Europay (Eurocard) Israel Ltd.

Annual Report

For the year ended December 31, 2011

ISRACARD GROUP

Report as of December 31, 2011

Table of Contents

Europay (Eurocard) Israel Ltd.

Board of Directors' Report

For the Year Ended December 31, 2011

ISRACARD GROUP

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

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

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1972 as a private company. In July 2009, control of the Company was transferred from Bank Hapoalim B.M. ("**Bank Hapoalim**") to Isracard Ltd. (hereinafter: "**Isracard**"), which is controlled by Bank Hapoalim.

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

The Company, jointly with Isracard, issues credit cards that combine the Isracard and MasterCard brands ("**MasterCard cards**"), as described below. The cards are issued by the Company for use abroad and by Isracard for use in Israel, under a license granted to the Company by MasterCard International Incorporated ("**the MasterCard Organization**"). In addition, the Company clears transactions with merchants that have agreements with it which are transacted 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, Isracard manages and operates issuance and clearing activities of the aforesaid credit cards for the Company.

Contractual engagement between the Company and Isracard – Under an agreement between the Company and Isracard, its parent company, Isracard administers and operates, on behalf of the Company, issuance and clearing activity in Israel of transactions made with merchants using MasterCard cards ("the Arrangement"). The Company participates in all costs common to Isracard and the Company, according to its relative share of the relevant activity. In return for Isracard's activity in the operation of the Arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties.

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

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

Developments in the Global Economy

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

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

The Israeli Economy

Economic Activity in Israel

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

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

Inflation and Exchange Rates

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

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

Fiscal and Monetary Policy

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

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

The Credit-Card Industry in Israel

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

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

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

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

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

Profit and Profitability

The Company's net profit totaled NIS 2 million, compared with a loss in an amount lower than NIS 0.5 million in 2010.

The return of operating profit before taxes on average equity reached 1.1%, compared with a negative return at a rate of 0.2% in 2010.

The return of net profit on average equity reached 0.9%, compared with a negative return at a rate of 0.3% in 2010.

Developments in Balance-Sheet Items

The balance sheet totaled NIS 185 million on December 31, 2011, compared with NIS 183 million at the end of 2010.

Equity as of December 31, 2011 totaled NIS 185 million, compared with NIS 183 million on December 31, 2010.

The ratio of equity to the balance sheet reached 100% on December 31, 2011, similar to December 31, 2010.

The ratio of capital to risk-adjusted assets under the capital measurement and adequacy directives reached 194.7% on December 31, 2011, compared with 186.7% on December 31, 2010.

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

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

Description of the Company's Business

Credit-Card Issuance

General

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

The issuer collects various fees from the cardholder and interchange fees or merchant fees from the clearer or merchant, respectively, for card issuance and operational services.

As of the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Isracard, Poalim Express, Aminit, Leumi Card, CAL, and Diners. This field is characterized by a high level of competition.

Bank cards issued by the Company and Isracard are distributed to owners of accounts at banks with which the Company and Isracard have agreements, including Bank Hapoalim, Mizrahi Bank, Bank Yahav for Government Employees Ltd. ("Bank Yahav"), First International Bank of Israel Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., and Bank Poaley Agudat Israel Ltd. (jointly, the "**Banks Under Arrangement**").

As noted, Isracard administers and operates the credit-card issuance and clearing activities on behalf of the Company (see "Agreement with Isracard" in Note 4D to the Financial Statements). 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 are the following: (1) the ability to issue credit cards under an international license; (2) brand image; (3) the collaboration with Bank Hapoalim in the distribution and issuance of credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card with the credit card issued to the customer; (4) high-quality, experienced human capital; (5) quality of customer service; (6) a supporting operational system including information systems, technologies, communications, and advanced infrastructures; (7) a technological level allowing response to changes and the development of new products; (8) a system of risk management and credit controls; (9) the ability to recruit and retain customers through a supporting marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency and preservation of size advantage.

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

Substitutes for the products of the operating segment – Alternative means of payment such as cash, standing orders, electronic bank transfers, checks, and gift certificates constitute substitutes for the services provided by credit-card companies in Israel.

Products and Services

The Company, jointly with Isracard, issues credit cards that combine the Isracard and MasterCard brands. The cards are issued by the Company for use abroad and by Isracard for use in Israel. These cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and for cash withdrawals, locally and internationally.

In addition, the various additional products and services offered through Isracard include More brand revolving credit cards, allowing cardholders to determine the terms of repayment; loans for specific purposes for private and business customers; various credit plans based on Isracredit plans; various types of all-purpose loans based on credit facilities in credit cards; various options for spreading payments; and information services and certifications.

Contractual Engagements with Banking Corporations

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

Customers – Cardholders

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

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

Marketing and Distribution

The Company's marketing and distribution activity in the area of credit-card issuance is conducted through Isracard (which administers and operates credit-card issuance activity on behalf of the Company), 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, a 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.

Competition

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

Competition over cardholders is apparent on several levels: (1) registration of new customers (who do not own credit cards or who own credit cards of competing companies) for a credit-card arrangement with the Company/Isracard, and the retention of existing customers and prevention of desertion to competitors, which requires the investment of efforts and resources; (2) competition for cardholders' "wallet" (which may hold credit cards issued by several companies) with the aim of leading customers to carry out the major portion of their routine consumption using credit cards issued by the Company and Isracard (rather than cash and checks), while increasing the mix of products issued by the Company and Isracard 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, through Isracard, which administers and operates credit-card issuance activity on behalf of the Company, takes the following main actions: investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; reinforcement of status and image through advertising, benefits, and various offers for cardholders; marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and innovation – response to customers' needs by developing new products and services to supply the requirements of the Company's customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the MasterCard Organization for the issuance and clearing of credit cards; (2) the arrangement with Isracard for the management and operation of credit-card issuance and clearing activity; (3) the Company and Isracard are the leaders in the area of credit-card issuance in Israel and have the largest quantity of issued cards in Israel; (4) professional, skilled, experienced human capital; (5) the Company's image and brand; (6) the Company and Isracard have a long-term agreement with Bank Hapoalim for the issuance of credit cards; (7) the Company and Isracard's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (8) the range of products and services offered to a broad spectrum of customers; (9) an advanced service system allowing a high quality of customer service; and (10) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include, among others, technological improvements that create the possibility of development of alternative means of payment in areas such as 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.

Credit-Card Clearing

General

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

As of the date of the report, several credit-card companies operate in the credit-card clearing segment in Israel: the Company, Isracard, 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, offering the merchants clearing services for sales slips of transactions executed in foreign currency and paid to the merchant in foreign currency by tourists using MasterCard cards in Israel.

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

As of June 2007, following the Cross-Clearing Arrangement and the opening of a common local technical interface, all credit-card companies authorized to issue MasterCard and Visa cards and clear transactions executed in the said cards are able to clear MasterCard and Visa cards, each according to its authorizations. Merchants may switch clearers of these brands at their discretion. For further details, see "Agreement with Isracard" in Note 4D to the Financial Statements.

For details with regard to regulation in this area, various directives in the area of cross-clearing of MasterCard and Visa credit cards imposed upon credit-card companies in Israel by the Antitrust Commissioner in 2007 (the "**Cross-Clearing Arrangement**"), and the Antitrust Commissioner's declaration of Isracard as the holder of a monopoly in clearing Isracard and MasterCard credit cards in May 2005, see "Restrictions and Supervision of the Company's Operations," below.

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

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

Substitutes for the products of the operating segment – Alternative means of payment such as cash, standing orders, bank transfers, and checks constitute substitutes for payment by credit card.

Products and Services

The Company clears transactions with merchants that have agreements with it, executed in Israel using MasterCard cards issued abroad by members of the MasterCard Organization, in foreign currency, and paid to the merchant in foreign currency, mainly in return for a merchant fee, as noted above. Isracard administers and operates credit-card clearing activity on behalf of the Company.

In addition, the Company offers marketing and operational services, through Isracard, such as sales-promotion campaigns, information regarding credits of the merchant, joint advertising campaigns, unique marketing information, and benefits, all at a high quality of service backed by advanced technological infrastructures.

Segmentation of Income from Products and Services

All income from merchants and all expenses related to recruitment and routine handling of merchants relevant to the Company were allocated to the Company's activity. The main income and expense items are in accordance with the Company's agreement with Isracard for the management and operation of credit-card issuance and clearing activity.

Customers

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

Marketing and Sales

The Company's marketing and sales activity in the Credit-Card Clearing Segment is conducted through Isracard (which manages and operates credit-card issuance and clearing activities on behalf of the Company), based on the principle of focusing on merchants' needs, 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 providing marketing and operational services, including information regarding past and future credits of the merchant, advertising campaigns and unique marketing information, benefits, and programs at a high level of service; (2) to strengthen image; and (3) to recruit new merchants.

Competition

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

For a list of credit-card companies operating in this area in Israel, see "The Credit-Card Industry in Israel," above. In the opinion of the Management of the Company, the Company and Isracard are the leaders in this area in Israel.

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

Another aspect of competition in the clearing sector is focused on the development of financial and operational products and services for merchants, to increase the volume and/or amounts of transactions executed with each merchant. The credit-card companies have expanded the mix of product and services offered to merchants by offering marketing and financial services.

In order to cope with the competition in this area, the Company, through Isracard, which administers and operates credit-card clearing activity on behalf of the Company, takes the following main actions: (1) a competitive, prudent rate policy (merchant fees); (2) increased collaborations with merchants; (3) investment of resources to improve service, retain merchants as customers, and increase customer loyalty, while adapting products and services to each merchant's unique needs; (4) operation of a professional, experienced, skilled sales and marketing system specializing in providing solutions for the various merchants, and an experienced, professional, skilled service system supported by advanced technological systems.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the MasterCard Organization for the issuance and clearing of credit cards; (2) the arrangement with Isracard for the management and operation of credit-card issuance and clearing activity; (3) a supporting marketing, sales, and service system specializing in providing suitable solutions to merchants, and containing professional, skilled, experienced manpower; (4) a brand with presence and power; (5) an advanced technological infrastructure allowing response to the needs of the various merchants; and (6) a robust capital structure and positive cash flow.

Negative factors affecting the Company's competitive standing include the following, among others: regulation; technological improvements that create the possibility of development of alternative means of payment in areas such as cellular phones, which may cause a decline in credit-card clearing; and merchants' ability to switch clearers in MasterCard and Visa brands at their discretion.

For details regarding regulatory restrictions applicable to the Company under antitrust laws, see the section "Restrictions and Supervision of the Company's Operations."

Seasonality

Credit-card transactions (issuance and clearing) are linked directly to private consumption and seasonality in Israel, as well as to the seasonality and rate of incoming tourism to Israel.

Intangible Assets

The Company holds a long-term Principal Member license from the MasterCard Organization for the issuance and clearing of MasterCard cards in Israel. In addition, as a member of the MasterCard Organization, the Company has a general right to use the brands owned by the MasterCard Organization, primarily "MasterCard."

In the course of their operations, the Company and Isracard are 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 their agreements.

Human Capital

All employees of the Company are on loan to Isracard, in accordance with the arrangements prevailing between the companies.

Service Providers

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

Financing

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

Taxation

For details regarding the Company's taxation status, see Note 7 to the Financial Statements.

Other Matters

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

Restrictions and Supervision of the Company's Operations

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

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

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

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

Antitrust Issues

Most of the Company's activity is performed for the Company and on its behalf by Isracard. In the area of clearing, this activity includes clearing of transactions executed with merchants in Israel in foreign currency using MasterCard cards issued abroad. Isracard clears, for itself, transactions executed with merchants in Israel using MasterCard and Isracard cards issued in Israel, and transactions executed in Israel in Israeli currency using MasterCard cards issued abroad.

Reports by Isracard and by Bank Hapoalim indicate the following, among other matters: In May 2005, the Antitrust Commissioner declared Isracard a holder of a monopoly in clearing Isracard and MasterCard charge cards. Isracard appealed this declaration; the Commissioner presented Isracard with a draft of directives for a monopoly, to which Isracard submitted objections; in October 2006, Isracard and Bank Hapoalim, together with other credit-card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a restrictive arrangement under the terms formulated and agreed upon with the Antitrust Commissioner. The Tribunal has granted several temporary permits for the Arrangement; the current temporary permit is in effect until February 29, 2012. Among other matters, the aforesaid Arrangement includes the establishment of an interchange fee (a fee paid by the clearer of a credit-card transaction to the issuer of the credit card).

A common technical interface for the credit-card companies Isracard, Aminit, Leumi Card, and CAL began to operate in June 2007, for the clearing of transactions executed in Israel using Visa and MasterCard cards issued in Israel. Expansion of the activity of other companies in clearing transactions executed in Israel using MasterCard cards may influence the Company's activity and detract from its revenues, despite the fact that its activity is focused on the clearing of transactions executed using MasterCard cards issued abroad.

Although the Company is not directly associated with the processes described above, the Company estimates that these processes, or part of such processes, may influence the Company's activity and impair its revenues, despite the fact that its activity is focused on clearing transactions in MasterCard cards issued abroad. The Company cannot estimate which of the factors mentioned will materialize, when such factors may materialize, or the extent of their impact.

Additional Regulation

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

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

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

4. A private bill was submitted to the Knesset in February 2010 according to which credit-card companies must note extensive details of merchants in their reports to cardholders. On June

6, 2010, a ministerial committee made the decision to promote this bill through secondary legislation.

A private bill was submitted to Knesset in March 2010, according to which credit-card companies must note in their reports to cardholders whether a transaction performed by the cardholder constitutes a transaction 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 Company estimates that the amendment of the Directive will have no effect on the Company.

5. In March 2010, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 432 concerning the transfer of activity and closure of accounts of customers, and an amendment to Proper Conduct of Banking Business No. 470, Charge Cards, concerning the transfer of ongoing transactions in charge cards. Proper Conduct of Banking Business Directive No. 432 primarily aims to facilitate customers' transition among banks, in order to allow increased competition in the banking system. Towards that end, the circular amends the existing directive on this matter, to regularize the transfer of standing orders of customers switching from one bank to another, while also replacing their credit cards in the course of the transition. In particular, the amended directive aims to create the technological and legal infrastructure for the transfer of activity in ongoing transactions among different charge cards. This is achieved through the formation of a mechanism for the transfer of debits and the imposition of a duty upon the issuer of any credit card to perform the transfer of the activity for the customer, while communicating with the new issuer and with any merchants which were granted debiting authorizations by the customer. These directives will apply, with the necessary changes, to all transfers of activity in credit cards, including the transfer of activity in a card not issued by a bank, and the transfer of activity other than in the course of the closure of an account. Concurrently with the aforesaid amendment of Directive No. 432, appropriate amendments were made to Proper Conduct of Banking Business Directive No. 470 concerning charge cards, in order to apply the arrangement regarding the transfer of activity to credit-card companies, by including Directive No. 432 in the list of Proper Conduct of Banking Business Directives applicable to credit-card companies. The directives took effect as of September 1, 2010. The Company estimates that the amendment of the directive will have no effect on the Company.

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

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

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

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

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

11. In December 2010, the Bank of Israel issued a circular concerning Proper Conduct of Banking Business Directive No. 301, The Board of Directors. The circular is aimed at

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

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

The Company is preparing to implement the aforesaid directives.

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

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

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

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

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

13. 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 clearr for cross-clearing of transactions in the charge card which it issues. The inception of this directive will be nine months after the law takes effect. The Company estimates that this law will have a material negative effect on the Company; however, at this stage the Company cannot estimate the actual extent of this effect.

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

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

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

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

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

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

Legal Proceedings and Pending Claims

1. Several legal claims have been filed against the Company, arising from the ordinary course of its business, in immaterial amounts. 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 2010, the Company filed an appeal of its income-tax assessment for 2006. The dispute between the Company and the Tax Authority with regard to the tax assessment for 2006 concerns the sale of the shares of MC. In the opinion of Europay, the sale should be treated as an event requiring capital-gains tax, rather than as an event of redemption of shares, which carries a different taxation rate. A preliminary discussion was held at the District Court of Tel Aviv, in which it was determined that because a legal case without factual disputes is involved, the parties would submit written summaries of their positions. The Company submitted the summaries of its position on December 26, 2011. The respondent

(the Tax Assessment Officer) was scheduled to submit a summary by February 26, 2012. In the opinion of its legal advisors, the probability of winning this case is high.

3. Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 30% of its shareholders' equity, according to 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. Maintaining the level of revenues and profitability.
2. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.
3. Continued implementation of the club strategy.
4. Maintaining brand image.
5. Extending collaborations with merchants.
6. Ongoing improvement in quality of service to banks, clubs, merchants, and cardholders.
7. Maintaining a high technological level: innovation and support for product and service development and for improvements in efficiency.
8. Targeted actions to create customer preference for the credit cards issued by the Company and make these cards customers' first choice.
9. Working in accordance with the ethical code of the Company.

Risk Management Policy

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

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

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

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

Operational Risks

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

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

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

- Operational risks identified in new processes and products.
- Appropriate controls established.

- Operational risk management and control system updated routinely.
- Business continuity plan and emergency preparedness plan established.
- Emergency procedures at the Company updated.

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

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

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

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

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

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

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

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

A. Linkage Base Risk

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

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

B. Exposure to the value of securities

The Company's policy states that no activity for the purpose of trading in securities shall be conducted.

C. 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, with the exception of activity for the purpose of economic hedging.

2. Liquidity Risk Exposure and Management

The goal of the liquidity risk management process is to ensure, taking into account the risk tolerance that has been established, the Company's ability to finance the increase in its assets and to settle its liabilities on time, without falling into difficulties and without incurring material losses, including losses that may result from damage to reputation caused by an inability to finance the Company's business operations.

Liquidity risk includes the following risks: Liquidity raising risk – Risk arising from damage to the ability of the Company to raise liquidity, as a result of a loss of confidence in the Company by the market, which may result from events of damage to its reputation or damage to the market in which the Company operates.

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

As of the reporting date, the Company does not grant credit.

Credit Control Unit

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

Capital Measurement and Adequacy

The Company assesses its capital adequacy. Starting with the financial statements as of December 31, 2009, the Company presents the standardised approach to 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 guidelines were published in July 2006 by the Basel Committee. The objectives of these guidelines are, among other things, to define capital-adequacy requirements in relation to the level of the various risks at companies; to establish a system of risk management and control; and to expand disclosure requirements, in order to help bring regulatory capital closer to the economic capital necessary in order to absorb losses and ensure the robustness and resilience of the corporation.

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

The Basel II recommendations consist of three pillars:

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

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

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

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

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

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

Risk Appetite

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

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

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

Capital Adequacy Target

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

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

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

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

Capital Management

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

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

Guiding Principles in Capital Management

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

Basel III

On October 26, 2011, the Supervisor of Banks issued a letter entitled "Preparation for the Adoption of the Basel III Recommendations." According to the letter, the banking system in Israel will adopt the recommendations of "Basel III: A global regulatory framework for more resilient banks and banking systems," published in December 2010, after formulation and with adjustments. Accordingly, work teams were established at the Supervisor of Banks to submit professional recommendations regarding the manner of adoption.

The following table lists the required disclosures under Pillar III.

Capital Adequacy

1. Capital for the calculation of the capital ratio

	December 31, 2011	December 31, 2010
	NIS millions	
Core capital and Tier I capital	185	183
Total overall capital	**185**	**183**

2. Weighted balances of risk-adjusted assets

	December 31, 2011		December 31, 2010	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	92	8	91	8
Operational risk	3	*-	7	1
Total weighted balances of risk-adjusted assets	**95**	**8**	**98**	**9**

* Amount lower than NIS 0.5 million.

3. Ratio of capital to risk-adjusted assets

	December 31, 2011	December 31, 2010
	Percent	
Ratio of core capital and Tier I capital to risk-adjusted assets	194.7	186.7
Ratio of total capital to risk-adjusted assets	194.7	186.7
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

Applicability of Implementation

Requirements regarding capital measurement and adequacy apply to the Company. In addition, the Company is consolidated by Isracard Ltd., which is also subject to these requirements. In general, the capital requirements of the Company are based on its financial statements, which are prepared according to Proper Conduct of Banking Business Directives 201-211 (capital measurement and management).

Structure of Capital

Structure of Regulatory Capital

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

Capital measurement for the purposes of this directive is based on the division of capital into Tier I capital and Tier II capital.

Tier I capital consists of equity.

Limits on the Capital Mix

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

- Total core capital shall constitute at least 70% of Tier I capital, after the required deductions from the capital in this tier only.
- Total Tier II capital and Tier III capital shall not exceed 100% of total Tier I capital, after the required deductions for the capital in this tier only.

Structure of Capital

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

	December 31, 2011	December 31, 2010
	NIS millions	
Core capital and Tier I capital		
Paid-up common share capital	1	1
Retained earnings	184	182
Total core capital and Tier I capital	185	183
Total eligible capital	**185**	**183**

Capital Adequacy

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

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

Risk-Adjusted Assets and Capital Requirement

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

	December 31, 2011		December 31, 2010	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Banking corporations	92	8	91	8
Other assets	-	-	-	-
Total credit risk	92	8	91	8
Operational risk	3	*-	7	1
Total weighted balances of risk-adjusted assets / capital requirement	**95**	**8**	**98**	**9**

* Amount lower than NIS 0.5 million.

	December 31, 2011	December 31, 2010
Total capital ratio and Tier I capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	185	183
Ratio of core capital and Tier I capital to risk-adjusted assets	194.7%	186.7%
Ratio of total capital to risk-adjusted assets	194.7%	186.7%
Minimum capital ratio required by Supervisor of Banks – Pillar I	8.0%	8.0%
Minimum capital ratio required by Supervisor of Banks – Pillar II	1.0%	1.0%
Total minimum capital ratio required by Supervisor of Banks	9.0%	9.0%

Credit Risk – General Disclosure Requirements

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provisions for credit losses, and the amendment of the directives on the treatment of problematic debts, as of January 1, 2011, the Company has implemented the American accounting standards in this area (ASC 310) and the position statements of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives. In addition, as of that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts. The implementation of the aforesaid directives has no effect on the Company, given that Isracard operates and administers issuance activity and clearing activity in Israel of transactions executed with merchants using MasterCard cards, on behalf of the Company.

Credit Risk Management

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

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

- The Company sets limits on credit granting, by risk rating, with segmentation by credit products (according to the products' risk weighting), in order to prevent damage to the quality of the Company's credit portfolio, thereby reducing credit risk arising from borrower quality.
- The Company conducts internal controls of credit-risk management by assigning a risk weighting to each type of credit product, according to its derived risk. For example, in certain cases, references are made to the type of product sold by the merchant and to its supply times; the longer the supply time of the product, the higher the probability of a failure to deliver the product to the customer.
- The Company sets sectoral limits in order to prevent sectoral concentration in the credit portfolio.
- The Company acts in accordance with the guidelines of the Bank of Israel in Directive No. 313, Limits on the Indebtedness of a Single Borrower and of a Group of Borrowers. Working according to this directive and setting internal limits reduces borrower concentration risk.
- The Company has set internal limits on its exposure to financial institutions, in congruence with the risk appetite approved by the Board of Directors.
- The Company monitors and supervises transactions with related persons, in accordance with Proper Conduct of Banking Business Directive No. 312, and files reports pursuant to Directive No. 815.

Principles of Credit Concentration Risk Management

- In accordance with the second pillar of Basel II, the Company calculates an internal capital allocation, as required, against concentration risks.
- Borrower concentration – routine monitoring of the major borrowers of the Company; compliance with limits required in Proper Conduct of Banking Business Directive No. 313 (Single Borrowers and Borrower Groups) of the Bank of Israel. In addition, the Company reports to the Bank of Israel on a quarterly basis, in accordance with the directive.

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, exposure to global credit-card companies.
- Banks in Israel – Credit-card activity under the responsibility of banks is conducted with customers' accounts at Israeli banks. In addition, deposits and hedging transactions create exposure to the bank with which the transaction was executed.
- Foreign financial institutions – Activity with overseas entities or activity by foreigners in Israel: deposits of foreign currency with financial institutions abroad. The Company's exposure is immaterial.
- The Company routinely monitors these exposures and reports exceptions from limits.

Credit exposure to financial institutions results from:

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

Independent Supervision

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

- Checking compliance with credit policy directives and with the instructions of the Bank of Israel.
- Active involvement in establishing credit policy, including credit limits. Control over the implementation of credit policy.
- Identifying new risks and emerging risks.
- Reporting the results of the monitoring to senior management and to the Board of Directors.
- Monitoring risk-assessment models.

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

- The Company's credit policy is updated and approved by the Board of Directors each year, according to developments at the Company, in the industry, and in the economy.
- The Company's Management is provided with data on the Company's credit-portfolio mix each month. The mix presents the segmentation of the portfolio in terms of credit products, sectors, risk ratings, geographical distribution, compliance with regulatory and internal limits, a risk-return analysis, and more.
- The credit-portfolio mix is presented to the Board of Directors of the Company on a quarterly basis.
- The Chief Risk Officer submits an independent report to Management on the control over credit-risk management each month.
- The Chief Risk Officer submits an independent report to the Board of Directors each quarter.
- Working procedures at the Company are updated routinely by the various departments.

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:

	December 31, 2011		December 31, 2010	
	Balance-sheet credit risk		Balance-sheet credit risk	
Type of exposure	**Credit**	**Total balance-sheet credit risk**	**Credit**	**Total balance-sheet credit risk**
	NIS millions			
Banking corporations	185	185	182	182
Other assets	-	-	1	1
Total exposures	**185**	**185**	**183**	**183**

<u>Average gross</u> credit risk exposures, by principal type of credit exposure:

	December 31, 2011		December 31, 2010	
	Balance-sheet credit risk		Balance-sheet credit risk	
Type of exposure	**Credit**	**Total balance-sheet credit risk**	**Credit**	**Total balance-sheet credit risk**
	NIS millions			
Banking corporations	184	184	182	182
Other assets	*-	*-	1	1
Total exposures	**184**	**184**	**183**	**183**

* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM)

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

Credit Risk Weighting

The following table presents details of credit exposure, before and after credit-risk mitigation.

		December 31, 2011		
	Rating	**0%**	**50%**	**Credit exposure**
Banking corporations	Unrated	-	185	185
Other assets	Unrated	-	-	-
Total		**-**	**185**	**185**

		December 31, 2010		
	Rating	**0%**	**50%**	**Credit exposure**
Banking corporations	Unrated	-	182	182
Other assets	Unrated	1	-	1
Total		**1**	**182**	**183**

Credit Risk Weighting

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

Credit rating agencies used:

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

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

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 purposes or for any other purpose.

Hedging Interest-Rate Exposures

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

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

Disclosure by Companies Using the Standardised Approach

General

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

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

Strategy and Processes

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

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

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

- **Organization and control** – A 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; 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, 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 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.

Operational Risk

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

Capital Requirement in Respect of Operational Risk

	Capital requirement	
	December 31, 2011	**December 31, 2010**
	NIS millions	
Operational risk	*-	1

* Amount lower than NIS 0.5 million.

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

- To manage operational risks as an integral part of the working processes of the Company, including the introduction of new products and processes.
- To maintain effective controls of risks according to risk ratings.
- To ensure effective identification of operational risks in all of the main processes at the Company.
- To create a work culture that encourages an organizational culture of risk management.
- To report loss events on a regular basis, according to the rules defined in the policy.
- To comply with legal and regulatory requirements regarding operational risks.
- To manage and allocate capital optimally in respect of operational risks.
- To establish a business continuity and emergency preparedness plan.

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

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

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

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

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

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

Material operational risks are mitigated by:

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

Prohibition of Money Laundering and Terrorism Financing

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

- The Money Laundering Prohibition Law, 2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 2001.
- Proper Conduct of Banking Business No. 411 of the Bank of Israel, Prevention of Money Laundering and Terrorism Financing and Identification of Customers (this directive has recently been updated). Also see the section "Restrictions and Supervision of the Company's Operations," Additional Regulation, Section 12.

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

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

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

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

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

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

Critical Accounting Policies

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

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

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

The accounting policy with regard to the provision for credit losses was changed during the reported period.

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.

Discussion of Risk Factors

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

Risk factor		Brief description	Effect
1.	Overall effect of credit risks	Risk arising from borrowers' failure to fulfill their obligations to the Company. Deterioration in the stability of the various borrowers may have an adverse effect on the Company's asset value and profitability. To minimize this risk, the Company has a defined credit policy and exposure limits with regard to borrowers/sectors in the various segments of activity, by risk level.	Medium

Risk factor		Brief description	Effect
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 sectorial concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Low
1.3.	Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and control of compliance with these limits is carried out routinely.	Low
2.	Effect of market risks: interest rate / inflation / exchange rate risks	Present or future risk to the Company's income 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 income.	Low
3.	Liquidity risk	Present or future risk to the Company's income 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

Risk factor		Brief description	Effect
4.	Operational risk	Present or future risk to the Company's income and capital that may arise from failed or faulty internal processes, human actions, system malfunctions, or external events. This includes the risk of embezzlement and fraud as well as legal risk, but does not include strategic risk and reputation risk. Failures related to one of the aforesaid factors may cause possible damage to profitability. The Company has an operational risk management policy, and operates units, procedures, and systems in the areas of human resources, information security, security, process control, survivability and recovery, and more.	Medium
5.	Legal risk	Present or future risk to the Company's income 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
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 income 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, income, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	High

Risk factor		Brief description	Effect
9.	Condition of the Israeli and global economy	A possible slowdown in the local and global economic and financial markets may damage the standard of living, households' income, the condition of some businesses, the level of economic activity, and the unemployment rate. An economic slowdown or recession may cause a decrease in private consumption and in merchants' volume of activity, and may have an adverse impact on the Company's activity and business results.	Medium
10.	Political / security risk	Deterioration in the political and security situation in Israel may, among other effects, cause a slowdown in economic activity, damage infrastructures, affect the level of private consumption (the quantity of products and/or services purchased, and/or revenues), and exert an adverse impact on the Company's activity and results.	Medium
11.	Cessation of operation of a bank in Israel	The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Medium
12.	Cessation of operation of an international credit-card organization	The cessation of operation of 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 the Company (a Principal Member) could lead to a situation in which the Company is obliged to bear debts, damages, and liabilities in amounts that may be material, leading to damage to its financial results.	Medium

Disclosure Regarding the Internal Auditor

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

Information regarding the Internal Auditor – Mr. Jacob Orbach has served as Chief Internal Auditor of the Company as of 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, and holds no other office in addition to his position as Chief Internal Auditor of Bank Hapoalim and of some of the subsidiaries in the Bank Group (including the Isracard Group), as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law.

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

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

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

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

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

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

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

Auditing resources – 16 audit days were invested directly at the Company in 2011. Activities outsourced by the Company to its parent company Isracard are audited within the internal audit at that company. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

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

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

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

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

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

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

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

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

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

Any significant flaws discovered in the establishment or operation of the internal control of financial reporting are also presented to the Audit Committee and to the Board of Directors. The reports are signed by the Chairperson of the Board of Directors, the CEO of the Company, and the Chief Accountant.

The Board of Directors

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

Thirteen meetings of the Board of Directors and fourteen meetings of the Audit Committee were held in 2011.

Directors with Accounting and Financial Expertise

Pursuant to the Public Reporting Directives of the Supervisor of Banks, the Company must specify the minimum number of directors with "accounting and financial expertise" which it has determined should serve on the Board of Directors and the Audit Committee. The Board of Directors of the Company has determined that the appropriate minimum number of directors with accounting and financial expertise on the Board of Directors and the Audit Committee is two. Note that at the reporting date, the number of directors with accounting and financial expertise, according to their education, qualifications, and experience, is seven.

Members of the Board

Irit Izakson

Acting Chairperson of the Company as of the beginning of October 2008.

Also serves as Acting Chairperson of Isracard, Aminit, and Poalim Express; Chairperson of the Credit Committee of the Board of Directors of Isracard and 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 as of December 27, 1999.

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

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

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

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

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

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

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Avi Idelson

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

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

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

Member of the Audit Committee of the Board of Directors of the Company; Chairperson of the Committee as of February 28, 2011.

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

Member of the following committees of the Board of Directors of Isracard: IT Committee, Credit Committee, Wage and Remuneration Committee.

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

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

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

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

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

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

Courses in banking and management at Bank Hapoalim.

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

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

Lilach Asher-Topilsky

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

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

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

Also serves as a director at Isracard.

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

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

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

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

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

Director with accounting and financial expertise.

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

Yair Ben-David

Attorney, owner of a legal practice.

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

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

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

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

L.L.B., Tel Aviv University.

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

Ilan Grinboim

CEO of Eurocom Cellular Communications Ltd. as of 2004.

Member of the Board of Directors of the Company as of May 26, 2010.

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

Also a member of the board of directors of the following companies: Dash Apax Holdings Ltd., Isracard, and Aminit; and a member of the Wage and Remuneration Committee of the Board of Directors of Isracard.

M.B.A., Tel Aviv University.

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Jacky Wakim

Served as an external director of the Company under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks from September 28, 2005 to September 27, 2011. Also served as a member of the Audit Committee and the IT Committee of the Board of Directors of the Company.

Eldad Kahana

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

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

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 Isracard and Aminit.

Member of the Wage and Remuneration Committee of the Board of Directors of Isracard.

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

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

Shmuel Lachman

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

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.

CEO of Shiral 10 Ltd.

Also a member of the board of directors of the following companies: Isracard, 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.

Chairman of the IT Committee of the Board of Directors of Isracard; member of the following board committees at Isracard: Audit Committee, Risk Management Committee; Chairman of the Credit Committee of the Board of Directors of Aminit; member of the Audit Committee of the Board of Directors of Aminit; member of the Audit Committee of Poalim Express.

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

M.Sc., Industry and Management, Technion;

B.Sc., Industry and Management, Technion.

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

Director with accounting and financial expertise.

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

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 as of July 19, 2000.

Also a member of the Board of Directors of Isracard and of the following committees of the Board of Directors of Isracard: the IT Committee and the Risk Management Committee.

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

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

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

Ran Oz

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

Member of the Board of Directors of the Company as of June 25, 2009.

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

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

Chairman of the Wage and Remuneration Committee of the Board of Directors of Isracard; member of the Risk Management Committee of the Board of Directors of Isracard.

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

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

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

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

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

C.P.A.

Director with accounting and financial expertise.

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

Ruth Arad

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

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

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

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

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

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

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

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

Director with accounting and financial expertise.

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

Moshe Amit

Member of the boards of directors of various companies.

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

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

Also a member of the board of directors of the following companies: Isracard; 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; and a member of the Credit Committee of the Board of Directors of Isracard.

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 as of September 25, 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 Isracard and a member of the Risk Management Committee of the Board of Directors of Isracard.

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

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

Ronny Shaten

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

Ron Weksler

Served on the board of directors of Isracard and Europay from March 1, 2004 to the end of September 2011, and as a member of the audit committees of these companies from March 12, 2009 to the end of September 2011.

Senior Members of Management

Dov Kotler

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

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

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

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

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

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

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

AMP (Advanced Management Program), Harvard University.

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

Yigal Bareket

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

Head of Information Technology and Operations.

Until the end of 2010, served as a member of management of the Project Management Institute P.M.I. Israel (R.A.).

Previously served 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.

IDF Center of Computing and Information Systems (Mamram), Computer School Track: programming, systems analysis, project management, technician, practical engineer.

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 as of February 2011.

Replaced Mr. Alberto Langa as Head of Risk Management and Security and as Chief Risk Officer (CRO).

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

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

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

Ami Alpan

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

Head of Strategic Planning.

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

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

M.B.A., Tel Aviv University;

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

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

Ron Cohen

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

Head of Credit and Financial Services.

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

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

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

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

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

Oren Cohen Butensky

Member of Management of the Company as of June 2011.

Head of Customer and Merchant Service.

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

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

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

B.A. in Psychology (Dean's List), 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 as of the end of March 2011.

Head of Finance and Administration.

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

C.P.A.

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

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

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

Maora Shalgi	Member of the Management of the Company as of 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 as of October 2, 2011. Head of Commerce and Sales. Served as a director (with accounting and financial expertise) of Isracard and Europay, and as a member of the audit committees of these companies, until the end of September 2011. Served in various positions at Bank Hapoalim B.M. as of 2002. Doctor of Philosophy and Ph.D. in Public Administration, Bar Ilan University. M.B.A., Bar Ilan University; LL.B., Tel Aviv University; B.A. in Accounting, Tel Aviv University. To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party of the corporation.

Controls and Procedures Regarding Disclosure and the Company's Internal Control of Financial Reporting

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Company must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Company's internal control of financial reporting, pursuant to the provisions of Sections 302 and 404 of the law known as the “Sarbanes-Oxley Act,” enacted in the United States. The provisions of these two sections of the law were consolidated by the Supervisor of Banks in a Proper Conduct of Banking Business Directive (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 as of the financial statements for June 30, 2007.

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

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

Evaluation of Controls and Procedures Regarding Disclosure

The Management of the Company, in cooperation with the Chief Executive Officer and the Chief Accountant of the Company, has assessed the effectiveness of the controls and procedures regarding disclosure at the Company as of the end of the period covered by this report. Based on this assessment, the Chief Executive Officer and the Chief Accountant of the Company have concluded that, as of the end of this period, the controls and procedures regarding disclosure at the Company are effective in order to record, process, summarize, and report the information which the Company is required to disclose in its annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Internal Control of Financial Reporting

During the fourth quarter ended on December 31, 2011, there was no change in the Company's internal control of 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.

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

Tel Aviv, February 27, 2012.

Europay (Eurocard) Israel Ltd.

Management's Review

For the Year Ended December 31, 2011

ISRACARD GROUP

Table of Contents

Balance Sheet – Multi-Period Data

Addendum 1

Reported amounts

In NIS millions

	December 31				
	2011	**2010**	**2009**	**2008**	**2007**
Assets					
Other assets	185	183	183	182	217
Total assets	**185**	**183**	**183**	**182**	**217**
Liabilities					
Other liabilities	*-	-	-	-	39
Total liabilities	*-	-	-	-	39
Equity	185	183	183	182	178
Total liabilities and capital	**185**	**183**	**183**	**182**	**217**

* Amount lower than NIS 0.5 million.

Statement of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

In NIS millions

	For the year ended December 31				
	2011	**2010**	**2009**	**2008**	**2007**
Net operating (expenses) income, under the agreement with Isracard Ltd.	(4)	(4)	(2)	(2)	*-
Profit from financing activity	6	4	4	8	11
Operating (loss) profit before taxes	**2**	**(*-)**	**2**	**6**	**11**
Provision for taxes on operating profit	*-	*-	1	2	1
Net operating profit (loss)	2	(*-)	1	4	10
Profit from extraordinary transactions after taxes	-	-	-	-	99
Net profit (loss)	**2**	**(*-)**	**1**	**4**	**109**
Net profit (loss) per common share (in NIS)					
Net operating profit (loss)	4	(*-)	2	9	24
Profit from extraordinary transactions after taxes	-	-	-	-	235
Total	**4**	**(*-)**	**2**	**9**	**259**

* Amount lower than NIS 0.5 million.

Balance Sheet as of the End of Each Quarter – Multi-Quarter Data

Addendum 3

Reported amounts

In NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Other assets	185	185	184	183
Total assets	**185**	**185**	**184**	**183**
Liabilities and capital				
Other liabilities	*-	*-	*-	*-
Equity	185	185	184	183
Total liabilities and capital	**185**	**185**	**184**	**183**

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Other assets	183	182	182	183
Total assets	**183**	**182**	**182**	**183**
Liabilities and capital				
Other liabilities	-	-	-	-
Equity	183	182	182	183
Total liabilities and capital	**183**	**182**	**182**	**183**

* Amount lower than NIS 0.5 million.

ISRACARD GROUP

Statement of Profit and Loss as of the End of Each Quarter – Multi-Quarter Data

Addendum 4

Reported amounts

In NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Net operating expenses under the agreement with Isracard Ltd.	(1)	(1)	(1)	(1)
Profit from financing activity	1	2	2	1
Operating profit before taxes	*-	1	1	*-
Provision for taxes on operating profit	*-	*-	*-	(*-)
Net profit	*-	1	1	*-
Net profit per common share (in NIS)	***-**	**2**	**2**	***-**

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Net operating expenses under the agreement with Isracard Ltd.	(1)	(1)	(1)	(1)
Profit from financing activity	2	*-	1	1
Operating profit (loss) before taxes	1	(1)	(*-)	(*-)
Provision for taxes on operating profit	*-	(1)	1	-
Net profit (loss)	1	(*-)	(1)	(*-)
Net profit (loss) per common share (in NIS)	**2**	**(*-)**	**(2)**	**(*-)**

* Amount lower than NIS 0.5 million.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Israel Ltd. (hereinafter: the "**Company**") for 2011 (hereinafter: the "**Report**").

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

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in 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 is brought to our knowledge by others at the Company, in particular during the preparation of the Report;

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

   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Company, and we have presented our conclusions with regard to the effectiveness of the controls and procedures concerning disclosure, as of the end of the period covered in the Report, based on our assessment; and

   D. We have disclosed in the Report any change in the internal control of financial reporting at the Company that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Company.

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

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

Tel Aviv, February 27, 2012. Chief Executive Officer

Certification

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Europay (Eurocard) Israel Ltd. (hereinafter: the "**Company**") for 2011 (hereinafter: the "**Report**").

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

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial position, results of operations, changes in 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 is brought to our knowledge by others at the Company, in particular during the preparation of the Report;

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

   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Company, and we have presented our conclusions with regard to the effectiveness of the controls and procedures concerning disclosure, as of the end of the period covered in the Report, based on our assessment; and

   D. We have disclosed in the Report any change in the internal control of financial reporting at the Company that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Company.

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

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

Tel Aviv, February 27, 2012.

Manager of Finance and Accounting Department,
Chief Accountant

Report of the Board of Directors and Management on the Internal Control of Financial Reporting

The Board of Directors and the Management of Europay (Eurocard) Ltd. (hereinafter: the "**Company**") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Company was designed to provide a reasonable degree of confidence to the Board of Directors and Management of the Company with regard to the adequate preparation and presentation of the financial statements, which are published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if it is determined that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial statements.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal control of financial reporting as of December 31, 2011, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as of December 31, 2011, the Company's internal control of financial reporting is effective.

The effectiveness of the Company's internal control of financial reporting as of December 31, 2011 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 91. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as of December 31, 2011.

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

Tel Aviv, February 27, 2012.

Europay (Eurocard) Israel Ltd.

Financial Statements

For the year ended December 31, 2011

ISRACARD GROUP

Table of Contents

Somekh Chaikin

Auditors' Report to the Shareholders of Europay (Eurocard) Ltd.

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

We have audited the internal control over financial reporting of Europay (Eurocard) Ltd. (hereinafter: "the Company") as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material aspects, effective control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks, the financial statements of the Company as of December 31, 2011 and 2010, and for each of the years in the three-year period ended on December 31, 2011. Our report dated February 27, 2012, expressed an unqualified opinion on the said financial statements, while drawing attention to Note 4A to the financial statements concerning antitrust issues.

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

Tel Aviv, February 27, 2012

Somekh Chaikin

Auditors' Report to the Shareholders of Europay (Eurocard) Ltd. – Annual Financial Statements

We have audited the accompanying balance sheets of Europay (Eurocard) Ltd. (hereinafter: "the Company") as of December 31, 2011 and 2010 and the balance sheets as of those dates, and the statements of profit and loss, reports on changes in equity, and statements of cash flows of the Company for each of the three years in the period ended on December 31, 2011. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of operations, changes in equity, and cash flows of the Company for each of the three years in the period ended on December 31, 2011, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforesaid opinion, we draw attention to Note 4A to the financial statements, concerning antitrust issues.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB) concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as of December 31, 2011, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2012, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

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

Tel Aviv, February 27, 2012

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2011	2010
Assets			
Other assets	2	185	183
Total assets		**185**	**183**
Liabilities and capital			
Surplus of current income-tax provisions over advances paid		*-	-
Contingent liabilities and special agreements	4		
Equity	3	185	183
Total liabilities and capital		**185**	**183**

* Amount lower than NIS 0.5 million.

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

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

Tel Aviv, February 27, 2012.

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2011	2010	2009
Net operating expenses under the agreement with Isracard Ltd.	5	(4)	(4)	(2)
Profit from financing activity		6	4	4
Operating profit (loss) before taxes		2	(*-)	2
Provision for taxes on operating profit	7	*-	*-(1)	1
Net profit (loss)		2	(*-)	1
Basic and diluted net profit (loss) per common share (in NIS)		4	(*-)	2
Number of common shares used in calculation		427,699	427,699	427,699

* Amount lower than NIS 0.5 million.

(1) See Note 4.B.2 below.

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

Report on Changes in Equity

Reported amounts

In NIS millions

	Paid-up share capital	Premium on shares	Total paid-up capital and premium	Retained earnings	Total equity
Balance as of December 31, 2008	1	*-	1	181	182
Annual net profit	-	-	-	1	1
Balance as of December 31, 2009	1	*-	1	182	183
Annual loss	-	-	-	(*-)	(*-)
Balance as of December 31, 2010	1	*-	1	182	183
Annual net profit	-	-	-	2	2
Balance as of December 31, 2011	**1**	***-**	**1**	**184**	**185**

Statement of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
Cash flows from operating activity			
Annual net profit (loss)	2	(*-)	1
Adjustments required to present operating cash flows:			
(Increase) decrease in other assets	(2)	*-	(1)
Increase in creditors and credit balances	*-	-	-
Net cash used for operating activity	**-**	**-**	**-**
Cash flows from activity in liabilities and capital			
Net cash from activity in liabilities and capital	-	-	-
Increase in cash and cash equivalents	-	-	-
Balance of cash and cash equivalents at beginning of year	-	-	-
Balance of cash and cash equivalents at end of year	-	-	-

* Amount lower than NIS 0.5 million.

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

Note 1 – Significant Accounting Policies

A. General

1. Europay (Eurocard) Israel Ltd. (the "**Company**") is a corporation incorporated in Israel in 1972 as a private company by Bank Hapoalim B.M. ("**Bank Hapoalim**"), which was the controlling shareholder of the Company until July 2009. In July 2009, Isracard purchased the full holdings of Bank Hapoalim and of a subsidiary under its ownership in the Company. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

   The Company is primarily engaged in issuing MasterCard credit cards for use abroad, and in clearing transactions executed using MasterCard credit cards by tourists in Israel with merchants credited in US dollars.

   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 with regard to the preparation of annual financial statements of credit-card companies.

2. The annual financial statements were approved for publication by the Board of Directors on February 27, 2012.

B. Definitions

In these financial statements:

♦ **International Financial Reporting Standards (hereinafter: "IFRS")** – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including 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 bank supervision agencies in the United States, the Securities and Exchange Commission in the United States, the Financial Accounting Standards Board in the United States, and other entities in the United States, and implemented according to the hierarchy established in FAS 168 (ASC 105-10), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which replaced FAS 162. In addition, as established by the Supervisor of Banks, despite the hierarchy established in FAS 168, it has been clarified that any position stated the public by the bank supervision agencies in the United States or by the staff of the bank supervision agencies in the United States with regard to the manner of implementation of US GAAP constitutes GAAP for US banks.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

1. The Company – Europay (Eurocard) Israel Ltd.
2. The Parent Company – Isracard Ltd.
3. Related parties – As defined in Opinion Statement No. 29 of the Institute of Certified Public Accountants in Israel, excluding interested parties.
4. Interested parties – As in Paragraph 1 of the definition of an “interested party of a corporation” in Section 1 of the Securities Law, 1968.
5. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.
6. CPI – The consumer price index in Israel published by the Central Bureau of Statistics.
7. USD – United States dollar.
8. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements No. 23 and 36 of the Institute of Certified Public Accountants in Israel.
9. Adjusted financial reporting – Financial reporting in values adjusted to changes in the general purchasing power of Israeli currency, in accordance with the directives of the Opinion Statements of the Institute of Certified Public Accountants in Israel.
10. Reported amount – Amount adjusted to the transition date (December 31, 2003), plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.
11. Cost – Cost in reported amounts.
12. Nominal financial reporting – Financial reporting based on reported amounts.
13. Functional currency – The currency of the main economic environment in which the company operates; the functional currency of banking corporations and credit-card companies in Israel is the NIS (New Israeli Shekel).
14. Presentation currency – The currency in which the financial statements are presented.

C. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the Company are prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. In preparing the financial statements, the Company

Note 1 – Significant Accounting Policies (cont.)

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

implements, among other matters, certain IFRS and GAAP for US banks, in the following manner:

- On matters related to the core business of banking – Accounting treatment in accordance with the directives and guidelines of the Supervisor of Banks, and in accordance with GAAP for US banks that have been adopted as part of the Public Reporting Directives of the Supervisor of Banks.

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

  - In cases in which a material issue arises that is not resolved in the IFRS or in the implementation instructions of the Supervisor, the Group treats the issue according to specifically applicable GAAP for US banks;

  - 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 Reporting Directives and with Israeli GAAP;

  - Where an IFRS that has been adopted contains a reference to a definition of a term defined in the Public Reporting Directives, a reference to the definition in the Directives shall replace the original reference.

2. Functional Currency and Presentation Currency

The currency representing the primary economic environment in which the Company operates is the NIS. The financial statements are presented in NIS and rounded to the nearest million, unless otherwise noted.

Note 1 – Significant Accounting Policies (cont.)

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

3. Measurement Base

The financial statements were prepared based on historical costs. 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. As of 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 policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements of the Company, the Management of the Company is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Management of the Company bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate.

The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

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

During 2011, the Company commenced implementation of the following accounting standards:

1. Directives of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk, and credit loss provisions, and amendment of the directives regarding the treatment of problematic debts;

2. Certain IFRS, listed below:

    - IFRS 2, Share-Based Payment;

    - IFRS 3 (2008), Business Combinations;

    - IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations;

Note 1 – Significant Accounting Policies (cont.)

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

- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 10, Events After the Reporting Period;
- IAS 16, Property, Plant and Equipment;
- IAS 17, Leases;
- IAS 20, Accounting for Government Grants and Disclosure of Government Assistance;
- IAS 21, The Effects of Changes in Foreign Exchange Rates;
- IAS 27 (2008), Consolidated and Separate Financial Statements;
- IAS 28, Investments in Associates;
- IAS 29, Financial Reporting in Hyperinflationary Economies;
- IAS 31, Interests In Joint Ventures;
- IAS 33, Earnings Per Share;
- IAS 34, Interim Financial Reporting;
- IAS 36, Impairment of Assets;
- IAS 38, Intangible Assets;
- IAS 40, Investment Property.

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

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

1. Linkage and Foreign Currency

Transactions in foreign currency are translated into the relevant functional currency of the Company according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency according to the exchange rate in effect at that date. Exchange-rate

Note 1 – Significant Accounting Policies (cont.)

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

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 into the functional currency of non-monetary equity financial instruments classified as available for sale.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

Assets and liabilities linked to the consumer price index are included according to the linkage terms established for each balance.

Initial Implementation of IAS 21, The Effects of Changes in Foreign Exchange Rates

The initial implementation of this standard had no effect on the financial statements of the Company.

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

	December 31		
	2011	**2010**	**2009**
Consumer price index (in points)	104.0	101.8	99.2
United States dollar exchange rate (in NIS per 1 USD)	3.821	3.549	3.775

	Percent change in the year ended December 31		
	2011	**2010**	**2009**
Consumer price index	2.2	2.7	3.9
USD exchange rate	7.7	(6.0)	(0.7)

Note 1 – Significant Accounting Policies (cont.)

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

2. Basis for Recognition of Revenue

(1) Interest income is recorded on a cumulative basis and recognized according to the interest method.

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

3. Contingent Liabilities

The financial statements include sufficient provisions for legal claims, according to the assessment of Management and based on the opinions of its legal advisors. The disclosure is in the format set forth in the directives of the Supervisor of Banks, such that the claims filed against the Company are classified into three groups:

(1) Probable risk – the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of claims in this risk group.

(2) Reasonably possible risk – the probability of realization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.

(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.

4. Taxes on Income

Expenses for taxes on income include current and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity. In such cases, the expense for taxes on income is allocated to equity. Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws legislated or legislated in practice at the balance-sheet date, including changes in tax payments referring to previous years.

The Company recognizes deferred taxes with reference to temporary differences between the book value of assets and liabilities for the purposes of financial reporting and their value for tax

Note 1 – Significant Accounting Policies (cont.)

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

purposes. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws legislated or legislated in practice at the balance-sheet date. The Company offsets deferred tax assets and liabilities in the event that an enforceable legal right exists for the offsetting of current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority in respect of the same taxed company.

Deferred tax assets in respect of losses carried forward and in respect of rights carried forward to offset tax are recognized in the books in cases in which the realization of the said tax in the foreseeable future is not in doubt. A deferred tax asset is recognized in respect of temporary differences when it is probable that a tax saving will be created in respect thereof at the reversal date. The creation of net deferred tax assets shall not exceed the current taxes in the accounting period, except in special cases in which the realization of the tax in the foreseeable future is not in doubt.

5. Earnings Per Share

The Company presents data on basic earnings per share with respect to its common share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the common shares of the Company by the weighted average number of common shares in circulation during the period.

Initial Implementation of IAS 33, Earnings Per Share

The initial implementation of this standard had no effect on the manner of calculation of earnings per share.

6. Statement of Cash Flows

The statement of cash flows is presented classified into cash flows from operating activity, from activity in assets, and from activity in liabilities and capital. Cash flows from activity in assets and from activity in liabilities and capital are presented net, except for changes in non-monetary assets.

The item "cash and cash equivalents" includes cash on hand and deposits with banks for an original period of up to three months.

7. Fair value of financial instruments

The balance-sheet balance of financial instruments serves as an approximation of their fair value.

Note 1 – Significant Accounting Policies (cont.)

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

8. Segmental Reporting

The Company's operations are primarily conducted in the Clearing Segment.

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

1. Directives Concerning the Format of the Statement of Profit and Loss of a Banking Corporation and the Adoption of GAAP for US Banks on Interest Income Measurement

A circular of the Supervisor of Banks was issued on December 29, 2011, with the aim of adjusting the Public Reporting Directives as follows:

- Establishing the manner of presentation of the statement of profit and loss – The directive adjusts the format of the statement of profit and loss to the prevalent manner of presentation globally and in the United States. The new format changes the manner of presentation of the components of financing profit in the statement of profit and loss itself and in the accompanying notes; changes the classification of linkage differentials on principal as part of "interest"; and changes the classification and names of other items of the statement of profit and loss. In addition, the directive cancels the item "profit from extraordinary transactions" and adopts the customary approach in the United States, according to which special items are defined as items that are "unusual" and "infrequent," and states that the classification of any event as a special item shall only be possible with advance approval of the Supervisor of Banks. The directive also establishes changes in the format of additional notes to the financial statements.

  The directives with regard to the format of the statement of profit and loss will be implemented beginning with the public report for the first quarter of 2012, retroactively. The initial implementation of the directives is expected to have no effect, other than the change in presentation.

- Adoption of the rules established in US GAAP regarding "nonrefundable fees and other costs" – The directive establishes rules for the treatment of fees from the creation of loans and direct costs of the creation of loans. The eligible fees and costs, according to the criteria established, shall not be recognized immediately in the statement of profit and loss, but shall be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of fees and costs related to commitments to allocate credit, including credit-card transactions. The directive also sets forth rules regarding the treatment of changes in the terms of debt that do not constitute restructuring

Note 1 – Significant Accounting Policies (cont.)

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

of problematic debt, treatment of early repayment of debts, and treatment of other credit granting transactions.

The rules established in the directive represent a significant change relative to the existing rules in the Public Reporting Directives. The preparations for the implementation of the rules established in the directive are complex; the Supervisor of Banks intends to guide the banking corporations and credit-card companies in the preparatory process, especially in the area of identifying eligible costs. The circular states that the rules on this matter will be implemented from January 1, 2013, forward. The directives concerning the change in the definition of “interest” in respect of impaired debts will be implemented, with regard to debts classified as impaired, from January 1, 2012 forward only.

The Company is examining the expected implications of the initial implementation of the directives.

2. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS). The standard stipulates that entities subject to the Securities Law, 1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting as of January 1, 2008. The aforesaid does not apply to banking corporations and credit-card companies whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks.

   In June 2009, the Supervisor of Banks issued a letter concerning reporting by banking corporations and credit-card companies in Israel in accordance with IFRS, which establishes the expected manner of adoption of IFRS by banking corporations and credit-card companies.

   It was further clarified that subsequent to the completion of the process of adjusting the directives to the international standards, the Supervisor of Banks will retain the authority to set forth binding clarifications with regard to the manner of implementation of the requirements of the international standards, and to set forth additional directives in cases in which it is necessary due to the requirements of the supervisory agencies in developed countries globally, or on matters not addressed by the international standards. In addition, the Supervisor of Banks will retain the authority to establish disclosure and reporting requirements.

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

   (1) On matters related to the core business of banking – As of January 1, 2013. The Supervisor of Banks intends to reach a final decision on this matter. The final decision will be made taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards. A final decision on this matter has not yet been made.

Note 1 – Significant Accounting Policies (cont.)

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

(2) On matters not related to the core business of banking – January 1, 2011. However, the IFRS listed below have not yet taken effect, and will be adopted in accordance with the directives of the Supervisor of Banks, when such directives are published, with regard to the timing and manner of the initial implementation of the standards:

- IAS 7, Statement of Cash Flows;
- IAS 12, Income Taxes;
- IAS 19, Employee Benefits;
- IAS 23, Borrowing Costs;
- IAS 24, Related Party Disclosures.

A circular concerning the adoption of certain IFRS was issued on November 30, 2011. Among other matters, the circular states that these IFRS, with the exception of IAS 19, Employee Benefits, shall be implemented by banking corporations and credit-card companies as of January 1, 2012. Upon initial implementation of these IFRS, banking corporations and credit-card companies are required to act in accordance with the transitional directives set forth in the standards, including retroactive amendment of comparison figures if required.

Additional details regarding the standards to be adopted as of January 1, 2012 are set out below.

IAS 12, Taxes on Income

The standard establishes the accounting treatment of taxes on income. Pursuant to the standard, deferred taxes shall be recognized with reference to temporary differences between the book value of assets and liabilities and the value of the assets and liabilities for tax purposes, with the exceptions stipulated in the standard, according to which deferred taxes shall not be recognized in respect of temporary differences. The deferred taxes shall be measured in accordance with the tax rates expected to apply during the period in which the temporary differences will be realized, based on tax rates and tax laws legislated, or the legislation of which has been essentially completed, by the end of the reporting period. Current tax liabilities or assets in respect of the current period and in respect of previous periods shall be measured according to the estimated amount to be paid to the tax authorities or refunded by the tax authorities, using the tax rates and tax laws legislated, or the legislation of which has been essentially completed, by the end of the balance-sheet period.

Note 1 – Significant Accounting Policies (cont.)

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

The standard further states that deferred tax assets shall be recognized in the books in respect of losses carried forward, tax credits, and deductible temporary differences when it is probable that taxable income against which they can be used will exist in the future. In accordance with the rules set forth in the standard, as adopted in the Public Reporting Directives of the Supervisor of Banks, the term "probable" shall be defined consistently with the application of the phrase "more likely than not," instead of the translation of the term "probable" in the Public Reporting Directives implemented today, in which the threshold is established as "beyond any reasonable doubt."

In addition, in situations of uncertainty with regard to taxes on income, banking corporations shall be required to implement the rules set forth in FIN 48, Accounting for Uncertainty in Income Taxes, as long as these rules do not contradict IFRS, by establishing policies and procedures and implementing documentation requirements with respect to tax positions of various degrees of uncertainty.

The initial implementation of this standard is expected to have no material effect.

IAS 7, Statement of Cash Flows

The standard states that information should be provided regarding changes in cash and cash equivalents during the reporting period through the statement of cash flows. Changes have been established in the Public Reporting Directives of the Supervisor of Banks in the present format of the statement of cash flows, to adjust this format to the requirements of the standard and to the reporting requirements established in certain other IFRS. Specifically, cash flows shall be classified into cash flows from operating activities, investing activities, and financing activities. In addition, a determination was made regarding the activities that shall be considered principal revenue-producing activities for the banking corporation, and that consequently shall be classified as operating activities. Guidelines were also established with regard to the presentation of cash flows in gross and net amounts. The effect of changes in exchange rates on cash and cash equivalents held in foreign currency or due for settlement in foreign currency shall be stated separately from other changes in cash and cash equivalents. Cash flows from interest and dividends received or paid and cash flows arising from taxes on income shall be given separate disclosure.

In addition, the cash flow statement was adjusted to other changes that have occurred in the Public Reporting Directives, pursuant to the adoption of certain IFRS.

The initial implementation of this standard is expected to have no effect, other than the change in presentation.

IAS 23, Borrowing Costs

The standard states that entities must capitalize borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that

Note 1 – Significant Accounting Policies (cont.)

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

requires a substantial period of time to prepare for its designated use or sale, including fixed assets, software assets, and other assets where a long period is necessary in order to bring the asset to a condition in which it can fulfill its designated function or be sold. However, it has been clarified in the directives of the Supervisor of Banks that banking corporations shall not capitalize borrowing costs without establishing clear policies, procedures, and controls with regard to the criteria for recognition of assets as qualifying assets and with regard to the borrowing costs that are capitalized.

Accordingly, the initial implementation of this standard is expected to have no effect.

IAS 24, Related Party Disclosures

The standard establishes the required disclosures by an entity regarding its relationship with a related party and regarding transactions and unsettled balances with a related party.

In addition, disclosure is required for compensation to key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

As part of the expected adoption of the standard by the Supervisor of Banks, the format of the required disclosure in the financial statements will be adjusted, in order to comply with the disclosure requirements of IAS 24 as well as the additional disclosures required under the Securities Regulations (Annual Financial Statements), 2010. The initial implementation of this standard is expected to have no effect, other than the change in presentation.

3. In December 2006, the Israel Accounting Standards Board issued Accounting Standard No. 23, Accounting Treatment of Transactions between an Entity and its Controlling Party. The standard replaces the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Party in Financial Statements), 1996, as adopted in the Public Reporting Directives of the Supervisor of Banks. The standard stipulates that assets and liabilities in respect of which a transaction has been executed between an entity and its controlling party shall be measured at the date of the transaction at fair value, with the difference between the fair value and the consideration allocated in the transaction to be allocated to equity. A negative difference essentially constitutes a dividend and therefore reduces the balance of retained earnings. A positive difference essentially constitutes an owner’s investment, and is therefore stated in a separate item in equity entitled “capital reserve from a transaction between an entity and its controlling party.”

   The standard addresses three issues related to transactions between an entity and its controlling party, as follows: (1) transfers of assets to the entity from the controlling party, or alternatively, transfers of assets from the entity to the controlling party; (2) undertaking of a

Note 1 – Significant Accounting Policies (cont.)

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

liability of the entity towards a third party, in full or in part, by the controlling party, or indemnification of the entity by its controlling party for expenses, or a waiver by the controlling party of a debt owed by the entity, in full or in part; and (3) loans given to or received from the controlling party. In addition, the standard stipulates the disclosure to be made in the financial statements with regard to transactions between an entity and its controlling party during the period.

A circular concerning the adoption of certain IFRS was issued on November 30, 2011. Among other matters, the circular states that as of January 1, 2012, for the purposes of accounting for transactions between a banking corporation and its controlling party or a company controlled by the banking corporation, GAAP for US banks should be implemented. In situations where these rules do not address the treatment method, the rules established in Standard 23 in Israel shall be applied, in a manner consistent with the principles of the adoption of IFRS on matters not related to the core business of banking.

The initial implementation of this standard is not expected to have a material effect.

4. ASU 2011-04, Fair Value Measurement

This Accounting Standard Update updates the instructions regarding the manner of measuring fair value set forth in FAS 157 (ASU 820-10).

The updates in the ASU include clarifications by the FASB of its intentions regarding the manner of implementation of fair value measurement rules and the current disclosure requirements, as well as updates that establish principles or specific requirements regarding fair value measurement and regarding the disclosure requirements pertaining to fair value measurements.

Among other matters, these updates include additional clarifications and specific instructions with regard to the measurement of fair value of financial instruments managed within a portfolio; rules for the measurement of fair value of instruments classified in equity by the reporting entity; and clarifications regarding the application of premiums or discounts in calculating the fair value of an accounting unit of an asset or liability. In addition, the standard sets forth additional disclosure requirements, as follows:

(1) With regard to fair value measurements classified as Level 3 in the fair value hierarchy:

- The assessment process implemented by the reporting entity;
- Analysis of the sensitivity of the fair value measurement to changes in unobservable inputs and the interaction between such unobservable inputs, if any.

Note 1 – Significant Accounting Policies (cont.)

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

(2) Use of a nonfinancial asset in a manner different from the highest and best use, when the asset is measured at fair value in the balance sheet or when its fair value is included in the disclosures according to the assumption of highest and best use.

(3) Classification into levels, within the fair value hierarchy, for items not measured at fair value in the balance sheet, but for which the disclosure of fair value is required.

The standard will be implemented in annual periods beginning January 1, 2012. Early implementation is not permitted. The updates established in the ASU shall be implemented prospectively.

The initial implementation of this standard is expected to have no effect on the financial statements.

Note 2 – Other Assets

Reported amounts

In NIS millions

	December 31	
	2011	2010
Surplus of advance income-tax payments over current provisions	-	1
Isracard Ltd.[(1)]	185	182
Total other assets	**185**	**183**

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

For further details, see Note 4.D below.

Note 3A – Equity

A. Composition

	December 31, 2011 and 2010	
	Registered	Issued and paid-up
	In NIS	In NIS
Common shares of NIS 0.0001	100	43

Note 3B – Capital Adequacy According to the Directives of the Supervisor of Banks[1]

Reported amounts

1. Capital for the calculation of the capital ratio

	December 31, 2011	December 31, 2010
	NIS millions	
Core capital and Tier 1 capital	185	183
Total overall capital	**185**	**183**

2. Weighted balances of risk-adjusted assets

	December 31, 2011		December 31, 2010	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk	92	8	91	8
Operational risk	3	*-	7	1
Total weighted balances of risk-adjusted assets	**95**	**8**	**98**	**9**

* Amount lower than NIS 0.5 million.

3. Ratio of capital to risk-adjusted assets

	December 31, 2011	December 31, 2010
	Percent	
Ratio of core capital and Tier I capital to risk-adjusted assets	194.7	186.7
Ratio of total capital to risk-adjusted assets	194.7	186.7
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.”

Capital Adequacy Target

Capital adequacy is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, “Capital Measurement and Adequacy.” A resolution of the Board of Directors of February 28, 2011 established minimum targets of 7.5% for the Company's core Tier I capital ratio and 12.5% for the Company's total capital ratio, effective as of the first quarter of 2011.

Note 4 – Contingent Liabilities and Special Agreements

A. Antitrust Issues and Additional Regulation

Most of the Company's activity is performed for the Company and on its behalf by Isracard. In the area of clearing, this activity includes clearing of transactions executed with merchants in Israel in foreign currency using MasterCard cards issued abroad. Isracard clears, for itself, transactions executed with merchants in Israel using MasterCard and Isracard cards issued in Israel, and transactions executed in Israel in Israeli currency using MasterCard cards issued abroad.

Reports by Isracard and by Bank Hapoalim indicate the following, among other matters: In May 2005, the Antitrust Commissioner declared Isracard a holder of a monopoly in clearing Isracard and MasterCard charge cards. Isracard appealed this declaration; the Commissioner presented Isracard with a draft of directives for a monopoly, to which Isracard submitted objections; in October 2006, Isracard and Bank Hapoalim, together with other credit-card companies (not including the Company) and other banks, filed a request with the Antitrust Tribunal to approve a restrictive arrangement under the terms formulated and agreed upon with the Antitrust Commissioner. The Tribunal has granted several temporary permits for the Arrangement; the current temporary permit is in effect until February 29, 2012. Among other matters, the aforesaid Arrangement includes the establishment of an interchange fee (a fee paid by the clearer of a credit-card transaction to the issuer of the credit card).

A common technical interface for the credit-card companies Isracard, Aminit, Leumi Card, and CAL began to operate in June 2007, for the clearing of transactions executed in Israel using Visa and MasterCard cards issued in Israel. Expansion of the activity of other companies in clearing transactions executed in Israel using MasterCard cards may influence the Company’s activity and detract from its revenues, despite the fact that its activity is focused on the clearing of transactions executed using MasterCard cards issued abroad.

Although the Company is not directly associated with the processes described above, the Company estimates that these processes, or part of such processes, may influence the Company’s activity and impair its revenues, despite the fact that its activity is focused on clearing transactions in MasterCard cards issued abroad. The Company cannot estimate which of the factors mentioned will materialize, when such factors may materialize, or the extent of their impact.

Additional Regulation

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

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

Note 4 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Additional Regulation (cont.)

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

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

   A private bill was submitted to the Knesset in March 2010, according to which credit-card companies must note in their reports to cardholders whether a transaction performed by the cardholder constitutes a transaction 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 Company estimates that the amendment of the Directive will have no effect on the Company.

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

Note 4 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Additional Regulation (cont.)

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

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

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

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

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

Note 4 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Additional Regulation (cont.)

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

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

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

    The Company is preparing to implement the aforesaid directives.

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

    In December 2011, the Supervisor of Banks issued a circular concerning the prohibition of money laundering and terrorism financing, which details the Supervisor's final instructions in

Note 4 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Additional Regulation (cont.)

connection with the struggle against parties aiding the Iranian nuclear program and related plans. The circular amends the directives of Proper Conduct of Banking Business Directive No. 411, Prevention of Money Laundering and Terrorism Financing, and Customer Identification.

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

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

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

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

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

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

Note 4 – Contingent Liabilities and Special Agreements (cont.)

A. Antitrust Issues and Additional Regulation (cont.)

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

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

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

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

Note 4 – Contingent Liabilities and Special Agreements (cont.)

B. Legal Proceedings and Pending Claims

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

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

Note 4 – Contingent Liabilities and Special Agreements (cont.)

D. Agreement with Isracard (the Parent Company)

An agreement is in place between the Company and Isracard to formalize the joint activities of the parties. Account settlement between the companies is performed in accordance with this agreement.

Clearing of transactions executed in Israel using cards issued abroad

Transactions executed in Israel in Israeli currency or foreign currency and paid to the supplier in Israeli currency are cleared by Isracard. Transactions executed in Israel in foreign currency and paid to the supplier in foreign currency are cleared by the Company.

Note 5 – Net Operating Income (Expenses) Under the Agreement with Isracard Ltd.

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
Income			
Income in respect of merchants	15	14	*13
The Company's share of royalties from Banks Under Arrangement	3	3	*3
Total income	**18**	**17**	**16**
Expenses			
Operating expenses	18	17	15
Payments for operation and management of the arrangement	4	4	3
Total expenses	**22**	**21**	**18**
Total	**(4)**	**(4)**	**(2)**

* Reclassified.

Note 6 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2011		December 31, 2010	
	Interested parties		Interested parties	
	Controlling shareholders		Controlling shareholders	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Isracard Ltd.	**185**	**185**	**183**	**183**

B. Summary of Results of Business with Interested and Related Parties[(1)]

	For the year ended December 31		
	2011	2010	2009
Net operating expenses	(4)	(4)	(2)
Net profit from financing activity	6	4	4
Total	**2**	**(*-)**	**2**

(1) See Note 5 above.

* Amount lower than NIS 0.5 million.

Note 7 – Provision for Taxes on Operating Profit

Reported amounts

In NIS millions

1. Item Composition

	For the year ended December 31		
	2011	2010	2009
Current taxes for the accounting year	*-	*-	1

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

	For the year ended December 31		
	2011	2010	2009
Tax rate applicable to the Company in Israel	24%	25%	26%
Tax amount based on statutory rate	*-	*-	1
Provision for taxes on income	***-**	***-**	**1**

* Amount lower than NIS 0.5 million.

3. Final tax assessments have been issued to the Company up to and including the tax year 2005, including tax assessments considered to be final under the Income Tax Ordinance.

4. Changes in Tax Rates

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 2009, which among other matters set forth an additional gradual reduction of the corporation tax rate, to 18% from the tax year 2016 forward. In accordance with the aforesaid amendments, the corporation tax rates applicable from the tax year 2009 forward are as follows: 26% in the tax year 2009, 25% in the tax year 2010, 24% in the tax year 2011, 23% in the tax year 2012, 22% in the tax year 2013, 21% in the tax year 2014, 20% in the tax year 2015, and 18% from the tax year 2016 forward.

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

Current taxes for the periods reported in these financial statements are calculated according to the tax rates established in the Economic Efficiency Law. This change has no effect on the financial statements.

Note 8 – Information Based on Historical Nominal Data for Tax Purposes

Reported amounts

In NIS millions

	December 31	
	2011	**2010**
Total assets	**185**	**183**
Total liabilities	**-**	**-**
Equity	**185**	**183**
Nominal net profit (loss)	**2**	**(*-)**