Poalim Express Ltd.

Annual Report

For the year ended December 31, 2011

Table of Contents

Board of Directors' Report	**5**
Description of the General Development of the Company's Business	8
Economic Environment and the Effect of External Factors on the Company's Operations	9
Operational Data	12
Profit and Profitability	13
Developments in Balance-Sheet Items	15
Description of the Company's Business by Operating Segments	17
Financial Information on the Company's Operating Segments	26
Intangible Assets	32
Human Capital	32
Service Providers	35
Financing	35
Taxation	36
Other Matters	36
Restrictions and Supervision of the Company's Operations	36
Legal Proceedings	42
Contingent Liabilities	42

Objectives and Business Strategy 43

Risk Management Policy 43

Capital Measurement and Adequacy 53

Prohibition of Money Laundering and Financing of Terror 83

Critical Accounting Policies 83

Discussion of Risk Factors 86

Disclosure Regarding the Internal Auditor 89

Disclosure Regarding the Procedure for Approval of the Financial Statements 91

The Board of Directors 92

Senior Members of Management 98

Controls and Procedures Regarding Disclosure and the Company's Internal Control of Financial Reporting 102

Wages and Benefits of Officers 103

Remuneration of Auditors 103

Management's Review **104**

CEO Certification **133**

Chief Accountant Certification **135**

Report of the Board of Directors and Management on the Internal Control of Financial Reporting **137**

Financial Statements **138**

Poalim Express Ltd.

Board of Directors' Report

For the Year Ended December 31, 2011

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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 Poalim Express Ltd. ("**the Company**" or "**Poalim Express**") for the year 2011.

Description of the General Development of the Company's Business

The Company was established and incorporated in Israel in 1995 as a private company. The Company is owned by Bank Hapoalim B.M. ("**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 issues and clears American Express credit cards issued for use in Israel and abroad under a license granted to the Company by American Express Ltd. ("**the American Express Organization**"). The agreement with the worldwide American Express Organization concerning the issuance and clearing of American Express credit cards was renewed in April 2010. This agreement is in effect for a period of seven additional years.

The Company's operations are conducted through two operating segments: the Issuance Segment, which handles cardholders; and the Clearing Segment, which handles merchants.

Contractual engagement between the Company and Isracard – Under an agreement between the Company and Isracard, a sister company, Isracard administers and operates, on behalf of the Company, issuance and clearing activity in Israel of transactions executed with merchants using American Express 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.

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

Share issuance – On March 24, 2010, the Company issued 39,326 common shares of par value

NIS 1 each to Bank Hapoalim, at a price of NIS 890 per share. The total consideration was NIS 35 million.

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

Developments in the Global Economy

Global economic activity slowed in the second half of 2011, against a backdrop of numerous issues confronted by the global economy, most notably the sovereign debt crisis in Europe. The global economy grew by 3.8%, with the developing economies contributing most of this growth. The developed economies posted a moderate growth rate of 1.6% and continued to show large internal differences: growth was 1.8% in the United States and 3.0% in Germany, whereas Japan experienced a 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 comparative 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, which, as noted, issues and clears American Express credit cards; (2) Isracard and Europay, which issue and clear Isracard and MasterCard credit cards, respectively; (3) Aminit, a sister company, which issues and clears Visa credit cards; (4) Leumi Card Ltd. ("**Leumi Card**"), which, to the best of the Company's knowledge, issues and clears Visa and MasterCard credit cards; (5) Cartisei Ashrai Leisrael Ltd. ("**CAL**"), which, to the best of the Company's knowledge, issues and clears Visa and MasterCard credit cards; and (6) Diners Club Israel Ltd. ("**Diners**"), to the best of the Company's knowledge a subsidiary of CAL, which issues and clears Diners credit cards.

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

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

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

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

Operational Data

Number of Credit Cards (in thousands)

Number of valid credit cards as of December 31, 2011

	Active cards	Inactive cards	Total
Bank cards	232	53	285
Non-bank cards –			
Credit risk on the Company	76	40	116
Total	**308**	**93**	**401**

Number of valid credit cards as of December 31, 2010

	Active cards	Inactive cards	Total
Bank cards	209	43	252
Non-bank cards –			
Credit risk on the Company	59	27	86
Total	**268**	**70**	**338**

Volume of transactions in credit cards issued by the Company (in NIS millions)

	For the year ended December 31	
	2011	**2010**
Bank cards	9,657	8,648
Non-bank cards –		
Credit risk on the Company	2,228	1,559
Total	**11,885**	**10,207**

Definitions

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

Active credit card: A credit card valid at the end of the reported period, which was used to

execute transactions during the last quarter of the reported period.

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

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

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

Profit and Profitability

The Company's net profit totaled NIS 35 million in 2011, compared with NIS 22 million in 2010, an increase of 59%.

Net return on average equity reached 23.8% in 2011, compared with 18.2% in 2010.

Developments in Income and Expenses

Income totaled NIS 262 million, compared with NIS 225 million in 2010, an increase of 16%. For an explanation of the increase, see the item income from credit-card transactions below.

Income from credit-card transactions totaled NIS 256 million, compared with NIS 223 million in 2010, an increase of 15%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 216 million, compared with NIS 188 million in 2010, an increase of 15%, resulting from growth in the volume of activity in the Company's credit cards.
- Income in respect of credit-card holders totaled NIS 40 million, compared with NIS 35 million in 2010, an increase of 14%.

Profit from financing activity before provisions for credit losses totaled NIS 5 million, compared with NIS 1 million in 2010, an increase of 400%. Most of the increase resulted from an increase in the interest rate.

Other income totaled NIS 1 million, similar to 2010.

Expenses before payments to banks totaled NIS 155 million, compared with NIS 141 million in 2010, an increase of 10% (for an explanation of this increase, see the items of provision for credit losses and operating expenses, below).

Expenses including payments to banks totaled NIS 218 million, compared with NIS 195 million in 2010, an increase of 12% (for an explanation of this increase, see the items of operating expenses and provision for credit losses, below).

Provisions for credit losses totaled NIS 4 million, compared with NIS 1 million in 2010. On January 1, 2011, the Company adopted the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit loss, and provisions for credit losses, for the first time. Comparative figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable.

Operating expenses totaled NIS 85 million, compared with NIS 74 million in 2010, an increase of 15%. The increase mainly resulted from expenses in respect of royalties to the international organization.

Sales and marketing expenses totaled NIS 44 million, compared with NIS 47 million in 2010, a decrease of 6%.

General and administrative expenses totaled NIS 22 million, compared with NIS 19 million in 2010, an increase of 16%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 63 million, compared with NIS 54 million in 2010, an increase of 17%. Most of the increase resulted from growth in the Company's activity.

The ratio of expenses to income before payments to banks reached 59.2%, compared with 62.7% in 2010.

Operating profit before taxes totaled NIS 44 million, compared with NIS 30 million in 2010, an increase of 47%.

The return of operating profit before taxes on average equity reached 29.9%, compared with 24.8% in 2010.

The provision for taxes on operating profit totaled NIS 9 million, compared with NIS 8 million in 2010. The effective tax rate, of total operating profit before taxes, reached 20.5%, compared with 26.7% in 2010.

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 be 25% from 2012 forward.

Current taxes for the periods reported in these financial statements are calculated according to the tax rates established in the Economic Efficiency Law.

The balances of deferred taxes as of December 31, 2011 were calculated according to the new tax rate established in the Law for Change in the Tax Burden, based on the expected tax rate at the date of reversal. The effect of the change in the tax rate on the financial statements as of December 31, 2011 is reflected in an increase in the balance of deferred taxes, in the amount of NIS 2 million, against deferred tax income.

Developments in Balance-Sheet Items

The balance sheet as of December 31, 2011 totaled NIS 1,951 million, compared with NIS 1,778 million on December 31, 2010.

Developments in the principal balance-sheet items:

	December 31			
	2011	2010	Change	
	NIS millions		NIS millions	%
Total balance sheet	1,951	1,778	173	10
Debtors in respect of credit-card activity, net	1,587	1,484	103	7
Cash on hand and deposits with banks	25	205	(180)	(88)
Creditors in respect of credit-card activity	1,702	1,561	141	9
Subordinated notes	58	56	2	4
Equity	166	142	24	17

Debtors in respect of credit-card activity, net, totaled NIS 1,587 million on December 31, 2011, compared with NIS 1,484 million at the end of 2010. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The increase resulted from an increase in the volume of activity in the Company's credit cards.

Cash on hand and deposits with banks totaled NIS 25 million on December 31, 2011, compared with NIS 205 million at the end of 2010. The decrease resulted from the fact that the balance was granted as a loan to a sister company.

Subordinated notes totaled NIS 58 million on December 31, 2011, compared with NIS 56 million at the end of 2010. Pursuant to the resolution of the Board of Directors of the Company of July 28, 2010, the linkage terms of the notes were changed from CPI-linked bearing a fixed addition to the CPI to floating rate only.

Creditors in respect of credit-card activity totaled NIS 1,702 million on December 31, 2011, compared with NIS 1,561 million at the end of 2010. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date. The increase resulted from an increase in the volume of activity in the Company's credit cards.

Equity totaled NIS 166 million on December 31, 2011, compared with NIS 142 million at the end of 2010. The change in equity in comparative to the end of 2010 resulted from the profit for the year and from the cumulative effect, net of tax, of the initial implementation on January 1, 2011 of the directive concerning the measurement of impaired debts and provisions for credit losses, the initial implementation of IFRS (International Financial Reporting Standards), and the implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1 to the Financial Statements.

The ratio of equity to the balance sheet reached 8.5% on December 31, 2011, compared with 8% on December 31, 2010.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 14.1% on December 31, 2011, similar to 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 by Operating Segments

The Credit-Card Issuance Segment

General

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

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

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

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

The Company also recruits customers and issues cards through various other channels, including contractual engagements with organizations and clubs.

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

Critical success factors in the operating segment – In the opinion of the Company, the main critical success factors in the Issuance Segment are the following: (1) the ability to issue credit cards under an international license; (2) the collaboration with the Banks Under Arrangement in the distribution and issuance of credit cards, and collaborations with other banking corporations, as noted, for the distribution of credit cards, including the integration of a bank card with the credit card issued to the customer; (3) brand image and prestige, and uniqueness in its area of activity; (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 targeted marketing system; (10) agreements to establish customer clubs; and (11) operational efficiency.

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 for 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, direct debits, electronic bank transfers, checks, and gift certificates are substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

Products and Services

The Company issues American Express credit cards for use in Israel and abroad. These cards are issued both as bank cards and as non-bank cards, and are used as means of payment for transactions and for cash withdrawals, locally and internationally. The Company issues a range of credit cards tailored to various population segments, including club cards, Business cards for corporate clients, Platinum cards for high net worth clients, and Centurion cards for ultra high net worth clients.

In addition, the Company, through Isracard, offers various credit plans based on Credit plans, various all-purpose loans based on credit limits of credit cards, various options for spreading payments, and provision of information and certifications.

Segmentation of Income from Products and Services

All income and expenses related to customer recruitment and routine handling, including customer-club management, are allocated to the Issuance Segment.

The main income items derived by the Company from the Credit-Card Issuance Segment are: (1) interchange fees paid by clearers to issuers in respect of transactions executed using credit cards issued by the issuer and cleared by the clearer; (2) card fees – payments collected from cardholders according to a list of charges, varying based on the type of card and on various promotional campaigns and exemptions; (3) deferred-debit fees – fees collected from cardholders in respect of transactions in which the merchant spreads the amount of the purchase into

installments, or when the merchant defers the charge for the transaction beyond the nearest debit date; and (4) fees from transactions overseas – fees collected for transactions executed overseas in currencies other than NIS, for which cardholders are debited in NIS.

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

For details regarding the segmentation of income from credit-card transactions, see Note 18 to the Financial Statements. In addition, with regard to data on bank and non-bank cards, see "Operational Data," above.

Contractual Arrangements with Banking Corporations

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

Customers – Cardholders

The credit cards issued by the Company serve customers in various sectors.

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

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted through a specialized marketing department within 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, operation of a loyalty program, and marketing and sales promotion, including through large-scale marketing campaigns, joint offers with leading entities in the various sectors, unique services offered to customers (including online buying services through a third party), international plans providing discounts and benefits, a telemarketing center, direct mail, salespeople, a website, and more. See also risk factors with regard to the "Cessation of Activity of a Bank in Israel" and "Competition."

Within the activity of customer clubs, the Company customarily enters into agreements with various entities representing various customer groups, in arrangements for the issuance of 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 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 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 and Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel.

The Company has started to reinforce its activity in the area of presence and communication with customers in the digital world. As part of a broad plan to improve marketing communications with customers, several processes were carried out:

Extensive activity on Facebook, throughout the year, aimed at connecting the audience with the product interactively – through interactive digital activities and the launch of smartphone applications.

Competition

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

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

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

In order to cope with the competition in this sector, the Company (including through Isracard, which administers and operates credit-card issuance activity on behalf of the Company) takes the following main actions: (1) investment of resources to improve service to cardholders, retain cardholders as customers, and increase customer loyalty; (2) reinforcement of status and image through advertising, benefits, and various offers for cardholders; (3) the provision of unique services (including online buying services through a third party) and international discount and benefit programs; (4) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement; and (5) 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 American Express 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) brand image and prestige, and uniqueness in its area of activity; (4) professional, skilled, experienced human capital; (5) the Company's system of agreements with customer clubs and organizations, representing a variety of segments of Israel's population; (6) the range of products and services offered to a broad spectrum of customers; (7) an advanced service system allowing a high quality of customer service; and (8) 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.

The Credit-Card Clearing Segment

General

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

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

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various financial services, advance payments, and discounting.

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.

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

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

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

Products and Services

The Company clears transactions with merchants which have entered into agreements with it, executed using American Express cards, mainly against the collection of a merchant fee. As noted, Isracard administers and operates credit-card clearing activity on behalf of the Company. The Company also offers marketing, financial, and operational services, such as sales-promotion campaigns, information regarding credits of the merchant, loans, discounting services for credit-card sales, advances and early payment services, flexible crediting dates and options for payments in installments, 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 were allocated the Clearing Segment. The main income items in the Clearing Segment are fees from merchants, net of interchange fees, which are allocated to the Issuance Segment. The main expenses associated with this segment are recruitment and retention of merchants, joint advertising with merchants, clearing of transactions, and production and delivery of credit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 18 to the Financial Statements. In addition, with regard to data on the volume of transactions in credit cards issued by the Company, see "Operational Data," above.

Customers

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

As of the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2011.

Marketing and Sales

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

The Company's key objectives in its marketing activity in this area are: 1) to recruit new merchants and to expand the Company's operations through new business activities, including granting of credit; (2) to strengthen the Company's image; and (3) to retain merchants as customers by forming closer relationships with them and by providing marketing, financial, 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.

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

Competition

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

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

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

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

The Company's dynamism and its ability to respond to merchants' changing needs and offer them a broad range of services, such as financing services and marketing and operational services, provide a competitive response in the market and serve as an additional element in reinforcing merchants' loyalty and preference of the clearing service provider, and in formulating the overall perception of the Company by merchants.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the American Express 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 targeted marketing, sales, and service system specializing in providing suitable solutions to merchants while maintaining regular contact with them, and containing professional, skilled, experienced human capital; (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, 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 credit-card clearing; and competition against other credit-card brands in Israel.

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

Seasonality

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

Financial Information on the Company's Operating Segments

Quantitative Data on Operating Segments

Reported amounts

NIS millions

	For the year ended December 31, 2011		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	40	216	256
Intersegmental fees	104	(104)	-
Total	**144**	**112**	**256**
Profit from financing activity before provision for credit losses	*-	5	5
Other income	*-	1	1
Total income	**144**	**118**	**262**
Expenses			
Provisions for credit losses	4	*-	4
Operations	51	34	85
Sales and marketing	39	5	44
General and administrative	11	11	22
Payments to banks	30	33	63
Total expenses	**135**	**83**	**218**
Operating profit before taxes	**9**	**35**	**44**
Provision for taxes on operating profit	2	7	9
Net profit	**7**	**28**	**35**
Return on equity (percent net profit out of average capital)	4.8	19.0	23.8
Average balance of assets	1,551	271	1,822
Average balance of liabilities	98	1,577	1,675

Average balance of risk-adjusted assets	1,287	195	1,482

* Amount lower than NIS 0.5 million.

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

Quantitative Data on Operating Segments

Reported amounts

NIS millions

	For the year ended December 31, 2010		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	35	188	223
Intersegmental fees	97	(97)	-
Total	**132**	**91**	**223**
Profit from financing activity before provision for doubtful debts	*-	1	1
Other income	1	*-	1
Total income	**133**	**92**	**225**
Expenses			
Provisions for doubtful debts	1	*-	1
Operations	45	29	74
Sales and marketing	42	5	47
General and administrative	9	10	19
Payments to banks	28	26	54
Total expenses	**125**	**70**	**195**
Operating profit before taxes	**8**	**22**	**30**
Provision for taxes on operating profit	2	6	8
Net profit	**6**	**16**	**22**
Return on equity (percent net profit out of average capital)	5.0	13.2	18.2
Average balance of assets	1,239	290	1,529
Average balance of liabilities	64	1,344	1,408
Average balance of risk-adjusted assets	1,059	186	1,245

* Amount lower than NIS 0.5 million.

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

Quantitative Data on Operating Segments

Reported amounts

NIS millions

	For the year ended December 31, 2009		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	34	159	193
Intersegmental fees	89	(89)	-
Total	**123**	**70**	**193**
Profit from financing activity before provision for doubtful debts	*-	*-	*-
Other income	1	*-	1
Total income	**124**	**70**	**194**
Expenses			
Provisions for doubtful debts	2	*-	2
Operations	36	22	58
Sales and marketing	26	4	30
General and administrative	9	9	18
Payments to banks	36	19	55
Total expenses	**109**	**54**	**163**
Operating profit before taxes	**15**	**16**	**31**
Provision for taxes on operating profit	4	4	8
Net profit	**11**	**12**	**23**
Return on equity (percent net profit out of average capital)	15.3	16.6	31.9
Average balance of assets	1,162	126	1,288
Average balance of liabilities	50	1,166	1,216
Average balance of risk-adjusted assets	351	24	375

* Amount lower than NIS 0.5 million.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment's net profit totaled NIS 7 million, compared with NIS 6 million in 2010.

Net return on average equity reached 4.8% in 2011, compared with 5.0% in 2010.

Developments in Income and Expenses

The segment's income totaled NIS 144 million, compared with NIS 133 million in 2010, an increase of 8%.

Income from fees totaled NIS 144 million, compared with NIS 132 million in 2010, an increase of 9%.

Profit from financing activity before provision for credit losses was lower than NIS 0.5 million, similar to 2010.

Expenses before payments to banks totaled NIS 105 million, compared with NIS 97 million in 2010, an increase of 8%.

Expenses including payments to banks totaled NIS 135 million, compared with NIS 125 million in 2010, an increase of 8%.

The provision for credit losses totaled NIS 4 million, compared with NIS 1 million in 2010, an increase of 300%. On January 1, 2011, the Company adopted the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provision for credit losses, for the first time. Comparative figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable.

Operating expenses totaled NIS 51 million, compared with NIS 45 million in 2010, an increase of 13%.

Sales and marketing expenses totaled NIS 39 million, compared with NIS 42 million in 2010, a decrease of 7%.

General and administrative expenses totaled NIS 11 million, compared with NIS 9 million in 2010, an increase of 22%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 30 million, compared with NIS 28 million in 2010.

The ratio of expenses to income before payments to banks reached 72.9%, similar to 2010.

Operating profit before taxes totaled NIS 9 million, compared with NIS 8 million in 2010, an increase of 13%.

The return of operating profit before taxes on average equity reached 6.1% in 2011, compared with 6.6% in 2010.

The provision for taxes on operating profit totaled NIS 2 million, similar to 2010.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 28 million, compared with NIS 16 million in 2010, an increase of 75%. The increase in the segment's net profit in comparative to the preceding year mainly resulted from an increase in the volume of activity in Israel using the Company's credit cards.

Net return on average equity reached 19.0% in 2011, compared with 13.2% in 2010.

Developments in Income and Expenses

The segment's income totaled NIS 118 million, compared with NIS 92 million in 2010, an increase of 28%. The increase resulted from an increase in the volume of activity of the Company.

Net income from fees totaled NIS 112 million, compared with NIS 91 million in 2010, an increase of 23%, resulting from an increase in the domestic volume of purchases using the Company's cards and an increase in the number of credit cards.

Profit from financing activity before provisions for credit losses totaled NIS 5 million, compared with NIS 1 million in 2010, an increase of 400%.

Expenses before payments to banks totaled NIS 50 million, compared with NIS 44 million in 2010, an increase of 14%.

Expenses including payments to banks totaled NIS 83 million, compared with NIS 70 million in 2010, an increase of 19%.

Provisions for credit losses totaled an amount lower than NIS 0.5 million, similar to 2010.

Operating expenses totaled NIS 34 million, compared with NIS 29 million in 2010, an increase of 17%.

Sales and marketing expenses totaled NIS 5 million, similar to 2010.

General and administrative expenses totaled NIS 11 million, compared with NIS 10 million in 2010, an increase of 10%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 33 million, compared with NIS 26 million in 2010, an increase of 27%. The increase

resulted from an increase in the Company's income.

The ratio of expenses to income before payments to banks reached 42.4%, compared with 47.8% in 2010.

Operating profit before taxes totaled NIS 35 million, compared with NIS 22 million in 2010, an increase of 59%.

The return of operating profit before taxes on average equity reached 23.8% in 2011, compared with 18.0% in 2010.

The provision for taxes on operating profit totaled NIS 7 million, compared with NIS 6 million in 2010, an increase of 17%.

Intangible Assets

The agreement with the international American Express Organization for the issuance and clearing of American Express cards in Israel was renewed, for a period of seven additional years, in April 2010. In addition, as a member of the American Express Organization, the Company has a general right to use the brands owned by the American Express Organization.

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

Human Capital

The number of employee positions increased by 3 in 2011, compared with the number of positions at the end of 2010*. Most of the increase occurred in employee positions in the areas of customer service and operations.

	2011	2010*
Average positions on a monthly basis	171	173
Total positions at year end	172	169

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

Manpower inputs were adjusted to the volume of activity in the areas of service, collection, credit,

and information systems. In addition, numerous measures were taken in response to the changing needs expressed by the various departments, according to the key projects in the Group, with changes and adjustments made in order to provide efficient, high-quality solutions.

Trends in Human Resources

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

The Company, as part of the Isracard Group, continued to uphold this policy in 2011, through:

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

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

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

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

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

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

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

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

Ethical Code

During 2011, the Isracard Group celebrated the introduction of its ethical code. The code reflects the core values of the Group and the proper course of action which is its aim in its relationships with all of its stakeholders.

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

Professional Training

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

Instilling a Culture of Surveys

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

Occupational Stability

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

A paper on customer service employee retention earned second place in the Israel Management Center's competition for excellence in service.

Promotion of Diversity

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

employees, with respect and appreciation for others.

Community Involvement and Contribution

Most of the activity in the area of community involvement and contributions is conducted through Isracard.

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.

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

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

Financing

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

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

Taxation

Changes in Tax Rates

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

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

The Law for Change in the Tax Burden (Legislative Amendments), 2011 was passed by Knesset on December 5, 2011. Pursuant to this law, the tax reduction established in the Economic Efficiency Law will be canceled, as noted above, and the rate of corporation tax will stand at 25% from 2012 forward. For further details, see Note 5.23 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

In October 2006, Isracard, other credit-card companies (not including the Company), and certain banks filed a request with the Antitrust Tribunal for approval of a restrictive arrangement in the area of clearing of transactions in MasterCard and Visa credit cards (the "**Arrangement**"), which also has implications for Isracard cards. Objections to the aforesaid request have been submitted. The Tribunal granted a temporary permit for the Arrangement, in effect until February 29, 2012.

In June 2007, as part of the Arrangement, a technical interface began to operate in Israel for clearing of transactions executed in Israel using MasterCard and Visa cards.

The Company cannot estimate whether or when the request for permanent approval of the Arrangement may be approved. However, the Company estimates that the implementation of the restrictive arrangement may lead to a decrease in the rates of fees paid by merchants for clearing of transactions in the aforesaid cards, which may have an effect on clearing fees paid by merchants to the Company.

At this stage, the Company cannot estimate the volume of this effect on its conduct and revenue.

Additional Regulation

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

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

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

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

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

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

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

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

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

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

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

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 financing of terror, which details the Supervisor's final instructions in connection with the fight 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 Financing of Terror, 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 included on international lists of those thought to be aiding the Iranian nuclear program and related plans. This policy must address controls and due-diligence tests designed to identify such parties. The circular references a legislative amendment and the international lists of such 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 a clearer for cross-clearing of transactions in the charge card which it issues. The inception of this directive will be nine months after the law takes effect. The Company estimates that this legislation will have no effect on the Company.

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

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 provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

Contingent Liabilities

Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The

indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 50% of its equity, according to most recent (annual or quarterly) financial statements known before the actual payment.

Objectives and Business Strategy

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

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

Risk Management Policy

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

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

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

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

Operational Risks

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

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

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

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

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

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

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

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

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

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

	December 31, 2011				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	1,874	7	50	3	1,934
Financial liabilities	1,710	7	51	-	1,768
Net fair value of financial instruments	**164**	***-**	**(1)**	**3**	**166**

	December 31, 2010				
	In NIS millions				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets	1,708[(1)]	8	50	1	1,767
Financial liabilities	1,557[(1)]	8	45	1	1,611
Net fair value of financial instruments	**151**	***-**	**5**	***-**	**156**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.12 to the Financial Statements.

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

	December 31, 2011							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	165	*-	(1)	3	-	167	1	0.6
Immediate parallel increase of 0.1%	164	*-	(1)	3	-	166	*-	-
Immediate parallel decrease of 1%	163	*-	(1)	3	-	165	(1)	(0.6)

* Amount lower than NIS 0.5 million.

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

*** Including Israeli currency linked to foreign currency.

	December 31, 2010							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	151	*-	5	*-	-	156	*-	-
Immediate parallel increase of 0.1%	151	*-	5	*-	-	156	*-	-
Immediate parallel decrease of 1%	151	*-	5	*-	-	156	*-	-

* Amount lower than NIS 0.5 million.

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

*** Including Israeli currency linked to foreign currency.

C. Exposure to the value of securities

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

D. Derivative Financial Instruments

The Company's policy states that no activity for the purpose of trading in derivative financial instruments shall be conducted. The only activity in derivative financial instruments permitted to the Company is for the purposes of economic hedging.

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

Execution of Market Risk Management Policies and Controls

The Company's existing exposure to market risks, as described in Section 1 above, is immaterial; no significant changes in risk management methods are expected as a result of these preparations.

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 cash 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 a borrower or counterparty 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, amount of credit, and interest rate set for the customer or merchant. The models are tested periodically for quality and calibration and are established in accordance with internal and regulatory requirements.

Credit Control Unit

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

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

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

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

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

	Balance as of December 31, 2011	Balance as of December 31, 2010 (pro-forma data)
	Reported amounts	
1. Non-performing assets		
Impaired credit to the public not accruing interest income:		
Examined on an individual basis	1	2
Examined on a group basis	1	2
Total impaired debts not accruing interest income	2	4
Total nonperforming assets	**2**	**4**
2. Problematic commercial credit risk[1]		
Balance sheet credit risk in respect of the public	*-	-
Total problematic commercial credit risk in respect of the public	*-	-
Total problematic commercial credit risk	***-**	**-**
3. Unimpaired debts in arrears of 90 days or more	-	-

* Amount lower than NIS 0.5 million.

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

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

	Balance as of December 31, 2010 (pro-forma data)
	Reported amounts in NIS millions
Balance of retained earnings as of Dec. 31, 2010 included in the financial statements	107[1]
Cumulative effect net of tax of initial implementation of the new directives as of Jan. 1, 2011	(11)
Of which:	
Change in provision for credit losses	(13)
Related tax effect	2
Balance of retained earnings as of Jan. 1, 2011 under the new directives	**96**

(1) Restated; see Note 1.E.12 to the Financial Statements.

Risk and Credit Indices*

		Balance as of December 31, 2011
		%
(A)	Balance of impaired debtors in respect of credit-card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit-card activity	0.13
(B)	Balance of unimpaired debtors in respect of credit-card activity in arrears of 90 days or more, as a percentage of the balance of debtors in respect of credit-card activity	-
(C)	Balance of provision for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of debtors in respect of credit-card activity	0.44
(D)	Balance of provision for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of impaired debtors in respect of credit-card activity not accruing interest income	-[(1)]
(E)	Problematic commercial credit risk, as a percentage of total credit risk	0.47
(F)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.27
(G)	Net write-offs for debtors in respect of credit-card activity as a percentage of the average balance of debtors in respect of credit-card activity	0.34
(H)	Net write-offs for debtors in respect of credit-card activity as a percentage of allowance for credit losses for debtors in respect of credit-card activity	71.43

(1) Greater than 100%.

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

Credit Exposure to Foreign Financial Institutions and Foreign Countries

As of the reporting date, the Company has immaterial exposure to the international organization American Express Ltd., in respect of balances of volumes of transactions executed by tourists in Israel, less balances of volumes of transactions executed by Israelis abroad in respect of which the Company has not yet been credited by the international organization.

Capital Measurement and Adequacy

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

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

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

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

The Basel II recommendations consist of three pillars:

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

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

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

The Supervisor of Banks issued a letter entitled "Capital Policy for Interim Periods" on June 30, 2010. The letter clarifies the Supervisor of Banks' expectations of banking corporations in the

periods until the adjustment of the directives to the instructions included in the draft recommendations document entitled “Reinforcing the Resilience of the Banking Sector.” During this interim period, banking corporations were required to:

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

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

Risk Appetite

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

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

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

Capital Adequacy Target

The capital target of the Company is the appropriate level of capital required in respect of the various risks to which the Company is exposed, as identified, estimated, and evaluated by the Company. This target is higher than the minimum regulatory capital requirement, and includes the capital requirements with respect to tier I risks, in addition to capital with respect to Pillar II risks and

a capital “cushion” enabling the Company to withstand losses in the event of external crisis events (extreme scenarios), while complying with the minimum regulatory capital requirement. This target takes into account actions by the Management of the Company aimed at reducing the risk level and/or enlarging the capital base.

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

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

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

Capital Management

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

- Ensure the existence of a capital base serving as protection against unexpected risks to which the Company is exposed, supporting business strategy, and allowing compliance at all times with the minimum regulatory capital requirement (refers to the mix and amount of capital backing the strategy and risks of the Company);
- 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.

Subject	Page number
Capital adequacy	56
Applicability of implementation	57
Structure of capital	58
Risk-adjusted assets and capital requirement	60
Credit risk	60
Credit risk mitigation	72
Operational risk	80

Capital Adequacy

	December 31, 2011	December 31, 2010
1. Capital for the calculation of the capital ratio		
	NIS millions	
Core capital and Tier I capital, after deductions*	166(2)	142(1)
Tier II capital, after deductions**	56	56
Total overall capital	**222**	**198**

* In order for the Company to comply with the minimum capital ratio required by the Bank of Israel, as noted above, the Company made preparations such that in March 2010 its paid-up share capital increased by NIS 35 million, divided into 39,326 NIS 1 par value common shares, for a total consideration of NIS 890 per share (the total consideration was NIS 35 million).

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

2. Weighted balances of risk-adjusted assets

	December 31, 2011		December 31, 2010	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	NIS millions			
Credit risk	1,308	118	1,172[(1)]	105
Market risks – foreign currency exchange rate risk	3	*-	6	1
Operational risk	258	23	222	20
Total weighted balances of risk-adjusted assets	**1,569**	**141**	**1,400**	**126**

* 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	10.6	10.1[(1)]
Ratio of total capital to risk-adjusted assets	14.1	14.1[(1)]
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

(1) Restated; see Note 1.E.12 to the Financial Statements.

(2) The effect on capital due to the implementation of the directive on impaired debts is a reduction of retained earnings in the amount of NIS 11 million.

Applicability of Implementation

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

Structure of Capital

Structure of Regulatory Capital

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

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

Limits on the Capital Mix

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

- Total core capital shall constitute at least 70% of Tier 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.
- Subordinated notes included in lower Tier II capital shall not exceed 50% of Tier I capital not allocated to market risks (to the extent that the banking corporation holds Tier III capital), after the required deductions from Tier I capital only.

Structure of Capital

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

	December 31	
	2011	2010
	NIS millions	
Tier I capital		
Paid-up common share capital	*-	*-
Premium on shares	35	35
Retained earnings	131[(2)]	107[(1)]
Other capital instruments	*-	*-
Total core capital and Tier I capital**	166	142
Tier II capital***	56	56
Total eligible capital	**222**	**198**

* Amount lower than NIS 0.5 million.

** In order for the Company to comply with the minimum capital ratio required by the Bank of Israel, as noted above, the Company made preparations such that in March 2010 its paid-up share capital increased by NIS 35 million, divided into 39,326 NIS 1 par value common shares, for a total consideration of NIS 890 per share (the total consideration was NIS 35 million).

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

(1) Restated; see Note 1.E.12 to the Financial Statements.

(2) The effect on capital due to the implementation of the directive on impaired debts is a reduction of retained earnings in the amount of NIS 11 million.

Capital Adequacy

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

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

Risk-Adjusted Assets and Capital Requirement

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

	December 31, 2011		December 31, 2010	
	NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Banking corporations	813	73	766[(1)]	69
Corporations	86	8	68	6
Retail loans to individuals	374	34	310	28
Small businesses	25	2	23	2
Other assets	10	1	5[(1)]	*-
Total credit risk	1,308	118	1,172	105
Market risks – foreign currency exchange rate risk	3	*-	6	1
Operational risk	258	23	222	20
Total weighted balances of risk-adjusted assets / capital requirements	**1,569**	**141**	**1,400**	**126**

* 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)	222	198[(1)]
Ratio of core capital and Tier I capital to risk-adjusted assets	10.6%	10.1%[(1)]
Ratio of total capital to risk-adjusted assets	14.1%	14.1%[(1)]
Minimum capital ratio required by Supervisor of Banks – Pillar I	8.0%	8.0%
Minimum capital ratio required by Supervisor of Banks – Pillar II	1.0%	1.0%
Total minimum capital ratio required by Supervisor of Banks	9.0%	9.0%

(1) Restated; see Note 1.E.12 to the Financial Statements.

Credit Risk – General Disclosure Requirements

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

Debtors in Respect of Credit Card Activity and Other Debt Balances

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

Provisions for Credit Losses

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

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

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

losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards of the debtor.

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

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

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

Bad Debts

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

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

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

Credit Risk Management

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

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

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

Principles of Credit Concentration Risk Management

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

Assigning Risk Ratings to Customers Based on Statistical Models

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

- Models are divided as follows:

  1. AS (application scoring) model for new customers;
  2. BS (behavior scoring) model – a behavioral model for customers of the Company;
  3. SME (small-medium enterprise) model – a model for business clients.

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

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

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

Establishing the Hierarchy of Credit Granting Authority

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

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

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

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

Exposure to Financial Institutions

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

- Global credit-card company – Cross-clearing activity occurs between the Company and the global credit-card company.

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

Credit exposure to financial institutions results from:

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

Independent Supervision

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

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

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

- The Company's credit policy is updated and approved by the Board of Directors each year, according to developments at the Company, in the industry, and in the economy.
- The Company's Management is provided with data on the Company's credit-portfolio mix each month. The mix presents the segmentation of the portfolio in terms of credit products, sectors,

risk ratings, geographical distribution, compliance with regulatory and internal limits, a risk-return analysis, and more.

- The credit-portfolio mix is presented to the Board of Directors of the Company on a quarterly basis.
- The Chief Risk Officer submits an independent report to Management on the control over credit-risk management each month.
- The Chief Risk Officer submits an independent report to the Board of Directors each quarter.
- Working procedures at the Company are updated routinely by the various departments.

Off-Balance-Sheet Exposures

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

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

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

Credit Exposures

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

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

	December 31, 2011					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
	NIS millions					
Banking corporations	330	25	355	-	-	355
Corporations	95	-	95	160	-	255
Retail to individuals	1,254	-	1,254	7,496	-	8,750
Small businesses	244	-	244	818	-	1,062
Government	*-	-	*-	2	-	2
Other assets[(1)]	-	10	10	-	-	10
Total exposures	**1,923**	**35**	**1,958**	**8,476**	**-**	**10,434**

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets and others.

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

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

	December 31, 2010					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure
	NIS millions					
Banking corporations	85[2]	205	290	-	-	290
Corporations	93	-	93	65	-	158
Retail to individuals	1,164	-	1,164	6,984	-	8,148
Small businesses	226	-	226	813	-	1,039
Government	*-	-	*-	1	-	1
Other assets[1]	-	5[2]	5	-	-	5
Total exposures	**1,568**	**210**	**1,778**	**7,863**	**-**	**9,641**

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets and others.

(2) Restated; see Note 1.E.12 to the Financial Statements.

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

	December 31, 2011					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	Total overall credit exposure[2]
	NIS millions					
Banking corporations	163	174	337	-	-	337
Corporations	84	-	84	118	-	202
Retail to individuals	1,209	-	1,209	7,330	-	8,539
Small businesses	233	-	233	807	-	1,040
Government	*-	-	*-	2	-	2
Other assets[1]	-	9	9	-	-	9
Total exposures	**1,689**	**183**	**1,872**	**8,257**	**-**	**10,129**

* Amount lower than NIS 0.5 million.

(1) Includes fixed assets and others.

(2) Average exposure calculated on a quarterly basis.

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

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

	December 31, 2010					
	Balance-sheet credit risk			Off-balance-sheet credit risk		Total overall credit exposure[(2)]
Type of exposure	Credit	Deposits/ other	Total balance-sheet credit risk	Credit facilities	Other	
	NIS millions					
Banking corporations	*78	194	272	-	-	272
Corporations	63	-	63	73	-	136
Retail to individuals	1,052	-	1,052	7,078	-	8,130
Small businesses	211	-	211	875	-	1,086
Government	-	-	-	1	-	1
Other assets[(1)]	-	*5	5	-	-	5
Total exposures	**1,404**	**199**	**1,603**	**8,027**	**-**	**9,630**

(1) Includes fixed assets and others.

(2) Average exposure calculated on a quarterly basis.

* Restated; see Note 1.E.12 to the Financial Statements.

Segmentation of the Portfolio by Remaining Contractual Term to Maturity

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

	December 31, 2011					
	Classified by term to maturity, in NIS millions					
					Balance-sheet balance	
	Up to 1 year	1 year to 2 years	2 years to 3 years	Total cash flows	No maturity period	Total
Cash on hand and deposits with banks	25	-	-	25	-	25
Credit:						
Debtors in respect of credit cards	1,470	56	12	1,538	2	1,540
Credit to merchants	28	*-	*-	28	-	28
International credit-card organization	24	-	-	24	-	24
Income receivable	2	-	-	2	-	2
Other assets	330	-	-	330	6	336
Non-monetary assets	-	-	-	-	3	3

Off balance sheet – credit facilities	8,437	39	-	8,476	-	8,476
Total	**10,316**	**95**	**12**	**10,423**	**11**	**10,434**

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

	December 31, 2010					
	Classified by term to maturity, in NIS millions					
					Balance-sheet balance	
	Up to 1 year	**1 year to 2 years**	**2 years to 3 years**	**Total cash flows**	**No maturity period**	**Total**
Cash on hand and deposits with banks	205	-	-	205	-	205
Credit:						
Debtors in respect of credit cards	1,360	52	9	1,421	7	1,428
Credit to merchants	24	-	-	24	-	24
International credit-card organization	31	-	-	31	-	31
Income receivable	1	-	-	1	-	1
Other assets	85(1)	-	-	85	2(1)	87
Non-monetary assets	-	-	-	-	2	2
Off balance sheet – credit facilities	7,863	-	-	7,863	*-	7,863
Total	**9,569**	**52**	**9**	**9,630**	**11**	**9,641**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.12 to the Financial Statements.

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

		December 31, 2011						
		NIS millions						
			Amount of unimpaired loans in arrears					
Exposure – credit	Credit risk	Amount of impaired loans	Over 30 days to 90 days	Over 90 days	Individual allowance for credit losses	Group allowance for credit losses	Net provision for credit losses recognized in statement of profit and loss	Net accounting write-offs recognized in statement of profit and loss
Retail to individuals	Balance sheet	2	2	-	1	5	2	4
Small businesses	Balance sheet	*-	*-	-	*-	1	1	1
Corporations	Balance sheet	*-	-	-	-	*-	(4)	(*-)
Banking corporations	Balance sheet	-	-	-	-	*-	*-	-
Government	Balance sheet	-	-	-	-	*-	*-	-
Credit facilities	Off-balance-sheet	-	-	-	-	3	(*-)	-
Total		**2**	**2**	**-**	**1**	**9**	**(1)**	**5**

* Amount lower than NIS 0.5 million.

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

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

		December 31, 2010		
Exposure – credit	Credit risk	Problematic debt[(1)]	Debt in arrears[(2)]	Provision for doubtful debts
Retail to individuals	Balance sheet	*-	*-	1
Small businesses	Balance sheet	*-	*-	*-
Corporations	Balance sheet	12	-	7
Total		**12**	***-**	**8**

* Amount lower than NIS 0.5 million.

(1) Problematic debt – More than 90 days in arrears.

(2) Debt in arrears – More than 60 days in arrears.

Credit Risk Mitigation (CRM)

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

Credit Risk Weighting

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

Before credit-risk mitigation

	December 31, 2011							
	Rating	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
					NIS millions			
Retail to individuals	Unrated	-	-	-	8,741	1	-	8,742
Small businesses	Unrated	-	-	-	1,062	*-	-	1,062
Corporations	Unrated	-	-	-	-	243	*-	243
	Rated	-	-	-	-	10	-	10
Banking corporations	Unrated	-	328	*-	-	-	-	328
	Rated	-	23	4	-	-	-	27
Government	Rated	2	-	-	-	-	-	2
Other assets	Unrated	-	-	-	-	10	-	10
Total		**2**	**351**	**4**	**9,803**	**264**	***-**	**10,424**

* Amount lower than NIS 0.5 million.

After credit risk mitigation

	December 31, 2011							
	Rating	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit exposure**
					NIS millions			
Retail to individuals	Unrated	-	-	-	2,653	1	-	2,654
Small businesses	Unrated	-	-	-	137	*-	-	137
Corporations	Unrated	-	-	-	-	98	*-	98
	Rated	-	-	-	-	11	-	11
Banking corporations	Unrated	-	445	962	-	-	-	1,407
	Rated	-	509	5,596	-	-	-	6,105
Government	Rated	2	-	-	-	-	-	2
Other assets	Unrated	-	-	-	-	10	-	10
Total		**2**	**954**	**6,558**	**2,790**	**120**	***-**	**10,424**

* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM) (cont.)

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

Credit Risk Weighting

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

Before credit-risk mitigation

		December 31, 2010						
	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		NIS millions						
Retail to individuals	Unrated	-	-	-	8,148	-	*-	8,148
Small businesses	Unrated	-	-	-	1,039	-	*-	1,039
Corporations	Unrated	-	-	-	-	155	3	158
	Rated	-	-	-	-	*-	-	*-
Banking corporations	Unrated	-	85(1)	*-	-	-	-	85
	Rated	-	202	3	-	-	-	205
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	-	-	-	-	5(1)	-	5
Total		**1**	**287**	**3**	**9,187**	**160**	**3**	**9,641**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.12 to the Financial Statements.

After credit risk mitigation

		December 31, 2010						
	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		NIS millions						
Retail to individuals	Unrated	-	-	-	2,148	-	*-	2,148
Small businesses	Unrated	-	-	-	129	-	*-	129
Corporations	Unrated	-	-	-	-	67	3	70
Banking corporations	Unrated	-	191(1)	860	-	-	-	1,051
	Rated	-	680	5,557	-	-	-	6,237
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	-	-	-	-	5(1)	-	5
Total		**1**	**871**	**6,417**	**2,277**	**72**	**3**	**9,641**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.12 to the Financial Statements.

Use of Eligible Collateral for Credit Risk Mitigation

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

			December 31, 2011			
Exposure	**Credit risk**	**Type of exposure**	**Gross credit risk exposure**	**Exposure covered under the responsibility of the Banks Under Arrangement**		**Net credit risk exposure**
				Total amounts subtracted	**Total amounts added**	
			NIS millions			
Retail to individuals	Balance sheet	Credit	1,248	(989)	-	259
	Off balance sheet	Credit facility	7,494	(5,099)	-	2,395
Small businesses	Balance sheet	Credit	244	(223)	-	21
	Off balance sheet	Credit facility	818	(702)	-	116
Corporations	Balance sheet	Credit	94	(27)	-	67
	Off balance sheet	Credit facility	159	(117)	-	42
Banking corporations	Balance sheet	Credit	330	-	1,239	1,569
	Balance sheet	Deposits	25	-	-	25
	Off balance sheet	Credit facility	-	-	5,918	5,918
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	2	-	-	2
Other assets	Balance sheet	Other assets	10	-	-	10
Total			**10,424**	**(7,157)**	**7,157**	**10,424**

* Amount lower than NIS 0.5 million.

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

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

			December 31, 2010			
Exposure	**Credit risk**	**Type of exposure**	**Gross credit risk exposure**	**Exposure covered under the responsibility of the Banks Under Arrangement**		**Net credit risk exposure**
				Total amounts subtracted	**Total amounts added**	
			NIS millions			
Retail to individuals	Balance sheet	Credit	1,164	(943)	-	221
	Off balance sheet	Credit facility	6,984	(5,057)	-	1,927
Small businesses	Balance sheet	Credit	226	(206)	-	20
	Off balance sheet	Credit facility	813	(704)	-	109
Corporations	Balance sheet	Credit	93	(27)	-	66
	Off balance sheet	Credit facility	65	(61)	-	4
Banking corporations	Balance sheet	Credit	85(1)	-	1,176	1,261
	Balance sheet	Deposits	205	-	-	205
	Off balance sheet	Credit facility	-	-	5,822	5,822
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	1	-	-	1
Other assets	Balance sheet	Other assets	5(1)	-	-	5
Total			**9,641**	**(6,998)**	**6,998**	**9,641**

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.12 to the Financial Statements.

Credit Risk Weighting

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

Credit rating agencies used:

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

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

Credit Risk Mitigation (CRM)

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

No collateral exists against non-bank credit to cardholders. Corporate credit is mainly based on the turnover of the merchant, and the credits owed to it serve as the repayment source for cases in which the credit is not repaid. This activity is conducted in accordance with credit policies. The amount of the credit is established according to the rating of the merchant, the type of credit product, and the turnover of the merchant.

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

General Disclosure Regarding Exposures Related to Counterparty Credit Risk

Hedging Interest-Rate Exposures

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

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

Hedging Foreign Currency Exposures

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

Disclosure by Companies Using the Standardised Approach

General

The Company accounts for all of its assets and liabilities using the standardised measurement approach, as defined in Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy). The Company does not have a trading portfolio, and all of its assets and liabilities are part of the banking book.

Strategy and Processes

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

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

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

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

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

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

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

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

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

Structure and Organization of Market Risk Management Function

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

Market Risk Manager

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

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

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

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

Chief Risk Officer

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

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

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

Nature and Volume of Risk Reporting and Measurement Systems

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

Risks are measured in the following reports:

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

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

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

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

Foreign Currency Exposure Management

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

Capital Requirement in Respect of Foreign Currency Exchange Rate Risk

	Capital requirement	
	December 31, 2011	December 31, 2010
	In NIS millions	
Market risks – Foreign currency exchange rate risk**	*-	1

* Amount lower than NIS 0.5 million.

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

Operational Risk

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

Capital Requirement in Respect of Operational Risk

	Capital requirement	
	December 31, 2011	December 31, 2010
	In NIS millions	
Operational risk	23	20

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 Basel II classification methodology.
- Mapping of all controls relevant to each risk, including residual risk, and additional recommended controls if necessary.
- Rating of risk levels in each process on a scale of the level of damage / expected frequency.

- Implementation of a multi-year action plan to reduce material risks and increase controls where necessary.

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

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

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

Material operational risks are mitigated by:

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

Disclosure Regarding Positions in Shares in the Banking Book

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

Prohibition of Money Laundering and Financing of Terror

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

- The Money Laundering Prohibition Law, 2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 2001.
- Proper Conduct of Banking Business No. 411 of the Bank of Israel, Prevention of Money Laundering and Terrorism Financing and Identification of Customers (this directive has recently been updated). Also see the section "Restrictions and Supervision of the Company's Operations," Additional Regulation, Section 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 financing of terror. The Company's procedures have been updated and expanded in order to fully cover all topics in accordance with the requirements.

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

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

Critical Accounting Policies

The financial statements of the Company are prepared in conformity with generally accepted accounting principles 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 following are the main areas in which estimates and evaluations were used, and which accordingly are considered by the Company to be critical accounting matters.

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

The provision made in the books represents a provision at a rate of approximately 85% of the balance of unutilized points as of the end of 2011.

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

Price of points – based on the actual average cost per point as of the end of the year.

Points inventory and movements:

	December 31	
	2011	**2010**
	In thousands of points	
Opening balance	**507,939**	**458,236**
Points created	169,653	153,393
Points used	(96,189)	(84,231)
Points canceled	(25,017)	(19,459)
Closing balance	**556,386**	**507,939**

The provision made in the books in respect of unutilized points as of December 31, 2011 is NIS 41 million (December 31, 2010: NIS 38 million).

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

	Change in expected rate of use	**Change in price per point**
	NIS thousands	
Immediate increase of 1%	488	415
Immediate decrease of 1%	(488)	(415)

Provisions for Credit Losses

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

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

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

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

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

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

Discussion of Risk Factors

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

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

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

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

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

Disclosure Regarding the Internal Auditor

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

Information regarding the Internal Auditor – Mr. Jacob Orbach has served as Chief Internal Auditor of the Company from January 1, 2010. Mr. Orbach has worked at the Bank Hapoalim Group since 1980, and is employed full-time. He holds a B.A. degree in Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mr. Orbach meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: the “Internal Audit Law”). The Internal Auditor is not an interested party of the Company, 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 – 63 audit days were invested directly at the Company in 2011. In addition, activities outsourced by the Company to its sister company Isracard Ltd. are audited within the internal audit at that company. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

Performing 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

Thirteen meetings of the Board of Directors and eleven 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 six.

Members of the Board

Irit Izakson

Chairperson of the Company as of December 2008. Chairperson of the Credit Committee of the Board of Directors of the Company.

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

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

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

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

Member of the Board of Trustees of Ben-Gurion University and the Van Leer Jerusalem Institute.

In early 2011, appointed to 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 and the Credit Committee of the Board of Directors of the Company.

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

Chairman of the Audit Committee of the Board of Directors of Isracard; member of the following board committees at Isracard: IT Committee, Credit Committee, Wage and Remuneration Committee; Chairman of the Audit Committee of the Board of Directors of Europay; Chairman of the Audit Committee of the Board of Directors of Aminit; member of the Credit Committee of the Board of Directors of Aminit.

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.

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 of the Board of Directors of the Company.
Ofer Levy	Member of the Board of Management of Bank Hapoalim B.M. from May 1, 2006. Deputy CEO and Chief Accountant at Bank Hapoalim B.M. Served as Head of financial control at Bank Hapoalim B.M. for ten years, until April 2006. Member of the Board of Directors of the Company from September 13, 1995; member of the Audit Committee of the Board of Directors of the Company. Also a member of the board of directors of the following companies: Hapoalim U.S.A. Holding Company Inc., AMI Trustees Ltd., Yefet Nominees Ltd. C.P.A.

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

Director with accounting and financial expertise.

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

Shmuel Lachman

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

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

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, Europay, the Association for the Wellbeing of Israel's Soldiers Ltd., Shiral 10 Ltd., and the Computer Direct Group Ltd.

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

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 Europay.

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

M.Sc., Industry and Management, Technion;

B.Sc., Industry and Management, Technion.

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

Director with accounting and financial expertise.

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

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 from June 25, 2009.

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

Member of the board of directors of the following companies: Isracard, Europay, 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.

Rafi Rafael

Southern Region Manager, Bank Hapoalim B.M., as of September 2011.

Until September 2011, Negev Region Manager, Bank Hapoalim B.M.

Member of the Board of Directors of the Company from May 25, 1998.

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

Served as Manager of Shaul Hamelech Branch, Bank Hapoalim B.M.

Also served as Central Region Operations Manager, Bank Hapoalim B.M.

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. R. Rafael, he is not a family member of another interested party of the corporation.

Ronny Shaten

Chairman and member of the boards of directors of various companies.

Member of the Board of Directors of the Company from September 28, 2005.

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

Chairman of the Audit Committee of the Board of Directors.

Also a member of the board of directors of Ginegar Plastic Products Ltd., and chairman of the board of directors of Super Plast Ltd.

In the last five years or during part of that period, served as chairman of the board at A.M.S. Electronics Ltd. and as a member of the board of directors of the following companies: Isracard, Europay, Aminit, UTI Logistics Israel Ltd., Exel – Multi Purpose Logistics Ltd., Overseas Commerce Ltd., Exel M.P.L. – A.V.B.A. Ltd., and (I.Z.) Queenco Ltd.; however, he no longer serves at these companies.

Studied Business Administration.

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

Nitzana Adawi

Lecturer on finance, member of the teaching staff at the Open University MBA program. Economic advisor to companies, in the areas of business development, valuations, business plans, investment feasibility tests, etc.

Member of the Board of Directors of Poalim Express from October 31, 2011.

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

M.B.A., School of Business Administration, Tel Aviv University;

B.A. in Economics, Tel Aviv University.

Director with accounting and financial expertise.

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

Senior Members of Management

Dov Kotler

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

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

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.

Ronen Zaretsky

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

Head of Information Technology and Operations.

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

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

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

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

Graduate of the IDF Command and Staff College.

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

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

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

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

Amir Kushilevitz-Ilan

Member of the Management of the Company from February 2011.

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

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

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

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

Ron Cohen

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

Head of Credit and Financial Services.

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

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

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

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

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

Oren Cohen Butensky Member of Management of the Company from 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, Open University.

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

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

Head of Finance and Administration.

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 from May 1, 2011.

Head of Human Resources.

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

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

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

Ron Weksler

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

Head of Commerce and Sales.

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

Served in various positions at Bank Hapoalim B.M. as of 2002.

Doctor of Philosophy and Ph.D. in Public Administration, Bar Ilan University.

M.B.A., Bar Ilan University;

LL.B., Tel Aviv University;

B.A. in Accounting, Tel Aviv University.

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

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

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Company must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Company's internal control of financial reporting, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States. The provisions of these two sections of the law were merged by the Supervisor of Banks in the Proper Conduct of Banking Business Directive (Directive 309) in September 2008, and the Public Reporting Directives were adjusted accordingly in June 2009.

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

- The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been implemented quarterly as of the financial statements for June 30, 2007.
- The directive in Section 404 regarding the responsibility for the Company's internal control of financial reporting has been implemented at year end, as of the financial statements for December 31, 2008.

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

Evaluation of Controls and Procedures Regarding Disclosure

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

Internal Control of Financial Reporting

During the fourth quarter ended on December 31, 2011, there was no change in the Company's internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal control of financial reporting. Note that following the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risks, and credit loss provisions, a computerized system has been in place as

of the first quarter of 2011 to generate data for accounting purposes; in addition, the Company has adjusted its work processes and established the appropriate controls.

Wages and Benefits of Officers

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

Remuneration of Auditors[1][2]

	2011	2010
	In NIS thousands	
For audit activities[3]:		
Joint auditors	438	400
For tax services[4]:		
Joint auditors	*-	*-
For other services[5]:		
Joint auditors	-	9
Total remuneration of auditors	**438**	**409**

* Amount lower than NIS 1 thousand.

(1) Report by the Board of Directors to the annual general assembly on the remuneration of auditors for audit activities and for services in addition to the audit, pursuant to sections 165 and 167 of the Companies Law, 1999.

(2) Includes remuneration paid and remuneration accrued .

(3) Audits of annual financial statements and reviews of interim reports; also includes an audit of the internal control over financial reporting (SOX 404).

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

(5) Mainly includes routine processes.

Irit Izakson
Chairperson of the Board of Directors

Dov Kotler
Chief Executive Officer

Tel Aviv, February 27, 2012.

Poalim Express Ltd.

Management's Review

For the Year Ended December 31, 2011

AMERICAN
EXPRESS

Table of Contents

Addendum 1: **Balance Sheets** – Multi-Period Data	107
Addendum 2: **Statements of Profit and Loss** – Multi-Period Data	108
Addendum 3: **Rates of Income and Expenses**	109
Addendum 4: **Exposure of the Company to Changes in Interest Rates**	120
Addendum 5: **Balance Sheets as of the End of Each Quarter** – Multi-Quarter Data	129
Addendum 6: **Quarterly Statements of Profit and Loss** – Multi-Quarter Data	131

Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

NIS millions

	December 31				
	2011	**2010**	**2009**	**2008**	**2007**
Assets					
Cash on hand and deposits with banks	25	205	195	189	140
Debtors in respect of credit-card activity	1,594	1,492(1)(2)	1,243(1)(2)	1,074(1)(2)	999(1)(2)
Provisions for credit losses	(7)	(8)(1)(2)	(9)(1)(2)	(8)(1)(2)	(7)(1)(2)
Debtors in respect of credit-card activity, net	1,587	1,484	1,234	1,066	992
Computers and equipment	2	1	1	1	1
Other assets	337	88(3)	4	5	4
Total assets	**1,951**	**1,778**	**1,434**	**1,261**	**1,137**
Liabilities					
Credit from banking corporations	1	2	6	2	*-
Creditors in respect of credit-card activity	1,702	1,561(3)	1,304(3)	1,178(3)	1,078(3)
Subordinated notes	58	56	25	-	-
Other liabilities	24	17(3)	14(3)	19(3)	15(3)
Total liabilities	**1,785**	**1,636**	**1,349**	**1,199**	**1,093**
Capital	166	142(3)	85(3)	62(3)	44(3)
Total liabilities and capital	**1,951**	**1,778**	**1,434**	**1,261**	**1,137**

* Amount lower than NIS 0.5 million.

(1) On January 1, 2011, the Company adopted the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provision for credit losses, for the first time. Comparative figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable with the data marked (1). For further explanations of the effect of the initial adoption of this directive, see Note 1.E.3. to the Financial Statements.

(2) The data were reclassified in order to match the item headings and presentation method for the current period. See Note 1.C.5 to the Financial Statements.

(3) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.12 to the Financial Statements.

Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

NIS millions

	For the year ended December 31				
	2011	**2010**	**2009**	**2008**	**2007**
Income					
From credit-card transactions	256	223	193	182	159
Profit (loss) from financing activity before provision for credit losses	5	1	*-	(1)	*-
Others	1	1	1	1	-
Total income	**262**	**225**	**194**	**182**	**159**
Expenses					
Provision for credit losses	4	1	2	2	*-
Operating expenses	85	74	58	52	47
Sales and marketing expenses	44	47	30	35	31
General and administrative expenses	22	19	18	15	14
Payments to banks	63	54	55	53	47
Total expenses	**218**	**195**	**163**	**157**	**139**
Operating profit before taxes	44	30	31	25	20
Provision for taxes on operating profit	9	8	8	7	6
Net profit	**35**	**22**	**23**	**18**	**14**
Basic and diluted net profit per common share (in NIS)	**249**	**168**	**224**	**180**	**140**

* Amount lower than NIS 0.5 million.

Rates of Income and Expenses

Addendum 3

Unlinked Israeli Currency

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	1,763	8	0.45
Total assets	**1,763**	**8**	**0.45**
Liabilities	1,593	(2)	(0.13)
Total liabilities	**1,593**	**(2)**	**(0.13)**
Interest-rate gap			**0.32**

CPI-Linked Israeli Currency

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	7	-	-
Total assets	**7**	**-**	**-**
Liabilities	7	-	-
Total liabilities	**7**	**-**	**-**
Interest-rate gap			**-**

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

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

(2) Calculated on an annualized basis.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	54	(*-)	-
Total assets	**54**	**(*-)**	**-**
Liabilities	54	(1)	(1.85)
Total liabilities	**54**	**(1)**	**(1.85)**
Interest-rate gap			**(1.85)**

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

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

(2) Calculated on an annualized basis.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Total

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Monetary assets generating financing income	1,824	8	0.44
Total assets	**1,824**	**8**	**0.44**
Monetary liabilities generating financing expenses	1,654	(3)	(0.18)
Total liabilities	**1,654**	**(3)**	**(0.18)**
Interest-rate gap			**0.26**
Profit from financing activity before provision for credit losses		**5**	
Provision for credit losses		4	
Profit from financing activity after provision for credit losses		**1**	

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

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

(2) Calculated on an annualized basis.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2011
	Average balance[1]
	NIS millions
Monetary assets generating financing income	1,824
Other monetary assets	6
Provision for credit losses	(11)
Total assets	**1,819**
Monetary liabilities generating financing expenses	1,654
Other monetary liabilities	21
Total liabilities	**1,675**
Total surplus of monetary assets over monetary liabilities	**144**
Non-monetary assets	3
Non-monetary liabilities	*-
Total capital means	**147**

* Amount lower than NIS 0.5 million.

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

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	USD millions		Percent
Assets	15	(*-)	-
Total assets	**15**	**(*-)**	**-**
Liabilities	15	(*-)	-
Total liabilities	**15**	**(*-)**	**-**
Interest-rate gap			**-**

* Amount lower than NIS 0.5 million.

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

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

(2) Calculated on an annualized basis.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Unlinked Israeli Currency

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	1,466[3]	3	0.20
Total assets	**1,466**	**3**	**0.20**
Liabilities	1,316[3]	(1)	(0.08)
Total liabilities	**1,316**	**(1)**	**(0.08)**
Interest-rate gap			**0.12**

CPI-Linked Israeli Currency

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	NIS millions		Percent
Assets	7	-	-
Total assets	**7**	**-**	**-**
Liabilities	26	(1)	(3.85)
Total liabilities	**26**	**(1)**	**(3.85)**
Interest-rate gap			**(3.85)**

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(2) Calculated on an annualized basis.

(3) Restated; see Note 1.E.12 to the Financial Statements.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency

	For the year ended December 31, 2010		
	Average balance[(1)]	Financing income (expenses)	Rate of income (expenses)[(2)]
	NIS millions		Percent
Assets	49	(*-)	-
Total assets	**49**	**(*-)**	**-**
Liabilities	34	(*-)	-
Total liabilities	**34**	**(*-)**	**-**
Interest-rate gap			**-**

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(2) Calculated on an annualized basis.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Total

	For the year ended December 31, 2010		
	Average balance(1)	Financing income (expenses)	Rate of income (expenses)(2)
	NIS millions		Percent
Monetary assets generating financing income	1,522	3	0.20
Total assets	**1,522**	**3**	**0.20**
Monetary liabilities generating financing expenses	1,376	(2)	(0.15)
Total liabilities	**1,376**	**(2)**	**(0.15)**
Interest-rate gap			**0.05**
Profit from financing activity before provision for doubtful debts		**1**	
Provision for doubtful debts		1	
Profit from financing activity after provision for doubtful debts		*-	

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(2) Calculated on an annualized basis.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2010
	Average balance[(1)]
	NIS millions
Monetary assets generating financing income	1,522
Other monetary assets	4
Group provision for doubtful debts	*-
Total assets	**1,526**
Monetary liabilities generating financing expenses	1,376
Other monetary liabilities	15[(2)]
Total liabilities	**1,391**
Total surplus of monetary assets over monetary liabilities	135
Non-monetary assets	2
Non-monetary liabilities	16
Total capital means	**121**

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(2) Restated; see Note 1.E.12 to the Financial Statements.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2010		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	USD millions		Percent
Assets	13	(*-)	-
Total assets	**13**	**(*-)**	**-**
Liabilities	9	(*-)	-
Total liabilities	**9**	**(*-)**	**-**
Interest-rate gap			**-**

* Amount lower than NIS 0.5 million.

(1) Based on balances at the start of each month, after deducting the average balance-sheet balance of the specific provision for doubtful debts.

(2) Calculated on an annualized basis.

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

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

Addendum 4

Reported amounts

NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	1,186	314	309	66	-
Total fair value	1,186	314	309	66	-
Financial liabilities:					
Financial liabilities	921	362	330	85	9
Total fair value	921	362	330	85	9
Financial instruments, net					
Exposure to changes in interest rates in the segment	265	(48)	(21)	(19)	(9)
Cumulative exposure in the segment	265	217	196	177	168
Linked Israeli currency					
Financial assets:					
Financial assets	2	2	3	-	-
Total fair value	**2**	**2**	**3**	**-**	**-**
Financial liabilities:					
Financial liabilities	2	2	3	-	-
Total fair value	**2**	**2**	**3**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	-	-	-	-	-
Cumulative exposure in the segment	-	-	-	-	-

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	(1)	1,874	2.55%	0.16
	-	**(1)**	**1,874**	**2.55%**	**0.16**
	-	3	1,710	2.63%	0.23
	-	**3**	**1,710**	**2.63%**	**0.23**
	-	(4)	164		
	168	164			
	-	-	7	0.84%	0.28
	-	**-**	**7**	**0.84%**	**0.28**
	-	-	7	0.84%	0.27
	-	**-**	**7**	**0.84%**	**0.27**
	-	-	-		
	-	-			

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

Addendum 4 (cont.)

Reported amounts

NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	58	(5)	-	-	-
Total fair value	**58**	**(5)**	**-**	**-**	**-**
Financial liabilities:					
Financial liabilities	47	2	-	-	-
Total fair value	**47**	**2**	**-**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	11	(7)	-	-	-
Cumulative exposure in the segment	11	4	4	4	4
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	1,246	311	312	66	-
Total fair value	**1,246**	**311**	**312**	**66**	**-**
Financial liabilities:					
Financial liabilities	970	366	333	85	9
Total fair value	**970**	**366**	**333**	**85**	**9**
Financial instruments, net					
Exposure to changes in interest rates in the segment	276	(55)	(21)	(19)	(9)
Cumulative exposure in the segment	276	221	200	181	172

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	53	0.29%	0.04
	-	**-**	**53**	**0.29%**	**0.04**
	-	2	51	0.30%	0.03
	-	**2**	**51**	**0.30%**	**0.03**
	-	(2)	2		
	4	2			
	-	(1)	1,934	2.52%	0.16
	-	(1)	1,934	2.52%	0.16
	-	5	1,768	2.62%	0.23
	-	5	1,768	2.62%	0.23
	-	(6)	166		
	172	166			

Exposure of the Company to Changes in Interest Rates as of December 31, 2010

Addendum 4

Reported amounts

NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Unlinked Israeli currency					
Financial assets:					
Financial assets	1,062(1)	292	289	58	-
Total fair value	**1,062**	**292**	**289**	**58**	**-**
Financial liabilities:					
Financial liabilities	858(1)	355	287	56	-
Total fair value	**858**	**355**	**287**	**56**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	204	(63)	2	2	-
Cumulative exposure in the segment	204	141	143	145	145
Linked Israeli currency					
Financial assets:					
Financial assets	2	2	4	-	-
Total fair value	**2**	**2**	**4**	**-**	**-**
Financial liabilities:					
Financial liabilities	2	2	4	-	-
Total fair value	**2**	**2**	**4**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	*-	*-	*-	-	-
Cumulative exposure in the segment	*-	*-	*-	*-	*-

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.E.12 to the Financial Statements.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	7	1,708	2.61	0.17
	-	**7**	**1,708**	**2.61**	**0.17**
	-	1	1,557	2.56	0.19
	-	**1**	**1,557**	**2.56**	**0.19**
	-	6	151		
	145	151	-		
	-	-	8	0.08	0.31
	-	**-**	**8**	**0.08**	**0.31**
	-	-	8	0.08	0.31
	-	**-**	**8**	**0.08**	**0.31**
	-	-	*-		
	*-	*-			

Exposure of the Company to Changes in Interest Rates as of December 31, 2010 (cont.)

Addendum 4 (cont.)

Reported amounts

NIS millions

	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
Foreign currency					
Financial assets:					
Financial assets	53	(2)	*-	-	-
Total fair value	**53**	**(2)**	***-**	**-**	**-**
Financial liabilities:					
Financial liabilities	42	2	*-	-	-
Total fair value	**42**	**2**	***-**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	11	(4)	*-	-	-
Cumulative exposure in the segment	11	7	7	7	7
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	1,117	292	293	58	-
Total fair value	**1,117**	**292**	**293**	**58**	**-**
Financial liabilities:					
Financial liabilities	902	359	291	56	-
Total fair value	**902**	**359**	**291**	**56**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	215	(67)	2	2	-
Cumulative exposure in the segment	215	148	150	152	152

* Amount lower than NIS 0.5 million.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	-	51	0.27	0.05
	-	**-**	**51**	**0.27**	**0.05**
	-	2	46	0.38	0.03
	-	**2**	**46**	**0.38**	**0.03**
	-	(2)	5		
	7	5	-		
	-	7	1,767	2.56	0.16
	-	**7**	**1,767**	**2.56**	**0.16**
	-	3	1,611	2.53	0.19
	-	**3**	**1,611**	**2.53**	**0.19**
	-	4	156		
	152	156			

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

Addendum 5

Reported amounts

NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	25	25	329	317
Debtors in respect of credit-card activity	1,594	1,608	1,484	1,417
Provisions for credit losses	(7)	(10)	(9)	(9)
Debtors in respect of credit-card activity, net	1,587	1,598	1,475	1,408
Computers and equipment	2	2	1	1
Other assets	337	322	9	9
Total assets	**1,951**	**1,947**	**1,814**	**1,735**
Liabilities				
Credit from banking corporations	1	4	4	4
Creditors in respect of credit-card activity	1,702	1,705	1,576	1,509(1)
Subordinated notes	58	58	57	57
Other liabilities	24	25	30	28(1)
Total liabilities	**1,785**	**1,792**	**1,667**	**1,598**
Capital	166	155	147	137(1)
Total liabilities and capital	**1,951**	**1,947**	**1,814**	**1,735**

(1) Restated; see Note 1.E.12 to the Financial Statements.

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

Addendum 5 (cont.)

Reported amounts

NIS millions

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Assets				
Cash on hand and deposits with banks	205	161	165	244
Debtors in respect of credit-card activity	1,492	1,326	1,270	1,258
Provisions for credit losses	(8)	(12)	(11)	(10)
Debtors in respect of credit-card activity, net	1,484	1,314	1,259	1,248
Computers and equipment	1	1	1	1
Other assets	88[1]	138[1]	96[1]	4
Total assets	**1,778**	**1,614**	**1,521**	**1,497**
Liabilities				
Credit from banking corporations	2	2	3	2
Creditors in respect of credit-card activity	1,561[1]	1,402[1]	1,347[1]	1,319[1]
Subordinated notes	56	56	26	25
Other liabilities	17[1]	18[1]	16[1]	26[1]
Total liabilities	**1,636**	**1,478**	**1,392**	**1,372**
Capital	142[1]	136[1]	129[1]	125[1]
Total liabilities and capital	**1,778**	**1,614**	**1,521**	**1,497**

(1) Restated; see Note 1.E.12 to the Financial Statements.

Quarterly Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

Reported amounts

NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	65	69	64	58
Profit from financing activity before provision for credit losses	2	1	1	1
Others	*-	1	*-	*-
Total income	**67**	**71**	**65**	**59**
Expenses				
Provision for credit losses	(2)	1	1	4
Operating expenses	21	23	22	19
Sales and marketing expenses	13	13	9	9
General and administrative expenses	6	6	5	5
Payments to banks	17	17	16	13
Total expenses	**55**	**60**	**53**	**50**
Operating profit before taxes	12	11	12	9
Provision for taxes on operating profit	1	3	2	3
Net profit	**11**	**8**	**10**	**6**
Basic and diluted net profit per common share (in NIS)	**78**	**59**	**65**	**47**

* Amount lower than NIS 0.5 million.

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

Addendum 6 (cont.)

Reported amounts

NIS millions

	2010			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	60	59	54	50
Profit from financing activity before provision for doubtful debts	*-	1	(*-)	*-
Others	*-	1	*-	*-
Total income	**60**	**61**	**54**	**50**
Expenses				
Provision for doubtful debts	(3)	1	2	1
Operating expenses	21	20	17	16
Sales and marketing expenses	17	9	11	10
General and administrative expenses	5	5	5	4
Payments to banks	12	17	13	12
Total expenses	**52**	**52**	**48**	**43**
Operating profit before taxes	8	9	6	7
Provision for taxes on operating profit	2	2	2	2
Net profit	**6**	**7**	**4**	**5**
Basic and diluted net profit per common share (in NIS)	**43**	**50**	**34**	**47**

* Amount lower than NIS 0.5 million.

Certification

I, Dov Kotler, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "Company") for 2011 (hereinafter: the "Report").

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure[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

Chief Executive Officer

Tel Aviv, February 27, 2012.

Certification

I, Sigal Barmack, hereby declare that:

1. I have reviewed the annual report of Poalim Express Ltd. (hereinafter: the "Company") for 2011 (hereinafter: the "Report").

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure[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

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 27, 2012.

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

The Board of Directors and the Management of Poalim Express 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 143. 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.

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2011

AMERICAN
EXPRESS

Table of Contents

Auditors' Report – Internal Control over Financial Reporting	143
Auditors' Report – Annual Financial Statements	146
Balance Sheets	148
Statements of Profit and Loss	149
Reports on Changes in Equity	150
Statements of Cash Flows	151
Notes to the Financial Statements	153

Auditors' Report to the Shareholders of Poalim Express 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 Poalim Express 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 guidelines of the Supervisor of Banks, the accompanying 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.

Somekh Chaikin

Certified Public Accountants (ISR)

Ziv Haft

Certified Public Accountants (ISR)

Tel Aviv, February 27, 2012

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

ZIV HAFT
IS A MEMBER OF BDO

Somekh Chaikin

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

We have audited the accompanying balance sheets of Poalim Express Ltd. (hereinafter: "the Company") as of December 31, 2011 and 2010, and the statements of profit and loss, reports on changes in shareholders' 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 at the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973, and certain auditing standards applied in the audit of credit-card companies as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Company, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of operations, changes in shareholders' 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.

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

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

Tel Aviv, February 27, 2012

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

ZIV HAFT
IS A MEMBER OF BDO

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2011	2010
Assets			
Cash on hand and deposits with banks	2	25	205
Debtors in respect of credit-card activity	3, 4	1,594	1,492(1)(2)
Provisions for credit losses	3A	(7)	(8)(1)(2)
Debtors in respect of credit-card activity, net		1,587	1,484
Computers and equipment	5	2	1
Other assets	6	337	88(3)
Total assets		**1,951**	**1,778**
Liabilities			
Credit from banking corporations	7	1	2
Creditors in respect of credit-card activity	8	1,702	1,561(3)
Subordinated notes	9	58	56
Other liabilities	10, 15	24	17(3)
Total liabilities		**1,785**	**1,636**
Contingent liabilities and special agreements	15		
Equity	11	166	142(3)
Total liabilities and capital		**1,951**	**1,778**

(1) On January 1, 2011, the Company adopted the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provision for credit losses, for the first time. Comparative figures for previous years were not restated; the data as of December 31, 2011 are therefore not comparable with the data marked (1) in 2010. For further explanations of the effect of the initial adoption of this directive, see Note 1.E.3. below.

(2) The data were reclassified in order to match the item headings and presentation method for the current period. See Note 1.C.5 below.

(3) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.12 below.

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

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

Tel Aviv, February 27, 2012

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2011	2010	2009
Income				
From credit-card transactions	18	256	223	193
Profit from financing activity before provision for credit losses	19	5	1	*-
Others		1	1	1
Total income		**262**	**225**	**194**
Expenses				
Provision for credit losses	3	4	1	2
Operating expenses	20	85	74(1)	58(1)
Sales and marketing expenses	21	44	47(1)	30(1)
General and administrative expenses	22	22	19(1)	18(1)
Payments to banks	15F	63	54(1)	55(1)
Total expenses		**218**	**195**	**163**
Operating profit before taxes		**44**	**30**	**31**
Provision for taxes on operating profit	23	9	8	8
Net profit		**35**	**22**	**23**
Basic and diluted net profit per common share (in NIS)		**249**	**168**	**224**
Number of common shares used in calculation		139,326	132,772	100,000

* Amount lower than NIS 0.5 million.

(1) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.12 below.

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

Reports on Changes in Equity

Reported amounts

In NIS millions

	Share capital	Premium on shares	Capital reserve from controlling shareholder	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Retained earnings	Total capital
Balance as of Dec. 31, 2008	*-	-	*-	*-	-	62(1)	62
Benefits received from controlling shareholder	-	-	*-	*-	-	-	*-
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	*-	-	*-
Adjustments in respect of presentation of securities available for sale reclassified to the statement of profit and loss	-	-	-	-	(*-)	-	(*-)
Annual net profit	**-**	**-**	**-**	**-**	**-**	**23(1)**	**23**
Balance as of Dec. 31, 2009	***-**	**-**	***-**	***-**	**-**	**85**	**85**
Benefits received from controlling shareholder	-	-	*-	*-	-	-	*-
Share issuance	*-	35	-	35	-	-	35
Annual net profit	-	-	-	-	-	22(1)	22
Balance as of Dec. 31, 2010	***-**	**35**	***-**	**35**	**-**	**107**	**142**
Cumulative effect, net of tax, of initial implementation of directive on measurement of impaired debts and provisions for credit losses on Jan. 1, 2011	**-**	**-**	**-**	**-**	**-**	**(11)**	**(11)**
Benefits received from controlling shareholder	**-**	**-**	***-**	***-**	**-**	**-**	***-**
Annual net profit	**-**	**-**	**-**	**-**	**-**	**35**	**35**
Balance as of Dec. 31, 2011	***-**	**35**	***-**	**35**	**-**	**131**	**166**

* Amount lower than NIS 0.5 million.

(1) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.12 below. As a result of the effect of the retroactive implementation, the opening balance of retained earnings decreased by a total of NIS 1 million.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
Cash flows from operating activity			
Annual net profit	35	22	23
Adjustments required to present operating cash flows:			
Depreciation of computers and equipment	1	*-	*-
Provisions (income) for credit losses	4	(1)	1
Profit from sale of securities available for sale	-	-	(*-)
Revaluation of notes	2	1	-
Deferred taxes, net	(2)	(*-)(1)	*-(1)
Expenses in respect of share-based payment	*-	*-	*-
(Increase) decrease in other assets	(245)	(84)(1)	1(1)
Increase (decrease) in other liabilities	4	3(1)	(5)(1)
Net cash from operating activity	(201)	(59)	20
Cash flows for activity in assets			
Deposits with banks**	-	-	(*-)
Withdrawals of deposits from banks**	-	-	*-
Credit to cardholders and merchants, net	(3)	4	(25)
Increase in other debtors in respect of credit-card activity, net	(115)	(253)	(144)
Acquisition of securities available for sale	-	-	(76)
Proceeds of sale of securities available for sale	-	-	77
Acquisition of computers and equipment	(1)	(*-)	(1)
Net cash used in activity in assets	(119)	(249)	(169)
Cash flows from activity in liabilities			
Short-term credit from banking corporations, net	(1)	(4)	4
Increase in creditors in respect of credit-card activity	141	257	126
Issuance of subordinated notes	-	30	25
Issuance of share capital	-	35	-
Net cash from activity in liabilities	140	318	155
Decrease (increase) in cash and cash equivalents	(180)	10	6
Balance of cash and cash equivalents at beginning of year	205	195	189
Balance of cash and cash equivalents at end of year	25	205	195

* Amount lower than NIS 0.5 million.

** For an original period of more than 3 months.

(1) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.12 below.

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

Note 1 – Significant Accounting Policies

A. General

1. Poalim Express Ltd. (hereinafter: the "**Company**") is a corporation incorporated in Israel in 1995 and is wholly owned by Bank Hapoalim B.M. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981.

   The Company issues and clears transactions in American Express brand credit cards.

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

3. The financial statements of the Company were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with the directives and guidelines of the Supervisor of Banks with regard to the preparation of annual financial statements of credit-card companies.

4. The annual financial statements were approved for publication by the board of directors of the Company on February 27, 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

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

(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.

1. The Company – Poalim Express Ltd.
2. The Parent Company – Bank Hapoalim B.M.
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 defined in Paragraph 1 of the definition of an “interested party” of a corporation in Section 1 of the Securities Law, 1968.
5. Controlling shareholders – As defined in the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in Financial Statements), 1996.
6. CPI – The consumer price index in Israel 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).

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

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

C. Basis for Preparation of the Financial Statements

1. Reporting Principles

The financial statements of the Company are prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. In preparing the financial statements, the Company implements, among other matters, certain IFRS and GAAP for US banks, in the following manner:

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

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

- In cases in which a material issue arises that is not resolved in the IFRS or in the implementation instructions of the Supervisor, the Group treats the issue according to GAAP for US banks specifically applicable to these matters;
- In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Group acts according to specific implementation guidelines established by the Supervisor;
- Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Group acts in accordance with the IFRS;
- 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.

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

3. Measurement Base

The financial statements were prepared on the basis of historical cost, with the exception of the assets and liabilities listed below:

- Financial instruments measured at fair value;
- Liabilities in respect of share-based payment to be settled in cash;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits.

The value of non-monetary assets and items of capital measured on the basis of historical cost was adjusted to changes in the CPI up to December 31, 2003, because the Israeli economy was considered a hyper-inflationary economy until that date. From January 1, 2004, the Company has prepared its financial statements in reported amounts.

4. Use of Estimates

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.

Note 1 – Significant Accounting Policies (cont.)

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

5. Change in Classification

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

Debtors in respect of credit-card activity, net, as of December 31, 2010 were reclassified to match presentation in gross amounts as of January 1, 2011.

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

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

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

2. Certain IFRS, listed below:

   - IFRS 2, Share-Based Payment;
   - IFRS 3 (2008), Business Combinations;
   - IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations;
   - IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;
   - IAS 10, Events After the Reporting Period;
   - IAS 16, Property, Plant and Equipment;
   - IAS 17, Leases;
   - IAS 20, Accounting for Government Grants and Disclosure of Government Assistance;
   - IAS 21, The Effects of Changes in Foreign Exchange Rates;
   - IAS 27 (2008), Consolidated and Separate Financial Statements;
   - IAS 28, Investments in Associates;

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 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.

3. FAS 157 (ASC 820-10), Fair Value Measurements (hereinafter: "FAS 157"); FAS 159 (ASC 825-10), The Fair Value Option for Financial Assets and Financial Liabilities (hereinafter: "FAS 159"); and ASU 2010-06, Improving Disclosures about Fair Value Measurements;

4. Instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits;

5. ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.

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

Note 1 – Significant Accounting Policies (cont.)

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

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

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.

Note 1 – Significant Accounting Policies (cont.)

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

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

	December 31		
	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)

2. Basis for Recognition of Revenue

(1) Income from clearing fees is included in the statement of profit and loss at the date of capture of the transaction at the Company, on a cumulative basis, upon completion of the service. In transactions in installments funded by the merchants, income is allocated as a separate transaction for each payment.

(2) The Company applies the directives of Clarification No. 8 of the Israel Accounting Standards Board, "Reporting Income on a Gross or Net Basis," and accordingly presents income from clearing fees on a net basis.

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

(4) Income from interest is recorded on a cumulative basis and recognized according to the interest method, with the exception of income from interest on debts in arrears; such interest is allocated to the statement of profit and loss based on actual collection.

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

Note 1 – Significant Accounting Policies (cont.)

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

3. Impaired Debts, Credit Risk, and Credit Loss Provisions

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

Debtors in Respect of Credit Card Activity and Other Debt Balances

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

Provisions for Credit Losses

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

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

Individual provision for credit losses – The Company individually examines all debts with a contractual balance (without deducting accounting write-offs that do not involve an accounting waiver and provisions for credit losses) of NIS 500 thousand or more. Individual provisions for credit losses are recognized for all debts classified as impaired. Debts are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the full amount owed to

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

it according to the contractual terms of the debt agreement. In any case, debt is classified as impaired debt when the principal or interest in respect of the debt is in arrears of 90 days or more. Such debts that are not in arrears and are found to be sound are provided for on a group basis. In addition, any debt the terms of which have been changed in the course of the restructuring of problematic debt is classified as impaired debt, and is examined individually. The individual provision for credit losses is assessed based on the assets held by the Company, which are the turnover of transactions in credit cards of the debtor.

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

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

In addition, the directive establishes various definitions and classifications of balance-sheet and off-balance-sheet credit risk (the Company classifies all of its debts and items of off-balance-sheet credit into the categories: sound, under special supervision, substandard, or impaired).

Revenue Recognition

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

Note 1 – Significant Accounting Policies (cont.)

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

Restructuring of Problematic Debt

A debt that has undergone restructuring of problematic debt is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Company has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (postponement of cash payments required of the borrower). In order to determine whether a debt arrangement executed by the Company constitutes restructuring of problematic debt, the Company performs a qualitative examination of the terms and circumstances of the arrangement in aggregate, to establish whether: (1) the borrower is in financial difficulties; and (2) the Company granted a concession to the borrower as part of the arrangement.

In order to determine whether the borrower is in financial difficulties, the Company determines whether there are signs indicating that the borrower was in difficulties at the time of the arrangement, or whether there is a reasonable probability that the borrower will fall into financial difficulties without the arrangement. Among other factors, the Company examines the existence of one or more of the following circumstances: at the date of the debt arrangement, the borrower is in default, including when any other debt of the borrower is in default; with regard to debts that at the date of the arrangement are not in arrears, the Company estimates whether, based on the borrower's current repayment capability, it is likely that the borrower will default in the foreseeable future and will fail to comply with the original contractual terms of the debt; the debtor has been declared bankrupt, is in a receivership proceeding, or there are significant doubts regarding the continued survival of the borrower as a going concern; and, if there is no change in the terms of the debt, the borrower will be unable to raise funds from other resources at the prevalent interest rate in the market for borrowers who are not in default.

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

Restructured debts, including those examined on a group basis prior to restructuring, shall be classified as impaired debt and shall be assessed on an individual basis for the purpose of the provision for credit losses or accounting write-off. In light of the fact that a debt that has undergone problematic debt restructuring will not be repaid according to its original contractual terms, the debt continues to be classified as impaired, even after the borrower resumes repayment according to the new terms.

Accounting Write-Offs

The Company performs accounting write-offs for any debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Company has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). With regard to debts evaluated on a group basis, write-off rules were

Note 1 – Significant Accounting Policies (cont.)

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

established based on the period of arrears (in most cases more than 150 consecutive days). It is hereby clarified that accounting write-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base in the Company's books.

Policy on Provisions for Doubtful Debts Before the Implementation of the Directives on Impaired Debts, Credit Risk, and Credit Loss Provisions, the Amendment of the Directives on the Treatment of Problematic Debts, and the Accounting Standards Update ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring

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

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

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

Effect of Initial Implementation

Pursuant to the instructions of the Supervisor of Banks, the directive was not implemented retroactively in financial statements for previous periods. At the initial implementation date, among other matters, the Company:

- Performed accounting write-offs of all debts meeting the conditions for accounting write-offs on that date;
- Classified all debts meeting the conditions for such classification as sound, under special supervision, substandard, or impaired.

Note 1 – Significant Accounting Policies (cont.)

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

- Adjusted the balance of the provision for credit losses for debtors in respect of credit-card activity and off-balance-sheet credit instruments as of January 1, 2011 to the requirements of the directive; and

- Adjusted the balance of deferred taxes receivable as of January 1, 2011.

The effect of the initial implementation of the directive, in the amount of NIS 11 million (net of tax), was allocated as a reduction of the balance of retained earnings as of January 1, 2011.

After the approval of the financial statements, following discussions held by the Management and Board of Directors of the Company, a decision was made to continue to examine the implementation of the aforesaid accounting policy with regard to the directive, and to update it as necessary. The policy was updated, and a decision was made to perform a division into credit risk groups and establish a different provision rate for each group.

In addition, during April 2011 the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.

The rules established in the ASU for the identification of arrangements to be defined as problematic debt restructuring were adopted by the Supervisor of Banks and took effect on July 1, 2011. The rules apply to the determination whether a restructuring constitutes a problematic debt restructuring, for any debt arrangement executed as of January 1, 2011. The changes in the measurement method of the provision for credit losses were implemented prospectively, such that the update of the required provision calculated on an individual basis was recorded in the third quarter of 2011. The initial implementation of the ASU had no material effect on the Company's results.

4. Establishing the Fair Value of Financial Instruments

As of January 1, 2011, the Company has adopted the rules established in FAS 157 (ASC 820-10), which defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation.

Fair value is defined as the amount or price that would be obtained from the sale of an asset, or that would be paid to extinguish a liability, in a transaction between a willing seller and a willing buyer, at the date of measurement. Among other matters, in order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Company. FAS 157 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.

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

- Level 2 data: Prices quoted in active markets for similar assets or liabilities; prices quoted in inactive markets for identical assets or liabilities; prices derived from evaluation models in which all significant inputs are observed in the market or supported by observed market data.

- Level 3 data: Unobservable inputs regarding the asset or liability, arising from evaluation models in which one or more of the significant inputs is unobservable.

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

The implementation of the rules set forth in FAS 157 requires the cessation of use of the blockage factor in calculating fair value, and replaces the instructions in EITF 02-3 (ASC 815-10), Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, which prohibit the recognition of day one profits and require that the fair value of derivative instruments not traded on an active market be determined according to the transaction price.

Securities

The fair value of securities held for trading and of securities available for sale is determined based on market prices quoted in the primary market. In such cases, the fair value of the Company's investment in securities is the number of units multiplied by the quoted market price. If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Derivative Financial Instruments

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

Note 1 – Significant Accounting Policies (cont.)

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

Additional Non-Derivative Financial Instruments

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

Disclosure Requirements

FAS 157 expands the disclosure requirements for measurements of fair value. In addition, ASU 2010-06 requires the inclusion of additional disclosures, such as disclosure of amounts of significant transitions from Level 2 fair-value measurements to Level 1 measurements and vice versa, and the inclusion of explanations for such transitions. Disclosure is also required for gross amounts of changes in Level 3 fair-value measurements resulting from transactions of acquisition, sale, issuance, and maturation. The new disclosures are required on a quarterly basis. The aforesaid required disclosures are included in these financial statements. However, there is no requirement to apply the aforesaid disclosure requirements to financial statements for periods presented before the initial implementation of the standard. Accordingly, these financial statements do not include comparative figures for the new disclosures.

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

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

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

6. Offsetting Financial Instruments

Financial assets and financial liabilities are stated in the balance sheet in net amounts only when the Company has the enforceable legal right to offset them, and the intention to settle the asset and the liability on a net basis, simultaneously.

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

7. Fixed Assets (Computers and Equipment)

Recognition and Measurement

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

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

Subsequent Costs

Routine maintenance costs of fixed-asset items are allocated to profit or loss upon formation.

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or another amount substituted for the cost, with the deduction of the residual value of the asset.

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

Note 1 – Significant Accounting Policies (cont.)

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

Annual depreciation rates:

	%
Computers and peripheral equipment	20-33
Software costs	20-25
Furniture and office equipment	6-20

Initial Implementation of IAS 16, Property, Plant and Equipment

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

8. Leases

Leases, including leases of land from the Israel Land Administration or from other third parties, in which the Company materially bears all of the risks and returns from the asset, are classified as financing leases. At initial recognition, leased assets are measured at an amount equal to the lower of the fair value and the present value of the minimum future leasing fees.

Other leases are classified as operational leases. The leased assets are not recognized in the balance sheet of the Company.

Payments in operational leases are allocated to profit and loss over the period of the lease.

Initial Implementation of IAS 17, Leases

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

9. Intangible Assets

Software Costs

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

Software acquired by the Company is measured at cost, with the deduction of accrued depreciation and losses from impairment.

Costs related to software development or adaptation for in-house use are capitalized if and only if: the development costs can be measured reliably; the software is technically and commercially feasible; future economic benefits are expected; and the Company has the intention and sufficient resources to complete the development and use the software. Costs recognized as an intangible asset include direct costs of materials and services and direct labor wages for workers. Such costs are measured at cost, with the deduction of accrued depreciation and losses from impairment. Overhead costs that cannot be directly attributed to the development of the software and research costs are recognized as expenses upon formation.

Depreciation

Depreciation is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life of intangible assets, including software assets, starting on the date when the assets are available for use.

Goodwill is not depreciated systematically, but is examined for impairment at least once a year.

Intangible assets created at the Company (such as software under development) are not depreciated systematically as long as they are not available for use. Accordingly, these intangible assets are examined for impairment at least once a year until they become available for use.

Subsequent Costs

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

Initial Implementation of IAS 38, Intangible Assets

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

Note 1 – Significant Accounting Policies (cont.)

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

10. Impairment of Assets

Impairment of Non-Financial Assets

At each reporting date, an examination is performed to determine whether indications of impairment exist with regard to the non-financial assets of the Company, excluding deferred tax assets and including investments accounted for using the equity method. If such indications exist, an estimate of the recoverable amount of the asset is calculated. The recoverable amount of an asset is the higher of its use value and net sale value (fair value net of selling expenses).

In determining use value, the Company discounts the estimated future cash flows according to a pretax discounting rate reflecting market estimates regarding the time value of the money and the specific risks related to the asset.

Losses from impairment are recognized when the book value of the asset exceeds the recoverable amount, and are charged to profit and loss.

Impairment of In-House Software Development Costs

In addition to the indications of impairment established in IAS 36, Impairment of Assets, tests of impairment of in-house software development costs shall also be performed when the signs listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

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

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

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

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

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

If one or more of the signs listed above exists, an examination for impairment must be performed, in accordance with the rules set forth in IAS 36, Impairment of Assets.

Initial Implementation of IAS 36, Impairment of Assets

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

Note 1 – Significant Accounting Policies (cont.)

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

11. Provision for Gift Offers for Credit-Card Holders

The financial statements include a provision for the loyalty program for cardholders. The provision made in the books is at a rate of approximately 85% of the balance of unutilized points as of the end of 2011.

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

Price of points – based on the actual average cost per point as of the end of the year.

12. Employee Benefits

Obligations for Employee Benefits

The Company's obligations in respect of benefits after the termination of the employer-employee relationship and/or other long-term benefits, granted according to law and/or agreements and/or custom at the Company, are calculated according to the Company's policies and procedures. With regard to employees of the Bank on loan to the Company, such calculations are performed on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with the directives of the Supervisor of Banks. The mortality rate is based on current directives of the Supervisor of the Capital Market, Insurance, and Savings. In addition, various statistics are taken into consideration with regard to mortality tables, rates of employees leaving, and the real rate of change of employee wages over time. The calculation also includes active employees expected to retire with preferred retirement terms, before the legal retirement age. Changes in the various actuarial characteristics would lead to results different from those obtained today.

Short-term employee benefits, such as labor wages, vacations, and bonuses, are reported on an uncapitalized basis, and the expense in respect thereof for the period is allocated when the relevant service is provided.

Instructions and Clarifications Concerning the Reinforcement of Internal Control over Financial Reporting on Employee Benefits

On March 27, 2011, the Supervisor of Banks issued instructions regarding the reinforcement of internal control over financial reporting on employee benefits. The instructions establish several clarifications regarding the assessment of the liability in respect of employee benefits and instructions regarding internal control over the process of financial reporting on employee benefits, with requirements for the involvement of a licensed actuary, identification and classification of liabilities in respect of employee

Note 1 – Significant Accounting Policies (cont.)

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

benefits, maintenance of internal controls with regard to the reliance upon and validation of the actuary's assessment, and certain disclosure requirements.

In addition, according to the circular, a banking corporation or credit-card company that expects a group of employees to be paid benefits beyond the contractual terms shall take into consideration the expected rate of employees leaving (including employees expected to retire under voluntary-retirement plans or upon receiving other preferred terms) and the benefits that these employees are expected to receive upon leaving. The liability in respect of severance pay for this group of employees shall be presented in the financial statements as the higher of the amount of the liability calculated on an actuarial basis, taking into consideration the additional cost expected to be incurred by the banking corporation or credit-card company due to the aforesaid benefits, and the amount of the liability calculated by multiplying the employee's monthly salary by the number of years of the employee's service, as required in Opinion Statement 20 of the Institute of Certified Public Accountants in Israel.

The instructions of the circular were implemented starting with the financial statements for periods after April 1, 2011. The effect of the initial implementation was included by retroactive implementation. The effect in the amount of NIS 1 million (net of tax) was allocated as an adjustment of the opening balance of retained earnings for the earliest period presented in these financial statements. Comparative figures have been restated.

The effect of the retroactive implementation on each of the previous reporting years for which data is included in the financial statements is set out below:

Reported amounts, in NIS millions

	December 31, 2010		
	Before restatement	**Effect of restatement**	**After restatement**
Effect on balance sheet			
Other assets	89	(1)	88
Other creditors in respect of credit-card activity	1,562	(1)	1,561
Other liabilities (employee benefits)	16	1	17
Equity	143	(1)	142
Ratio of total capital to risk-adjusted assets	14.2%	(0.1%)	14.1%
Ratio of core capital and Tier I capital	10.2%	(0.1%)	10.1%

Note 1 – Significant Accounting Policies (cont.)

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

Reported amounts, in NIS millions

	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Before restatement	Effect of restatement	After restatement	Before restatement	Effect of restatement	After restatement
Effect on profit and loss items:						
Operating expenses	74	*-	74	58	*-	58
Sales and marketing expenses	47	*-	47	30	*-	30
General and administrative expenses	19	*-	19	18	*-	18
Operating profit before taxes	30	*-	30	31	*-	31
Provision for taxes on operating profit	8	*-	8	8	*-	8
Net profit attributed to shareholders of the Company	22	*-	22	23	*-	23
Earnings per share (in NIS)	168	-	168	224	-	224
Effect on statement of cash flows:						
Cash flows from operating activities	(59)	*-	(59)	20	*-	20
Cash flows from activity in liabilities and capital	318	*-	318	155	*-	155

* Amount lower than NIS 0.5 million.

Note 1 – Significant Accounting Policies (cont.)

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

13. Share-Based Payment

The fair value at the date of the grant of share-based payments to employees is allocated as a wage expense, in parallel to the increase in equity, over the period in which the unconditional eligibility for the grant is attained. The amount allocated as an expense in respect of share-based payment grants contingent upon vesting conditions, which are service conditions or execution conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are performance conditions constituting market conditions, the Company takes such conditions into consideration when estimating the fair value of the equity instruments granted. The Company therefore recognizes the expense in respect of such grants regardless of whether the conditions are fulfilled.

In transactions in which the Parent Company grants employees of the Company rights to equity instruments, where the grant is treated as a share-based payment transaction settled in equity instruments, the Company recognizes the fair value of the grant directly against a capital reserve from a controlling shareholder.

Initial Implementation of IFRS 2, Share-Based Payment

Equity grants after November 7, 2002 and before March 15, 2005 were treated retroactively, in accordance with IFRS 2. The amended measurement had no effect on the balance of retained earnings.

Until the implementation of the standard, share-based payments were included in a capital reserve from share-based payment; following the implementation of the standard, the capital reserves were sorted.

14. 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.

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

(3) Remote risk – the probability of realization of the exposure to risk is under 20%. No provision is included in the financial statements in respect of claims in this risk group and no disclosure is given.

Legal claims regarding which the Supervisor of Banks has determined that the Company is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Company is required to reimburse.

15. 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 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, with the intention to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

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

Tax benefits in respect of grants of equity instruments to employees for which no expense was recognized were allocated to equity in the period in which the deduction was recognized for tax purposes.

Note 1 – Significant Accounting Policies (cont.)

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

16. 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.

17. 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.

18. Segmental Reporting

A segment of activity is a component of the Company engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation, and with regard to which separate financial information exists. The format for reporting on the segments of activity of the Company is established in the Public Reporting Directives of the Supervisor of Banks. See also Note 24 below.

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 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.

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 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.

   (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.

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

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 comparative 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.

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.

Note 1 – Significant Accounting Policies (cont.)

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

IAS 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 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.

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.)

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

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

   The Company is examining the expected effect of the initial implementation of this standard.

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.)

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.

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

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

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

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

Note 2 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	December 31	
	2011	**2010**
Cash on hand[1]	25	7
Deposits with banks for an original term of up to 3 months	-	198
Total	**25**	**205**

(1) After deduction of the provision for credit losses.

Note 3 – Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

General

The Company has implemented the new directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and provisions for credit losses as of January 1, 2011. These financial statements include disclosures according to the new format, adjusted to the reporting requirements of the aforesaid directive. Because the new directive was implemented prospectively, without restatement of comparative figures, in order to provide comparative disclosure, data for the current period are presented below in compared with the appropriate balances as at December 31, 2010 (pro-forma data), as they would have been if the directive had been implemented for the first time in that year. The pro-forma data were published for the first time in the Financial Statements for 2010. The pro-forma data were restated following examinations performed by the Company during the period.

The effect of the initial implementation of the new directive on provisions for credit losses in respect of debts and in respect of off-balance-sheet credit instrument, and the change in the balance of the provision in the one-year period ended December 31, 2011, are set out below:

	For the year ended December 31, 2011		
	Individual provision	**Group provision**	**Total**
Allowance for credit losses as of Dec. 31, 2010*	7	1	8
Net accounting write-offs recognized as of Jan. 1, 2011***	(**-)	(10)	(10)
Other changes in the allowance for credit losses as of Jan. 1, 2011 (allocated to capital)***	(5)	18	13
Provisions for credit losses	1	3	4
Accounting write-offs	(2)	(4)	(6)
Collection of debts written off in accounting in previous years	**-	1	1
Accounting write-offs, net	(2)	(3)	(5)
Allowance for credit losses as of Dec. 31, 2011	**1**	**9**	**10**

* Prior to January 1, 2011, this amount was presented under the item "provision for doubtful debts."

** Amount lower than NIS 0.5 million.

*** As a result of the initial implementation of the new directive on the measurement and disclosure of impaired debts, credit risk, and provision for credit losses.

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

Reported amounts

In NIS millions

A. Debtors in respect of credit-card activity

	December 31		December 31	
	Average annual interest rate 2011		2011	2010
	For daily balance	For transactions in the last month		
	%	%		
Debtors in respect of credit cards[1] [2]	-	-	1,540	1,434
Credit to merchants[3]	5.0	5.0	28	26
Total debtors and credit to credit-card holders and merchants[4] [5]			1,568	1,460
Less: Provision for credit losses			(7)	(8)
Total debtors and credit to credit-card holders and merchants, net			1,561	1,452
Companies and international credit-card organization[5]			24	31
Income receivable			2	1
Others			*-	*-
Total debtors in respect of credit-card activity, net			**1,587**	**1,484**
(1) Of which, under the responsibility of banks			1,240	1,176

(2) Debtors in respect of credit cards – non-interest bearing. Includes balances in respect of ordinary transactions, transactions in installments at the expense of the merchant, and other transactions.

(3) Includes advance payments to merchants in the amount of NIS 28 million (Dec. 31, 2010: NIS 25 million).

(4) Of which, NIS 22 million in debts examined on an individual basis, including debts found to be unimpaired, the provision for credit losses in respect of which was calculated on a group basis. For further details, see Note 3.B below.

(5) Of which, NIS 1,572 million in debts is not examined individually, the provision for credit losses in respect of which was calculated on a group basis. For details, see Note 3.C below.

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

A. Debtors in respect of credit-card activity (cont.)

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Debtors in respect of credit-card activity – debts examined on an individual basis	22	2	20	21	3	18
Debtors in respect of credit-card activity – debts examined on a group basis	1,572	5	1,567	1,461	5	1,456
Total debtors in respect of credit-card activity	**1,594**	**7**	**1,587**	**1,482**	**8**	**1,474**

B. Debtors in respect of credit-card activity – debts examined on an individual basis

1. Impaired debts examined on an individual basis include:

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired debts*	1	1	-	2	2	-
Other unimpaired debts**	21	1	20	19	1	18
Total debts examined on an individual basis	**22**	**2**	**20**	**21**	**3**	**18**

* Impaired debts do not accrue interest income.

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

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

Reported amounts

In NIS millions

B. Debtors in respect of credit-card activity – debts examined on an individual basis (cont.)

Additional information regarding impaired debtors in respect of credit-card activity examined on an individual basis(1)

	December 31, 2011	December 31, 2010 (pro-forma data)
2. Impaired debts in respect of which a provision for credit losses on an individual basis exists	1	2
Total impaired debts	1	2
3. Impaired debts in restructuring in which terms of the debt not accruing interest were changed	1	2
Total impaired credit to the public	1	2

(1) Restructured, examined individually and classified as impaired.

C. Debtors in respect of credit-card activity – debts examined on a group basis

	December 31, 2011			December 31, 2010 (proforma data)		
	Recorded debt balance	Provision for credit losses	Net debt balance	Recorded debt balance	Provision for credit losses	Net debt balance
Impaired debts	1	*-	1	2	*-	2
Unimpaired debts in arrears of 90 days or more	-	-	-	-	-	-
Unimpaired debts in arrears of 30 to 89 days	2	1	1	2	1	1
Other unimpaired debts	1,569	4	1,565	1,457	4	1,453
Total debts examined on a group basis	**1,572**	**5**	**1,567**	**1,461**	**5**	**1,456**

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

	For the year ended December 31, 2011		
	Individual provision	Group provision	Total
Allowance for credit losses as of Jan. 1, 2011 (pro-forma data)	**2**	**9**	**11**
Provisions (income) for credit losses	1	3	4
Accounting write-offs	(2)	(4)	(6)
Collection of debts written off for accounting purposes in previous years	**-	1	1
Accounting write-offs, net	(2)	(3)	(5)
Allowance for credit losses as of Dec. 31, 2011	**1**	**9**	**10**
Composition of allowance as of Dec. 31, 2011			
In respect of debtors and credit to credit-card holders and merchants	1	6	7
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	3	3
Composition of allowance as of Jan. 1, 2011 (pro-forma data)			
In respect of debtors and credit to credit-card holders and merchants	2	6	8
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	3	3

* Amount lower than NIS 0.5 million.

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

	December 31, 2011			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
	NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	207,195	273	269	8
Borrower balances over 5 and up to 10	65,773	332	309	157
Borrower balances over 10 and up to 15	28,279	217	191	137
Borrower balances over 15 and up to 20	22,078	148	113	247
Borrower balances over 20 and up to 30	31,533	189	120	609
Borrower balances over 30 and up to 40	26,148	132	58	817
Borrower balances over 40 and up to 80	12,318	143	87	464
Borrower balances over 80 and up to 150	970	47	37	49
Borrower balances over 150 and up to 300	206	25	20	16
Borrower balances over 300 and up to 600	59	13	10	11
Borrower balances over 600 and up to 1,200	21	13	7	5
Borrower balances over 1,200 and up to 2,000	10	8	3	8
Borrower balances over 2,000 and up to 4,000	2	3	3	3
Borrower balances over 4,000 and up to 8,000	1	5	5	-
Borrower balances over 8,000 and up to 20,000	5	20	8	26
Borrower balances over 20,000 and up to 40,000	1	24	-	-
Total	**394,599**	**1,592**	**1,240**	**2,557**
Income receivable and other debtors	-	2	-	-
Total	**394,599**	**1,594**	**1,240**	**2,557**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the provision for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

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

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

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

	December 31, 2010			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	177,761	246	243	9
Borrower balances over 5 and up to 10	50,271	304	290	61
Borrower balances over 10 and up to 15	22,883	201	183	84
Borrower balances over 15 and up to 20	17,230	130	106	178
Borrower balances over 20 and up to 30	27,093	171	113	510
Borrower balances over 30 and up to 40	23,640	124	58	732
Borrower balances over 40 and up to 80	10,602	138	87	377
Borrower balances over 80 and up to 150	962	47	36	49
Borrower balances over 150 and up to 300	216	24	18	21
Borrower balances over 300 and up to 600	74	20	15	11
Borrower balances over 600 and up to 1,200	14	9	6	4
Borrower balances over 1,200 and up to 2,000	5	6	6	4
Borrower balances over 4,000 and up to 8,000	5	23	6	-
Borrower balances over 8,000 and up to 20,000	1	9	9	-
Borrower balances over 20,000 and up to 40,000	1	31	-	-
Total	**330,758**	**1,483**	**1,176**	**2,040**
Income receivable and other debtors	-	1	-	-
Total	**330,758**	**1,484**	**1,176**	**2,040**

(1) After deducting specific provisions for doubtful debts.

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

(3) Credit risk in off-balance-sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower (excluding credit facilities under the responsibility of banks).

Note 5 – Computers and Equipment

Reported amounts

In NIS millions

	Computers and equipment	Furniture and office equipment	Software costs[(1)]	Total
Cost:				
As of December 31, 2010	7	*-	1	8
Additions	1	*-	-	1
As of December 31, 2011	8	*-	1	9
Accrued depreciation:				
As of December 31, 2010	6	*-	1	7
Additions	*-	*-	*-	*-
As of December 31, 2011	6	*-	1	7
Depreciated balance as of December 31, 2011	2	*-	*-	2
Depreciated balance as of December 31, 2010	1	*-	*-	1
Weighted average depreciation rate in % in 2011	20.7	8.3	25	
Weighted average depreciation rate in % in 2010	21.5	8.3	25	

(1) Includes capitalized software costs, in an amount lower than NIS 0.5 million.

* Amount lower than NIS 0.5 million.

Note 6 – Other Assets

Reported amounts

In NIS millions

	The Company	
	December 31	
	2011	2010
Deferred taxes receivable, net (see Note 23)	6	**2
Other debtors and debit balances:		
Prepaid expenses	1	1
Related companies*	329	**85
Others	1	-
Total other debtors and debit balances	331	86
Total other assets	**337**	**88**

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

** Restated; see Note 1.E.12 above.

Note 7 – Credit from Banking Corporations

Reported amounts

In NIS millions

	December 31, 2011		December 31	
	Average annual interest rate		2011	2010
	For daily balance	For transactions in the last month		
	%	%		
Credit in current drawing accounts	5.25	5.25	1	2

Note 8 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2011	2010
Merchants[1]	1,636	1,506
Prepaid income	*-	*-
Provision for loyalty program[2]	45	40
Expenses payable	3	1
Others	18	**14
Total creditors in respect of credit-card activity	**1,702**	**1,561**

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.12 above.

(1) Net of balances in respect of the discount of sales slips for merchants in the amount of NIS 63 million as of December 31, 2011 (Dec. 31, 2010: NIS 55 million).

(2) Points inventory and movements:

	December 31	
	2011	2010
	In thousands of points	
Opening balance	**507,939**	**458,236**
Points created	169,653	153,393
Points used	(96,189)	(84,231)
Points canceled	(25,017)	(19,459)
Closing balance	**556,386**	**507,939**

Note 9 – Subordinated Notes

Reported amounts

NIS millions

A. Item composition

	Average duration[1]	Internal rate of return[2]	December 31	
	%	%	2011	2010
	2011			
In Israeli currency				
Unlinked	7.04	3.36	*58	56

* Includes a balance of payable interest in the amount of NIS 2 million as of December 31, 2011 (December 31, 2010: NIS 0).

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

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

B. Additional information regarding subordinated notes

Subordinated notes in the amount of NIS 25 million, for a period of ten years, were issued on December 31, 2009. The notes are linked to the consumer price index, bear annual interest of 4%, and mature on December 31, 2019.

Pursuant to the resolution of the Board of Directors of the Company of July 28, 2010, the linkage terms of the notes were changed from CPI-linked bearing a fixed spread to floating rate only.

Additional subordinated notes in the amount of NIS 30 million were issued in September 2010.

Note 10 – Other Liabilities

Reported amounts

In NIS millions

	December 31	
	2011	**2010**
Surplus current income-tax reserves over advances paid	1	1
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	3	*3
Suppliers of services and equipment	3	2
Expenses payable	10	8
Institutions	2	2
Provisions for credit losses in respect of off-balance-sheet liabilities	3	-
Others	2	1
Total other creditors and credit balances	23	16
Total other liabilities	**24**	**17**

* Restated; see Note 1.E.12 above.

Note 11A – Equity

	Registered	**Issued and paid-up**
	December 31, 2011 and 2010	
	In NIS	
Common shares of par value NIS 1 each	500,000	139,326

Note 11B – Capital Adequacy According to the Directives of the Supervisor of Banks[1]

Reported amounts

In NIS millions

	December 31, 2011	December 31, 2010
1. Capital for the calculation of the capital ratio		
	In NIS millions	
Core capital and tier I capital, after deductions*	166[2]	142[1]
Tier II capital, after deductions**	56	56
Total overall capital	**222**	**198**

* In order for the Company to comply with the minimum capital ratio required by the Bank of Israel, as noted above, the Company made preparations such that in March 2010 its registered share capital increased by NIS 35 million, divided into 39,326 NIS 1 par value common shares, for a total consideration of NIS 890 per share (the total consideration was NIS 35 million).

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

(1) Restated; see Note 1.E.12 above.

(2) The effect on capital due to the implementation of the directive on impaired debts is a reduction of retained earnings in the amount of NIS 11 million.

2. Weighted balances of risk-adjusted assets

	December 31, 2011		December 31, 2010	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions			
Credit risk	1,308	118	*1,172	105
Market risks – foreign currency exchange rate risk	3	**-	6	1
Operational risk	258	23	222	20
Total weighted balances of risk-adjusted assets	**1,569**	**141**	**1,400**	**126**

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

Reported amounts

In NIS millions

3. Ratio of capital to risk-adjusted assets

	December 31, 2011	December 31, 2010
	In percent	
Ratio of core capital and tier I capital to risk-adjusted assets	10.6	*10.1
Ratio of total capital to risk-adjusted assets	14.1	*14.1
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."

* Restated; see Note 1.E.12 above.

** Amount lower than NIS 0.5 million.

B. Capital components for the calculation of the capital ratio

	December 31, 2011	December 31, 2010
Tier I capital		
Equity	166	*142
Total tier I capital	**166**	**142**
Tier II capital		
Lower tier II capital		
Subordinated notes	56	56
Total tier II capital	**56**	**56**

* Restated; see Note 1.E.12 above.

(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. This resolution took effect as of the first quarter.

Note 12 – Employee Benefits

A. General

1. The Chairperson of the Board of Directors, Ms. Irit Izakson, serves as the Chairperson of the Board of Directors of the Company from December 30, 2008. The Bank of Israel approved the continued service of Ms. Izakson as Chairperson of the Board of Directors of the Company, concurrently with her service at other companies in the Group and at Bank Hapoalim, until December 31, 2013.

2. The CEO of the Company, Mr. Dov Kotler, has served as CEO of the Company from February 2009. In January 2012, the Board of Directors approved the continued employment of Mr. Kotler, until January 31, 2015, subject to the consensual formulation of a new employment agreement.

B. Bonuses

1. In September 2011, the Board of Directors of the Company approved a remuneration plan for the Company's employees, derived from the profitability of the Company. The plan established a threshold level of profit, similar to the profit threshold established in the remuneration plan for the senior executives of the Company. The plan includes a link to the profitability of Bank Hapoalim. This link can cause an increase or decrease of up to 20% in the bonus, based on the return of Bank Hapoalim.

2. The annual bonus to which some employees of Bank Hapoalim (hereinafter: the "**Bank**") are entitled is determined based on the rate of net return on equity as it appears in the consolidated annual financial statements of the Bank Group. The basic threshold for the payment of this bonus is a return on equity of 7.5%. The annual bonus is in the amount of up to three monthly salaries. Part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance. The Company employs employees who are on loan from the Bank, and as such are entitled to the aforesaid bonus.

Note 12 – Employee Benefits (cont.)

C. Details of liabilities in respect of employee benefits are set out below:

	December 31	
	2011	**2010**
	In NIS millions	
Early retirement	*-	*-
Long-service bonus	*-	*-
Provision for bonus in respect of unutilized sick days	*-	*-
Other benefits upon termination and post-employment	1	1[(1)]
Total	**1**	**1**

* Amount lower than NIS 0.5 million.

(1) Restated due to the retroactive implementation of the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits; see Note 1.E.12 above.

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

D. Vacation

The Company's employees are entitled, by law and according to employment agreements, to annual vacation days. The expense was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of this provision at the balance-sheet date is lower than NIS 0.5 million, similar to the provision at the end of 2011.

Note 12 – Employee Benefits (cont.)

E. Options for Employees

(A)In May 2004, the Board of Directors of the Bank approved an option allocation program for the Bank’s employees for 2004-2009. Within the program, permanent Bank employees, including employees of the Company on loan from the Bank, will be allocated nontradable options, at no cost, exercisable into common shares of NIS 1 of the Bank, at an exercise price of NIS 1 each. Each portion of options will have a vesting period of four years from the beginning of the year in which the options were allocated, and will be exercisable for a period of one year after the end of the vesting period. The quantity of options distributed to each employee was determined according to the employee’s seniority, job description, and rank. Up to and including 2011, 224,187 option notes were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black-Scholes model, amounts to approximately NIS 2 million.

(B)On September 30, 2009, the Board of Directors of the Bank approved an option allocation program for 2010-2012, in which permanent Bank employees, including employees of the Company on loan from the Bank, will receive options to purchase shares of the Bank at a price of NIS 1 each, or phantom units which grant rights similar to options to purchased shares of the Bank at the aforesaid price. The said options will be allocated at no cost, in three portions, in each of the years 2010-2012. The terms of the program will be similar to those of the option plan for employees in 2004-2009. The options will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

The agreement states that options will be granted to employees provided that approval is obtained from the Supervisor of Banks for the purchase of the Bank’s own shares by the Bank, in order to create a reserve to be used for the exercise of the aforesaid options.

F. Agreement with Employee Union

On September 26, 2011, the Company signed a collective wage agreement encompassing agreements with regard to norms and conditions to apply to employees of the Company. The agreement was signed by the Employee Union (the Histadrut New General Federation of Labor in Israel and the Isracard Employee Union) and by the Company. The agreement is in effect until December 31, 2013.

The agreement includes a wage increment for employees receiving monthly salaries, in the amount of 5.9% in 2011 and 3.1% in each of the years 2012 and 2013. The thirteenth monthly salary will be canceled and replaced by a 6% wage update. For employees receiving hourly wages, the thirteenth monthly salary will be canceled and the hourly rate will change; these employees also received a one-time signing bonus in an amount determined according to the employee's seniority. In addition, labor norms were approved with regard to the manner of hiring and employing workers and the termination of employment, and terms were agreed upon with regard to deposits in employee's pension and study funds.

Note 13 – Assets and Liabilities by Linkage Base

Reported amounts

In NIS millions

	December 31, 2011					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	21	-	4	*-	-	25
Debtors in respect of credit-card activity, net	1,530	8	46	3	-	1,587
Computers and equipment	-	-	-	-	2	2
Other assets	336	-	-	-	1	337
Total assets	**1,887**	**8**	**50**	**3**	**3**	**1,951**
Liabilities						
Credit from banking corporations	1	-	-	-	-	1
Creditors in respect of credit-card activity	1,647	8	47	-	*-	1,702
Subordinated notes	58	-	-	-	-	58
Other liabilities	20	-	4	-	-	24
Total liabilities	**1,726**	**8**	**51**	**-**	***-**	**1,785**
Difference	161	(*-)	(1)	3	3	166

(1) Including linked to foreign currency.

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

	December 31, 2010					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	202	-	3	-	-	205
Debtors in respect of credit-card activity	1,427	8	47	2	-	1,484
Computers and equipment	-	-	-	-	1	1
Other assets	**87	-	-	-	1	88
Total assets	**1,716**	**8**	**50**	**2**	**2**	**1,778**
Liabilities						
Credit from banking corporations	1	-	-	1	-	2
Creditors in respect of credit-card activity	**1,494	8	44	-	15	1,561
Subordinated notes	56	-	-	-	-	56
Other liabilities	**16	-	1	-	-	17
Total liabilities	**1,567**	**8**	**45**	**1**	**15**	**1,636**
Difference	149	*-	5	1	(13)	142

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.12 above.

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

Reported amounts

In NIS millions

	December 31, 2011					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	1,187	315	313	56	12	-
Liabilities	866	365	336	69	25	13
Difference	321	(50)	(23)	(13)	(13)	(13)
CPI-linked Israeli currency						
Assets	2	2	4	*-	*-	-
Liabilities	2	2	4	*-	*-	-
Difference	-	-	-	-	*-	-
Foreign currency(3)						
Assets	58	(5)	*-	-	-	-
Liabilities	47	2	*-	-	-	-
Difference	11	(7)	-	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-
Total						
Assets	1,247	312	317	56	12	-
Liabilities	915	369	340	69	25	13
Difference	332	(57)	(23)	(13)	(13)	(13)

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of provisions for doubtful debts.

(2) As included in Note 13, "Assets and Liabilities by Linkage Base."

(3) Including foreign-currency linked.

(4) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

* Amount lower than NIS 0.5 million.

Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	Balance-sheet balance[2] No maturity date[4]	Total	Contractual rate of return[4]
-	-	-	-	1,883	5	1,887	0%
2	63	*-	-	1,739	3	1,726	1.88%
(2)	(63)	(*-)	-	144	2	161	
-	-	-	-	8	-	8	0%
-	-	-	-	8	-	8	0%
-	-	-	-	*-	-	*-	
-	-	-	-	53	-	53	0%
-	-	-	-	49	2	51	0%
-	-	-	-	4	(2)	2	
-	-	-	-	-	3	3	0%
-	-	-	-	-	*-	*-	0%
-	-	-	-	-	3	3	
-	-	-	-	1,944	8	1,951	0%
2	63	*-	-	1,796	5	1,785	1.87%
(2)	(63)	(*-)	-	148	3	166	

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

Reported amounts

In NIS millions

	December 31, 2010					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	**1,063	292	292	51	9	-
Liabilities	**860	356	291	50	9	-
Difference	203	(64)	1	1	-	-
CPI-linked Israeli currency						
Assets	2	2	4	-	-	-
Liabilities	2	2	4	-	-	-
Difference	*-	*-	*-	-	-	-
Foreign currency[3]						
Assets	54	(2)	-	-	-	-
Liabilities	42	2	-	-	-	-
Difference	12	(4)	-	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-
Total						
Assets	1,119	292	296	51	9	-
Liabilities	904	360	295	50	9	-
Difference	215	(68)	1	1	-	-

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each flow. Data are presented net of provisions for doubtful debts.

(2) As included in Note 13, “Assets and Liabilities by Linkage Base.”

(3) Including foreign-currency linked.

(4) The contractual rate of return is the interest rate discounting the expected contractual future cash flows presented in this note in respect of monetary items to their balance-sheet balance.

* Amount lower than NIS 0.5 million.

** Restated; see Note 1.E.12 above.

Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date	Total	Contractual rate of return[4]
					Balance-sheet balance[2]		
-	-	-	-	1,707	9	1,716	0%
-	-	-	-	1,566	1	1,567	0%
-	-	-	-	141	8	149	-
-	-	-	-	8	-	8	0%
-	-	-	-	8	-	8	0%
-	-	-	-	*	-	*	-
-	-	-	-	52	-	52	0%
-	-	-	-	44	2	46	0%
-	-	-	-	8	(2)	6	-
-	-	-	-	-	2	2	0%
-	-	-	-	-	15	15	0%
-	-	-	-	-	(13)	(13)	-
-	-	-	-	1,767	11	1,778	0%
-	-	-	-	1,618	18	1,636	0%
-	-	-	-	149	(7)	142	-

Note 15 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

	December 31	
	2011	**2010**
	Reported amounts in NIS millions	
Unutilized credit-card credit lines:		
Credit risk on the Company	2,518	2,040
Credit risk on banks	5,919	5,823
Provision for credit losses	(3)	-
Total unutilized credit-card credit lines, net	8,434	7,863
Other liabilities:		
Exposure in respect of merchant credit lines	39	-

B. Antitrust Issues and Additional Regulation

In October 2006, Isracard, other credit-card companies (not including the Company), and certain banks filed a request with the Antitrust Tribunal for approval of a restrictive arrangement in the area of clearing of transactions in MasterCard and Visa credit cards (the "**Arrangement**"), which also has implications for Isracard cards. Objections to the aforesaid request have been submitted. The Tribunal granted a temporary permit for the Arrangement, in effect until February 29, 2012.

In June 2007, as part of the Arrangement, a technical interface began to operate in Israel for clearing of transactions executed in Israel using MasterCard and Visa cards.

The Company cannot estimate whether or when the request for permanent approval of the Arrangement may be approved. However, the Company estimates that the implementation of the restrictive arrangement may lead to a decrease in the rates of fees paid by merchants for clearing of transactions in the aforesaid cards, which may have an effect on clearing fees paid by merchants to the Company.

At this stage, the Company cannot estimate the volume of this effect on its conduct and revenue.

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

Note 15 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Additional Regulation (cont.)

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

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

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

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

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

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

   In November 2011, the matters addressed by the aforesaid bills were formulated into binding directives, through amendments to Directive 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 between banks, in order to allow increased

B. Antitrust Issues and Additional Regulation (cont.)

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 amount.

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.

Note 15 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Additional Regulation (cont.)

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

Note 15 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Additional Regulation (cont.)

merchants overseas for the clearing of transactions without presentation of the card, either over the Internet or by other means. It was further clarified that suitable procedures should be established in order to ensure compliance with the requirements established throughout the period of the contractual engagement. This directive has no effect on the activity of the Company.

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

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 a clearer for cross-clearing of transactions in the charge card which it issues. The inception of this directive will be nine months after the law takes effect. The Company estimates that this legislation will have no effect on the Company.

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.

Note 15 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Additional Regulation (cont.)

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.

Note 15 – Contingent Liabilities and Special Agreements (cont.)

C. Legal Proceedings

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 provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

D. Indemnification of Directors

Indemnification of directors and other officers: The Company has undertaken a commitment to indemnify directors and other officers of the Company, as they may be from time to time. The indemnification letter approved by the general assembly on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, was adjusted to changes in legislation. The amount of the indemnification to be provided by the Company under this commitment to all insured parties of the Company in aggregate in respect of one or more indemnity events shall not exceed 50% of its equity, according to the most recent (annual or quarterly) financial statements known before the actual payment.

E. Agreement with Isracard

The Company has an agreement with Isracard for the operation of the Company's activity in issuing credit cards and clearing in Israel of transactions executed with merchants using American Express cards. The Company participates in all costs common to Isracard and the Company, according to its relative share of the activity.

In return for Isracard's activity in the operation of this arrangement, the Company pays a fee and other payments to Isracard, as agreed between the parties; see Note 17, "Interested and Related Parties," below.

F. Contractual Engagements with Banking Corporations

The Company has entered into agreements with the banks listed below for the registration of customers for the Company's credit-cards:

Bank Hapoalim B.M. (the Parent Company), Bank Yahav for Government Employees Ltd., Bank Massad Ltd., Bank Otsar Hahayal Ltd., Bank Poaley Agudat Israel Ltd., First International Bank of Israel Ltd., Mizrahi-Tefahot Bank Ltd., Jerusalem Bank Ltd., and Union Bank Ltd. (jointly, the "**Banks Under Arrangement**").

Note 15 – Contingent Liabilities and Special Agreements (cont.)

F. Contractual Engagements with Banking Corporations (cont.)

The agreements with the Banks Under Arrangement grant each bank the authority to determine which of its customers are entitled to register for the credit-card arrangement of the Company, and to recommend the customer's registration for the card arrangement to the Company. Each bank is responsible for accepting all sales slips and debits executed by the customer on the day of presentation of the sales slips or debits to the bank. The banks are also responsible for any damage caused by loss, theft, or cancellation of credit cards used by unauthorized parties. The bank's responsibility for such damages expires after a certain period. Pursuant to the agreements, the Banks Under Arrangement are entitled to payments according to a formula established in the agreements.

G. Extension of the Agreement with American Express Ltd.

The agreement with the international American Express Organization was renewed, for a period of seven additional years, in April 2010. Under this agreement, the Company continues to use the concession for the issuance and clearing of American Express credit cards. In addition, as a member of the American Express Organization, the Company has a general right to use the brands owned by the American Express Organization.

H. Contractual Engagements with Customer Clubs

Within the activity of customer clubs, the Company customarily enters into agreements with various entities representing various customer groups, in arrangements for the issuance of 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 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 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 and Members cards for members of the Israel Bar Association and of the Institute of Certified Public Accountants in Israel.

Note 16 – Fair Value of Financial Instruments

A. General

Balances and Fair-Value Estimates of Financial Instruments

1. Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for most of the Company's financial instruments, because there is no active market in which they are traded. In view of the foregoing, the fair value of the majority of the financial instruments is estimated using prevalent pricing models, such as the present value of future cash flows discounted by a discount interest rate reflecting the risk level inherent in the financial instrument. The estimate of fair value using assessments of future cash flows and the setting of a discount interest rate on the basis of the rates close to the balance-sheet date are subjective. For the majority of financial instruments, therefore, the assessment of fair value presented below is not necessarily an indication of the disposal value of the financial instrument on the balance-sheet date. Fair-value assessments are performed, as noted above, according to the interest rates close to the balance-sheet date, and do not take interest-rate volatility into account. Under the assumption of other interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, fees to be received or paid in the course of business activity were not taken into account in determining fair values, and tax effects are not included. Moreover, the difference between the balance-sheet balance and fair-value balances may not be realized, as in the majority of cases the financial instrument may be held to maturity. Due to all these factors, it should be emphasized that the data included in this note does not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

2. Principal methods and assumptions used to calculate estimates of the fair value of financial instruments

Deposits with banks – By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance sheet date.

Debtors in respect of credit-card activity – The fair value of the balance of debtors in respect of credit-card activity is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of debtors was segmented into homogeneous categories. In each category, the receipts were discounted by an interest rate reflecting similar transactions at the balance-sheet date.

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

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

Creditors in respect of credit-card activity – By discounting cash flows according to the interest rate at which the Company raised similar credit close to the balance-sheet date.

Reported amounts

NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2011				December 31, 2010			
	Balance-sheet balance			Fair value	Balance-sheet balance			Fair value
	(1)	(2)	Total		(1)	(2)	Total	
Financial assets:								
Cash on hand and deposits with banks	25	-	25	25	**7	**198	205	205
Debtors in respect of credit-card activity	-	1,587	1,587	1,579	-	1,485	1,485	1,477
Other financial assets	-	330	330	330	-	*85	85	*85
Total financial assets	**25**	**1,917**	**1,942**	**1,934**	**7**	**1,768**	**1,775**	**1,767**
Financial liabilities:								
Credit from banking corporations	1	-	1	1	2	-	2	2
Creditors in respect of credit-card activity	-	1,701	1,701	1,691	-	*1,546	1,546	*1,538
Subordinated notes	-	58	58	58	-	56	56	56
Other financial liabilities	-	19	19	18	-	15	15	15
Total financial liabilities	**1**	**1,778**	**1,779**	**1,768**	**2**	**1,617**	**1,619**	**1,611**

(1) Financial instruments whose balance in the balance sheet is identical to their fair value.

(2) Other financial instruments.

* Restated; see Note 1.E.12 above.

** Reclassified.

Note 17 – Interested and Related Parties

Reported amounts

In NIS millions

A. Balances

	December 31, 2011			
	Interested parties		Related parties	
	Controlling shareholders		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets				
Cash on hand and deposits with banks	25	352	-	-
Debtors in respect of credit-card activity[(1)]	*-	1	*-	*-
Other assets	1	1	328	361
Liabilities				
Credit from banking corporations	1	5	-	-
Creditors in respect of credit-card activity	10	13	344	352
Notes	58	58	-	-
Other liabilities	-	-	*-	5
Shares (included in equity)	*-	*-	-	-
Credit risk and off-balance-sheet financial instruments	4,078	4,237	-	-
Guarantees given by banks	753	766	-	-

* Amount lower than NIS 0.5 million.

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

Note 17 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

A. Balances

	December 31, 2010[2]			
	Interested parties		Related parties	
	Controlling shareholders		Others	
	Year-end balance	Highest balance during the year	Year-end balance	Highest balance during the year
Assets				
Cash on hand and deposits with banks	205	313	-	-
Debtors in respect of credit-card activity[1]	*-	*-	1	1
Other assets	1	1	84	134
Liabilities				
Credit from banking corporations	2	4	-	-
Creditors in respect of credit-card activity	9	16	303	304
Other liabilities	-	*-	*-	12
Notes	56	56	-	-
Shares (included in equity)	*-	*-	-	-
Credit risk and off-balance-sheet financial instruments	4,227	4,227	-	-
Guarantees given by banks	768	768	-	-

* Amount lower than NIS 0.5 million.

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

(2) Restated.

Note 17 – Interested and Related Parties (cont.)

Reported amounts

In NIS millions

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

	For the year ended December 31, 2011	
	Interested parties	Related parties
	Controlling shareholders	Others
Income from credit-card transactions	2	3
Profit from financing activity before provision for credit losses	3	1
General and administrative expenses	-	(15)
Payments to banks[1]	(42)	-
Total	**(38)**	**(11)**

	For the year ended December 31, 2010	
	Interested parties	Related parties
	Controlling shareholders	Others
Income from credit-card transactions	2	3[2]
Profit (loss) from financing activity before provision for credit losses	(3)	1
General and administrative expenses	-	(13)
Payments to banks[1]	(36)	-
Total	**(37)**	**(9)**

* Amount lower than NIS 0.5 million.

(1) See Note 15.F.

(2) Restated.

C. Interested and Related Parties

See Note 15E regarding the contractual engagement with Isracard, and see Note 15F regarding contractual engagements with certain banking corporations.

D. Indemnification Letter from Bank Hapoalim B.M.

Bank Hapoalim B.M. has provided an indemnification letter for certain assets of the Company, in order for the Company to comply with the terms of the limits of the minimum capital ratio, in accordance with Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy). The indemnification letter is in effect from December 31, 2009.

Note 18 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
Income from merchants:			
Merchant fees	236	210	185
Other income	1	1	1
Total gross income from merchants	237	211	186
Less fees to other issuers	21	23	27
Total net income from merchants	216	188	159
Income in respect of credit-card holders:			
Issuer fees	9	8	9
Service fees	23	20	18
Fees from transactions abroad	8	7	7
Total income in respect of credit-card holders	40	35	34
Total income from credit-card transactions	**256**	**223**	**193**

Note 19 – Profit from Financing Activity before Provision for Credit Losses

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
A. Financing income in respect of assets:			
From credit to merchants	2	1	1
From debtors in respect of credit cards	*-	*-	*-
From deposits with banks	6	1	1
From bonds (see also section D below)	-	-	*-
From other assets	1	1	*-
Total in respect of assets	**9**	**3**	**2**
B. Financing expenses in respect of liabilities:			
To banking corporations	(1)	(*-)	(1)
On other liabilities	-	-	(*-)
On notes	(2)	(2)	-
Total in respect of liabilities	**(3)**	**(2)**	**(1)**
C. Other:			
Other financing expenses	(1)	(*-)	(1)
Total profit from financing activity before provision for credit losses[(1)]	**5**	**1**	***-**
(1) Of which: exchange-rate differences, net	(1)	(*-)	(1)
D. Details of results of operations in investments in bonds:			
Financing income on an accrual basis from bonds:			
Available for sale	-	-	*-
Total included in profit from financing activity in assets	-	-	*-
Profits from sale of bonds available for sale	-	-	*-

* Amount lower than NIS 0.5 million.

Note 20 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
Wages and related expenses	21	16	13
Data processing and computer maintenance	11	10	7
Automatic Bank Services (ABS)	2	1	1
Royalties to international organization	29	28	19
Operating expenses for incoming and outgoing tourism	*-	*-	*-
Amortization and depreciation	1	*-	*-
Communications	1	1	1
Production and delivery	12	12	12
Damages from abuse of credit cards	1	1	1
Rent and building maintenance	4	3	3
Others	3	2	1
Total operating expenses	**85**	**74**	**58**

* Amount lower than NIS 0.5 million.

Note 21 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
Wages and related expenses	11	10	7
Advertising	4	5	3
Customer retention and recruitment	11	9	7
Gift campaigns for credit-card holders	16	21	11
Others	2	2	2
Total sales and marketing expenses	**44**	**47**	**30**

Note 22 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2011	**2010**	**2009**
Wages and related expenses	3	3	3
Insurance	1	1	1
Payments to Isracard(1)	15	13	11
Others	3	2	3
Total general and administrative expenses	**22**	**19**	**18**

(1) See Note 15.E above.

Note 23 – 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	11	7	8
Current taxes for previous years	*-	(*-)	*-
Deferred taxes for the accounting year	(2)	1	(*-)
Provision for taxes on income	**9**	**8**	**8**

* Amount lower than NIS 0.5 million.

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	11	8	8
Change in balance of deferred taxes due to changes in tax rates	(2)	-	-
Provision for taxes on income	**9**	**8**	**8**

3. Final tax assessments have been issued to the Company up to and including the tax year 2006, including tax assessments considered to be final under the Income Tax Ordinance.

4. Deferred tax balances

	Deferred taxes receivable for the year ended December 31	
	2011	**2010**
From provision for credit losses	6	2
From others	*-	*-
Total	**6**	**2**

Reported amounts

In NIS millions

5. Amendments of the Income Tax Ordinance:

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

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

Current taxes for the periods reported in these financial statements are calculated according to the tax rates established in the Economic Efficiency Law.

The balances of deferred taxes as of December 31, 2011 were calculated according to the new tax rate established in the Law for Change in the Tax Burden, based on the expected tax rate at the date of reversal. The effect of the change in the tax rate on the financial statements as of December 31, 2011 is reflected in an increase in the balance of deferred taxes, in the amount of NIS 2 million, against deferred tax income.

Note 24 – Operating Segments

A. General

The Company issues, clears, and operates American Express credit cards issued for use in Israel and abroad. The Company's activities are managed through two main operating segments: the Issuance Segment, which handles cardholders, and the Clearing Segment, which handles merchants.

The Issuance Segment

Customers register for the credit-card system by signing a credit-card contract with the Company. The Company issues American Express credit cards under a license from American Express Ltd. All income and expenses related to customer recruitment and routine handling were allocated to the Issuance Segment.

Main income items – interchange fees paid by clearers to issuers in respect of transactions executed using credit cards issued by the issuer and cleared by the clearer, card fees, deferred-debit fees, and fees from transactions abroad.

Main expenses – marketing, advertising, and management of customer clubs; loyalty program; issuance and delivery of cards and attachments; and production and delivery of debit statements.

The Clearing Segment

The Company has clearing agreements with merchants in various industries. In addition to clearing services, it offers merchants various marketing, financial, and operational services, including the option of payment in installments, flexible crediting dates, targeted information, and joint sales-promotion campaigns. All income and expenses related to recruitment and routine handling of merchants were allocated to this segment.

Main income items – fees from merchants, net of interchange fees which are allocated to the Issuance Segment.

Main expenses – recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

Note 24 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2011		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from externals	40	216	256
Inter-segmental fees	104	(104)	-
Total	144	112	256
Profit from financing activity before provision for credit losses	*-	5	5
Other income	*-	1	1
Total income	**144**	**118**	**262**
Expenses			
Provision for credit losses	4	*-	4
Operating expenses	51	34	85
Sales and marketing expenses	39	5	44
General and administrative expenses	11	11	22
Payments to banks	30	33	63
Total expenses	**135**	**83**	**218**
Operating profit before taxes	9	35	44
Provision for taxes on operating profit	2	7	9
Net profit	**7**	**28**	**35**
Return on equity (percent net profit out of average capital)	4.8	19.0	23.8
Average balance of assets	1,551	271	1,822
Average balance of liabilities	98	1,577	1,675
Average balance of risk-adjusted assets	1,287	195	1,482

* Amount lower than NIS 0.5 million.

Note 24 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2010		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from externals	35	188	223
Inter-segmental fees	97	(97)	-
Total	132	91	223
Profit from financing activity before provision for doubtful debts	*-	1	1
Other income	1	*-	1
Total income	**133**	**92**	**225**
Expenses			
Provision for doubtful debts	1	*-	1
Operating expenses	45	29	74
Sales and marketing expenses	42	5	47
General and administrative expenses	9	10	19
Payments to banks	28	26	54
Total expenses	**125**	**70**	**195**
Operating profit before taxes	8	22	30
Provision for taxes on operating profit	2	6	8
Net profit	**6**	**16**	**22**
Return on equity (percent net profit out of average capital)	5.0	13.2	18.2
Average balance of assets	1,239	290	1,529
Average balance of liabilities	64	1,344	1,408
Average balance of risk-adjusted assets	1,059	186	1,245

* Amount lower than NIS 0.5 million.

Note 24 – Operating Segments (cont.)

Reported amounts

In NIS millions

	For the year ended December 31, 2009		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from externals	34	159	193
Inter-segmental fees	89	(89)	-
Total	123	70	193
Profit from financing activity before provision for doubtful debts	*-	*-	*-
Other income	1	*-	1
Total income	**124**	**70**	**194**
Expenses			
Provision for doubtful debts	2	*-	2
Operating expenses	36	22	58
Sales and marketing expenses	26	4	30
General and administrative expenses	9	9	18
Payments to banks	36	19	55
Total expenses	**109**	**54**	**163**
Operating profit before taxes	15	16	31
Provision for taxes on operating profit	4	4	8
Net profit	**11**	**12**	**23**
Return on equity (percent net profit out of average capital)	15.3	16.6	31.9
Average balance of assets	1,162	126	1,288
Average balance of liabilities	50	1,166	1,216
Average balance of risk-adjusted assets	351	24	375

* Amount lower than NIS 0.5 million.

Note 25 – Information Based on Historical Nominal Data for Tax Purposes

	December 31	
	2011	**2010**
	Amounts in NIS millions	
Total assets	1,951	1,778
Total liabilities	1,785	1,636
Equity	166	142
Nominal net profit	35	22