetary assets	394
Non-monetary liabilities	16
Total capital means	**1,550**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Average balances of derivative instruments (excluding average off-balance-sheet balances of derivative instruments).

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

ISRACARD

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2012			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In USD millions		In percent	
Domestic activity				
Assets[3][4]	22	2	9.09	
Effect of derivatives, ALM derivatives	5	*-		
Total	**27**	**2**		**7.41**
Liabilities[3][4]	25	2	8.00	
Effect of derivatives, ALM derivatives	-	-		
Total	**25**	**2**		**8.00**
Interest-rate gap			**17.09**	**15.41**

* Amount lower than USD 0.5 million.

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3

Reported amounts

Unlinked Israeli Currency

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Assets[3]	11,972	132	1.10	
Effect of derivatives, ALM derivatives	93	4		
Total	**12,065**	**136**		**1.13**
Liabilities[3]	10,789[4]	(15)	(0.14)	
Effect of derivatives, ALM derivatives	127	(19)		
Total	**10,916**	**(34)**		**(0.31)**
Interest-rate gap			**0.96**	**0.82**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Reclassified.

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

ISRACARD

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

CPI-Linked Israeli Currency

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Assets(3)	71	-	-	
Effect of derivatives, ALM derivatives	-	-		
Total	**71**	**-**		**-**
Liabilities(3)	55	-	-	
Effect of derivatives, ALM derivatives	-	-		
Total	**55**	**-**		**-**
Interest-rate gap			**-**	**-**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Reclassified.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Assets[3][4]	89	8	8.99	
Effect of derivatives, ALM derivatives	34	16		
Total	**123**	**24**		**19.51**
Liabilities[3][4]	82	8	9.76	
Effect of derivatives, ALM derivatives	-	-		
Total	**82**	**8**		**9.76**
Interest-rate gap			**18.75**	**29.27**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

ISRACARD

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance(1)(2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In NIS millions		In percent	
Monetary assets generating financing income(3)	12,132	140	1.15	
Effect of derivatives, ALM derivatives	127	20		
Total	**12,259**	**160**		**1.31**
Monetary liabilities generating financing expenses(3)	10,926	(7)	(0.06)	
Effect of derivatives, ALM derivatives	127	(19)		
Total	**11,053**	**(26)**		**(0.24)**
Interest-rate gap			**1.09**	**1.07**
Profit from financing activity in the old format(4)		134		
Fees from financing business and other financing expenses		4		
Net rate differences		(17)		
Net interest income before provision for credit losses		121		
Provision for credit losses		(49)		
Net interest income after provision for credit losses		**72**		

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) See Note 1D and 1E(1) to the Financial Statements.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2011
	Average balance[1][2]
	In NIS millions
Monetary assets generating financing income[3]	12,132
Assets arising from derivative instruments[4]	127
Other monetary assets	68
Allowance for credit losses	(81)
Total monetary assets	**12,246**
Monetary liabilities generating financing expenses[3]	10,926
Liabilities arising from derivative instruments[4]	127
Other monetary liabilities	265[5]
Total monetary liabilities	**11,318**
Total surplus of monetary assets over monetary liabilities	928
Non-monetary assets	405
Non-monetary liabilities	17
Total capital means	**1,316**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Average balances of derivative instruments (excluding average off-balance-sheet balances of derivative instruments).

(5) Reclassified.

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

Rates of Income and Expenses on a Consolidated Basis (cont.)

Addendum 3 (cont.)

Reported amounts

Foreign Currency – Nominal in USD

	For the year ended December 31, 2011			
			Rate of income (expenses)	
	Average balance[1][2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
	In USD millions		In percent	
Domestic activity				
Assets[3][4]	25	2	8.00	
Effect of derivatives, ALM derivatives	10	5		
Total	**35**	**7**		**20.00**
Liabilities[3][4]	23	2	8.70	
Effect of derivatives, ALM derivatives	-	-	-	-
Total	**23**	**2**		**8.70**
Interest-rate gap			**16.70**	**28.70**

(1) Data provided before and after the effect of derivative instruments, including the off-balance-sheet effect of derivative instruments.

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

(3) Excluding derivative instruments.

(4) Including Israeli currency linked to foreign currency.

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

Exposure of the Company and its Consolidated Subsidiaries to Changes in Interest Rates as at December 31, 2012

Addendum 4

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets**	7,687	2,385	2,250	525	-
Derivative financial instruments	-	40	-	-	-
Total fair value	**7,687**	**2,425**	**2,250**	**525**	**-**
Financial liabilities:					
Financial liabilities**	6,686	2,259	2,029	528	-
Derivative financial instruments	3	-	1	39	-
Total fair value	**6,689**	**2,259**	**2,030**	**567**	
Financial instruments, net					
Exposure to changes in interest rates in the segment	998	166	220	(42)	-
Cumulative exposure in the segment	998	1,164	1,384	1,342	1,342
Linked Israeli currency					
Financial assets:					
Financial assets**	13	21	35	*-	4
Total fair value	**13**	**21**	**35**	***-**	**4**
Financial liabilities:					
Financial liabilities**	10	16	24	*-	-
Total fair value	**10**	**16**	**24**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	3	5	11	-	4
Cumulative exposure in the segment	3	8	19	19	23

* 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	Effective average duration
				In percent	In years
	-	(5)	12,842	2.36%	0.18
	-	-	40		0.12
	-	**(5)**	**12,882**		***__0.18__
	8	57	11,567	1.87%	0.19
	-	-	43		1.67
	8	**57**	**11,610**		***__0.20__
	-	(62)	1,272		
	1,334	1,272			
	-	-	73	0.03%	0.48
	-	**-**	**73**		***__0.48__
	-	-	50	(0.25%)	0.26
	-	**-**	**50**		***__0.26__
	-	-	23		
	23	23			

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 (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	66	17	2	*-	-
Derivative financial assets	3	-	-	-	-
Total fair value	**69**	**17**	**2**	***-**	**-**
Financial liabilities:					
Financial liabilities	63	16	4	*-	-
Total fair value	**63**	**16**	**4**	***-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	6	1	(2)	-	-
Cumulative exposure in the segment	6	7	5	5	5
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	7,766	2,424	2,287	525	4
Derivative financial instruments	3	40	-	-	-
Total fair value	**7,769**	**2,464**	**2,287**	**525**	**4**
Financial liabilities:					
Financial liabilities	6,759	2,291	2,057	528	-
Derivative financial instruments	3	-	1	39	-
Total fair value	**6,762**	**2,291**	**2,058**	**567**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,007	173	229	(42)	4
Cumulative exposure in the segment	1,007	1,180	1,409	1,367	1,371

* 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	Effective average duration
				In percent	In years
	-	68	153	0.25%	0.05
	-	-	3		0.03
	-	**68**	**156**		*****0.05**
	-	1	84	0.35%	0.07
	-	**1**	**84**		*****0.07**
	-	67	72		
	5	72			
	-	62	13,068	2.32%	0.18
	-	-	43		0.11
	-	**62**	**13,111**		*****0.18**
	8	58	11,701	1.86%	0.19
	-	-	43		1.67
	8	**58**	**11,744**		*****0.20**
	(8)	4	1,367		
	1,363	1,367			

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, 2011

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	7,289	2,373	2,261	521	-
Derivative financial instruments	-	-	99	-	-
Total fair value	**7,289**	**2,373**	**2,360**	**521**	**-**
Financial liabilities:					
Financial liabilities	6,434	2,290	2,136	509	*-
Derivative financial instruments	4	-	56	63	-
Total fair value	**6,438**	**2,290**	**2,192**	**572**	***-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	851	83	168	(51)	(*-)
Cumulative exposure in the segment	851	934	1,102	1,051	1,051
Linked Israeli currency					
Financial assets:					
Financial assets	12	19	28	7	3
Total fair value	**12**	**19**	**28**	**7**	**3**
Financial liabilities:					
Financial liabilities	10	16	24	1	-
Total fair value	**10**	**16**	**24**	**1**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	2	3	4	6	3
Cumulative exposure in the segment	2	5	9	15	18

* Amount lower than NIS 0.5 million.

** 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	Effective average duration
				In percent	In years
	*-	-	12,444	3.05	0.18
	-	-	99		0.46
	***-**	**-**	**12,543**		*****0.18**
	-	29	11,398	2.57	0.19
	-	-	123		1.16
	-	**29**	**11,521**		*****0.20**
	*-	(29)	1,022		
	1,051	1,022			
	-	*-	69	1.31	0.53
	-	***-**	**69**		*****0.53**
	-	-	51	0.83	0.29
	-	**-**	**51**		*****0.29**
	-	*-	18		
	18	18			

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, 2011 (cont.)

Addendum 4 (cont.)

Reported amounts

In NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	57	27	-	-	-
Derivative financial assets	4	-	17	3	-
Total fair value	**61**	**27**	**17**	**3**	**-**
Financial liabilities:					
Financial liabilities	67	7	4	-	-
Total fair value	**67**	**7**	**4**	-	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(6)	20	13	3	-
Cumulative exposure in the segment	(6)	14	27	30	30
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	7,358	2,419	2,289	528	3
Derivative financial instruments	4	-	116	3	-
Total fair value	**7,362**	**2,419**	**2,405**	**531**	**3**
Financial liabilities:					
Financial liabilities	6,511	2,313	2,164	510	*-
Derivative financial instruments	4	-	56	63	-
Total fair value	**6,515**	**2,313**	**2,220**	**573**	***-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	847	106	185	(42)	3
Cumulative exposure in the segment	847	953	1,138	1,096	1,099

* Amount lower than NIS 0.5 million.

** 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	Effective average duration
				In percent	In years
	-	84	168	1.91	0.03
	-	-	24		0.78
	-	**84**	**192**		*****0.19**
	*-	1	79	0.92	0.06
	***-**	**1**	**79**		*****0.06**
	(*-)	83	113		
	30	113			
	*-	84	12,681	3.02	0.18
	-	-	123		0.52
	***-**	**84**	**12,804**		*****0.19**
	*-	30	11,528	2.55	0.19
	-	-	123		1.16
	***-**	**30**	**11,651**		*****0.20**
	*-	54	1153		
	1,099	1,153			

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.

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

Addendum 5

Reported amounts

In NIS millions

	2012			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	449	602	391	454
Debtors in respect of credit-card activity	12,514	12,515	12,273	12,151
Allowance for credit losses	(82)	(79)	(75)	(70)
Debtors in respect of credit-card activity, net	12,432	12,436	12,198	12,081
Securities	79	77	74	70
Investments in associated companies	2	2	2	2
Buildings and equipment	264	264	277	277
Other assets	302	308	273	286
Total assets	**13,528**	**13,689**	**13,215**	**13,170**
Liabilities				
Credit from banking corporations	35	33	39	16
Creditors in respect of credit-card activity	11,025	11,278	10,916	10,924
Other liabilities	793	747	706	735
Total liabilities	**11,853**	**12,058**	**11,661**	**11,675**
Shareholders' equity	1,675	1,631	1,554	1,492
Non-controlling interests	-	-	-	3
Total capital	1,675	1,631	1,554	1,495
Total liabilities and capital	**13,528**	**13,689**	**13,215**	**13,170**

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

Addendum 5 (cont.)

Reported amounts

In NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	378	362	82	268
Debtors in respect of credit-card activity	12,197	12,577	11,735	11,413
Allowance for credit losses	(65)	(67)	(68)	(69)
Debtors in respect of credit-card activity, net	12,132	12,510	11,667	11,344
Securities	96	102	91	80
Investments in associated companies	2	3	2	2
Buildings and equipment	262	270	274	277
Goodwill	-	-	-	7
Other assets	255	220	174	180
Total assets	**13,125**	**13,467**	**12,290**	**12,158**
Liabilities				
Credit from banking corporations	6	32	48	45
Creditors in respect of credit-card activity	11,011(1)	11,428(1)	10,656(1)	10,565(1)
Other liabilities	672(1)	623(1)	275(1)	292(1)
Total liabilities	**11,689**	**12,083**	**10,979**	**10,902**
Shareholders' equity	1,433	1,381	1,308	1,253
Non-controlling interests	3	3	3	3
Total capital	1,436	1,384	1,311	1,256
Total liabilities and capital	**13,125**	**13,467**	**12,290**	**12,158**

(1) Reclassified.

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

Addendum 6

Reported amounts

In NIS millions

	2012			
	Q4	Q3	Q2	Q1
Income				
From credit-card transactions	306	326	305	300
Net interest income	35	34	34	33
Other income	16	19	18	36
Total income	**357**	**379**	**357**	**369**
Expenses				
Provision for credit losses	3	5	14	15
Operating expenses	123	109	103	110
Sales and marketing expenses	69	57(1)	64(1)	58(1)
General and administrative expenses	20	18(1)	15(1)	14(1)
Payments to banks	82	89	85	84
Total expenses	**297**	**278**	**281**	**281**
Profit before taxes	**60**	**101**	**76**	**88**
Provision for taxes on profit	19	26	20	22
Profit after taxes	**41**	**75**	**56**	**66**
The Company's share in losses of associates after tax	(*-)	(*-)	(*-)	(*-)
Net profit				
Before attribution to non-controlling interests	41	75	56	66
Attributed to non-controlling interests	-	-	*-	*-
Attributed to shareholders of the Company	**41**	**75**	**56**	**66**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**54**	**102**	**76**	**90**

* Amount lower than NIS 0.5 million.

(1) Reclassified.

ISRACARD

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

Addendum 6 (cont.)

Reported amounts

In NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions(1)	299	333	312	298
Net interest income(1)	33	30	32	26
Other income(1)	26	18	13	13
Total income	**358**	**381**	**357**	**337**
Expenses				
Provision for doubtful debts	8	4	19	18
Operating expenses(2)	118	116	112	112
Sales and marketing expenses(2)	80	60	49	49
General and administrative expenses(2)	19	13	15	13
Payments to banks	89	102	92	89
Write-downs and impairment of goodwill	-(1)	-	7	-
Total expenses	**314**	**295**	**294**	**281**
Profit before taxes	**44**	**86**	**63**	**56**
Provision for taxes on profit	(3)	23	18	14
Profit after taxes	**47**	**63**	**45**	**42**
The Company's share in losses of associates after tax	(1)	-	-	(1)
Net profit				
Before attribution to non-controlling interests	46	63	45	41
Attributed to non-controlling interests	-	*-	*-	*-
Attributed to shareholders of the Company	**46**	**63**	**45**	**41**
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)	**63**	**86**	**61**	**56**

* Amount lower than NIS 0.5 million.

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

(2) Reclassified.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2012 (hereinafter: the "**Report**").

2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company, in all material aspects, for the dates and periods covered in the Report.

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure[1] and internal control of 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 of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;

   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Company, and we have presented our conclusions with regard to the effectiveness of the controls and procedures concerning disclosure, as 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 of financial reporting at the Company that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Company.

5. I, and others at the Company making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Company, based on our most current assessment of the internal control of financial reporting:

   A. Any significant deficiencies and material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Company's ability to record, process, summarize, or report financial information; and

B. Any fraud, whether material or immaterial, in which Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Company.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

[1] As defined in the Public Reporting Directives, "Board of Directors' Report."

Dov Kotler

Chief Executive Officer

Tel Aviv, February 27, 2013

Certification

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Isracard Ltd. (hereinafter: the "**Company**") for 2012 (hereinafter: the "**Report**").

2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company, in all material aspects, for the dates and periods covered in the Report.

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure1 and internal control of financial reporting1; furthermore:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Company, including its consolidated corporations, is brought to our knowledge by others at the Company and at such corporations, in particular during the preparation of the Report;

   B. We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;

   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Company, and we have presented our conclusions with regard to the effectiveness of the controls and procedures concerning disclosure, as 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 of financial reporting at the Company that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Company.

5. I, and others at the Company making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Company, based on our most current assessment of the internal control of financial reporting:

   A. Any significant deficiencies and material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the

Company's ability to record, process, summarize, or report financial information; and

B. Any fraud, whether material or immaterial, in which Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Company.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

[1] As defined in the Public Reporting Directives, "Board of Directors' Report."

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 27, 2013

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, 2012, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as at December 31, 2012, the Company's internal controls over financial reporting are effective.

The effectiveness of the Company's internal controls over financial reporting as at December 31, 2012 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 166. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2012.

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

Tel Aviv, February 27, 2013

Isracard Ltd. and its Consolidated Companies

Financial Statements

For the year ended December 31, 2012

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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 Controls 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, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control over financial reporting of a credit-card company is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a credit-card company includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the company (including the removal of assets from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the company are made only in accordance with authorizations of the board of directors and management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets (including removal of assets from its possession) that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect

misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as at December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks, the financial statements, of the Company and consolidated, as at December 31, 2012 and 2011, and for each of the years in the three-year period ended on December 31, 2012. Our report dated February 27, 2013, expressed an unqualified opinion on the said financial statements, while drawing attention to Note 16C to the financial statements concerning antitrust issues, and Note 16E concerning the exposure to class-action suits filed against the Company.

Somekh Chaikin

Certified Public Accountants (ISR)

Ziv Haft

Certified Public Accountants (ISR)

Tel Aviv, February 27, 2013

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

BDO

ZIV HAFT
IS A MEMBER OF BDO

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, 2012 and 2011 and the consolidated balance sheets as at those dates, and the statements of profit and loss, reports on changes in equity, and statements of cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2012. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks. These standards require that we plan and perform the audit with the aim of obtaining reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles implemented and significant estimates used by the board of directors and by the management of the Company, as well as an evaluation of the fairness of the overall presentation in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, of the Company and consolidated, as at December 31, 2012 and 2011, and the results of operations, changes in equity, and cash flows, of the Company and consolidated, for each of the three years in the period ended on December 31, 2012, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforesaid opinion, we draw attention to Note 16C regarding antitrust issues, and to Note 16E regarding exposure to class-action suits filed against the Company.

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, 2012, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, and our report dated February 27, 2013, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

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

Tel Aviv, February 27, 2013

Balance Sheets

Reported amounts

In NIS millions

		Consolidated		The Company	
		December 31		December 31	
	Note	2012	2011	2012	2011
Assets					
Cash on hand and deposits with banks	2	449	378	445	369
Debtors in respect of credit-card activity	3, 4	12,514	12,197	10,970	10,885
Allowance for credit losses	3A	(82)	(65)	(39)	(28)
Debtors in respect of credit-card activity, net		12,432	12,132	10,931	10,857
Securities	5	79	96	79	96
Investments in investee companies (consolidated: in associates)	6	2	2	241	375
Buildings and equipment	7	264	262	179	175
Other assets	8	302	255	1,952	1,706
Total assets		**13,528**	**13,125**	**13,827**	**13,578**
Liabilities					
Credit from banking corporations	9	35	6	21	2
Creditors in respect of credit-card activity	10	11,025	11,011(1)	11,367	11,316(1)
Other liabilities	11, 16	793	672(1)	764	827(1)
Total liabilities		**11,853**	**11,689**	**12,152**	**12,145**
Contingent liabilities and special agreements	16				
Shareholders' equity		1,675	1,433	1,675	1,433
Non-controlling interests		-	3	-	-
Total capital		1,675	1,436	1,675	1,433
Total liabilities and capital		**13,528**	**13,125**	**13,827**	**13,578**

(1) Reclassified.

Irit Izakson 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, 2013

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

Statements of Profit and Loss

Reported amounts

In NIS millions

		Consolidated			The Company		
	Note	For the year ended December 31			For the year ended December 31		
		2012	2011	2010	2012	2011	2010
Income							
From credit-card transactions	19	1,237	1,242[1]	1,198[1]	1,239	1,244[1]	1,199[1]
Net interest income	20	136	121[1]	88[1]	51	45[1]	24[1]
Other income	21	89	70[1]	48[1]	84	67[1]	45[1]
Total income		**1,462**	**1,433**	**1,334**	**1,374**	**1,356**	**1,268**
Expenses							
Provision for credit losses	3A	37	49	38	24	35	11
Operating expenses	22	445	458[2]	415[2]	432	448[2]	407[2]
Sales and marketing expenses	23	248	238[2]	172[2]	243	234[2]	167[2]
General and administrative expenses	24	67	60[2]	61[2]	62	57[2]	58[2]
Payments to banks	16H	340	372	392	340	372	392
Write-downs and impairment of goodwill		-	7[1]	2	-	-[1]	-
Total expenses		**1,137**	**1,184**	**1,080**	**1,101**	**1,146**	**1,035**
Profit before taxes		**325**	**249**	**254**	**273**	**210**	**233**
Provision for taxes on profit	25	87	52	68	71	43	59
Profit after taxes		**238**	**197**	**186**	**202**	**167**	**174**
The Company's share in profits (losses) of investee companies (consolidated: associates), after tax		(*-)	(2)	*-	36	28	11
Net profit							
Before attribution to non-controlling interests		238	195	186	238	195	185
Attributed to non-controlling interests		*-	*-	(1)	-	-	-
Attributed to shareholders of the Company		238	195	185	238	195	185
Basic and diluted net profit per common share attributed to shareholders of the Company (in NIS)		**324**	**266**	**253**	**324**	**266**	**253**
Number of common shares used in calculation		733,898	733,198	733,198	733,898	733,198	733,198

* Amount lower than NIS 0.5 million.

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

(2) Reclassified.

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

Reports on Changes in Equity

Reported amounts

In NIS millions

	For the year ended December 31, 2012									
	Capital reserves					Accumulated other comprehensive income (loss)				
	Paid-up share capital	Premium on shares	Due to share-based payment transactions	In respect of transactions with controlling shareholder	Total paid-up share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total	Non-controlling interests	Total capital
Balance as at Dec. 31, 2011	***-**	**19**	**14**	**6**	**39**	**34**	**1,360**	**1,433**	**3**	**1,436**
Annual net profit	-	-	-	-	-	-	238	238	*-	238
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)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	-	19	-	19	-	19
Effect of related tax	-	-	-	-	-	(5)	-	(5)	-	(5)
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss	-	-	-	-	-	(21)	-	(21)	-	(21)
Effect of related tax	-	-	-	-	-	5	-	5	-	5
Benefit due to share allocation	-	5	-	-	5	-	-	5	-	5
Dividend for holders of non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	(3)	(3)
Acquisition of shares in a subsidiary from holders of non-controlling interests	-	-	-	-	-	-	-	-	(*-)	(*-)
Balance as at Dec. 31, 2012	***-**	**38**	**-**	**7**	**45**	**32**	**1,598**	**1,675**	**-**	**1,675**

* Amount lower than NIS 0.5 million.

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

Reports on Changes in Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2011									
	Capital reserves					Accumulated other comprehensive income (loss)				
	Paid-up share capital	Premium on shares	Due to share-based payment transactions	In respect of transactions with controlling shareholder	Total paid-up share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total	Non-controlling interests	Total capital
Balance as at Dec. 31, 2010	***-**	**14**	**12**	**6**	**32**	**8**	**1,223**	**1,263**	**6**	**1,269**
Cumulative effect, net of tax, of initial implementation of directive on measurement of impaired debts and allowance for credit losses on Jan. 1, 2011	-	-	-	-	-	-	(49)	(49)	-	(49)
Cumulative effect of initial implementation of IFRS	-	-	-	-	-	-	(9)	(9)	(3)	(12)
Annual net profit	-	-	-	-	-	-	195	195	*-	195
Adjustments and changes due to:										
Benefits received from controlling shareholder	-	-	-	*-	*-	-	-	*-	-	*-
Benefit for share-based payment transactions		-	2	-	2	-		2	-	2
Adjustments in respect of presentation of securities available for sale at fair value		-	-	-	-	45	-	45	-	45
Effect of related tax		-	-	-	-	(11)	-	(11)	-	(11)
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss		-	-	-	-	(10)	-	(10)	-	(10)
Effect of related tax		-	-	-	-	2	-	2	-	2
Benefit due to share allocation	-	5	-	-	5	-	-	5	-	5
Balance as at Dec. 31, 2011	***-**	**19**	**14**	**6**	**39**	**34**	**1,360**	**1,433**	**3**	**1,436**

* Amount lower than NIS 0.5 million.

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

Reports on Changes in Equity (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2010									
		Capital reserves				Accumulated other comprehensive income (loss)				
	Paid-up share capital	Premium on shares	Due to share-based payment transactions	In respect of transactions with controlling shareholder	Total paid-up share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total	Non-controlling interests	Total capital
Balance as at Dec. 31, 2009	***-**	**9**	**8**	**5**	**22**	***-**	**1,039**	**1,061**	**5**	**1,066**
Annual net profit	-	-	-	-	-	-	185	185	1	186
Benefits granted to controlling shareholder	-	-	-	-	-	-	(1)	(1)	-	(1)
Adjustments and changes due to:										
Benefits received from controlling shareholder, net			-	1	1	-	-	1	-	1
Benefit for share-based payment transactions		-	4	-	4	-	-	4	-	4
Adjustments in respect of presentation of securities available for sale at fair value		-	-	-	-	9	-	9	-	9
Effect of related tax		-	-	-	-	(1)	-	(1)	-	(1)
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss		-	-	-	-	(*-)	-	(*-)	-	(*-)
Effect of related tax		-	-	-	-	*-	-	*-	-	*-
Benefit due to share allocation	-	5	-	-	5	-	-	5	-	5
Balance as at Dec. 31, 2010	***-**	**14**	**12**	**6**	**32**	**8**	**1,223**	**1,263**	**6**	**1,269**

* Amount lower than NIS 0.5 million.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2012	2011[(1)]	2010[(1)]	2012	2011[(1)]	2010[(1)]
Cash flows from operating activity						
Annual net profit	**238**	**195**	**186**	**238**	**195**	**185**
Adjustments:						
The Company's share in undistributed profits (losses) of investee companies (consolidated: associates)	*-	2	(*-)	(36)	(28)	(11)
Depreciation of buildings and equipment	89	84	71	86	81	68
Write-downs and impairment of goodwill	-	7	2	-	-	-
Impairment of securities available for sale	-	3	-	-	3	-
Provision for credit losses	37	49	38	24	35	11
Profit from realization and adjustment of securities available for sale	(21)	(10)	(*-)	(21)	(10)	(*-)
Deferred taxes, net	(12)	(35)	*-	(9)	(30)	5
Loss from realization of buildings and equipment	*-	-	*-	*-	-	*-
Retirement compensation – increase in surplus of provision over amount funded	9	18	1	9	18	1
Revaluation of deposits with banking corporations	(*-)	(1)	1	(*-)	(1)	1
Benefit due to share-based payment transactions	*-	2	5	*-	2	5
Benefit due to transactions with a controlling party	1	*-	1	1	*-	1
Benefit due to share allocation	5	5	4	5	5	4
Adjustments in respect of exchange-rate differences	1	(26)	(20)	1	(26)	(20)
Changes in current assets						
Deposit of deposits with banks	(1)	(17)	(11)	(1)	(17)	(11)
Withdrawal of deposits from banks	17	11	13	17	11	13
Decrease (increase) in credit to cardholders and merchants, net	(95)	(279)	(30)	28	(228)	79
Increase in debtors in respect of credit-card activity, net	(234)	(75)	(978)	(120)	(78)	(915)
Increase in debtors in respect of factoring	(37)	(23)	(29)	-	-	-
Decrease (increase) in other assets, net	(21)	24	11	(265)	(88)	(704)
Changes in current liabilities						
Short-term credit from banking corporations, net	29	(70)	(538)	19	(13)	(10)
Increase in creditors in respect of credit-card activity, net	14	**164	**803	51	**194	**822
Increase in other liabilities, net	108	**324	**90	101	**327	**91
Net cash from operating activity	**127**	**352**	**(380)**	**128**	**352**	**(385)**

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) See footnote on p. 177, 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		
	2012	2011(1)	2010(1)	2012	2011(1)	2010(1)
Cash flows from investing activity						
Investment in investee companies (consolidated: associates)	(*-)	(1)	(1)	(*-)	(1)	(6)
Acquisition of companies consolidated for the first time (Appendix A)	-	-	(71)	-	-	-
Investment in capital note of investee company (consolidated: associate)	-	-	-	-	-	(65)
Maturity of capital note of investee company	-	-	-	-	-	2
Acquisition of buildings and equipment	(93)	(70)	(83)	(92)	(68)	(83)
Proceeds of realization of buildings and equipment	*-	-	*-	*-	-	*-
Proceeds of realization of securities available for sale	57	-	77	57	-	77
Proceeds of redemption of securities available for sale	-	-	35	-	-	35
Net cash from investing activity	(36)	(71)	(43)	(35)	(69)	(40)
Cash flows from financing activity						
Acquisition of shares of a subsidiary from holders of non-controlling interests	*-	-	-	-	-	-
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	(3)	(12)	-	-	(12)	-
Increase (decrease) in cash	88	269	(423)	93	271	(425)
Balance of cash at beginning of year	356	61	464	347	50	455
Effect of changes in exchange rates on cash balances	(1)	26	20	(1)	26	20
Balance of cash at end of year	**443**	**356**	**61**	**439**	**347**	**50**
Interest and taxes paid and/or received						
Interest received	138	139	104	22	23	16
Interest paid	13	16	13	13	15	8
Dividends received	*-	*-	*-	*-	*-	*-
Taxes paid on income	120	85	75	103	70	60
Taxes received on income	7	16	4	7	16	3

* Amount lower than NIS 0.5 million.

(1) See footnote on p. 177, 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		
	2012	2011[(1)]	2010[(1)]	2012	2011[(1)]	2010[(1)]
Appendix A						
Acquisition of subsidiaries consolidated for the first time						
Assets and liabilities of the consolidated subsidiaries at the acquisition date:						
Assets excluding cash	-	-	(380)	-	-	-
Liabilities of the Company at initial consolidation:						
Liabilities	-	-	309	-	-	-
Non-controlling interests	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Cash flow for acquisition of subsidiaries consolidated for the first time	**-**	**-**	**(71)**	**-**	**-**	**-**
Appendix B						
Activity in assets and liabilities not involving cash flows						
Acquisition of buildings and equipment against liabilities to suppliers	6	8	-	6	8	-
Proceeds of realization of securities available for sale against other debtors	-	20	-	-	20	-

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

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

Note 1 – Significant Accounting Policies

A. General

1. Isracard Ltd. (hereinafter: the "**Company**") is a corporation incorporated in Israel in 1975 and is under the control of Bank Hapoalim B.M. The 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 and MasterCard 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 companies Poalim Express Ltd. and Aminit Ltd. The financial statements as at December 31, 2012, include those of the Company and of its subsidiaries (hereinafter: the "**Group**"), as well as the Group's interests 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.

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

B. Definitions

In these financial statements:

- **International Financial Reporting Standards (hereinafter: "IFRS")** – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including IFRS and International Accounting Standards (IAS), and interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC), respectively.

- **Generally accepted accounting principles (GAAP) for US banks** – Accounting principles which American banks traded in the United States are required to implement. These rules are established by the banking supervision agencies in the United States, the Securities and Exchange Commission in the United States, the Financial Accounting Standards Board in the United States, and other entities in the United States, and implemented according to the hierarchy established in FAS 168 (ASC 105-10), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which replaced FAS 162. In addition, as established by

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

the Supervisor of Banks, despite the hierarchy established in FAS 168, it has been clarified that any position stated to the public by the banking supervision agencies in the United States or by the staff of the banking supervision agencies in the United States with regard to the manner of implementation of US GAAP constitutes GAAP for US banks.

1. The Company – Isracard Ltd.
2. The Group – The Company and its consolidated companies.
3. The Parent Company – Bank Hapoalim B.M.
4. Subsidiaries – Companies controlled by the Company.
5. Consolidated companies – Companies whose statements are consolidated with the Company's statements.
6. Associated companies – Companies other than consolidated companies, the Company's investment in which is included in the financial statements based on the equity method.
7. Investee companies – Consolidated or associated companies.
8. Related parties – As defined in International Accounting Standard 24, excluding interested parties.
9. Interested parties – As defined in Paragraph 1 of the definition of an "interested party" of a "corporation" in Section 1 of the Securities Law, 1968.
10. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.
11. CPI – The consumer price index in Israel, as published by the Central Bureau of Statistics.
12. USD – United States dollar.
13. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements No. 23 and 36 of the Institute of Certified Public Accountants in Israel.
14. Adjusted financial reporting – Financial reporting in values adjusted to changes in the general purchasing power of Israeli currency, in accordance with the directives of the Opinion Statements of the Institute of Certified Public Accountants in Israel.
15. Reported amount – Amount adjusted to the transition date (December 31, 2003), plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.
16. Cost – Cost in reported amounts.

B. Definitions (cont.)

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

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

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

C. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the 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 in accordance with GAAP for US banks that have been adopted as part of the Public Reporting Directives of the Supervisor of Banks.

- **On matters not related to the core business of banking** – Accounting treatment in accordance with Israeli GAAP and certain IFRS. International standards are implemented according to the following principles:

  - In cases in which a material issue arises that is not resolved in the IFRS or in the implementation instructions of the Supervisor, the 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.)

C. 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:

- Derivative financial instruments 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 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.)

C. 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.

D. Reclassification

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

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

- The item “profit from financing activity before provisions for credit losses” was split into three separate items – “interest income,” “interest expenses,” and “non-interest financing income,” presented on separate lines.
- Non-interest components of profit from financing activity before provisions for credit losses and components of profits (losses) from investments in shares were classified under the item "non-interest financing income."
- The item “profit from extraordinary transactions” was canceled, and the common practice in the United States was adopted, where extraordinary items are defined as items that are “unusual” and “infrequent.” Accordingly, the classification of any event as an extraordinary item in the statement of profit and loss shall be performed only with advance approval by the Supervisor of Banks.

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

Items included in the statement of profit and loss:

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

Note 1 – Significant Accounting Policies (cont.)

D. Reclassification (cont.)

- Reclassification of net exchange-rate differences in the amount of NIS 17 million and NIS 13 million for the years ended December 31, 2011 and 2010, respectively, in the consolidated financial statements, and in the amount of NIS 17 million and NIS 13 million for the years ended December 31, 2011 and 2010, respectively, in the financial statements of the Company, from the item profit from financing activity before provisions for credit losses, to other income under the item non-interest financing income.

- Reclassification of profit in respect of derivative instruments in an amount lower than NIS 0.5 million in the consolidated financial statements of the Company for the years ended December 31, 2011 and 2010, respectively, from the item profit from financing activity before provisions for credit losses, to other income under the item non-interest financing income.-

- Reclassification of fees to banks from the item profit from financing activity before provisions for credit losses to the item operating expenses, in the amount of NIS 7 million and NIS 6 million for the years ended December 31, 2011 and 2010, respectively, in the consolidated financial statements of the Company, and in the amount of NIS 7 million and NIS 6 million for the years ended December 31, 2011 and 2010, respectively, in the financial statements of the Company.

- Reclassification of loss from impairment of securities available for sale in the amount of NIS 3 million in the consolidated financial statements of the Company for the year ended December 31, 2011 from the item write-downs and impairments of goodwill to other income under the item non-interest financing income.

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

Items included in the statement of cash flows:

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

- Net changes in cash flows in respect of current assets (such as credit to cardholders and merchants, debtors in respect of credit-card activity, deposit and withdrawal of deposits with banks, and debtors in respect of receivables discounting) previously included in investment activity (formerly activity in assets), in the amount of NIS 383 million and NIS 1,035 million in the years ended December 31, 2011 and 2010, respectively, in the consolidated financial statements, and in the amount of NIS 312 million and NIS 834 million in the years ended December 31, 2011 and 2010, respectively, in the financial statements of the Company, were reclassified under current activity.

Note 1 – Significant Accounting Policies (cont.)

D. Reclassification (cont.)

- Net changes in cash flows in respect of current liabilities (such as creditors in respect of credit-card activity and net short-term credit from banking corporations) previously included in financing activity (formerly activity in liabilities and capital), in the amount of NIS 94 million and NIS 265 million in the years ended December 31, 2011 and 2010, respectively, in the consolidated financial statements, and in the amount of NIS 181 million and NIS 812 million in the years ended December 31, 2011 and 2010, respectively, in the financial statements of the Company, were reclassified under current activity.

Items Included in the notes to the financial statements:

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

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

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

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

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

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

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

The accounting policies of the Group, as detailed in Section F below, include the new accounting policies resulting from the implementation of the accounting standards, accounting standard updates, and directives of the Supervisor of Banks, and present the manner and effect, if any, of the initial implementation thereof.

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

Transactions in foreign currency are translated into the functional currency of the Company according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency according to the exchange rate in effect at that date. Exchange-rate differences in respect of monetary items are the difference between the depreciated cost in the functional currency at the beginning of the year, adjusted for payments during the year, and the depreciated cost in foreign currency translated according to the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined.

Exchange-rate differences arising from translation into the functional currency are recognized in profit and loss, 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.)

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

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

2. Basis for 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.

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.

Note 1 – Significant Accounting Policies (cont.)

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

Transactions with Non-controlling Interests with Retention of Control

Transactions with non-controlling interests where control is retained are treated as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is allocated to the share of the owners of the Company, directly in capital.

Investments in Associates

Associates are entities in which the Group has material influence on financial and operational policy, but has not obtained control.

Investments in associates are treated according to the equity method and recognized for the first time at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in income and expenses, profit or loss, and other comprehensive income of equity-basis investees, after the necessary adjustments to the accounting policy of the Group, from the date on which the material influence exists, to the date when the material influence ceases to exist. It is hereby clarified that the Company does not adjust accounting policies on matters related to the core business of banking (where IFRS have not yet been adopted in the Public Reporting Directives) implemented by non-financial associates.

When the Group's share of losses exceeds the value of the Group's interests in an equity-basis investee company, the book value of such interests (including 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.

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

Joint Operations (Joint Transactions)

Joint operations are joint transactions in which each party uses the assets under its ownership for the purposes of the joint activity. The consolidated financial statements include the assets of the joint activity under the control of the Company, the liabilities of the joint activity to which it is exposed, the expenses that it bears in connection with the joint activity, and its share in the revenues of the joint activity.

Inter-Company Transactions

Mutual balances in the Group and unrealized income and expenses arising from inter-company transactions were canceled during the preparation of the consolidated financial statements.

Business Combinations

The Group applies the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree.

The Group recognizes goodwill at the acquisition date according to the fair value of the consideration transferred, including amounts recognized in respect of any interests that do not grant control of the acquiree, and the fair value at the acquisition date of equity interests in the acquiree previously held by the acquirer, with the deduction of the net amount attributed in the acquisition to identifiable assets acquired and liabilities undertaken.

The acquirer recognizes a contingent liability undertaken in a business combination, at the acquisition date, if a present obligation exists arising from past events and its fair value can be measured reliably.

If the Group performs an acquisition at a bargain price (an acquisition that includes negative goodwill), it recognizes the resulting profit in the statement of profit and loss, at the acquisition date, following an additional examination of the attribution to assets and liabilities of the acquired entity.

The consideration transferred includes the fair value of assets transferred to the former owner of the acquiree, liabilities incurred by the acquirer to the former owner of the acquiree, and equity interests issued by the Group. In a business combination achieved in stages, the difference between the fair value at the acquisition date of the equity interests in the acquiree previously held by the Group, and the book value at that date, is allocated to the statement of profit and loss, under the item "other income." The consideration transferred also includes the fair value of contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of the contingent consideration classified as a financial liability in the statement of profit and loss.

Note 1 – Significant Accounting Policies (cont.)

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

Costs related to acquisition incurred by the Company due to a business combination, such as agent fees, consulting fees, legal fees, assessments, and other fees for professional or consulting services, with the exception of fees related to the issuance of debt instruments or capital in connection with the business combination, are recognized as expenses in the period in which the services are received.

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 – 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.

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

Note 1 – Significant Accounting Policies (cont.)

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

respect of credit-card activity (including credit to merchants and credit to cardholders), and other credit to non-cardholders. Debtors in respect of credit-card activity and other debt balances are reported in the Company's books according to the recorded debt balance. The recorded debt balance is defined as the debt balance after charge-offs but before deduction of the allowance for credit losses in respect of that debt. The Company applies rules according to which the balance of the debt in the Company's books includes the component of interest accrued before the classification of the debt as a non-income-bearing problematic debt.

Allowance for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses in respect of its credit portfolio. In addition, the Company has established the necessary procedures in order to maintain an allowance, 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. Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to it according to the contractual terms of the debt agreement. In any case, debt is classified as impaired debt when the principal or interest in respect of the debt is in arrears of 90 days or more. Such debts that are not in arrears and are found to be sound are provided for on a collective basis. In addition, any debt the terms of which have been changed in the course of troubled debt restructuring is classified as impaired debt, and is examined individually. The individual allowance for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards of the debtor.

Collective allowance for credit losses – Reflects allowances for impairment in respect of credit losses not identified individually in large groups of small debts with similar debt attributes, and in respect of debts examined individually and found to be unimpaired. The collective allowance is calculated in accordance with the rules set forth in FAS 5 (ASC 450), "Contingencies," based on the formula for the calculation of the collective allowance specified in the temporary order issued by the Supervisor of Banks, which was in effect up to an including December 31, 2012. The formula is based on historical

Note 1 – Significant Accounting Policies (cont.)

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

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 consumer credit, commercial credit, the international organization, and credit-card companies.

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

Revenue Recognition

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

Troubled Debt Restructuring

A debt that has undergone 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 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

Note 1 – Significant Accounting Policies (cont.)

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

unable to raise funds from other resources at the prevalent interest rate in the market for borrowers who are not in default.

The Company concludes that a concession was granted to the borrower in the arrangement, even if the contractual interest rate was raised as part of the arrangement, if one or more of the following occurs: (1) as a result of the restructuring, the Company is not expected to collect the full amount of the debt (including interest accrued according to the contractual terms); (2) the debtor does not have the ability to raise resources at the prevalent market rate for debt with terms and characteristics such as those of the debt granted in the arrangement.

Debts the terms of which have been changed during restructuring, including those examined on a collective basis prior to restructuring, are classified as impaired debt and assessed on an individual basis for the purpose of the allowance for credit losses or charge-off. In light of the fact that a debt that has undergone a troubled debt restructuring will not be repaid according to its original contractual terms, the debt continues to be classified as impaired, even after the borrower resumes repayment according to the new terms.

Charge-Offs

The Company performs charge-offs for any debt or part of a debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Company has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). With regard to debts evaluated on a collective basis, charge-off rules were established based on the period of arrears (in most cases more than 150 consecutive days), and on other problematic characteristics. It is hereby clarified that charge-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base for the debt in the Company's books.

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

Prior to January 1, 2011, specific provisions for doubtful debts fairly reflected, according to Management's estimates, the loss inherent in debts the collection of which was in doubt. Management established the fairness of the provision based, among other factors, on a risk assessment according to the information available to it regarding debtors' financial condition and the volume of their activity. Doubtful debts which the Management of the Company believed there was no chance of collecting were written off, according to a decision by Management.

In addition, a group provision for doubtful debts was calculated, based on past experience, in respect of debts that required a specific provision but whose risk characteristics had not yet been identified.

Note 1 – Significant Accounting Policies (cont.)

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

Bad debts were written off when the Company determined that the debt was uncollectible, following legal proceedings undertaken or as a result of agreements or arrangements executed, usually in cases in which no legal proceedings were undertaken, and the debts were not collectible, or due to other reasons for which the debts were uncollectible.

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

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

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

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, as cumulative other comprehensive income, and are allocated to the statement of profit and loss upon realization or redemption.

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.

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

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 has applied 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 transfer a liability, in an ordinary transaction between market participants, at the date of measurement. Among other matters, in order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Company. FAS 157 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities, accessible to the Company at the date of measurement.
- Level 2 data: Observable inputs for the asset or liability, directly or indirectly, which are not quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding the asset or liability.

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

Note 1 – Significant Accounting Policies (cont.)

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

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 with an active market were evaluated according to the market value established in the primary market, or in the absence of a primary market, according to the market price quoted on the most beneficial market. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.).

Additional Non-Derivative Financial Instruments

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

- With regard to fair value measurements classified as Level 3 in the fair value hierarchy:
  - Quantitative disclosure of significant unobservable inputs and a description of the assessment technique applied by the Company, with regard to items measured at fair value on a recurring basis as well as on a non-recurring basis;
  - Qualitative discussion of an analysis of the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of the interaction between such unobservable inputs, if any;
- Classification into levels, within the fair value hierarchy, for items not measured at fair value in the balance sheet, but for which the disclosure of fair value is required;
- For every transfer from Level 1 to Level 2 or vice versa of items measured at fair value on a recurring basis, a description should be provided of the item, the amount of the transfer, the reason for the transfer, and the policy of the banking corporation;
- Use of a non-financial asset in a manner different from the highest and best use, when the asset is measured at fair value in the balance sheet or when its fair value is included in the disclosures according to the assumption of highest and best use;
- A detailed breakdown of the fair value hierarchy (the division into 3 levels) in respect of balances and fair value estimates of financial instruments.

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

Note 1 – Significant Accounting Policies (cont.)

F. 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 Financial Instruments

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

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

The Company implements the directives of the American accounting standard FAS 166, according to which a transferred financial asset is presented in the balance sheet of the party controlling that asset, whether it 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.

11. Fixed Assets (Buildings and Equipment)

Recognition and Measurement

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

Note 1 – Significant Accounting Policies (cont.)

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

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

Subsequent Costs

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 Company, and if the cost can be measured reliably. Routine maintenance costs of fixed-asset items are allocated to profit and loss when they arise.

Profit or loss from the subtraction of a fixed-asset item are determined by comparing the consideration from the subtraction 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.

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.

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset. Leased assets are depreciated over the shorter of the period of the lease and the period of use of the assets. 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. Estimates related to the depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and adjusted when necessary.

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.

Note 1 – Significant Accounting Policies (cont.)

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

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. Leases

At initial recognition, leased assets are measured at an amount equal to the lower of the fair value and the present value of the minimum future leasing fees. After the initial recognition, the asset is treated in accordance with the accounting policy customarily applied to that asset.

Other leases are classified as operational leases. The leased assets are not recognized in the balance sheet of the Group. Payments and receipts in operational leases are allocated to profit and loss using the straight-line method, over the period of the lease.

13. Intangible Assets

Goodwill

For information regarding the measurement of goodwill upon initial recognition, see section "Business Combinations," above. In subsequent periods, goodwill is measured at cost, with the deduction of accrued losses from impairment.

Note 1 – Significant Accounting Policies (cont.)

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

Software Costs

Software acquired by the Group is 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 depreciation 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.

Amortisation

Amortization is the systematic allocation of the cost of an intangible asset over its useful life. Amortization is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life of intangible assets, including software assets, starting on the date when the assets are available for use, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in each asset. Goodwill is not amortized systematically, but is examined for impairment at least once a year.

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

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

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

Note 1 – Significant Accounting Policies (cont.)

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

14. Investment Property

Investment property is property (land or buildings, or part of a building, or both) held (by the Company as an owner or as a lessee through a finance lease) for the purpose of generating rent income or for equity appreciation or both, and not for the purpose of:

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

(B) Sale during the ordinary course of business.

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

15. Impairment of Assets

The book value of the non-financial assets of the Group, excluding deferred tax assets and including investments accounted for using the equity method, is examined at each reporting date. If indications of impairment exist, an estimate of the recoverable amount of the asset is calculated.

The recoverable amount of an asset is the higher of its value in use and its fair value net of selling 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.

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.)

F. 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 are also performed when the signs listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

(1) The software is not expected to provide significant potential services;

(2) The manner or volume of use or expected use of the software has changed substantially;

(3) The software has been or will be substantially changed;

(4) Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;

(5) It is no longer expected that development will be completed and the software will be used.

If one or more of the signs listed above exists, the 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.

Note 1 – Significant Accounting Policies (cont.)

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

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 or 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 the investment in the associate. Loss from impairment is 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 is recognized under the item "the Company's share of profits or losses of associates, after tax."

16. Provision for Gift Offers for Credit-Card Holders

Gift offers for credit-card holders are detailed below.

(A) The Tracks Program

As part of the enhancement of its agreements with its cardholders and enrichment of the range of benefits offered to them, in late 2011 the Company launched a new benefit plan, the Tracks program, which allows customers to receive benefits according to their interests. The goal of this program is to make the benefits offered to customers more relevant, while building a community of customers with which regular communications can be maintained. Expenses connected with the launch of this program were recorded in the financial statements.

(B) The Stars loyalty program

A balance exists in the Company's books in respect of the Stars program, which ended on June 30, 2012.

17. Employee Benefits

Obligations for Employee Benefits

The Company’s obligations in respect of benefits after the termination of the employer-employee relationship and/or other long-term benefits, granted according to law and/or agreements and/or custom at the Company, are calculated according to the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, such calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The mortality rate is based

Note 1 – Significant Accounting Policies (cont.)

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

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 uncapitalized basis, and the expense in respect thereof for the period is allocated when the relevant service is provided.

Instructions and Clarifications Concerning the Reinforcement of Internal Control over Financial Reporting on Employee Benefits

On March 27, 2011, the Supervisor of Banks issued instructions regarding the reinforcement of internal control over financial reporting on employee benefits. The instructions establish several clarifications regarding the assessment of the liability in respect of employee benefits and instructions regarding internal control over the process of financial reporting on employee benefits, with requirements for the involvement of a licensed actuary, identification and classification of liabilities in respect of employee benefits, maintenance of internal controls with regard to the reliance upon and validation of the actuary’s assessment, and certain disclosure requirements.

In addition, according to the letter, a banking corporation or credit-card company that expects a group of employees to be paid benefits beyond the contractual terms shall take into consideration the expected rate of employee turnover (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.

Note 1 – Significant Accounting Policies (cont.)

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

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 to general and administrative expenses, in parallel to 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.

With regard to share-based payment transactions in which the Parent Company grants employees of the Company rights to equity instruments, the Company measures the services received as share-based payment transactions settled in equity instruments. An expense is recognized in the financial statements of the Company, in the statement of 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.

The fair value of the amount owed to the employees of the Company as employees of the Company in respect of rights to the increase in value of shares settled in cash or in equity instruments of the Parent Company is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional right to the payment or equity instruments 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 in the statement of profit and loss.

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:

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

(1) Probable risk – the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of claims in this risk group.

(2) Reasonably possible risk – the probability of realization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.

(3) Remote risk – the probability of realization of the exposure to risk is under 20%. No provision is included in the financial statements in respect of claims in this risk group and no disclosure is given.

Legal claims regarding which the Supervisor of Banks has determined that the Company is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Company is required to reimburse.

20. Expenses for Taxes on Income

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

Current Taxes

Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws legislated or legislated in practice at the reporting date, including changes in tax payments referring to previous years.

The provision for taxes on the income of a consolidated company that is a financial institution for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law. The value-added tax applied to wages at financial institutions is included in the statement of profit and loss under the item, "salaries and related expenses."

Offsetting Current Tax Assets and Liabilities

Current tax assets and 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.

Note 1 – Significant Accounting Policies (cont.)

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

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 Group expects, at the end of the reporting period, to recover or settle the book value of the assets and liabilities. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws legislated or legislated in practice at the balance-sheet date.

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

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

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

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

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.

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

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. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%. Changes in recognition or measurement are reflected in the period during which the changes in circumstances occurred that led to the change in the decision.

Effect of the Initial Implementation of the New Directives of the Supervisor of Banks Concerning Taxes on Income

The Group has implemented the new directives established in the Public Reporting Directives concerning taxes on income beginning on January 1, 2012, including the directives regarding the treatment of situations in which uncertain tax positions exist. The initial implementation of this standard had no material effect on the Company.

21. Capitalization of Borrowing Costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that requires a substantial period of time to prepare for its designated use or sale, including, among other matters, fixed assets, software assets, and other assets where a long period is necessary in order to bring the assets to a condition in which they can fulfill their 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.

Effect of the Initial Implementation of the New Directives of the Supervisor of Banks Concerning Borrowing Costs

The initial implementation of these directives had no effect on the financial statements.

Note 1 – Significant Accounting Policies (cont.)

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

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 Group 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 with classification into cash flows from regular activity, investing activity (formerly "activity in assets"), and financing activity (formerly "activity in liabilities and capital").

Cash flows arising from main activities of the Group are classified under regular activity.

The item "cash and cash equivalents" includes cash on hand and deposits with banks for an original period of up to three months.

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

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

24. Segmental Reporting

A segment is a component of the Company engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation, and with regard to which separate financial information exists. The format for reporting on the segments of activity of the Company is established in the Public Reporting Directives of the Supervisor of Banks.

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

25. Related Party Disclosures

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

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

As part of the adoption of the standard by the Supervisor of Banks, the format of the required disclosure in the financial statements was reclassified, in order to comply with the disclosure requirements of IAS 24 as well as the additional disclosures required under the Securities Regulations (Annual Financial Statements), 2010.

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

The Group has implemented the new directives of the Supervisor of Banks concerning IAS 24, Related Party Disclosures, beginning on January 1, 2012, retroactively. For the purpose of the initial implementation of the standard, the Group mapped its relationships with related parties. Under the new definition, as a result of the mapping process, new related parties were identified. For further information regarding transactions and balances with related parties, see Note 18, "Interested and Related Parties of the Company and its Consolidated Companies."

The initial implementation of the standard had no effect on the financial statements, other than a change in presentation.

26. Transactions with Controlling Parties

The Company implements US GAAP for the accounting treatment of transactions between a banking corporation and its controlling party or a company controlled by the banking corporation. 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.

Note 1 – Significant Accounting Policies (cont.)

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

Undertaking of Liabilities or Waivers

The Group removes the liability from the financial statements, according to its fair value at the extinguishment date. The difference between the book value of the liability and its fair value at the extinguishment date is allocated as profit or loss. In the case of undertaking of a liability, the difference between the fair value of the liability at the extinguishment date and the amount of the consideration established is allocated to equity. In the case of a waiver, the fair value of the forgiven liability is allocated to equity.

Indemnification

The amount of the indemnification is allocated 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.

Effect of the Initial Implementation of the New Directives of the Supervisor of Banks Concerning the Accounting Treatment of Transactions between an Entity and its Controlling Party

The Company has implemented the instructions set forth in these directives beginning on January 1, 2012, prospectively, with regard to all transactions between the Company and its controlling party executed after January 1, 2012, and with regard to loans granted or deposits received from the controlling party before the inception date of the directives, beginning on the inception date. The initial implementation of these directives had no material effect on the financial statements.

Note 1 – Significant Accounting Policies (cont.)

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

1. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS). The standard stipulates that entities subject to the Securities Law, 1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting January 1, 2008 or later. The aforesaid does not apply to banking corporations and credit-card companies whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks. In June 2009, the Supervisor of Banks issued a letter concerning reporting by banking corporations and credit-card companies in Israel in accordance with IFRS, which establishes the expected manner of adoption of IFRS by banking corporations and credit-card companies.

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

- On matters related to the core business of banking – The Supervisor of Banks intends to reach a final decision, taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards.
- On matters not related to the core business of banking – Adopted gradually during 2011 and 2012. However, IAS 19, Employee Benefits, has not yet taken effect and will be adopted according to the instructions of the Supervisor of Banks, when such instructions are published, with regard to the timing and manner of initial implementation.

2. Directive Concerning the Format of the Statement of Profit and Loss of a Banking Corporation and the Adoption of GAAP for US Banks on Interest Income Measurement

A circular of the Supervisor of Banks was issued on December 29, 2011, with the aim of adjusting the Public Reporting Directives for the purpose of adoption of the rules established in US GAAP regarding nonrefundable fees and other costs. The directive establishes rules for the treatment of loan origination fees and direct loan origination costs. The eligible fees and costs, according to the criteria established in the directive, shall not be recognized immediately in the statement of profit and loss, but shall be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of credit commitment fees and costs, including credit-card transactions.

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

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

Note 1 – Significant Accounting Policies (cont.)

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

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

In May 2011, the IASB published a new system of standards, which is part of the convergence project conducted jointly by the IASB and the FASB, and essentially replaces the existing standards concerning the consolidation of financial statements and joint transactions, and includes a number of changes with regard to associates. Pursuant to the directives of the Supervisor of Banks, banking corporations and credit-card companies shall routinely update the accounting treatment of matters adopted in the Public Reporting Directives. Such update is required prior to the inception date and according to the transitional directives established in new IFRS to be published on these matters, and in accordance with the adoption principles and clarifications of the Supervisor of Banks. In light of the foregoing, the implementation of the rules established in the new system of standards concerning the consolidation of financial statements and related matters shall be performed subject to the guidelines set forth in the Public Reporting Directives, among other matters, concerning the implementation of the standard, on matters regarding which specific rules were established or adopted in the Public Reporting Directives that differ from the rules set forth in the standard and/or in the guidelines referring to the standard.

In addition, the circular of the Supervisor of Banks of December 12, 2012, Adoption of Certain IFRS in the Public Reporting Directives, establishes the manner in which banks and credit-card companies are to implement the standards included in the new system of standards.

A description of the main rules established in the new system of IFRS concerning the consolidation of financial statements and related matters follows:

IFRS 10, Consolidated Financial Statements

The standard presents a new control model to be used in determining whether an investee company should be consolidated; the model is to be applied to all investee entities. Pursuant to the standard, "de facto" circumstances are to be taken into consideration in evaluating control; if effective control of the investee exists, the consolidation of financial statements is required. In addition, in testing for control, all significant potential voting rights shall be taken into consideration, not only potential voting rights that can be exercised immediately. The instructions in IAS 27 shall continue to apply only to separate financial statements.

Pursuant to the aforesaid instructions of the Supervisor of Banks, banks and credit-card companies will implement IFRS 10, with the exception of the rules related to the treatment of variable interest entities (VIEs), which will continue to be treated according to FAS 167. It has also been clarified that at this stage, IAS 27 (amended) will not be adopted in the Public Reporting Directives.

Note 1 – Significant Accounting Policies (cont.)

IFRS 11, Joint Arrangements, and Amendment of IAS 28, Investments in Associates and Joint Ventures

The standard classifies joint arrangements as joint operations or joint ventures, based on the rights and obligations of the parties to the arrangement. Joint ventures, which are all joint arrangements incorporated as a separate entity, where the parties holding joint control have interests in the net assets of the joint arrangement, shall be accounted for using the equity method only (the option of applying the relative consolidation method has been canceled).

The standard also amends IAS 28, Investments in Associates. The amendment cancels the revaluation of existing or remaining interests in the investment to fair value at the transition from material influence to joint control and vice versa, and states that IFRS 5 applies to an investment or part thereof that meets the criteria for classification as held for sale.

According to the aforesaid instructions of the Supervisor, banks and credit-card companies shall implement the rules set forth in IFRS 11 and in IAS 28 (amended).

IFRS 12, Disclosure of Interests in Other Entities

This standard contains comprehensive disclosure requirements regarding interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

Pursuant to the aforesaid instructions of the Supervisor, banks and credit-card companies shall implement IFRS 12, with the exception of the disclosure requirements included therein with regard to unconsolidated structured entities. The disclosure requirements established in FAS 167, as integrated into Section 22 of the Public Reporting Directives concerning the disclosure of variable interest entities, will continue to apply to such entities.

The system of standards shall be implemented for annual periods beginning January 1, 2013, or later, retroactively (with the exception of certain items in the transitional directives). According to the Group's estimates, the implementation of the system of standards is expected to have no material effect on the financial statements.

Note 1 – Significant Accounting Policies (cont.)

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

4. Directive Concerning the Statement of Comprehensive Income

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

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

5. Directive Concerning Offsetting of Assets and Liabilities

A circular amending the Public Reporting Directives of the Supervisor of Banks on Offsetting Assets and Liabilities was issued on December 12, 2012. The amendments set forth in the circular are aimed at adjusting Section 15A of the Public Reporting Directives to US GAAP.

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

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

Note 2 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2012	**2011**	**2012**	**2011**
Cash on hand(1)	27	104	27	98
Deposits with banks for an original term of up to 3 months(1)	416	252	412	249
Total cash and cash equivalents	**443**	**356**	**439**	**347**
Other deposits with banks(1)	6	22	6	22
Total	**449**	**378**	**445**	**369**

(1) Net of the allowance for credit losses.

Note 3 – Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

A. Debtors in respect of credit-card activity

	2012					
	Average annual interest rate		Consolidated		The Company	
	For daily balance	For transactions in the last month	December 31		December 31	
			2012	2011	2012	2011
	%	%	In NIS millions			
Debtors in respect of credit cards(1) (3)	-	-	10,432	*10,212	10,432	*10,212
Credit to cardholders(2) (3)	9.77	9.21	683	657	-	-
Credit to merchants(4)	4.96	4.39	747	682	449	483
Total debtors and credit to credit-card holders and merchants(5) (6)			**11,862**	**11,551**	**10,881**	**10,695**
Less: Allowance for credit losses			(80)	(63)	(39)	(28)
Total debtors and credit to credit-card holders and merchants, net			**11,782**	**11,488**	**10,842**	**10,667**
Companies and international credit-card organization(7)			626	621	75	177
Income receivable(8)			20	20	10	10
Others			4	*3	4	*3
Total debtors in respect of credit-card activity, net			**12,432**	**12,132**	**10,931**	**10,857**
(1) Of which, under the responsibility of banks			8,856	8,682	8,856	8,682
(2) Of which, under the responsibility of banks			83	75	-	-

(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 442 million (Dec. 31, 2011: NIS 483 million).

(5) Of which, NIS 685 million and NIS 457 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. For further details, see Note 3.C below.

(6) Of which, NIS 11,177 million and NIS 10,424 million (consolidated and the Company, respectively) in debts not examined individually, the allowance for credit losses in respect of which was calculated on a collective basis. For details, see Note 3.D below.

(7) Of which, an allowance for credit losses in the amount of NIS 2 million in 2012 and 2011, consolidated, and an amount lower than NIS 0.5 million at the Company.

(8) Of which, an allowance for credit losses in an amount lower than NIS 0.5 million, in 2012 and 2011, consolidated and at the Company.

* Reclassified.

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

Reported amounts

In NIS millions

B. Debtors and credit to credit-card holders and merchants

Consolidated

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Debtors and credit to credit-card holders and merchants – debts examined on an individual basis	685	21	664	633	7	626
Debtors and credit to credit-card holders and merchants – debts examined on a collective basis	11,177	59	11,118	10,918(1)	56	10,862(1)
Total debtors and credit to credit-card holders and merchants	**11,862**	**80**	**11,782**	**11,551**	**63**	**11,488**

The Company

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Debtors and credit to credit-card holders and merchants – debts examined on an individual basis	457	13	444	496	5	491
Debtors and credit to credit-card holders and merchants – debts examined on a collective basis	10,424	26	10,398	10,199(1)	23	10,176(1)
Total debtors and credit to credit-card holders and merchants	**10,881**	**39**	**10,842**	**10,695**	**28**	**10,667**

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

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

Reported amounts

In NIS millions

C. Debtors and credit to credit-card holders and merchants – debts examined on an individual basis

1. Debts examined on an individual basis include:

(A) Consolidated

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts*	14	14	-	3	3	-
Other unimpaired debts**	671	7	664	630	4	626
Total debts examined on an individual basis	685	21	664	633	7	626

(B) The Company

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts*	10	10	-	2	2	-
Other unimpaired debts**	447	3	444	494	3	491
Total debts examined on an individual basis	457	13	444	496	5	491

* Impaired debts not accruing interest income, including certain debts in restructuring.

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

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

Reported amounts

In NIS millions

C. Debtors and credit to cardholders and merchants – debts examined on an individual basis (cont.)

Additional information regarding debtors and credit to cardholders and merchants – impaired, examined on an individual basis[1]

	Consolidated		The Company	
	December 31		December 31	
	2012	2011	2012	2011
2. Impaired debts in respect of which an allowance for credit losses on an individual basis exists	14	3	10	2
Total impaired debts	14	3	10	2
3. Impaired restructured debts for which the terms of the debt not accruing interest income were changed	12	3	9	2
Total (included in impaired debts)	12	3	9	2
4. Average recorded debt balance of impaired debts examined on an individual basis during the reporting period	9	4	7	2

(1) Restructured, examined individually and classified as impaired.

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

Reported amounts

In NIS millions

D. Debtors and credit to credit-card holders and merchants – debts examined on a collective basis

1. Consolidated

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts	9	5	4	11	5	6
Unimpaired debts in arrears of 90 days or more	-	-	-	-	-	-
Unimpaired debts in arrears of 30 to 89 days	9	4	5	13	6	7
Other unimpaired debts	11,159	50	11,109	10,894(1)	45	10,849(1)
Total debts examined on a collective basis	11,177	59	11,118	10,918	56	10,862

2. The Company

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts	5	2	3	7	3	4
Unimpaired debts in arrears of 90 days or more	-	-	-	-	-	-
Unimpaired debts in arrears of 30 to 89 days	5	2	3	7	3	4
Other unimpaired debts	10,414	22	10,392	10,185(1)	17	10,168(1)
Total debts examined on a collective basis	10,424	26	10,398	10,199	23	10,176

* Impaired debts do not accrue interest income.

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

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

Reported amounts

In NIS millions

A. Consolidated

	For the year ended December 31, 2012		
	Individual allowance	Collective allowance	Total
Allowance for credit losses as at Dec. 31, 2011	**4**	**78**	**82**
Net provision for credit losses	21	16	37
Charge-offs	(11)	(46)	(57)
Recovery of debts charged off in previous years[1]	*-	42	42
Net charge-offs	(11)	(4)	(15)
Allowance for credit losses as at Dec. 31, 2012	**14**	**90**	**104**
Composition of allowance as at Dec. 31, 2012			
In respect of debtors and credit to credit-card holders and merchants	14	66	80
In respect of companies and the international credit-card organization	-	2	2
Income receivable	-	*-	*-
In respect of other debts	-	2	2
In respect of off-balance-sheet credit instruments	-	20	20
Composition of allowance as at Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	3	60	63
In respect of companies and the international credit-card organization	-	2	2
Income receivable	-	*-	*-
In respect of other debts	1	1	2
In respect of off-balance-sheet credit instruments	-	15	15

* Amount lower than NIS 0.5 million.

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

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

Reported amounts

In NIS millions

B. The Company

	For the year ended December 31, 2012		
	Individual allowance	Collective allowance	Total
Allowance for credit losses as at Dec. 31, 2011	**2**	**36**	**38**
Net provision for credit losses	14	10	24
Charge-offs	(6)	(36)	(42)
Recovery of debts charged off in previous years[(1)]	*-	30	30
Net charge-offs	(6)	(6)	(12)
Allowance for credit losses as at Dec. 31, 2012	**10**	**40**	**50**
Composition of allowance as at Dec. 31, 2012			
In respect of debtors and credit to credit-card holders and merchants	10	29	39
In respect of companies and the international credit-card organization	-	*-	*-
Income receivable	-	*-	*-
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	11	11
Composition of allowance as at Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	2	26	28
In respect of companies and the international credit-card organization	-	*-	*-
Income receivable	-	*-	*-
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	10	10

* Amount lower than NIS 0.5 million.

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

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

Reported amounts

In NIS millions

A. Consolidated

	For the year ended December 31, 2011		
	Individual allowance	Collective allowance	Total
Allowance for credit losses as at Jan. 1, 2011	**11**	**66**	**77**
Net provision for credit losses	5	44	49
Charge-offs	(12)	(79)[(1)]	(91)[(1)]
Recovery of debts charged off in previous years[(2)]	*-	47[(1)]	47[(1)]
Net charge-offs	(12)	(32)	(44)
Allowance for credit losses as at Dec. 31, 2011	**4**	**78**	**82**
Composition of allowance as at Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	3	60	63
In respect of companies and the international credit-card organization	*-	2	2
Income receivable	-	*-	*-
In respect of other debts	1	1	2
In respect of off-balance-sheet credit instruments	-	15	15
Composition of allowance as at Jan. 1, 2011			
In respect of debtors and credit to credit-card holders and merchants	8	55	63
In respect of companies and the international credit-card organization	-	*-	*-
Income receivable	-	*-	*-
In respect of other debts	3	1	4
In respect of off-balance-sheet credit instruments	-	10	10

* Amount lower than NIS 0.5 million.

(1) Reclassified.

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

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

Reported amounts

In NIS millions

B. The Company

	For the year ended December 31, 2011		
	Individual allowance	Collective allowance	Total
Allowance for credit losses as at Jan. 1, 2011	**6**	**24**	**30**
Net provision for credit losses	(*-)	35	35
Charge-offs	(4)	(56)[(1)]	(60)[(1)]
Recovery of debts charged off in previous years[(2)]	*-	33[(1)]	33[(1)]
Net charge-offs	(4)	(23)	(27)
Allowance for credit losses as at Dec. 31, 2011	**2**	**36**	**38**
Composition of allowance as at Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	2	26	28
In respect of companies and the international credit-card organization	-	*-	*-
Income receivable	-	*-	*-
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	10	10
Composition of allowance as at Jan. 1, 2011			
In respect of debtors and credit to credit-card holders and merchants	4	17	21
In respect of companies and the international credit-card organization	-	*-	*-
Income receivable	-	*-	*-
In respect of other debts	2	1	3
In respect of off-balance-sheet credit instruments	-	6	6

* Amount lower than NIS 0.5 million.

(1) Reclassified.

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

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

Change in Allowance for Credit Losses

Reported amounts

NIS millions

	As at December 31, 2012				
	Debtors and credit in respect of credit cards[3]				
A. Consolidated	**Under the responsibility of the Company**	**Under the responsibility of banks**	**Credit to merchants[3]**	**Other[2]**	**Total**
Allowance for credit losses at beginning of year	64	3	11	4	82
Provision for credit losses	20	(1)	14	4	37
Charge-offs	(45)	-	(8)	(4)	(57)
Recovery of debts charged off in previous years	42	-	-[1]	-	42
Net charge-offs	(3)	-	(8)	(4)	(15)
Allowance at end of year	**81**	**2**	**17**	**4**	**104**

	As at December 31, 2011				
	Debtors and credit in respect of credit cards[3]				
	Under the responsibility of the Company	**Under the responsibility of banks**	**Credit to merchants[3]**	**Other[2]**	**Total**
Allowance for credit losses at beginning of year	75	-	4	5	84
Net charge-offs recognized as at January 1, 2011	(62)	-	(5)	-	(67)
Other changes in allowance as at January 1, 2011	53	1	6	*-	60
Provision for credit losses	32	2	7	8	49
Charge-offs	(81)	-	(1)	(9)	(91)
Recovery of debts charged off in previous years	47	-	-[1]	-	47
Net charge-offs	(34)	-	(1)	(9)	(44)
Allowance at end of year	**64**	**3**	**11**	**4**	**82**

* Amount lower than NIS 0.5 million.

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

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

(3) Includes off-balance sheet credit instruments.

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

Change in Allowance for Credit Losses

Reported amounts

NIS millions

	As at December 31, 2012				
	Debtors and credit in respect of credit cards[3]				
B. The Company	Under the responsibility of the Company	Under the responsibility of banks	Credit to merchants[3]	Other[2]	Total
Allowance for credit losses at beginning of year	30	3	3	2	38
Provision for credit losses	12	(1)	9	4	24
Charge-offs	(30)	-	(8)	(4)	(42)
Recovery of debts charged off in previous years	30	-	-[1]	-	30
Net charge-offs	-	-	(8)	(4)	(12)
Allowance at end of year	**42**	**2**	**4**	**2**	**50**

	As at December 31, 2011				
	Debtors and credit in respect of credit cards[3]				
	Under the responsibility of the Company	Under the responsibility of banks	Credit to merchants[3]	Other[2]	Total
Allowance for credit losses at beginning of year	19	-	2	3	24
Net charge-offs recognized as at January 1, 2011	(24)	-	(3)	-	(27)
Other changes in allowance as at January 1, 2011	30	1	2	*-	33
Provision for credit losses	22	2	3	8	35
Charge-offs	(50)	-	(1)	(9)	(60)
Recovery of debts charged off in previous years	33	-	-[1]	-	33
Net charge-offs	(17)	-	(1)	(9)	(27)
Allowance at end of year	**30**	**3**	**3**	**2**	**38**

* Amount lower than NIS 0.5 million.

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

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

(3) Includes off-balance sheet credit instruments.

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

Credit Quality and Arrears

Reported amounts

NIS millions

A. Consolidated	As at December 31, 2012					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	8,939	-	-	8,939	-	-
Debtors in respect of credit cards under the responsibility of the Company	2,148	7	21	2,176	-	7
Credit to merchants	742	3[(1)]	2	747	-	2
Other	1,226	1	1	1,228	-	1
Total	**13,055**	**11**	**24**	**13,090**	**-**	**10**

(1) Of which, debts in the amount of NIS 1 million classified as under special supervision.

	As at December 31, 2011					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	8,757	-	-	8,757	-	-
Debtors in respect of credit cards under the responsibility of the Company	2,086	12	14	2,112	-	12
Credit to merchants	681	-	1	682	-	-
Other	1,109	1	1	1,111	-	1
Total	**12,633**	**13**	**16**	**12,662**	**-**	**13**

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

Credit Quality and Arrears

Reported amounts

NIS millions

B. The Company	As at December 31, 2012					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	8,856	-	-	8,856	-	-
Debtors in respect of credit cards under the responsibility of the Company	1,558	4	14	1,576	-	4
Credit to merchants	447	2(1)	-	449	-	1
Other	543	1	1	545	-	1
Total	**11,404**	**7**	**15**	**11,426**	**-**	**6**

(1) Of which, debts in the amount of NIS 1 million classified as under special supervision.

	As at December 31, 2011					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	8,682	-	-	8,682	-	-
Debtors in respect of credit cards under the responsibility of the Company	1,515	7	8	1,530	-	7
Credit to merchants	482	*-	1	483	-	-
Other	565	1	1	567	-	1
Total	**11,244**	**8**	**10**	11,262	**-**	**8**

* Amount lower than NIS 0.5 million.

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

Consolidated

	December 31, 2012			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,205,719	1,681	1,599	356
Borrower balances over 5 and up to 10	398,556	2,348	2,166	505
Borrower balances over 10 and up to 15	187,566	1,668	1,474	631
Borrower balances over 15 and up to 20	116,028	1,177	938	841
Borrower balances over 20 and up to 30	141,949	1,456	1,092	2,029
Borrower balances over 30 and up to 40	79,844	944	615	1,872
Borrower balances over 40 and up to 80	81,276	1,355	748	2,680
Borrower balances over 80 and up to 150	9,850	317	167	592
Borrower balances over 150 and up to 300	717	91	52	48
Borrower balances over 300 and up to 600	271	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	85	62	26	55
Borrower balances over 2,000 and up to 4,000	22	50	-	14
Borrower balances over 4,000 and up to 8,000	29	55	*-	76
Borrower balances over 8,000 and up to 20,000	16	113	*-	49
Borrower balances over 20,000 and up to 40,000	5	76	-	80
Borrower balances over 40,000 and up to 200,000	11	956	-	86
Total	**2,222,071**	**12,490**	**8,939**	**9,981**
Income receivable and other debtors	-	24	-	-
Total	**2,222,071**	**12,514**	**8,939**	**9,981**

* Amount lower than NIS 0.5 million.

(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, 2011			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	1,104,909	1,661	1,582	231
Borrower balances over 5 and up to 10	378,450	2,273	2,102	454
Borrower balances over 10 and up to 15	167,774	1,587	1,416	468
Borrower balances over 15 and up to 20	109,851	1,101	882	823
Borrower balances over 20 and up to 30	114,209	1,297	997	1,530
Borrower balances over 30 and up to 40	93,452	900	577	2,437
Borrower balances over 40 and up to 80	100,427	1,475	863	3,478
Borrower balances over 80 and up to 150	10,908	329	179	676
Borrower balances over 150 and up to 300	782	103	60	50
Borrower balances over 300 and up to 600	250	67	29	38
Borrower balances over 600 and up to 1,200	124	68	32	37
Borrower balances over 1,200 and up to 2,000	-	-	-	-
Borrower balances over 2,000 and up to 4,000	90	113	32	76
Borrower balances over 4,000 and up to 8,000	25	*72	6	50
Borrower balances over 8,000 and up to 20,000	14	112	-	53
Borrower balances over 20,000 and up to 40,000	5	106	-	23
Borrower balances over 40,000 and up to 200,000	10	614	-	268
Borrower balances over 200,000 and up to 400,000	1	296	-	-
Total	**2,081,281**	**12,174**	**8,757**	**10,692**
Income receivable and other debtors	-	*23	-	-
Total	**2,081,281**	**12,197**	**8,757**	**10,692**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the 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).

* Reclassified.

Note 5 – Securities

Reported amounts

In NIS millions

	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**

	December 31, 2011			
	Balance-sheet value	Depreciated cost (in shares – cost)	Accumulated other comprehensive income***	Fair value**
Securities available for sale:				
Shares of others*	96	52	44	96
Total securities available for sale	**96**	**52**	**44**	**96**

* Includes shares for which no fair value is available, which are presented at cost, less impairment, in the amount of NIS 11 million as at December 31, 2012 (Dec. 31, 2011: 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 equity under the item “adjustments for presentation of securities available for sale at fair value.”

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 June 2008, December 2011, and March 2012, the Company sold some of the MC shares on the stock exchange. As at December 31, 2012, 36,977 shares of MC remain under the ownership of the Company. After the balance-sheet date, in January 2013, the Company sold half of its investment in MC of December 31, 2012.

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, 2012			December 31, 2011		
	Associates	Consolidated companies	Total	Associates	Consolidated companies	Total
Investments in shares by equity method	*-	-	*-	*-	-	*-
Other investments						
Owners' loans	2	-	2	2	-	2
Total investments	2	-	2	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	*-	241	241	*-	375	375
Other investments						
Owners' loans	-	-	-	-	-	-
Total investments	***-**	**241**	**241**	***-**	**375**	**375**
Of which: profits (losses) accrued since acquisition date	(2)	141	139	(2)	105	103

* Amount lower than NIS 0.5 million.

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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					
	2012	2011	2010	2012	2011	2010
The Company's share in profits before taxes of investee companies (consolidated: associates)	*-	*-	*-	51	39	20
Losses from impairment of investee companies (consolidated: associates)	(*-)	(2)	-	(*-)	(2)	-
Provision for taxes:						
Current taxes	*-	*-	*-	18	14	14
Deferred taxes	*-	*-	*-	(3)	(5)	(5)
Total provision for taxes	*-	*-	*-	15	9	9
The Company's share in profits (losses) after taxes of investee companies (consolidated: associates)	**(*-)**	**(2)**	***-**	**36**	**28**	**11**

* Amount lower than NIS 0.5 million.

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

3. Details

A. Consolidated subsidiaries

Company name and activity[1]	Share in capital granting the right to receive profits		Share in voting rights		Investment in shares	
					By equity method[2]	
	2012	2011	2012	2011	2012	2011
	In percent				In NIS millions	
Isracard Mimun Ltd.						
Activity: Credit granting	100%	100%	100%	100%	37	14
Isracard Nechasim Ltd.						
Activity: Asset company	100%	100%	100%	100%	102	95
Global Factoring Ltd.						
Activity: Factoring	100%	100%	100%	100%	6	5
Europay (Eurocard) Israel Ltd.						
Activity: Banking auxiliary corporation	100%	98.2%	100%	98.2%	7	181
Tzameret Mimunim Ltd.						
Activity: Credit-card discounting	100%	100%	100%	100%	89	80

B. Associates

Company name and activity	2012	2011	2012	2011	2012	2011
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) Including balances of surplus attributed costs and goodwill, net of cumulative losses from impairment.

Dividend recorded		Other capital investments		Contribution to net profit attributed to shareholders of the Company		Loss from impairment	
2012	2011	2012	2011	2012	2011	2012	2011
In NIS millions							
-	-	-	-	23	23	-	-
-	-	-	-	7	6	-	-
-	-	-	-	1	(1)	-	(7)
170	-	-	-	(4)	2	-	-
-	-	-	-	9	7	-	-
-	-	-	2	*-	*-	-	-
-	-	*-	*-	(*-)	-	(*-)	(2)
-	-	-	-	*-	-	-	-

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates

1. Condensed information on financial position

	Ownership rate	Total assets	Total liabilities	Capital attributed to owners of the Company
		In NIS millions		
2012				
Kidum Mivne Iguach Ltd.	20%	25	24	1
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	113	117	(4)
Life Style Financing Ltd.(1)	15%	71	69	2

	Ownership rate	Total assets	Total liabilities	Capital attributed to owners of the Company
		In NIS millions		
2011				
Kidum Mivne Iguach Ltd.	20%	24	24	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	68	72	(4)
Life Style Financing Ltd.(1)	15%	60	59	1

(1) The Company accounts for Life Style Financing Ltd. based on the equity method, despite the fact that its holding is at a rate of less than 20%, due to the existence of qualitative indicators of material influence.

* Amount lower than NIS 0.5 million.

Note 6 – Investments in Investee Companies (Consolidated: Associates) and Information Regarding these Companies (cont.)

Reported amounts

In NIS millions

C. Condensed information regarding associates (cont.)

2. Condensed information on results of operations

	Ownership rate	Annual net profit (loss)	Profit (loss) attributed to owners of the Company
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%	*-	*-
2010			
Kidum Mivne Iguach Ltd.	20%	*-	*-
I.M.T. - The Central Vehicle Distribution Company Ltd.	20%	(3)	(3)

* 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[2]	Total
Cost:									
As at December 31, 2011	48	78[2]	117[2]	374[2]	1	48[2]	39[2]	21	726
Additions	-	6	25	57	-	3	*-	-	91
Disposals	-	-	1	3	-	-	-	-	4
As at December 31, 2012	48	84	141	428	1	51	39	21	813
Accrued depreciation:									
As at December 31, 2011	9	35[2]	103[2]	247[2]	*-	30[2]	36[2]	4	464
Additions	1	3	10	70	1	3	1	*-	89
Disposals	-	-	1	3	-	-	-	-	4
As at December 31, 2012	10	38	112	314	1	33	37	4	549
Depreciated balance as at December 31, 2012	**38**	**46**	**29**	**114**	***-**	**18**	**2**	**17**	**264**
Depreciated balance as at December 31, 2011	**39**	**43**	**14**	**127**	**1**	**18**	**3**	**17**	**262**
Average weighted depreciation rate in 2012 (%)	2.0	8.0	24.7	25.0	15.0	8.6	25.0	2.0	
Average weighted deprecation rate in 2011 (%)	2.0	7.6	24.9	25.0	15.0	8.7	12.3	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 225 million as at December 31, 2012 (Dec. 31, 2011: NIS 184 million). With regard to the policy on capitalization of software costs, see Note 1.F.13, above.

(2) Reclassified.

Note 7 – Buildings and Equipment (cont.)

B. Additional Disclosure Regarding Investment Property

- Fair value is measured based on capitalization of forecast cash flows, which are based on reliable estimates of future cash flows, supported by the terms of any lease or other existing contract, as well as the use of capitalization rates reflecting current market estimates of uncertainty regarding the amount and timing of the cash flows. A capitalization rate of 8% was used.

- The fair value of investment property assets as at December 31, 2012, amounts to NIS 41 million (Dec. 31, 2011: NIS 36 million).

- Rental income from investment property amounted to approximately NIS 4 million in 2012, similar to 2011 and 2010.

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, 2011	20[2]	115[2]	367[2]	1	46[2]	39[2]	588
Additions	7	25	55	-	3	*-	90
Disposals	-	1	3	-	-	-	4
As at December 31, 2012	27	139	419	1	49	39	674
Accrued depreciation:							
As at December 31, 2011	6[2]	101[2]	242[2]	*-	28[2]	36[2]	413
Additions	2	10	69	1	3	1	86
Disposals	-	1	3	-	-	-	4
As at December 31, 2012	8	110	308	1	31	37	495
Depreciated balance as at December 31, 2012	**19**	**29**	**111**	***-**	**18**	**2**	**179**
Depreciated balance as at December 31, 2011	**14**	**14**	**125**	**1**	**18**	**3**	**175**
Average weighted depreciation rate in 2012 (%)	9.9	24.7	25.0	15.0	8.7	25.0	
Average weighted deprecation rate in 2011 (%)	9.9	24.9	25.0	15.0	8.7	12.3	

(1) Includes capitalized costs related to the development of software for internal use, which totaled NIS 218 million as at December 31, 2012 (Dec. 31, 2011: NIS 178 million). With regard to the policy on capitalization of software costs, see Note 1.F.13, above.

(2) Reclassified.

* Amount lower than NIS 0.5 million.

Note 8 – Other Assets

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2012	2011	2012	2011
Deferred taxes receivable (see Note 25)	85	73	50	41
Surplus of advance income-tax payments over current provisions	22	*-	22	*-
Other debtors and debit balances:				
Loans to employees	3	3	3	3
Prepaid expenses	37	37	37	37
Related companies	1	3	1,832	1,590
Debtors in respect of discounting	118	81	-	-
Debtors in respect of gift certificates and prepaid cards	24	19	-	-
Others	12	39	8	35
Total other debtors and debit balances	195	182	1,880	1,665
Total other assets	**302**	**255**	**1,952**	**1,706**

* Amount lower than NIS 0.5 million.

Note 9 – Credit from Banking Corporations

Reported amounts

	December 31, 2012					
	Average annual interest rate					
			Consolidated		The Company	
			December 31		December 31	
	For daily balance	For transactions in the last month	2012	2011	2012	2011
	%	%	In NIS millions		In NIS millions	
Credit in current drawing accounts	1.6	2.2	35	6	21	2

Note 10 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2012	**2011**	**2012**	**2011**
Merchants[(1)]	10,341	10,451	10,691	10,764
Liabilities in respect of deposits	2	3	2	3
Credit-card company and international organizations	392	249	392	249
Prepaid income	11	11	3	3
Benefit program for cardholders	87	104	87	104
Expenses payable	102	*91	102	*91
Others	90	102	90	102
Total creditors in respect of credit-card activity	**11,025**	**11,011**	**11,367**	**11,316**

* Reclassified.

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 399 million as at December 31, 2012 (Dec. 31, 2011: NIS 418 million). In the consolidated report – offset by an existing balance with an investee subsidiary in the amount of NIS 612 million (Dec. 31, 2011: NIS 489 million).

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Note 11 – Other Liabilities

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2012	**2011**	**2012**	**2011**
Provision for deferred taxes (see Note 25)	6	6	-	-
Surplus of provision for employee benefits over amount funded (see Note 13)	75	66	75	66
Other creditors and credit balances:				
Expenses payable in respect of wages and related expenses	70	66	69	65
Suppliers of services and equipment	72	56	71	55
Expenses payable	33	*35	32	*34
Institutions	13	14	9	11
Europay (Eurocard) Israel Ltd.	-	-	7	185
Related companies	444	366	465	379
Allowance for credit losses in respect of off-balance-sheet credit facilities	20	15	11	10
Creditors in respect of discounting	11	7	-	-
Creditors in respect of gift certificates and prepaid cards	45	37	23	18
Others	4	4	2	4
Total other creditors and credit balances	712	600	689	761
Total other liabilities	**793**	**672**	**764**	**827**

* Reclassified.

Note 12A – Equity

A. Composition

	December 31, 2012		December 31, 2011	
	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.

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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, 2012	December 31, 2011
	In NIS millions	
Core tier 1 capital	1,643	1,402
Tier 2 capital	19	20
Total overall capital	**1,662**	**1,422**

2. Weighted balances of risk-adjusted assets

	December 31, 2012		December 31, 2011	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	8,859	797	8,560	770
Market risks – foreign currency exchange rate risk	69	6	92	8
Operational risk	1,680	152	1,495	135
Total weighted balances of risk-adjusted assets	**10,608**	**955**	**10,147**	**913**

3. Ratio of capital to risk-adjusted assets

	December 31, 2012	December 31, 2011
	In percent	
Ratio of core capital and tier 1 capital to risk-adjusted assets	15.5	13.8
Ratio of total capital to risk-adjusted assets	15.7	14.0
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."

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, 2012	December 31, 2011
1. Tier 1 capital		
Equity	1,675	1,433
Non-controlling interests	-[2]	3
Less: Net profits in respect of adjustments to fair value of securities available for sale	32	34
Total tier 1 capital	**1,643**	**1,402**
2. Tier 2 capital		
45% of net unrealized profit, before the effect of the related tax, in respect of adjustments to fair value of securities available for sale	19	20

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

(2) Following the acquisition of shares of the subsidiary Europay, non-controlling interests were subtracted from Tier 1 capital. Also see Note 6D, above.

C. Capital adequacy target

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

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

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

Note 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, 2012.

(A) Equity compensation for the Chairman of the Board of Directors and the Chief Executive Officer of the Company

With regard to equity compensation for the Chairman of the Board of Directors and the Chief Executive Officer of the Company, see Section (3) below.

(B) Until the approval of the remuneration plan for senior employees (see Section 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 units and contingent restricted phantom shares

Bank Hapoalim grants 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 are granted at no cost, and are 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 is based on the employee's position and rank.

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

In 2012, the Board of Directors of Bank Hapoalim resolved to replace the restricted phantom shares that had been granted, the restriction period of which was due to end on December 31, 2013, with restricted stock units ("RSU"). 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. Up to and including 2012, 183,511 options were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black-Scholes model, amounts to approximately NIS 2 million.

(D) Options for employees of Bank Hapoalim on loan to the Company

1. In May 2004, the Board of Directors of Bank Hapoalim approved an option allocation program for the Bank’s employees for 2004-2009. Within the program, permanent Bank Hapoalim employees, including employees of the Bank on loan to the Company, will be allocated non-tradable options, at no cost, exercisable into common shares of NIS 1 each. Each portion of options will have a vesting period of four years from the beginning of the year in which the options were allocated, and will be exercisable for a period of one year after the end of the vesting period. The number of options distributed to each employee was determined according to the employee’s seniority, job description, and rank. Up to and including 2009, 479,390 options were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black-Scholes model, amounts to approximately NIS 6 million.

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. The said option notes would be 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 options are exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

(E) 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.

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

(F) Options under previous employment agreements

1. Pursuant to the employment agreement of the Chairperson of the Board of Directors of the Company, which expired on December 31, 2011, she was allocated 6,293 non-tradable options exercisable into 6,293 common shares of the Company at an exercise price of NIS 3,410 each. The Company relied on an assessment by an external assessor to establish the fair value of the options. The value of the benefit, in the amount of NIS 6,588 thousand, was calculated according to the Black-Scholes model and allocated as an expense to the statement of profit and loss over the vesting period of the options.

   The vesting period of the options is as follows: One-third of the options vest on January 1 of each of the years 2010, 2011, and 2012. The Chairperson will be able to exercise the options into shares (after vesting) until January 1, 2013. As a rule, the Chairperson will not be permitted to sell shares until one of the following events occurs: the end of her employment, the listing of the shares of the Company for trading on the stock market, or a change in the control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

   The Company has first proposal right and first refusal right with regard to any transfer of shares by the Chairperson of the Company. The Chairperson has the right to join sales of shares of the Company by Bank Hapoalim, under certain conditions.

   The agreement also includes directives pertaining to the options in the event of the end of the term of service of the Chairperson. In addition, in the event of the termination of the term of service of the Chairperson prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares arising from the exercise of the options.

   The options shall be allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 1961.

   Because the Chairperson of the Board of Directors of the Company serves as a director at Bank Hapoalim, the terms of her employment were also approved by the general meeting of Bank Hapoalim B.M. convened in January 2010. With regard to the exercise of the options, see Section B.3.a below.

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

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 vesting period of the options is as follows: One-third of the options vested on March 1 of each of the years 2010, 2011, and 2012. The CEO of the Company will be entitled to exercise the options into shares (after vesting) until four years have elapsed from the allocation date.

   As a rule, the CEO of the Company is not permitted to sell shares until one of the following events occurs: the termination of his employment, listing of the Company's shares for trading on the stock exchange, or a change in control of the Company. The options will be exercised based on a net exercise mechanism; at the exercise of the options, shares will be allocated reflecting only the value of the benefit in respect of the options exercised at that date.

   The Company has first proposal right and first refusal right with regard to any transfer of shares by the current CEO of the Company. The CEO has the right to join sales of shares by Bank Hapoalim, under certain conditions.

   The agreement also includes directives pertaining to the options in the event of the end of the term of service of the CEO. In addition, in the event of the end of the term of service of the CEO prior to the listing of the shares for trading on the stock market, the Company shall have the right, under certain conditions, to purchase the shares.

   The options shall be allocated according to the capital gains track specified in Section 102 of the Income Tax Ordinance (New Version), 1961. With regard to the exercise of the options, see Section B.3.b below.

(2) Estimated fair value of equity instruments granted

- With regard to equity compensation for the Chairman of the Board of Directors and the Chief Executive Officer of the Company, see Section (3) below.
- 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.

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

- 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, 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.

(3) Personal Contracts – Chairperson of the Board of Directors and CEO of the Company

(A) Chairperson of the Board of Directors Ms. Irit Izakson – New Employment Agreement

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

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) is subject to approval by the Supervisor of Banks (hereinafter: the "**New Employment Agreement**").

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

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

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

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

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

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

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

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

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

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

In August 2012, the Company paid Bank Hapoalim the value of the RSU at the date of the grant.

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

The 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 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 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 Chairperson of the Board of Directors no longer holds options of the Company under her previous employment agreement.

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

(B) Chief Executive Officer Mr. Dov Kotler – New Employment Agreement

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

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

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. On April 30, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee, the Board of Directors approved a new employment agreement with Mr. Kotler as CEO, for a period of three years beginning February 1, 2012 and ending January 31, 2015 (hereinafter: the "**New 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 New Employment Agreement, which is similar in its principles to the bonus plan for senior executives at the Company. For details regarding the bonus plan applicable to the Chairperson of the Board of Directors and the CEO of the Company, see below.

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

In July 2012, the Company paid Bank Hapoalim the value of the RSU at the date of the grant.

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

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

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 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 4.1 million (before deduction of applicable tax). The CEO no longer holds options of the Company under his previous employment agreement.

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

(4) Additional information regarding restricted phantom units and contingent restricted phantom shares

	Consolidated and the Company		
	Number of units for the year		
	2012	**2011**	**2010**
In circulation at beginning of year	107,042	26,702	-
Granted during the year	538,405	80,340	26,702
Forfeited during the year	(27,835)	-	-
Exercised during the year	-	-	-
In circulation at end of year	**617,612**	**107,042**	**26,702**

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 11.99 per option (2011: NIS 16.71; 2010: NIS 16.91).

Note 13 – Employee Benefits (cont.)

B. Share-Based Payment Transactions (cont.)

(5) 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		
	2012	2011	2010
In circulation at beginning of year	360,741	343,554	316,320
Granted during the year	76,056	75,350	75,286
Forfeited during the year	(16,167)	(27,842)	(16,280)
Exercised during the year	(42,636)	(30,321)	(31,772)
In circulation at end of year	**377,994**	**360,741**	**343,554**

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 12.38 per option (2011: NIS 13.09; 2010: NIS 13.90).
3. The weighted average share price at the exercise date of the share options exercised during the year was NIS 13.43; 2011: NIS 16.25; and 2010: NIS 15.44.

(6) Liabilities arising from share-based payment transactions settled in cash

	Consolidated and the Company	
	December 31	
	2012	2011
	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 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		
	2012	2011	2010
	In NIS millions		
Expense arising from share-based payment plans	11	7	10

Note 13 – Employee Benefits (cont.)

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

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

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

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

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

Note 13 – Employee Benefits (cont.)

C. Bonus Plan for the Chairperson of the Board of Directors and the Chief Executive Officer of the Company (cont.)

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

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

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

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.

Note 13 – Employee Benefits (cont.)

D. Bonuses (cont.)

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.

- **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.

Note 13 – Employee Benefits (cont.)

D. Bonuses (cont.)

- **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 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.

Note 13 – Employee Benefits (cont.)

D. Bonuses (cont.)

- **Termination of employment**

  In the year following the year in which the day of the termination of employment occurs, account settlement shall be performed in the Executive's bonus account, but the Annual Payment shall not be performed (except in the event of the death of the Executive), and the balance of the bonus account (if positive) shall only be paid to the Executive after 24 months have elapsed from the day of termination. The Board of Directors shall be entitled, at its discretion, to reduce the amount of the bonus account balance in the event of a deterioration in the financial results of the Company during the period following the year of the termination of employment, but the amount of such a reduction shall not exceed the amount of the negative bonuses that would have been subtracted from the Executive's bonus account pursuant to the Plan, if the Executive had continued to be employed by the Company during that period.

- **Bonus in respect of profits from extraordinary transactions**

  The methodology for distribution of bonuses in respect of extraordinary transactions (arising from the realization of assets), insofar as shall be distributed, shall be determined by the Board of Directors at its sole discretion.

E. Details of liabilities in respect of employee benefits are set out below.

	December 31	
	2012	2011
	In NIS millions	
Early retirement	36	**29
Pension for employees on loan who have retired	16	**16
Severance pay due to termination of employer-employee relationship	58	56
Long service bonus	*-	*-
Provision for bonus in respect of unutilized sick days	6	5
Other post-employment benefits	4	**4
Total	**120**	**110**

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 13 – Employee Benefits (cont.)

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.

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	
	2012	**2011**
	In NIS millions	
Amount of provision	120	110
Amount funded	45	44
Surplus of provision over amount funded*	**75**	**66**

* 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 (Dec. 31, 2011: NIS 3 million).

H. Agreement with Employee Union

On September 26, 2011, the Company signed a collective wage agreement encompassing agreements with regard to norms and conditions to apply to employees of the Company. The agreement was signed by the Employee Union (the Histadrut New General Federation of Labor in Israel and the Isracard Employee Union) and by the Company. The agreement is in effect until December 31, 2013.

Note 13 – Employee Benefits (cont.)

H. Agreement with Employee Union (cont.)

The agreement includes a wage increment for employees receiving monthly salaries, in the amount of 5.9% in 2011 and 3.1% in each of the years 2012 and 2013. The thirteenth monthly salary was canceled and replaced by a 6% wage update. For employees receiving hourly wages, the thirteenth monthly salary was canceled and the hourly rate changed; these employees also received a one-time signing bonus in 2011 in an amount determined according to the employee's seniority. In addition, labor norms were approved with regard to the manner of hiring and employing workers and the termination of employment, and terms were agreed upon with regard to deposits in employee's pension and study funds.

Note 14 – Assets and Liabilities by Linkage Base – Consolidated

Reported amounts

In NIS millions

	December 31, 2012					
	Israeli currency		Foreign currency[(1)]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	429	6	4	10	-	449
Debtors in respect of credit-card activity, net	12,296	64	47	25	-	12,432
Securities	-	-	-	-	79	79
Investments in associated companies	-	-	-	-	2	2
Buildings and equipment	-	-	-	-	264	264
Other assets	261	3	-	*-	38	302
Total assets	**12,986**	**73**	**51**	**35**	**383**	**13,528**
Liabilities						
Credit from banking corporations	16	-	5	14	-	35
Creditors in respect of credit-card activity	10,899	50	57	8	11	11,025
Other liabilities	792	-	-	*-	1	793
Total liabilities	**11,707**	**50**	**62**	**22**	**12**	**11,853**
Difference	1,279	23	(11)	13	371	1,675
Effect of non-hedging derivative instruments						
Derivative instruments	(3)	-	3	-	-	-
Total	**1,276**	**23**	**(8)**	**13**	**371**	**1,675**

* Amount lower than NIS 0.5 million.

(1) Including foreign-currency linked.

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Note 14 – Assets and Liabilities by Linkage Base – Consolidated (cont.)

Reported amounts

In NIS millions

	December 31, 2011					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	341	6	23	8	-	378
Debtors in respect of credit-card activity	12,039	61	25	7	-	12,132
Securities	-	-	-	-	96	96
Investments in associated companies	-	-	-	-	2	2
Buildings and equipment	-	-	-	-	262	262
Other assets	185	3	26	*-	41	255
Total assets	**12,565**	**70**	**74**	**15**	**401**	**13,125**
Liabilities						
Credit from banking corporations	6	-	-	*-	-	6
Creditors in respect of credit-card activity	10,870[2]	52	62	16[2]	11	11,011[2]
Other liabilities	671[2]	-	*-	*-[2]	1	672[2]
Total liabilities	**11,547**	**52**	**62**	**16**	**12**	**11,689**
Difference	1,018	18	12	(1)	389	1,436
Effect of non-hedging derivative instruments						
Derivative instruments	(23)	-	23	-	-	-
Total	**995**	**18**	**35**	**(1)**	**389**	**1,436**

* Amount lower than NIS 0.5 million.

(1) Including foreign-currency linked.

(2) Reclassified.

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity

Reported amounts

In NIS millions

	December 31, 2012					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	7,111	2,492	2,517	634	193	21
Liabilities	6,691	2,223	2,017	427	119	5
Difference	420	269	500	207	74	16
Effect of derivative instruments	(3)	*-	*-	*-	-	-
Total	**417**	**269**	**500**	**207**	**74**	**16**
CPI-linked Israeli currency						
Assets	13	21	35	*-	*-	1
Liabilities	10	16	24	*-	*-	-
Difference	3	5	11	-	-	1
Foreign currency[3]						
Assets	66	17	3	*-	*-	-
Liabilities	63	16	4	*-	*-	-
Difference	3	1	(1)	-	-	-
Effect of derivative instruments	3	-	-	-	-	-
Total	**6**	**1**	**(1)**	**-**	**-**	**-**
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 14, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 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.

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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	-	-	12,973	73	12,986	1.20%
4	22	13	9	11,530	97	11,707	0.54%
-	(21)	(13)	(9)	1,443	(24)	1,279	0.66%
-	-	-	-	(3)	-	(3)	-
-	**(21)**	**(13)**	**(9)**	**1,440**	**(24)**	**1,276**	**-**
3	-	-	-	73	-	73	-
-	-	-	-	50	-	50	-
3	-	-	-	23	-	23	-
-	-	-	-	86	-	86	0.05
-	-	-	-	83	1	84	-
-	-	-	-	3	(1)	2	-
-	-	-	-	3	-	3	-
-	**-**	**-**	**-**	**6**	**(1)**	**5**	**-**
-	-	-	-	-	383	383	-
-	-	-	-	-	12	12	-
-	-	-	-	-	371	371	-

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2012					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Total						
Assets	7,190	2,530	2,555	634	193	22
Liabilities	6,764	2,255	2,045	427	119	5
Difference	426	275	510	207	74	17
Effect of derivative instruments	*-	*-	*-	*-	-	-
Total	**426**	**275**	**510**	**207**	**74**	**17**

* 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."

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of 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.

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				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	-	-	13,132	456	13,528	1.18%
4	22	13	9	11,663	110	11,853	0.53%
3	(21)	(13)	(9)	1,469	346	1,675	0.65%
-	-	-	-	-	-	-	
3	**(21)**	**(13)**	**(9)**	**1,469**	**346**	**1,675**	

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2011					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	6,786	2,443	2,506	594	174	19
Liabilities	6,448	2,302	2,166	396	146	5
Difference	338	141	340	198	28	14
Effect of derivative instruments	(4)	-	(16)	(4)	-	-
Total	**334**	**141**	**324**	**194**	**28**	**14**
CPI-linked Israeli currency						
Assets	12	19	29	7	*-	-
Liabilities	10	16	24	2	*-	-
Difference	2	3	5	5	*-	-
Foreign currency(3)						
Assets	57	33	*-	-	-	-
Liabilities	67	6	4	*-	-	-
Difference	(10)	27	(4)	(*-)	-	-
Effect of derivative instruments	4	-	17	3	-	-
Total	**(6)**	**27**	**13**	**3**	**-**	**-**
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-

* Amount lower than NIS 0.5 million.

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 14, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 18 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

				Balance-sheet balance[2]			
Over 4 years and up to 5 years	**Over 5 years and up to 10 years**	**Over 10 years and up to 20 years**	**Over 20 years**	**Total cash flows[1]**	**No maturity date[4]**	**Total**	**Contractual rate of return[5]**
5	1	-	-	12,528	63	12,565	0.52
4	12	12	8	11,499	63	11,547	-
1	(11)	(12)	(8)	1,029	-	1,018	0.52
-	-	-	-	(24)	-	(23)	
1	**(11)**	**(12)**	**(8)**	**1,005**	**-**	**995**	
3	-	-	-	70	*-	70	-
-	-	-	-	52	-	52	-
3	-	-	-	18	*-	18	-
-	-	-	-	90	(1)	89	0.64
-	-	-	-	77	1	78	-
-	-	-	-	13	(2)	11	0.64
-	-	-	-	24	-	23	
-	**-**	**-**	**-**	**37**	**(2)**	**34**	
-	-	-	-	-	401	401	-
-	-	-	-	-	12	12	-
-	-	-	-	-	389	389	-

Note 15 – Assets and Liabilities by Linkage Base and by Term to Maturity (cont.)

Reported amounts

In NIS millions

	December 31, 2011					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	**Over 1 month and up to 3 months**	**Over 3 months and up to 1 year**	**Over 1 year and up to 2 years**	**Over 2 years and up to 3 years**	**Over 3 years and up to 4 years**
Total						
Assets	6,855	2,495	2,535	601	174	19
Liabilities	6,525	2,324	2,194	398	146	5
Difference	330	171	341	203	28	14
Effect of derivative instruments	-	-	1	(1)	-	-
Total	**330**	**171**	**342**	**202**	**28**	**14**

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of the allowance for credit losses.

(2) As included in Note 14, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency linked.

(4) Including assets whose maturity date has elapsed in the amount of NIS 18 million.

(5) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

				Balance-sheet balance[2]			
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date[4]	Total	Contractual rate of return[5]
8	1	-	-	12,688	463	13,125	
4	12	12	8	11,628	76	11,689	
4	(11)	(12)	(8)	1,060	387	1,436	
-	-	-	-	-	-	-	
4	**(11)**	**(12)**	**(8)**	**1,060**	**387**	**1,436**	

Note 16 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

Reported amounts

In NIS millions

	Consolidated		The Company	
	December 31		December 31	
	2012	2011	2012	2011
Unutilized credit-card credit lines:				
Credit risk on the Company	9,120	**9,847	8,560	**9,241
Credit risk on banks	24,332	24,051	24,332	24,051
Credit risk on others	427	375	*-	*-
Allowance for credit losses	(15)	(14)	(9)	(9)
Unutilized credit-card credit lines, net	33,864	34,259	32,883	33,283
Guarantees and other liabilities:				
Exposure in respect of check assurance	82	72	82	72
Exposure in respect of other guarantees(1)	51	16	51	16
Liability in respect of factoring	34	45	-	-
Exposure in respect of other liabilities	75	-	4	-
Exposure in respect of merchant credit lines	192	**337	110	241
Allowance for credit losses	(5)	(1)	(2)	(1)
Guarantees and other liabilities, net	429	469	245	328

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) In June 2010, the Company, jointly with Super Pharm (Israel) Ltd. ("**Super Pharm**") and Alonyal Ltd. ("**Alonyal**") provided guarantees, limited in amount, to secure the debts of Life Style Customer Loyalty Club Ltd. ("**Life Style Loyalty Club**") and of Life Style Financing Ltd. ("**Life Style Financing**") to Bank Hapoalim. The guarantees are linked to the consumer price index. Each party's guarantee is calculated according to the proportion of its ownership of Life Style Loyalty Club and Life Style Financing at the time of exercise of the guarantee, out of the amount of the guarantee. The amount of the guarantee for each guarantor shall be calculated with the deduction of amounts previously demanded of that guarantor by the Bank up to that date, and actually paid to the Bank by that guarantor. Total guarantees granted are as follows: Life Style Loyalty Club was given a guarantee in a total amount of NIS 5 million; Life Style Financing was given a guarantee in a total amount of NIS 80 million. As at the date of the report, Isracard's share is 15%. The Company also granted a guarantee in respect of a credit facility of a subsidiary.

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

B. Activity in Derivative Instruments – Volume and Maturity Dates

1. The Company and its subsidiary have entered into FRA (forward-rate agreement) shekel interest-rate swap transactions with Bank Hapoalim B.M., in the amount of NIS 60 million (face value). As at December 31, 2012, this transaction had concluded.

2. On October 28, 2010, the Company entered into a forward swap transaction with Bank Hapoalim B.M., as follows:

   Acquisition of USD 794,600 on January 10, 2013, at an exchange rate of 3.750.

   On January 20, 2011, the Company entered into an additional forward swap transaction with Bank Hapoalim B.M., as follows: Acquisition of USD 4,427,674 on December 3, 2012, at an exchange rate of 3.655.

   This transaction, which has not yet matured, is presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

3. 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). The transaction is presented in the balance sheet at a negative gross fair value in an amount lower than NIS 0.5 million.

C. Antitrust Issues

1. Following talks held between the Company, the credit-card companies Leumi Card and CAL (the three companies jointly, hereinafter: the "**Credit-Card Companies**"), and the Commissioner, the Credit-Card Companies reached an arrangement among themselves (hereinafter: the "**Arrangement**"), under which the Credit-Card Companies and the banks that control them will enter into a detailed domestic agreement among themselves regarding full local clearing in Israel, including the operation of an appropriate technical interface (hereinafter: the “**Technical Interface**”), of transactions in Visa and MasterCard credit cards. The Arrangement was signed in May 2007 between the Credit Card Companies, Aminit, Bank Leumi LeIsrael B.M., Discount Bank Ltd., and First International Bank of Israel Ltd.

   The Credit-Card Companies, together with the banks that control them – Bank Hapoalim, Bank Leumi LeIsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd., respectively – filed a request to approve a restrictive arrangement with the Tribunal in October 2006, under the terms formulated and agreed upon with the Commissioner. An amended cross-clearing arrangement, revising the earlier agreements, was submitted to the Tribunal on December 28, 2011; this arrangement is in effect from the date of its approval until December 31, 2018. A ruling handed down by the Antitrust Tribunal on March 7, 2012 approved the amended arrangement, including all of the terms thereof. The terms of the amended arrangement approved by the ruling of the Tribunal include, among other matters, a commitment by the parties to petition the Tribunal or the Commissioner regarding the

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

C. Antitrust Issues (cont.)

period following the end of the Arrangement, should the parties wish to continue cross-clearing; various rules of conduct to apply to the Credit-Card Companies in their agreements with merchants to enter into clearing arrangements with them, including a prohibition on ligation of different cards and various prohibitions on discrimination; and in addition, a commitment by the banks listed above to apply the aforesaid rules of conduct to themselves as well, and to undertake rules of conduct in their relationships with credit-card holders and with merchants that accept credit cards, essentially prohibitions on discrimination, ligation, or influence in manners prohibited in the Arrangement with regard to transferring to a particular credit card or clearing with any of the Credit-Card Companies.

Issuer fees established in the Arrangement: in the last quarter of 2012, the average issuer fee stood at 0.8%. The average issuer fee will stand at 0.75% starting January 1, 2013; 0.735% starting July 1, 2013; and 0.7% from July 1, 2014 to the end of the period of the Arrangement (December 31, 2018).

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

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 branded charge cards, under the terms agreed upon by the parties. The Company estimates that license granting 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 an exemption permitting Leumi Card and CAL to clear Isracard branded 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, in particular the collection of the agreed-upon licensing fee.

   For further details, see the chapter Additional Regulation, Section 2, below.

D. Additional Regulation

1. A private bill was submitted to Knesset in March 2010, according to which credit-card companies must note in their statements to cardholders whether a transaction performed by the cardholder constitutes a transaction in a missing document. This bill was passed in a preliminary reading on May 26, 2010, and transferred to the Economics Committee to be

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

D. Additional Regulation (cont.)

prepared for a first reading. On May 23, 2010, a ministerial committee made the decision to promote this bill through regulations, in coordination with the Ministry of Justice.

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

The private bill on reporting of transactions in a missing document passed in the first reading in August 2011. If the matters addressed by the bill are included in the Directive, as noted above, it is likely that the legislation on this matter will not be promoted.

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

2. A government bill approved by the Knesset plenum and published in the Official Gazette of the Government of Israel in August 2011 concerns, among other matters, the area of discounting, as well as a directive whereby an issuer that issues ten percent or more of the number of charge cards issued in Israel, or an issuer of charge cards used to execute at least ten percent of the amount of transactions executed in Israel, shall be required to contract with an clearer for cross-clearing of transactions in the charge card which it issues. The directives of this law have been in effect beginning on May 15, 2012. This law has a negative effect on the Company; however, at this stage the Company cannot estimate the full actual extent of this effect. For further details, see the chapter Antitrust Issues, Section 2, above.

3. Pursuant to an instruction published by the Bank of Israel in November 2011, banking corporations and credit-card companies must provide disclosure in their board of directors' reports of any group of borrowers whose net indebtedness on a consolidated basis (after the permitted deductions) exceeds 15% of the capital of the banking corporation or credit-card company, as detailed in the instruction. This instruction shall apply from the financial statements as at September 30, 2011, to the financial statements as at September 30, 2012. The duration of the instruction was extended to September 2013 in January 2013. As at the date of this report, there is no group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the Company (as defined in Directive 313).

4. In December 2011, a government bill was passed in the first reading and transferred to the

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

D. Additional Regulation (cont.)

Constitution, Law, and Justice Committee to be prepared for the second and third readings. The bill sets forth several amendments to the Prohibition of Money Laundering Law and the Prohibition of Terrorism Financing Order, including with regard to reporting duties and the duty to receive identifying information. Discussions are also being conducted by the Constitution, Law, and Justice Committee regarding various amendments to the Money Laundering Prohibition Order applicable to banking corporations.

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

5. In February 2012, the Constitution, Law, and Justice Committee approved an amendment to the Charge Card Regulations, pursuant to which the Supervisor will be able to issue directives that differ from the current text of the regulations with regard to the delivery of statements to customers. Directive 470 was amended accordingly in September 2012. The Company estimates that this amendment will have no effect on the Company.

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

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

8. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

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

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

D. Additional Regulation (cont.)

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

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

12. In August 2012, the Knesset plenum approved an increase of value-added tax by 1 percent starting September 1, 2012.The Knesset plenum also approved an increase of the rate of income tax on individuals and the rate of employers' contributions to National Insurance. For further details, see Note 25 below.

13. In October 2012, the Economics Committee passed a private bill, in a second and third reading, according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the bill. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company.

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

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

D. Additional Regulation (cont.)

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

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

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

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

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

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

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

E. 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 6 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 July 2011, a claim against the Company and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 98, and the amount of the class-action suit is estimated at NIS 14.7 million. According to the claimant, in transactions in installments, the Company illegally charges a deferred-debit fee in respect of the first installment. Before the Company had submitted its response to the petition for certification, the claimant filed a request to withdraw. On February 4, 2013, the court approved the claimant's withdrawal, and the petition was expunged.

3. In November 2011, it came to the attention of the Company, through publications in the media, that a petition to certify a class action had been filed against three credit-card companies, including the Company, and against banks including Bank Hapoalim B.M. (hereinafter: the "**Bank**").

   According to these publications, the claim is in the amount of NIS 4.9 billion, and concerns the rates of fees collected by the credit-card companies. The Company and the Bank did not receive the aforesaid petition; the Company therefore does not know the amount of the claim attributed to it and to the Bank, and cannot formulate a position with regard to the petition. The claim was expunged on December 6, 2012.

4. In November 2011, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 6.90, and the amount of the class-action suit is estimated at NIS 6.7 million. According to the claimant, the Company and others charge a payment for travel in a taxicab that is higher than the amount indicated by the meter at the end of the ride. The Company filed its response to the petition for certification, in which it argued that the petition should be dismissed *in limine*, due to lack of opponency, or due to a lack of cause, or because the petition is not worthy of hearing as a class-action suit. According to the Company's legal advisors, the probability that the petition for certification will succeed is remote, and in any event, the Company's exposure if the petition should succeed is remote. The petitioner decided to withdraw from the petition for certification, without an expense order. The petition for withdrawal was approved by the court during September 2012.

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

E. Legal Proceedings and Pending Claims (cont.)

5. In January 2012, a claim against the Company and others and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv. The personal claim is in the amount of NIS 5 thousand, and the class-action suit is in an estimated amount of NIS 75 million. According to the petitioners, the Company was negligent in failing to supervise or audit shopping websites approved by credit-card companies, or in that its supervision is lacking. The requested remedy is NIS 5 thousand, multiplied by an estimated number of group members. The Company filed for dismissal *in limine*, as it believes that the petition is missing factual infrastructure, lacks cause, and does not discover opponency between the group and the Company, and that there is no cause for a personal claim. It should be noted that concurrently with the filing of the request for dismissal *in limine*, a request was filed to extend the deadline for submission of a response to the petition for certification, until after the ruling on the request for dismissal. In a hearing held in January 2013, the petitioners stated their intention to withdraw from the petition for certification. On February 13, 2013, the petition for withdrawal was approved and the claim was expunged.

6. 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. According to the claimant, the Company thereby acted negligently, and therefore violated the contract signed with the claimant. The claimant seeks to represent "merchants who execute transactions with missing documents." The requested remedy is in respect of two types of damage caused to the members of the group according to the claimant: fees paid for denied transactions, and the value of goods supplied to customers after approval by the defendant of the transaction which was subsequently denied. In the opinion of the Company's legal advisors, the probability of success of the petition for certification, with regard to most of the claimed amount, is remote; with regard to a minute amount out of the claimed amount, such success is possible, but the probability that the arguments will be accepted is still lower than the probability that the arguments will be rejected.

7. 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 fee list. In the opinion of the Company's legal advisors, at this

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

E. Legal Proceedings and Pending Claims (cont.)

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.

8. 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, with no amount limit, pursuant to Proper Conduct of Banking Business Directive No. 313 (Limits on the Indebtedness of a Single Borrower) and Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy). In addition, Aminit received a letter of indemnification from the Company with regard to compliance with the ICAAP rules.

9. In July 2010, Europay filed an appeal of its income-tax assessment for 2006. The dispute between Europay and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of Europay, the sale should be treated as an event requiring capital-gains tax, rather than as an event of redemption of shares, which carries a different taxation rate. Following a preliminary hearing held at the District Court of Tel Aviv, and after Europay submitted its summations, Europay and the Tax Assessment Officer reached a settlement in which Europay will pay a total of NIS 850,000. On December 31, 2012, the District Court approved the settlement and granted it the status of a ruling.

F. Indemnification of Directors

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

G. Agreements with Subsidiaries and Sister Companies

The Company has agreements with Europay, Tzameret, Global, Poalim Express, and Aminit, which are subsidiary and sister companies (hereinafter: the "**Companies**"), for the operation of their credit-card systems and/or service agreements.

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

G. Agreements with Subsidiaries and Sister Companies (cont.)

The Company operates the Companies' credit-card issuance and clearing activity, as well as the clearing of transactions executed in Israel using cards issued abroad. The Companies pay the Company fees and other payments, according to agreements between them, for the operation and management of this arrangement.

H. Contractual Engagements with Banking Corporations

The Company has entered into various agreements with the banks listed below for the registration of customers for the Company's credit-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.

I. Special Contractual Engagements

Special contractual engagements include long-term agreements in respect of property rentals, software, and operational agreements in respect of motor vehicles.

The following table lists the balances of expected amounts in respect of these contractual engagements, by year.

	December 31	
	2012	**2011**
	In NIS millions	
First year	30	26
Second year	14	25
Third year	10	9
Fourth year	3	8
Fifth year	3	2
Over five years	6	6

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

J. Contractual Engagements with Customer Clubs

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

Note 17 – Fair Value of Financial Instruments

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A “market price” cannot be 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 provisions 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, 2012				
		Fair value[a]			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	449	27	422	-	449
Debtors in respect of credit-card activity, net	12,432	-	-	12,390	12,390
Securities[b]	79	68	-	11	79
Other financial assets	152	-	22	128	150
Total financial assets	***13,112**	**95**	**444**	**12,529**	**13,068**
Financial liabilities:					
Credit from banking corporations	35	21	14	-	35
Creditors in respect of credit-card activity	11,014	-	-	10,972	10,972
Other financial liabilities	695	-	45	649	694
Total financial liabilities	***11,744**	**21**	**59**	**11,621**	**11,701**

* Of which: assets and liabilities in the amount of NIS 95 million and NIS 21 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.

(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, 2011				
		Fair value(a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	378	97	281	-	378
Debtors in respect of credit-card activity, net	12,132	-	-	12,073	12,073
Securities(b)	96	85	-	11	96
Other financial assets	136	-	20	115	135
Total financial assets	***12,742**	**182**	**301**	**12,199**	**12,682**
Financial liabilities:					
Credit from banking corporations	6	6	-	-	6
Creditors in respect of credit-card activity	**11,000	-	-	10,942	**10,942
Other financial liabilities	**581	-	39	542	**581
Total financial liabilities	***11,587**	**6**	**39**	**11,484**	**11,529**

* Of which: assets and liabilities in the amount of NIS 183 million and NIS 7 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.

** Reclassified.

(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.

ISRACARD

Note 17A – Items Measured at Fair Value on a Recurring Basis, Consolidated

Reported amounts

In NIS millions

	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	**-**	***-**	***-**

	December 31, 2011		
	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	85	-	85
Assets in respect of derivative instruments	-	1	1
Total assets	**85**	**1**	**86**
Liabilities			
Liabilities in respect of derivative instruments	-	1	1
Total liabilities	**-**	**1**	**1**

* Amount lower than NIS 0.5 million.

Note 17B – Items Measured at Fair Value on a Non-Recurring Basis, Consolidated

Reported amounts

In NIS millions

Fair value hierarchy levels for items measured at fair value on a non-recurring basis:

	December 31, 2012				
	Fair-value measurements using:				
	Prices quoted on an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total fair value	Total loss in respect of changes in value for the period ended December 31, 2012
Financial assets					
Securities	-	-	8	8	-
Total financial assets	**-**	**-**	**8**	**8**	**-**

	December 31, 2011				
	Fair-value measurements using:				
	Prices quoted on an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total fair value	Total loss in respect of changes in value for the period ended December 31, 2011
Financial assets					
Securities	-	-	8	8	3
Total financial assets	**-**	**-**	**8**	**8**	**3**

Note 17C – Transfers between Levels 1 and 2 of the Fair Value Hierarchy

During the period ended December 31, 2012 and during 2011, there were no transfers from Level 2 to Level 1.

ISRACARD

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries

Reported amounts

In NIS millions

The Company implemented IAS 24, Related Party Disclosures, for the first time in January 2012. For details, see Note 1.E.2 above. Accordingly, new related and interested parties were identified, and others were removed; data for previous years were restated based on the new population. The Company is a direct subsidiary of Bank Hapoalim B.M.

A. Balances

	December 31, 2012							
	Interested parties				Related parties			
	Controlling shareholders		Key executives[2]		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	440	821	-	-	-	-	-	-
Debtors in respect of credit-card activity, net[1]	1	2	1	1	70	70	282	282
Investments	-	-	-	-	2	3	-	-
Other assets	-[5]	2[5]	-	-	1	1	-	-
Liabilities								
Credit from banking corporations	35	49	-	-	-	-	-	-
Creditors in respect of credit-card activity	43	68	-	-	-	-	728	728
Other liabilities	1	2	6	6	-	-	445	462
Shares (included in equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	16,014	16,072	6	7	73	73	-	-
Guarantees given by banks	5,108	5,471	-	-	-	-	-	-
Guarantees given by the Company	47	47	-	-	-	-	-	-
Discounting balance with related party	-	-	-	-	26	26	-	-

* 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 22 million (highest balance during the year: NIS 22 million).

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

Reported amounts

In NIS millions

A. Balances

	December 31, 2011[1]							
	Interested parties				Related parties			
	Controlling shareholders		Key executives[3]		Associated companies		Others[4]	
	Year-end balance	Highest balance during the year[5]	Year-end balance	Highest balance during the year[5]	Year-end balance	Highest balance during the year[5]	Year-end balance	Highest balance during the year[5]
Assets								
Cash on hand and deposits with banks	376	696	-	-	-	-	-	-
Debtors in respect of credit-card activity, net[2]	1	1	1	1	47	47	182	182
Securities	-	-	-	-	-	-	-	-
Investments	-	-	-	-	2	3	-	-
Other assets	-[6]	-[6]	-	-	*-	*-	-	-
Liabilities								
Credit from banking corporations	6	62	-	-	-	-	-	-
Creditors in respect of credit-card activity	52	79	-	-	-	-	749	799
Other liabilities	1	1	6	6	-	-	364	376
Shares (included in equity)	*-	*-	-	-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	15,837	16,079	6	6	96	96	-	-
Guarantees given by banks	5,110	5,303	-	-	-	-	-	-
Guarantees given by the Company	47	47	-	-	-	-	-	-
Discounting balance with related party	-	-	-	-	16	16	-	-

* Amount lower than NIS 0.5 million.

(1) Restated. See Note 1.F.26.

(2) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

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

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

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

(6) In addition, the Company has a balance of debtors in respect of gift cards, deposited with the Parent Company, in the amount of NIS 18 million (highest balance during the year: NIS 20 million).

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, 2012			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associated companies	Others[2]
Income from credit-card transactions	-	*-	2	142
Net interest income	1	*-	4[3]	(3)
Other income	3	-	-	32
Operating expenses	(7)	-	-	-
General and administrative expenses	-[4]	(26)	-	-
Payments to banks	(192)	-	-	-
Total	**(195)**	**(26)**	**6**	**171**

	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	147
Net interest income	(5)	*-	4[3]	(2)
Other income	4	-	-	24
Operating expenses	(7)	-	-	-
General and administrative expenses	-[4]	(24)	-	-
Payments to banks	(214)	-	-	-
Total	**(222)**	**(24)**	**5**	**169**

	For the year ended December 31, 2010[1]			
	Interested parties		Related parties	
	Controlling shareholders	Key executives	Associated companies	Others[2]
Income from credit-card transactions	-	*-	-	135
Net interest income	(7)	*-	2[3]	-
Other income	3	-	-	20
Operating expenses	(6)	-	-	-
General and administrative expenses	-[4]	(25)	-	-
Payments to banks	(239)	-	-	-
Total	**(249)**	**(25)**	**2**	**155**

* Amount lower than NIS 0.5 million.

(1) Restated. See Note 1.F.26.

(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 2012, 2011, and 2010, expenses in respect of current account settlement for professional services, in the amount of NIS 6 million each year.

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, 2012			
	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	-	-	26	23

(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	-	-	24	28

(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; see Note 1.F.26.

	For the year ended December 31, 2010[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	22

(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 1 million; share-based payment, NIS 5 million.

(2) Restated; see Note 1.F.26.

Note 18 – Interested and Related Parties of the Company and its Consolidated Subsidiaries (cont.)

In addition, in 2012, the Company had salary and related expenses in the amount of approximately NIS 42 million (NIS 44 million and NIS 37 million in the years ended December 31, 2011 and December 31, 2010, respectively) in respect of employees on loan from Bank Hapoalim (2012: 112 employees; 2011: 114 employees; 2010: 125 employees).

D. Information regarding terms of transactions and balances with related and interested parties

- 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		
	2012	2011	2010	2012	2011	2010
Income from merchants						
Merchant fees	983	1,022	991	985	1,024	992
Other income	9	13	12	9	13	12
Total gross income from merchants	992	1,035	1,003	994	1,037	1,004
Less fees to other issuers	94	87	76	94	87	76
Total net income from merchants	898	948	927	900	950	928
Income in respect of credit-card holders						
Issuer fees	134	108	93	134	108	93
Service fees	170	153(1)	147(1)	170	153(1)	147(1)
Fees from transactions abroad	35	33	31	35	33	31
Total income in respect of credit-card holders	339	294	271	339	294	271
Total income from credit-card transactions	**1,237**	**1,242**	**1,198**	**1,239**	**1,244**	**1,199**

(1) Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies. For details, see Note 1.D 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		
	2012	2011	2010	2012	2011	2010
A. Interest income						
From credit to cardholders	66	65(1)	51(1)	1	*-(1)	-(1)
From credit to merchants	69	61	38	17	16	18
From deposits with banks	6	6(1)	8(1)	5	4(1)	6(1)
From other assets	8	4	3	43	45	16
From bonds	-	-	*-	-	-	*-
Total interest income	**149**	**136**	**100**	**66**	**65**	**40**
B. Interest expenses						
To banking corporations	9	12	12	9	12	11
On other liabilities	4	3	-	6	8	5
Total interest expenses	**13**	**15**	**12**	**15**	**20**	**16**
Total net interest income	**136**	**121**	**88**	**51**	**45**	**24**

* Amount lower than NIS 0.5 million.

(1) Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies. For details, see Note 1.D 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		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
From rental of assets	4	4	4	-	-	-
Operating fees from related parties	28	24	20	28	25	20
Non-interest financing income, net[b]	38	24[1]	12[1]	38	25[1]	13[1]
Others	19	18[1]	12[1]	18	17[1]	12[1]
Total other income	**89**	**70**	**48**	**84**	**67**	**45**

(1) Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations and credit-card companies. For details, see Note 1.D above.

(B) See Note 21.B below.

B. Non-Interest Financing Income, Net

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Net exchange-rate differences	18	17	12	18	18	13
Net (expenses) income in respect of derivative instruments	(1)	*-	(*-)	(1)	*-	(*-)
Profits from investments in shares:						
Profits (losses) from sale of shares available for sale**	21	7	-	21	7	-
Dividend from shares available for sale	*-	*-	*-	*-	*-	*-
Total profits from investment in shares	21	7	*-	21	7	*-
Total non-interest financing income, net	**38**	**24**	**12**	**38**	**25**	**13**

* Amount lower than NIS 0.5 million.

** Including provisions for impairment.

Note 22 – Operating Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Wages and related expenses**	156	170	144	151	166	140
Data processing and computer maintenance	21	31	32	21	30	31
Automatic Bank Services (ABS)	15	14	13	15	14	13
Operating fees to MasterCard International	40	37	35	40	37	35
Amortization and depreciation	89	84	71	86	81	68
Communications	7	6	7	7	6	7
Production and delivery	65	69(1)	71(1)	63	68(1)	71(1)
Damages from abuse of credit cards	8	6	6	8	6	6
Rent and building maintenance	25	23	23	31	30	29
Others	19	18(1)	13(1)	10	10(1)	7(1)
Total operating expenses	**445**	**458**	**415**	**432**	**448**	**407**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	*-	*-	*-	*-	*-	*-

(1) Reclassified.

* Amount lower than NIS 0.5 million.

Note 23 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	Consolidated			The Company		
	For the year ended December 31			For the year ended December 31		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Wages and related expenses**	53	50	47	50	46	43
Advertising	81	67(1)	74(1)	81	67(1)	73(1)
Customer retention and recruitment**	34	16(1)	12(1)	33	16(1)	12(1)
Gift campaigns for credit-card holders	32	60	1	32	60	1
Vehicle maintenance	6	5	5	5	5	5
Club management fees	37	34(1)	29(1)	37	34(1)	29(1)
Others	5	6	4	5	6	4
Total sales and marketing expenses	**248**	**238**	**172**	**243**	**234**	**167**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	6	5	5	6	5	5

* Amount lower than NIS 0.5 million.

(1) Reclassified.

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		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Wages and related expenses*	32	26	25	30	24	23
Professional services	14	15	15	12	14	14
Insurance	5	5	6	5	5	6
Benefit due to share allocation(1)	-	-	-	-	-	-
Others	16	14	15	15	14	15
Total general and administrative expenses	**67**	**60**	**61**	**62**	**57**	**58**
** Of which: Expense arising from transactions treated as share-based payment transactions settled in capital instruments	4	2	4	4	2	4

(1) Reclassified.

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		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Current taxes for the tax year	99	85	75	80	71	61
Deferred taxes for the tax year	(12)	(35)	(6)	(9)	(30)	(1)
Taxes for previous years	*-	2	(1)	(*-)	2	(1)
Provision for taxes on income	**87**	**52**	**68**	**71**	**43**	**59**

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		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Tax rate applicable to the Company in Israel	25%	24%	25%	25%	24%	25%
Tax amount based on statutory tax rate	81	60	64	68	50	58
Tax increment (saving) in respect of:						
Unrecognized expenses	4	2	2	3	1	2
Exempt expenses	(*-)	(*-)	-	(*-)	(*-)	-
Benefit from loss and tax credit from a previous period used to reduce current taxes	(2)	(2)	1	-	-	-
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	*-	(13)	1	-	(10)	*-
Tax expenses for previous years	*-	2	(1)	(*-)	2	(1)
Timing differences that do not carry deferred taxes	1	*-	(1)	-	-	-
Difference in tax rate on financial institutions	4	3	2	-	-	-
Provision for taxes on income	**87**	**52**	**68**	**71**	**43**	**59**

* 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.

For subsidiaries, final tax assessments have been issued up to and including the tax year 2008, including tax assessments considered to be final under the Income Tax Ordinance, with the exception of Europay, which has final tax assessments up to and including the tax year 2005. Also see Note 16.E.9, above.

Note 25 – Provision for Taxes on Operating Profit (cont.)

Reported amounts

In NIS millions

4. Deferred Tax Balances and Provision for Deferred Taxes (Consolidated)

	Deferred taxes receivable		Average tax rate		Provision for deferred taxes		Average tax rate	
	December 31		December 31		December 31		December 31	
	2012	2011	2012	2011	2012	2011	2012	2011
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	62	54	30	30	-	-	-	-
From provision for vacations, bonuses, and options	13	11[(1)]	25	25	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded	19	17	25	25	-	-	-	-
From adjustment of depreciable non-monetary assets	-	-	-	-	6	6	25	25
From adjustments of securities and derivatives	(10)	(10)	25	25	-	-	-	-
Other	1	1[(1)]	25	25	-	-	-	-
Total	**85**	**73**			**6**	**6**		

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	
	2012	2011	2012	2011	2012	2011	2012	2011
	In NIS millions		In percent		In NIS millions		In percent	
From allowance for credit losses	27	22	25	25	-	-	-	-
From provision for vacations, bonuses, and options	13	11[(1)]	25	25	-	-	-	-
From surplus of provision for compensation and pensions over the amount funded	19	17	25	25	-	-	-	-
From adjustments of securities and derivatives	(10)	(10)	25	25	-	-	-	-
Other	1	1[(1)]	25	25	-	-	-	-
Total	**50**	**41**			**-**	**-**		

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	
	2012	2011
	In NIS millions	
Deferred taxes	10	10

(1) Reclassified.

6. Changes in Tax Rates

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from the tax year 2016 forward. In accordance with the aforesaid amendments, the corporation tax rates applicable in the tax years 2010 and 2011 were 25% and 24%, respectively.

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

The Value Added Tax Order (Rate of Tax on Non-Profit Associations and Financial Institutions) (Amendment), 2012, was published in the Official Gazette of the Government of Israel on August 30, 2012. The amendment adjusts the rate of value-added tax to 17% beginning on September 1, 2012. As a result of this change, the statutory tax rate applicable to financial institutions will rise from 35.4% to 35.5% in 2012, and to 35.9% from 2013 forward. The effect of the change in the rate of tax is reflected at the subsidiary Isracard Mimun Ltd. The change in the rate of tax had an immaterial effect.

In addition, 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 will rise from the current 5.9% to 6.5%. In addition, this rate will rise, in January 2014 and January 2015, to 7% and 7.5%, respectively. The change in the rate of National Insurance fees has an immaterial effect.

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

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

Note 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 Issuance Segment

The Company issues and operates Isracard credit cards and MasterCard cards. In addition, the Company issues and operates a variety of other products, such as fuel cards and gift cards.

All income and expenses related to customer recruitment and routine handling, including customer-club management, were allocated to the Issuance Segment.

Main income items associated with this segment: interchange fees, card fees, deferred-debit fees, and fees from transactions abroad, as well as net financing income attributed to the segment.

Interchange fees are fees paid by clearers to issuers in respect of transactions executed in credit cards issued by the issuer and cleared by the clearer.

Main expenses associated with this segment: marketing, advertising, and management of customer clubs; benefit programs; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

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

All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Main income items associated with this segment: fees from merchants, net of interchange fees, which are allocated to the Issuance Segment; and net financing income attributed to the segment.

Main expenses associated with this segment: recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

The Financing Segment

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, 2012				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other(1)**	**Total**
Income					
Fees from external customers	336	897	1	3	1,237
Inter-segmental fees	638	(638)	-	-	-
Total	**974**	**259**	**1**	**3**	**1,237**
Net interest income	33	10	92	1	136
Other income	12	7	1	69	89
Total income	**1,019**	**276**	**94**	**73**	**1,462**
Expenses					
Provision for credit losses	12	6	14	5	37
Operating expenses	294	129	18	4	445
Sales and marketing expenses	176	62	9	1	248
General and administrative expenses	38	23	6	-	67
Payments to banks	340	-	-	-	340
Total expenses	**860**	**220**	**47**	**10**	**1,137**
Profit before taxes	**159**	**56**	**47**	**63**	**325**
Provision for taxes on profit	42	15	13	17	87
Profit after taxes	**117**	**41**	**34**	**46**	**238**
The Company's share in losses of associates after tax	-	-	-	(*-)	(*-)
Net profit					
Before attribution to non-controlling interests	117	41	34	46	238
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	**117**	**41**	**34**	**46**	**238**
Return on equity (percent net profit out of average capital)	7.6	2.6	2.2	3.0	15.4
Average balance of assets	10,862	497	1,937	121	13,417
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	651	10,481	259	476	11,867
Average balance of risk-adjusted assets	7,949	657	1,429	170	10,205

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

ISRACARD

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	291	949	-	2	1,242
Intersegmental fees	713	(713)	-	-	-
Total	**1,004**	**236**	**-**	**2**	**1,242**
Net interest income	35	7	77	2	121
Other income	15	9	1	45	70
Total income	**1,054**	**252**	**78**	**49**	**1,433**
Expenses					
Provisions for doubtful debts	23	3	16	7	49
Operations	326[3]	116[3]	12	4	458
Sales and marketing	193[3]	38[3]	5	2	238
General and administrative	37	19	3	1	60
Payments to banks	372	-	-	-	372
Write-down and impairment of goodwill	-	-	7	-	7
Total expenses	**951**	**176**	**43**	**14**	**1,184**
Profit before taxes	**103**	**76**	**35**	**35**	**249**
Provision for taxes on profit	22	16	7	7	52
Profit after taxes	**81**	**60**	**28**	**28**	**197**
The Company's share in losses of associates after tax	-	-	-	(2)	(2)
Net profit					
Before attribution to non-controlling interests	81	60	28	26	195
Attributed to non-controlling interests	-	-	-	*-	*-
Attributed to shareholders of the Company	**81**	**60**	**28**	**26**	**195**
Return on equity (percent net profit out of average capital)	6.6	4.3	2.1	1.8	14.8
Average balance of assets	10,352	448	1,585	139	12,524
Of which: investments in associated companies	-	-	-	3	3
Average balance of liabilities	577	10,450	51	130	11,208
Average balance of risk-adjusted assets	7,733	576	1,119	195	9,623

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

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

(3) Reclassified.

Note 26 – Operating Segments – Consolidated (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2010[2]				
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Financing Segment**	**Other[1]**	**Total**
Income					
Fees from external customers	268	928	1	1	1,198
Intersegmental fees	727	(727)	-	-	-
Total	**995**	**201**	**1**	**1**	**1,198**
Net interest income	21	1	65	1	88
Other income	9	6	1	32	48
Total income	**1,025**	**208**	**67**	**34**	**1,334**
Expenses					
Provisions for doubtful debts	6	3	27	2	38
Operations	296[3]	105[3]	9	5	415
Sales and marketing	132[3]	32[3]	5	3	172
General and administrative	38	19	3	1	61
Payments to banks	388	4	-	-	392
Write-down and impairment of goodwill	-	-	2	-	2
Total expenses	**860**	**163**	**46**	**11**	**1,080**
Profit before taxes	**165**	**45**	**21**	**23**	**254**
Provision for taxes on profit	44	12	6	6	68
Profit after taxes	**121**	**33**	**15**	**17**	**186**
The Company's share in losses of associates after tax	-	-	-	*-	*-
Net profit					
Before attribution to non-controlling interests	120	33	15	17	186
Attributed to non-controlling interests	-	-	-	(1)	(1)
Attributed to shareholders of the Company	**120**	**33**	**15**	**16**	**185**
Return on equity (percent net profit out of average capital)	10.7	3.0	1.2	1.3	16.2
Average balance of assets	9,074	990	1,387	272	11,723
Of which: investments in associated companies	-	-	-	2	2
Average balance of liabilities	433	9,841	197	122	10,593
Average balance of risk-adjusted assets	6,391	866	1,174	240	8,671

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

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

(3) Reclassified.

Note 27 – Information Based on the Company's Historical Nominal Data for Tax Purposes

In NIS millions

	December 31	
	2012	**2011**
Total assets	13,811	13,562
Total liabilities	12,152	12,144
Equity	1,659	1,418
Nominal net profit	238	198