Poalim Express Ltd.

Annual Report

For the year ended December 31, 2012

Report as at December 31, 2012

Table of Contents

Poalim Express Ltd.

Board of Directors' Report

For the Year Ended December 31, 2012

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

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

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 Ltd. – Under an agreement between the Company and Isracard Ltd. ("**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, Europay (Eurocard) Israel Ltd. ("**Europay**"), Aminit Ltd. ("**Aminit**"), and the Company.

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

Developments in the Global Economy

The debt crisis in the developed countries peaked during the last year, especially in Europe.

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

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

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

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

The Israeli Economy

Economic Activity in Israel

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

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

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

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

Fiscal and Monetary Policy

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

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

Inflation and Exchange Rates

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

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

The Credit-Card Industry in Israel

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

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

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

The credit-card industry in Israel is characterized by high, dynamic regulatory intervention in the business of the companies operating in this area, both due to the fact that each of the companies is an "auxiliary corporation," and in relation to their activity in the area of credit cards. This regulation includes the Charge Cards Law, 1986 (the "**Charge Cards Law**") and the derived regulations; the Banking Law (Customer Service), 1981 (the "**Banking Law (Customer Service)**"); and the Anti-Money Laundering Law, 2000 (the "**Anti-Money Laundering Law**") and the order issued under its power by the Bank of Israel. In addition, various directives of the Supervisor of Banks apply to credit-card companies in Israel, including Proper Conduct of Banking Business Directive No. 470, which regularizes the activity of credit-card companies, as well as guidelines derived from Proper Conduct of Banking Business Directives No. 201-211, which establish risk-management standards aimed at reinforcing the financial robustness and stability of banking systems worldwide.

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

Operational Data

Number of Credit Cards (in thousands)

Number of valid credit cards as at December 31, 2012

	Active cards	Inactive cards	Total
Bank cards	257	61	318
Non-bank cards – Credit risk on the Company	86	48	134
Total	**343**	**109**	**452**

Number of valid credit cards as at 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**

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

	For the year ended December 31	
	2012	**2011**
Bank cards	11,112	9,657
Non-bank cards – Credit risk on the Company	2,683	2,228
Total	**13,795**	**11,885**

Definitions

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

Active credit card: A credit card valid at the end of the reported period, which was used to execute transactions during the last quarter of the reported period.

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

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

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

Profit and Profitability

The Company's net profit totaled NIS 38 million in 2012, compared with NIS 35 million in 2011, an increase of 9%.

Net return on average equity reached 20.7% in 2012, compared with 23.8% in 2011.

Developments in Income and Expenses

Income totaled NIS 300 million in 2012, compared with NIS 263 million in 2011, an increase of 14%. For an explanation of the increase, see the item of income from credit-card transactions, below.

Income from credit-card transactions totaled NIS 292 million, compared with NIS 256 million in 2011, an increase of 14%. The increase resulted from the following factors:

- Net income from merchants totaled NIS 248 million, compared with NIS 216 million in 2011, 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 44 million, compared with NIS 40 million in 2011, an increase of 10%.

Net interest income totaled NIS 7 million in 2012, similar to 2011.

Other income totaled NIS 1 million in 2012, compared with an amount lower than NIS 0.5 million in 2011.

Expenses before payments to banks totaled NIS 176 million in 2012, compared with NIS 156 million in 2011, an increase of 13%. (For an explanation of the increase, see the items of operating expenses and marketing expenses, below.)

Expenses including payments to banks totaled NIS 249 million in 2012, compared with NIS 219 million in 2011, an increase of 14%. (For an explanation of the increase, see the items of operating expenses, marketing expenses, and payments to banks, below.)

The provision for credit losses totaled NIS 6 million in 2012, compared with NIS 4 million in 2011, an increase of 50%.

Operating expenses totaled NIS 91 million in 2012, compared with NIS 82 million in 2011, an increase of 11%. The increase mainly resulted from expenses in respect of royalties to the international organization.

Operating expenses totaled NIS 54 million in 2012, compared with NIS 48 million in 2011, an increase of 13%. The increase mainly resulted from expenses in respect of gift offers for credit-card holders.

General and administrative expenses totaled NIS 25 million in 2012, compared with NIS 22 million in 2011, an increase of 14%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 73 million in 2012, compared with NIS 63 million in 2011, an increase of 16%. Most of the increase resulted from growth in the Company's activity.

The ratio of expenses to income before payments to banks reached 58.7% in 2012, compared with 59.3% in 2011.

Profit before tax totaled NIS 51 million in 2012, compared with NIS 44 million in 2011, an increase of 16%.

The return of profit before taxes on average equity reached 27.7% in 2012, compared with 29.9% in 2011.

The provision for taxes on profit totaled NIS 13 million in 2012, compared with NIS 9 million in 2011. The effective tax rate, of total operating profit before taxes, reached 25.5% in 2012, compared with 20.5% in 2011.

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

Developments in Balance-Sheet Items

The balance sheet as at December 31, 2012 totaled NIS 2,149 million, compared with NIS 1,951 million on December 31, 2011.

Developments in the principal balance-sheet items:

	December 31			
	2012	2011	Change	
	In NIS millions		In NIS millions	%
Total balance sheet	2,149	1,951	198	10
Debtors in respect of credit-card activity, net	1,734	1,587	147	9
Cash on hand and deposits with banks	13	25	(12)	(48)
Creditors in respect of credit-card activity	1,868	1,708	160	9
Subordinated notes	56	58	(2)	(3)
Equity	204	166	38	23

Debtors in respect of credit-card activity, net, totaled NIS 1,734 million as at December 31, 2012, compared with NIS 1,587 million at the end of 2011. This amount mainly includes sales slips in respect of transactions executed by credit-card holders and not yet repaid at the balance-sheet date. The 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 13 million as at December 31, 2012, compared with NIS 25 million at the end of 2011. The decrease resulted from the fact that the balance was granted as a loan to a sister company.

Subordinated notes totaled NIS 56 million as at December 31, 2012, compared with NIS 58 million at the end of 2011. The decrease resulted from interest payable in respect of 2011, which was paid in early 2012.

Creditors in respect of credit-card activity totaled NIS 1,868 million as at December 31, 2012, compared with NIS 1,708 million at the end of 2011. This amount mainly includes balances payable to merchants where credit-card holders' transactions were executed but not yet settled at the balance-sheet date. The increase resulted from an increase in the volume of activity in the Company's credit cards.

Equity totaled NIS 204 million on December 31, 2012, compared with NIS 166 million at the end of 2011. The change in equity resulted from profit in 2012.

The ratio of equity to the balance sheet reached 9.5% on December 31, 2012, compared with 8.5% on December 31, 2011.

The ratio of total capital to risk-adjusted assets under the capital measurement and adequacy directives reached 15.3% on December 31, 2012, compared with 14.1% on December 31, 2011. The minimum capital ratio required by the Bank of Israel is 9%.

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

Expenses and Investments of the Company in Information Technology Systems

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

Definitions relevant to the information presented:

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

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

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

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

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

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

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

Others: Mainly hardware maintenance, maintenance of POS devices, and other expenses expended by the information-technology system.

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

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

	Software	Hardware(1)	Other	Total
Expenses for wages and related costs	2	1	*-	3
Expenses for acquisitions or usage licenses not capitalized as assets	2	-	1	3
Expenses for outsourcing	2	-	-	2
Expenses for depreciation	*-	1	*-	1
Other expenses	8	2	1	11
Total	**14**	**4**	**2**	**20**

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

	Software	Hardware(1)	Other	Total
Costs of wages and related costs	-	-	-	-
Outsourcing costs	*-	*-	-	*-
Costs of acquisition or usage licenses(3)	-	1	-	1
Costs of equipment, buildings, and land	-	-	-	-
Total	***-**	**1**	**-**	**1**

See notes on next page.

Balances of assets in respect of the information-technology system (in NIS millions)

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

* Amount lower than NIS 0.5 million.

** Includes outsourcing expenses.

(1) Including communication infrastructures.

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

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

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 in the segment for card issuance and operational services.

As at the date of the report, several companies issuing bank and non-bank credit cards operate in the credit-card issuance sector in Israel: the Company, Isracard, Europay, 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 of receiving an issuer's license; (3) the need for broad financial resources and extensive knowledge in order to carry out the investments necessary to issue cards and the investments in technological infrastructures, including a supporting operational system, sophisticated information and communications systems, a risk-management and credit-control system, information security, advertising, and widely deployed sales and marketing; (4) the structure of the credit-card industry in Israel, which has a high penetration rate; and (5) the need for capital in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk-adjusted assets.

Substitutes for the products of the operating segment. Payment methods such as cash, direct debits, electronic bank transfers, checks, gift cards, and prepaid cards constitute substitutes for the services provided by credit-card companies in Israel. In addition, credit and loan services offered by various parties in the economy, either through banks or through other financial agents, constitute substitute products to credit and financing services.

Products and Services

The Company issues 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, specialized purchasing cards, 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 facilities in credit cards, various options for spreading payments, and information services 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) fees paid by merchants to issuers in respect of transactions executed using credit cards issued by the issuer and cleared; (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 at the date of the report, there are no cardholders (bank and/or non-bank) whose share of the volume of transactions executed using the Company's credit cards constituted 10% or more of the total volume of transactions in the Company's credit cards in 2012.

Marketing and Distribution

The Company's marketing activity in the Credit-Card Issuance Segment is conducted 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 and concierge services), 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 in this area: 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 activities and population segments relevant to this sector.

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

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

In order to cope with competition, 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) innovation – response to customers' needs by developing new products and services to supply the requirements of the Company's customer segments and market needs, and development of alternative products and services to compete with prevalent means of payment such as cash and checks; (3) reinforcement of status and image through advertising, benefits, and various offers for cardholders; (4) the provision of unique services (including online buying services through a third party and concierge services) and international discount and benefit programs; and (5) marketing and sales promotion activity, including through the contractual engagements with the Banks Under Arrangement.

Positive factors affecting the Company's competitive standing include the following, among others: (1) the licensing agreement with the 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 payments via cellular phones, which may cause a decline in the demand for credit-card issuance; and the entry of retail and other entities into the issuance field and/or expansion of activity of existing competitors, including through strategic ventures and collaborations for card issuance.

The Credit-Card Clearing Segment

General

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

As at the date of the report, several credit-card companies operate in the credit-card clearing segment in Israel: the Company, Isracard, Europay, 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.

Credit-card companies authorized to issue MasterCard and Visa cards and to clear transactions executed using these cards can clear MasterCard and Visa cards, according to each company's authorizations. In addition, beginning on May 15, 2012, the market has been open for cross-clearing of the Isracard brand, and merchants can switch clearers for this brand.

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 the operation of clearing; (4) the need to perform clearing services on a large scale in order to recover the investment in infrastructures, clearing systems, and other costs; (5) development of a reliable information system for account settlement; and (6) a sales, recruitment, and customer service system.

Substitutes for the products of the operating segment – Alternative means of payment such as cash, standing orders, bank transfers, and checks constitute substitutes for payment by credit card. Bank credit, discounting, and credit from 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 slips, 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 are allocated to the Clearing Segment. The main income items in the Clearing Segment are fees from merchants, net of interchange fees, which are allocated to the Issuance Segment. The main expenses associated with this segment are recruitment and retention of merchants, joint advertising with merchants, clearing of sales slips, and production and delivery of credit statements.

For details regarding the segmentation of income from credit-card transactions, see Note 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 at the date of the report, the Company did not derive revenues from any individual merchant constituting 10% or more of its total revenues in 2012.

Marketing and Sales

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

The main objectives of marketing activity in this segment are: 1) to recruit new merchants and benefit-granting merchants, and to expand the Company's operations through new business activities, including credit granting; (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 and other segmented information, 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. 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 the 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 such as payment via 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, 2012		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	44	248	292
Inter-segmental fees	105	(105)	-
Total	**149**	**143**	**292**
Net interest income (expenses)	(*-)	7	7
Other income (expenses)	2	(1)	1
Total income	**151**	**149**	**300**
Expenses			
Provisions for credit losses	5	1	6
Operations	53	38	91
Sales and marketing	46	8	54
General and administrative	12	13	25
Payments to banks	33	40	73
Total expenses	**149**	**100**	**249**
Profit before taxes	**2**	**49**	**51**
Provision for taxes on profit	1	12	13
Net profit	**1**	**37**	**38**
Return on equity (percent net profit out of average capital)	0.6	20.1	20.7
Average balance of assets	1,821	249	2,070
Average balance of liabilities	109	1,777	1,886
Average balance of risk-adjusted assets	1,410	216	1,626

* 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, 2011		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	**40	**216	256
Inter-segmental fees	104	(104)	-
Total	**144**	**112**	**256**
Net interest income (expenses)	**,*-	**7	7
Other income (expenses)	**1	**(1)	*-
Total income	**145**	**118**	**263**
Expenses			
Provisions for doubtful debts	4	*-	4
Operations	***48	***34	82
Sales and marketing	***43	***5	48
General and administrative	11	11	22
Payments to banks	30	33	63
Total expenses	**136**	**83**	**219**
Profit before taxes	9	35	44
Provision for taxes on 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.

** Reclassified. See footnote 1 to the Statement of Profit and Loss, below.

*** Reclassified.

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
Inter-segmental fees	97	(97)	-
Total	**132**	**91**	**223**
Net interest income (expenses)	**(1)	**3	2
Other income (expenses)	**2	**(1)	1
Total income	**133**	**93**	**226**
Expenses			
Provisions for doubtful debts	1	*-	1
Operations	***42	***30	72
Sales and marketing	***45	***5	50
General and administrative	9	10	19
Payments to banks	28	26	54
Total expenses	**125**	**71**	**196**
Profit before taxes	**8**	**22**	**30**
Provision for taxes on 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.

** Reclassified. See footnote 1 to the Statement of Profit and Loss, below.

*** Reclassified.

Developments in Operating Segment Items

Profit and Profitability – Issuance Segment

The segment’s net profit totaled NIS 1 million in 2012, compared with NIS 7 million in 2011, a decrease of 86%.

Net return on average equity reached 0.5% in 2012, compared with 4.8% in 2011.

Developments in Income and Expenses

The segment's income totaled NIS 151 million in 2012, compared with NIS 145 million in 2011, an increase of 4%.

Income from fees totaled NIS 149 million in 2012, compared with NIS 144 million in 2011, an increase of 3%.

Net interest income amounted to an expense of less than NIS 0.5 million in 2012, compared with income in an amount lower than NIS 0.5 million in 2011.

Expenses before payments to banks totaled NIS 116 million in 2012, compared with NIS 106 million in 2011, an increase of 9%.

Expenses including payments to banks totaled NIS 149 million in 2012, compared with NIS 136 million in 2011, an increase of 10%.

The provision for credit losses totaled NIS 5 million in 2012, compared with NIS 4 million in 2011, an increase of 25%.

Operating expenses totaled NIS 53 million in 2012, compared with NIS 48 million in 2011, an increase of 10%.

Sales and marketing expenses totaled NIS 46 million in 2012, compared with NIS 43 million in 2011, an increase of 7%.

General and administrative expenses totaled NIS 12 million in 2012, compared with NIS 11 million in 2011, an increase of 9%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 33 million in 2012, compared with NIS 30 million in 2011, an increase of 10%.

The ratio of expenses to income before payments to banks reached 76.8% in 2012, compared with 73.1% in 2011.

Profit before tax totaled NIS 2 million, compared with NIS 9 million in 2011, a decrease of 78%.

The return of profit before taxes on average equity reached 1.1% in 2012, compared with 6.1% in 2011.

The provision for taxes on profit totaled NIS 1 million in 2012, compared with NIS 2 million in 2011.

Profit and Profitability – Clearing Segment

The segment's net profit totaled NIS 37 million in 2012, compared with NIS 28 million in 2011, an increase of 32%. The increase in the segment's net profit in comparison 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 20.1% in 2012, compared with 19.0% in 2011.

Developments in Income and Expenses

The segment's income totaled NIS 149 million in 2012, compared with NIS 118 million in 2011, an increase of 26%. The increase resulted from an increase in the volume of activity of the Company.

Net income from fees totaled NIS 143 million in 2012, compared with NIS 112 million in 2011, an increase of 28%, resulting from an increase in the domestic volume of purchases using the Company's cards and an increase in the number of credit cards.

Net interest income totaled NIS 7 million in 2012, similar to 2011.

Expenses before payments to banks totaled NIS 60 million in 2012, compared with NIS 50 million in 2011, an increase of 20%.

Expenses including payments to banks totaled NIS 100 million in 2012, compared with NIS 83 million in 2011, an increase of 20%.

The provision for credit losses totaled NIS 1 million in 2012, compared with an amount lower than NIS 0.5 million in 2011.

Operating expenses totaled NIS 38 million in 2012, compared with NIS 34 million in 2011, an increase of 12%.

Sales and marketing expenses totaled NIS 8 million in 2012, compared with NIS 5 million in 2011, an increase of 60%.

General and administrative expenses totaled NIS 13 million in 2012, compared with NIS 11 million in 2011, an increase of 18%.

Payments to banks in accordance with the agreements between the banks and the Company totaled NIS 40 million in 2012, compared with NIS 33 million in 2011, an increase of 21%. The increase resulted from an increase in the Company's income.

The ratio of expenses to income before payments to banks reached 40.3% in 2012, compared with 42.4% in 2011.

Profit before tax totaled NIS 49 million in 2012, compared with NIS 35 million in 2011, an increase of 40%.

The return of profit before taxes on average equity reached 26.6% in 2012, compared with 23.8% in 2011.

The provision for taxes on profit totaled NIS 12 million in 2012, compared with NIS 7 million in 2011, an increase of 71%.

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 decreased by 10 in 2012, compared with the number of positions at the end of 2011*. Most of the decrease occurred in employee positions in the areas of customer service and operations.

	2012	2011
Average positions on a monthly basis	162	171
Total positions at year end	162	172

* 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 upholding the ethical code, openness, and transparency, along with innovation and achievement.

In 2012, the Company continued to maintain this policy, through:

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

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

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

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

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

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

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

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

9. Collective agreement – 2011 was the first year in which a collective agreement was in place for Isracard employees. In 2012, a stable and calm labor relationship was maintained, with ongoing dialogue between the partners in the relationship based on common goals and on an organizational understanding and perspective.

Ethical Code

Over the last two years, since the introduction of the ethical code, the Senior Ethics Committee and representatives of the various departments worked to encourage a conversation about ethics and to instill the values and behaviors derived from the ethical code of the Group. During 2012, meetings were held with the Company's ethics trustees; a decision was made in these meetings to implement a process aimed at instilling the code throughout the Company. The process began in the second half of the year.

Regulation

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

Professional Training

Key objectives in 2012 were to support and aid the promotion of the business goals and objectives of the organization, employee and executive development, and improvement of the service and sales skills of service representatives. This year, activity focused on the absorption of new products and services, and on structural and organizational changes at the various divisions, at the Company as a whole, and for specific target populations. The Company also worked on training and enhancing the knowledge of employees and executives in various roles within the Company: continuing to instill a culture of winning service – the customer as our guest, imparting sales skills to various groups within the Company, providing in-depth professional knowledge in the areas of credit and sales, and encouraging employees to acquire higher education.

Instilling a Culture of Performance Evaluation and Surveys

A computerized performance evaluation process was successfully launched this year, as part of the implementation of a new approach – a culture of objective-based performance – throughout the organization.

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

Occupational Stability

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

Promotion of Diversity

The Group has undertaken a moral commitment to promote employee diversity, with a focus on support and equal opportunities for diverse population groups. In 2012, the Company worked to create 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 data related to transactions executed using credit cards in Israel, such as transactions executed with the various merchants, sorts the transactions by the identity of the relevant clearer with which the merchant has an agreement, and transmits electronic messages to the clearers for approval of execution of the transaction. 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 on-call loans from banks.

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

Taxation

Changes in Tax Rates

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

The Law for Change in the Tax Burden (Legislative Amendments), 2011 was passed by Knesset on December 5, 2011. Pursuant to this law, the tax reduction established in the Economic Efficiency Law will be canceled, as noted above, and the rate of corporation tax will stand at 25% from 2012 forward. For further details, see Note 23 to the Financial Statements.

Other Matters

With regard to the bonus plan, see Note 12 to the Financial Statements.

Restrictions and Supervision of the Company's Operations

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

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

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

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

Antitrust Issues

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 (hereinafter: 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.

An amended cross-clearing arrangement, revising the earlier agreements, was submitted to the Tribunal on December 28, 2011; this arrangement is in effect from the date of its approval until December 31, 2018. A ruling handed down by the Antitrust Tribunal on March 7, 2012 approved the amended arrangement, including all of the terms thereof. The 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. A private bill was submitted to the Knesset in March 2010, according to which credit-card companies must note in their statements to cardholders whether a transaction performed by the cardholder constitutes a transaction in a missing document. This bill was passed in a preliminary reading on May 26, 2010, and transferred to the Economics Committee to be prepared for a first reading. On May 23, 2010, a ministerial committee made the decision to promote this bill through regulations, in coordination with the Ministry of Justice.

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

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

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

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

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

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

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

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

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

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

8. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

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

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

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

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

13. In October 2012, the Economics Committee passed a private bill, in a second and third reading, according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the bill. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company.

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

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

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

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

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

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

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

Legal Proceedings and Contingent Liabilities

1. Several legal claims have been filed against the Company, arising from the ordinary course of its business, in immaterial amounts. Based on the opinion of its legal advisors, the Company estimates that the financial statements include provisions, in accordance with generally accepted accounting principles, to cover possible damages arising from all of the claims, where such provisions are necessary.

2. **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.

Objectives and Business Strategy

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

1. Creation of value for its shareholders.
2. Long-term contractual engagements with the Banks Under Arrangement.
3. Expansion of the distribution and sales-promotion base in order to develop the area of non-bank cards.
4. Continued implementation of the club strategy.
5. Expansion in the area of credit 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, the Head of Strategy is responsible for strategic risk and regulatory risk, and the Legal Advisor is responsible for the management of legal risk. The Company has a Head of Risk Management with the status of a member of Management. In addition, the organizational structure of the Risk Management Department was updated in the format outlined by the Bank of Israel. Among other matters, the functions of the department include independent supervision of the manner of management of risks at the Company, monitoring of risks, reports to Management and to the Board of Directors, validation of risk-measurement systems, involvement in the establishment of risk-management policies, and examination of the effectiveness of the Company's risk-management processes. In order to manage and minimize risks, the Company makes use of supporting computerized systems, among other means.

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

Operational Risks

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

As part of the management and control of operational risks, and as part of the compliance with

Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy) in this area, the following steps have been taken:

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

Market and Liquidity Risks

1. Market Risk Exposure and Management

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

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

The Company's market risk management policy is based on common practices in the banking system in Israel and on the current instructions of Proper Conduct of Banking Business Directives No. 201-211 (Capital Measurement and Adequacy) regarding market risk management, adjusted to the unique risk profile of the Company. This policy was approved by the Board of Directors of the Company in May 2012. The policy includes limits on financial exposures, aimed at reducing the damage that may be caused by changes in the various markets and in rates of interest, foreign currency, the CPI, and shares. The Board of Directors of the Company updates these limits from time to time.

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

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

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

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

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

A. Linkage Base Risk

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

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

B. Interest-Rate Exposure

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

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

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

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

	December 31, 2012				
	In NIS millions				
	Israeli currency		Foreign currency**		
	Unlinked	**CPI-linked**	**USD**	**Other**	**Total**
Financial assets	2,066	8	54	4	2,132
Financial liabilities	1,869	8	51	4	1,932
Net fair value of financial instruments	**197**	***-**	**3**	***-**	**200**

	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**

* Amount lower than NIS 0.5 million.

** Including Israeli currency linked to foreign currency.

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

	December 31, 2012							
	Net fair value of financial instruments after the effect of changes in interest rates**							
	In NIS millions						Change in fair value	
	Israeli currency		Foreign currency***				In NIS millions	In percent
	Unlinked	CPI-linked	USD	Other	Offsetting effects	Total	Total	Total
Immediate parallel increase of 1%	198	*-	3	*-	-	201	1	0.5
Immediate parallel increase of 0.1%	197	*-	3	*-	-	200	*-	-
Immediate parallel decrease of 1%	196	*-	3	*-	-	199	(1)	(0.5)

* 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, 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.

C. Exposure to the value of securities

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

D. Derivative Financial Instruments

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

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

2. Liquidity Risk Exposure and Management

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

Credit Risk in Respect of Exposure to a Group of Borrowers

Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of a Borrower and of a Group of Borrowers" (hereinafter: "**Directive 313**"), there is no group of borrowers that exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at September 30, 2012.

Credit Control Unit

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

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

The Company has implemented the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit loss, and allowance for credit losses (hereinafter: the "Directive"), beginning on January 1, 2011.

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

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

Risk and Credit Indices

		December 31	
		2012	2011
		In percent	
(A)	Balance of impaired debtors in respect of credit-card activity not accruing interest income, as a percentage of the balance of debtors in respect of credit-card activity	0.17	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 allowance for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of debtors in respect of credit-card activity	0.57	0.44
(D)	Balance of allowance for credit losses for debtors in respect of credit-card activity, as a percentage of the balance of impaired debtors in respect of credit-card activity not accruing interest income	-(1)	-(1)
(E)	Provisions for credit losses as a percentage of the average balance of debtors in respect of credit-card activity	0.37	0.27
(F)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the average balance of debtors in respect of credit-card activity	0.14	0.34
(G)	Net charge-offs for debtors in respect of credit-card activity as a percentage of the allowance for credit losses for debtors in respect of credit-card activity	23.36	71.43

(1) Greater than 100%.

Credit Exposure to Foreign Financial Institutions and Foreign Countries

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

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

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

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

Basel III

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

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

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

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

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

Risk Appetite

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

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

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

Capital Adequacy Target

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

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

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

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

Capital Management

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

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

Guiding Principles in Capital Management

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

The following table lists the required disclosures under Pillar III.

Subject	Page number
Capital adequacy	55
Applicability of implementation	56
Structure of capital	56
Risk-adjusted assets and capital requirement	58
Credit risk	59
Credit risk mitigation	67
Operational risk	75

Capital Adequacy

	December 31, 2012	December 31, 2011
1. Capital for the calculation of the capital ratio		
	In NIS millions	
Core capital and Tier 1 capital	204	166
Tier 2 capital*	56	56
Total overall capital	**260**	**222**

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

2. Weighted balances of risk-adjusted assets

	December 31, 2012		December 31, 2011	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions			
Credit risk	1,393	125	1,308	118
Market risks – foreign currency exchange rate risk	4	*-	3	*-
Operational risk	304	28	258	23
Total weighted balances of risk-adjusted assets	**1,701**	**153**	**1,569**	**141**

* Amount lower than NIS 0.5 million.

3. Ratio of capital to risk-adjusted assets

	December 31, 2012	December 31, 2011
	In percent	
Ratio of core capital and Tier 1 capital to risk-adjusted assets	12.0	10.6
Ratio of total capital to risk-adjusted assets	15.3	14.1
Minimum total capital ratio required by the Supervisor of Banks	9.0	9.0

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

No effect on the core capital ratio as at December 31, 2012 is expected, assuming full implementation of the directives. As noted, this estimate is based on the drafts and position statements of the Supervisor of Banks; there may be changes to the final directives that may affect the Company's aforesaid estimate.

Applicability of Implementation

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

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

Structure of Capital

Structure of Regulatory Capital

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

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

Limits on the Capital Mix

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

- ♦ Total core capital shall constitute at least 70% of Tier 1 capital, after the required deductions from the capital in this tier only.
- ♦ Total Tier 2 capital and Tier 3 capital shall not exceed 100% of total Tier 1 capital, after the required deductions for the capital in this tier only.
- ♦ Subordinated notes included in lower Tier 2 capital shall not exceed 50% of Tier 1 capital not allocated to market risks (to the extent that the banking corporation holds Tier 3 capital), after the required deductions from Tier 1 capital only.

Structure of Capital

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

	December 31	
	2012	2011
	In NIS millions	
Tier 1 capital		
Paid-up common share capital	*-	*-
Premium on shares	35	35
Retained earnings	169	131
Other capital instruments	*-	*-
Total core capital and Tier 1 capital**	204	166
Tier 2 capital***	56	56
Total eligible capital	**260**	**222**

* Amount lower than NIS 0.5 million.

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

Capital Adequacy

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

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

Risk-Adjusted Assets and Capital Requirement

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

	December 31, 2012		December 31, 2011	
	In NIS millions			
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
Credit risk:				
Banking corporations	893	80	813	73
Corporations	104	9	86	8
Retail loans to individuals	377	34	374	34
Small businesses	7	1	25	2
Other assets	12	1	10	1
Total credit risk	1,393	125	1,308	118
Market risks – foreign currency exchange rate risk	4	*-	3	*-
Operational risk	304	28	258	23
Total weighted balances of risk-adjusted assets / capital requirements	**1,701**	**153**	**1,569**	**141**

* Amount lower than NIS 0.5 million.

	December 31, 2012	December 31, 2011
Total capital ratio and Tier 1 capital ratio		
Capital for the calculation of the capital ratio (in NIS millions)	260	222
Ratio of core capital and Tier 1 capital to risk-adjusted assets	12.0%	10.6%
Ratio of total capital to risk-adjusted assets	15.3%	14.1%
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%

Credit Risk – General Disclosure Requirements

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and the allowance for credit losses, and the amendment of the directives on the treatment of problematic debts, beginning on January 1, 2011, the Company has implemented the American accounting standards in this area (ASC 310) and the position statements of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives. In addition, beginning on that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts. For further details, see Note 1.F.3 to the Financial Statements, below.

Credit Risk Management

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

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

- The Company sets limits on the granting of credit , by risk rating, with segmentation by credit products (according to the products' risk weighting), in order to prevent damage to the quality of the Company's credit portfolio, thereby reducing credit risk arising from borrower quality.

- The Company conducts internal controls of credit-risk management by assigning a risk weighting to each type of credit product, according to its derived risk. For example, in certain cases, references are made to the type of product sold by the merchant and to its supply times; the longer the supply time of the product, the higher the probability of a failure to deliver the product to the customer.

- The Company sets sectoral limits in order to prevent sectoral concentration in the credit portfolio.

- The Company acts in accordance with the guidelines of the Bank of Israel in Directive No. 313, Limits on the Indebtedness of a Single Borrower and of a Group of Borrowers. Working according to this directive and setting internal limits reduces borrower concentration risk.

- The Company has set internal limits on its exposure to financial institutions, in congruence with the risk appetite approved by the Board of Directors.

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

- The Company tracks damages arising from the abuse of credit cards. See Note 20 to the Financial Statements.

Principles of Credit Concentration Risk Management

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

Assigning Risk Ratings to Customers Based on Statistical Models

- The Company routinely invests in models for rating the credit risk of private and business customers. The models are matched to the credit products, economic conditions, and target population to receive the credit.
- Models are divided as follows:

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

- The risk-rating models are used to support decisions regarding the type of credit, volume of credit, and interest rate set for the customer or merchant.
- The development of risk ratings in the credit portfolio is routinely controlled and monitored.
- The models are tested periodically for quality and calibration by the Model Development Unit in the Credit and Financial Services Division, and validated by the Risk Management Department (the second level of controls).

Establishing the Hierarchy of Credit Granting Authority

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

- Authorization for maximum exposure according to the authority of the responsible party (in accordance with the risk-rating model).
- Defined authorizations for deviations for exceptional transactions, according to the authority of the responsible party.

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

Exposure to Financial Institutions

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

- International credit-card company – Cross-clearing activity occurs between the Company and the international 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 abroad. The Company's exposure is immaterial.
- The Company routinely monitors these exposures and reports exceptions from limits.

Credit exposure to financial institutions results from:

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

Independent Supervision

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

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

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

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

Off-Balance-Sheet Exposures

The Company used 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, 2012					
	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
	In NIS millions					
Banking corporations	391	13	404	-	-	404
Corporations	286	-	286	840	-	1,126
Retail to individuals	1,405	-	1,405	7,257	-	8,662
Small businesses	52	-	52	134	-	186
Government	*-	-	*-	1	-	1
Other assets(1)	-	12	12	-	-	12
Total exposures	**2,134**	**25**	**2,159**	**8,232**	**-**	**10,391**

	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
	In 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.

AMERICAN EXPRESS

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

	December 31, 2012					
	Balance-sheet credit risk			Off-balance-sheet credit risk		
Type of exposure	**Credit**	**Deposits/ other**	**Total balance-sheet credit risk**	**Credit facilities**	**Other**	**Total overall credit exposure[(2)]**
	In NIS millions					
Banking corporations	362	20	382	-	-	382
Corporations	143	-	143	318	-	461
Retail to individuals	1,356	-	1,356	7,417	-	8,773
Small businesses	207	-	207	670	-	877
Government	*-	-	*-	2	-	2
Other assets[(1)]	-	12	12	-	-	12
Total exposures	**2,068**	**32**	**2,100**	**8,407**	**-**	**10,507**

	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.

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, 2012					
	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	13	-	-	13	-	13
Credit:						
Debtors in respect of credit cards	1,620	62	13	1,695	(1)	1,692
Credit to merchants	30	*-	*-	30	2	32
International credit-card organization	17	-	-	17	-	17
Income receivable and others	3	-	-	3	-	3
Other assets	390	-	-	390	8	398
Non-monetary assets	-	-	-	-	4	4
Off balance sheet – credit facilities	8,209	23	-	8,232	-	8,232
Total	**10,282**	**85**	**13**	**10,380**	**13**	**10,391**

	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**

* Amount lower than NIS 0.5 million.

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

		December 31, 2012						
		In NIS millions						
			Amount of unimpaired loans in arrears					
Exposure – credit	Credit risk	Amount of impaired loans	Over 30 days to 90 days	Over 90 days	Individual allowance for credit losses	Collective allowance for credit losses	Net allowance for credit losses recognized in statement of profit and loss	Net charge-offs recognized in statement of profit and loss
Retail to individuals	Balance sheet	3	2	-	*-	7	1	1
Small businesses	Balance sheet	*-	*-	-	2	*-	1	*-
Corporations	Balance sheet	*-	*-	-	*-	1	1	1
Banking corporations	Balance sheet	-	-	-	-	*-	*-	-
Government	Balance sheet	-	-	-	-	*-	*-	-
Credit facilities	Off-balance sheet	-	-	-	-	4	1	-
Total		**3**	**2**	**-**	**2**	**12**	**4**	**2**

		December 31, 2011						
		In NIS millions						
			Amount of unimpaired loans in arrears					
Exposure – credit	Credit risk	Amount of impaired loans	Over 30 days to 90 days	Over 90 days	Individual allowance for credit losses	Collective allowance for credit losses	Net allowance for credit losses recognized in statement of profit and loss	Net charge-offs recognized in statement of profit and loss
Retail to individuals	Balance sheet	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.

Credit Risk Mitigation (CRM)

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

	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		December 31, 2012						
		In NIS millions						
Retail to individuals	Unrated	-	-	-	8,649	-	1	8,650
Small businesses	Unrated	-	-	-	186	-	*-	186
Corporations	Unrated	-	-	-	-	1,124	*-	1,124
	Rated	-	-	-	-	*-	-	*-
Banking corporations	Unrated	-	391	1	-	-	-	392
	Rated	-	*-	12	-	-	-	12
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	-	-	-	-	12	-	12
Total		**1**	**391**	**13**	**8,835**	**1,136**	**1**	**10,377**

After credit risk mitigation

	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		December 31, 2012						
		In NIS millions						
Retail to individuals	Unrated	-	-	-	2,408	-	1	2,409
Small businesses	Unrated	-	-	-	34	-	*-	34
Corporations	Unrated	-	-	-	-	171	*-	171
	Rated	-	-	-	-	-	-	-
Banking corporations	Unrated	-	653	1,967	-	-	-	2,620
	Rated	-	429	4,701	-	-	-	5,130
Government	Rated	1	-	-	-	-	-	1
Other assets	Unrated	-	-	-	-	12	-	12
Total		**1**	**1,082**	**6,668**	**2,442**	**183**	**1**	**10,377**

* Amount lower than NIS 0.5 million.

Credit Risk Mitigation (CRM) (cont.)

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

Credit Risk Weighting

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

Before credit-risk mitigation

	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		December 31, 2011						
		In 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**

After credit risk mitigation

	Rating	0%	20%	50%	75%	100%	150%	Credit exposure
		December 31, 2011						
		In 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.

Use of Eligible Collateral for Credit Risk Mitigation

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

			December 31, 2012			
Exposure	**Credit risk**	**Type of exposure**	**Gross credit risk exposure**	**Exposure covered under the responsibility of the Banks Under Arrangement**		**Net credit risk exposure**
				Total amounts subtracted	**Total amounts added**	
			In NIS millions			
Retail to individuals	Balance sheet	Credit	1,397	(1,106)	-	291
	Off balance sheet	Credit facility	7,253	(5,135)	-	2,118
Small businesses	Balance sheet	Credit	52	(45)	-	7
	Off balance sheet	Credit facility	134	(107)	-	27
Corporations	Balance sheet	Credit	284	(206)	-	78
	Off balance sheet	Credit facility	840	(747)	-	93
Banking corporations	Balance sheet	Credit	391	-	1,357	1,748
	Balance sheet	Deposits	13	-	-	13
	Off balance sheet	Credit facility	-	-	5,989	5,989
Government	Balance sheet	Credit	*-	-	-	*-
	Off balance sheet	Credit facility	1	-	-	1
Other assets	Balance sheet	Other assets	12	-	-	12
Total			**10,377**	**(7,346)**	**7,346**	**10,377**

* 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, 2011			
Exposure	**Credit risk**	**Type of exposure**	**Gross credit risk exposure**	**Exposure covered under the responsibility of the Banks Under Arrangement**		**Net credit risk exposure**
				Total amounts subtracted	**Total amounts added**	
			In NIS millions			
Retail to individuals	Balance sheet	Credit	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.

Credit Risk Weighting

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

Credit rating agencies used:

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

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

Credit Risk Mitigation (CRM)

The Company has repayment sources (means of repayment of customers' debts) which are not recognized under Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy) for the purpose of minimizing credit risks, in the calculation of the capital allocation required according to the standardized approach. However, in its routine operations the Company considers these repayment sources as existing permanent flows, and uses them to manage credit risks (for risk management purposes, rather than for capital allocation). No collateral exists against non-bank credit to cardholders

Corporate credit is mainly based on the turnover of the merchant, and the credits owed to it serve as the repayment source for cases in which the credit is not repaid. This activity is conducted in accordance with credit policies. The amount of the credit is established according to the rating of the merchant, the type of credit product, and the turnover of the merchant.

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

General Disclosure Regarding Exposures Related to Counterparty Credit Risk

Hedging Interest-Rate Exposures

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

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

Hedging Foreign Currency Exposures

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

Disclosure by Companies Using the Standardized Approach

General

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

Strategy and Processes

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

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

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

- ♦ **Organization and control** – A central market and liquidity risk management function headed by the Head of Finance and Administration; an internal investment committee headed by the Chief Risk Controller; the Audit Committee; the Risk Management Committee of the Board of Directors, established on December 21, 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 liquidity management (ALM).
- Routine measurement and control of the market and liquidity risk indices of the Company.
- Preparation of reports on interest-rate risks.
- Analysis of results and preparation of findings for discussion by Management and the Board of Directors.

Chief Risk Officer

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

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

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

Nature and Volume of Risk Reporting and Measurement Systems

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

Risks are measured in the following reports:

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

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

Risk Monitoring and Minimization Policy

Interest-Rate Exposure Management

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

Foreign Currency Exposure Management

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

Capital Requirement in Respect of Foreign Currency Exchange Rate Risk

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

* 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 management of risks at the Company (second level). The management of operational risks at the Company is intended to minimize losses by establishing orderly processes aimed at reducing the operational risks to which the Company is exposed. In this process, authority and responsibility frameworks are established, and a culture of operational risk management is instilled in all managers and employees.

Capital Requirement in Respect of Operational Risk

	Capital requirement	
	December 31, 2012	December 31, 2011
	In NIS millions	
Operational risk	28	23

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 at 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 Share Holdings in the Banking Book

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

Prohibition of Money Laundering and Financing of Terrorism

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

- The Money Laundering Prohibition Law, 2000.
- The Money Laundering Prohibition Order (Identification, Reporting, and Record-Keeping Duties of Banking Corporations for the Prevention of Money Laundering and Terrorism Financing), 2001.
- The Terrorism Financing Prohibition Law, 2005.
- Proper Conduct of Banking Business No. 411 of the Bank of Israel, Prevention of Money Laundering and Terrorism Financing and Identification of Customers (this directive was updated in December 2011).

Order for the Prohibition of Trade with the Enemy

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

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

Critical Accounting Policies

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

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

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 at the end of 2012.

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 at the end of the year.

The provision made in the books in respect of unutilized points as at December 31, 2012 is NIS 49 million (December 31, 2011: NIS 41 million).

Allowance for Credit Losses

The Company has established procedures for the classification of credit and the measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses in respect of its credit portfolio. In addition, the Company has established the necessary procedures in order to maintain 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 allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: “individual allowance” and “collective allowance.” The Company also examines the overall fairness of the allowance for credit losses.

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

Collective allowance for credit losses – Applied to allowances for impairment of large groups of homogeneous small debts, and in respect of debts examined individually and found to be unimpaired. The collective allowance is assessed in accordance with the rules established in ASC 450, Contingencies (FAS 5, Accounting for Contingencies), based on a current estimate of the rate of past losses in respect of each of the defined groups. The formula for the calculation of the collective allowance is detailed in the temporary order issued by the Supervisor of Banks, in effect up to and including December 31, 2012. The formula is based on historical rates of loss in 2008, 2009, and 2010, and on actual rates of net accounting write-offs recorded beginning on 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 allowance required with respect to off-balance-sheet credit instruments is estimated according to the rules established in FAS 5 (ASC 450). The allowance assessed on a collective basis for off-balance-sheet credit instruments is based on the allowance rates established for balance-sheet credit (as described above), taking into consideration the expected rate of conversion of the credit for off-balance-sheet credit risk. The credit is converted to risk-adjusted assets based on coefficients for conversion into credit, as specified in Proper Conduct of Banking Business Directive No. 203, Capital Measurement and Adequacy – Credit Risk – The Standardized Approach.

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

Discussion of Risk Factors

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

Risk factor	Brief description	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.	Low
1.1. Risk in respect of the quality of borrowers and collateral	Deterioration in the quality of borrowers and in the value of collateral provided to the Company to secure credit may have an adverse effect on the probability of collecting the credit. The Company has a credit policy and exposure limits with regard to different types of borrowers in the various segments of activity and products, and a process is in place for the control of compliance with these limits.	Medium
1.2. Risk in respect of sectoral concentration	Risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy. Deterioration in business activity in such an economic sector may lead to damage to repayment capability and to the value of collateral provided by some borrowers belonging to the sector.	Low
1.3. Risk in respect of concentration of borrowers/ borrower groups	Present or future risk arising from deterioration in the condition of a large borrower or group of borrowers relative to the credit portfolio, which may cause an adverse effect on the probability of collecting the credit. The Bank of Israel has set limits on the maximum exposure to borrowers and groups of borrowers, and 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 income.	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 volumes, or the termination of the contractual engagement with one of the Banks Under Arrangement, and entails extensive, constant investments in customer recruitment and retention (cardholders and merchants).	Medium
8.	Regulation and legislation	Present or future risk to the Company's revenue and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Company's business environment. Such changes may occasionally influence the Company's activity, revenue, and ability to offer certain services, and/or may obligate the Company to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services. Also see the section "Restrictions and Supervision of the Company's Operations," above.	Medium
9.	Strategic risk	The risk of damage to the Company's profit and capital as a result of business decisions and/or the implementation of business decisions. Strategic risk is influenced by external and internal risk factors.	Medium
10.	Cessation of operation of a bank in Israel	The cessation of operation of a bank in Israel, in particular one of the Banks Under Arrangement, including due to collapse as a result of insolvency, could lead to a situation in which that bank is unable to meet its obligations under its agreements with the Company, and may lead to a situation in which the Company is unable to fully or partially collect debits owed to it by customers of the relevant bank.	Medium

Risk factor		Brief description	Degree of effect of risk factor
11.	Cessation of operation of an international credit-card organization	The cessation of operation of 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

Information Security and Cyber Risks

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

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

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

1. Theft of financial assets, intellectual property, or other sensitive information of the banking corporation, of its customers, or of its business partners;

2. Disruption of the activity of the banking corporation or of its business partners;

3. Recovery costs;

4. Additional expenses in the area of protection and information security;

5. Loss of income as a result of unauthorized use of proprietary information, or due to failure to retain or attract customers following an attack;

6. Legal claims;

7. Damage to reputation.

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

Disclosure Regarding the Internal Auditor

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

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

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

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

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

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

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

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

The Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. The work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of

Directors, the Audit Committee, Company management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

Auditing resources – 56 audit days were invested directly at the Company in 2012. In addition, activities outsourced by the Company to its sister company Isracard Ltd. are audited within the internal audit at that company. The volume of resources in internal auditing is determined according to the multi-year work plan, which is based on a risk survey.

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

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

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

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

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

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

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

Disclosure Regarding the Procedure for Approval of the Financial Statements

The Board of Directors of the Company and the Audit Committee of the Company are the organs 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 and the Audit Committee, a draft of the financial statements and a draft of the Board of Directors' report are delivered for perusal by the members of the Committee and 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 Committee and the Board of Directors.

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

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

Any significant flaws discovered in the establishment or operation of the internal control of financial reporting are also presented to the Audit Committee and to the Board of Directors.

The reports are signed by the Chairperson of the Board of Directors, the CEO of the Company, and the Chief Accountant.

The Board of Directors

In 2012, the Board of Directors of the Company continued to set forth the Company's strategy, policy, and the guiding principles for its activity, and established guidelines on various matters, in accordance with the requirements of legislative updates and in accordance with Directive 301 of the Bank of Israel.

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

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

15 meetings of the plenum of the Board of Directors and 10 meetings of the Audit Committee were held in 2012.

Directors with Accounting and Financial Expertise

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

Members of the Board

Irit Izakson

Chairperson of the Company from December 2008. 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 Basel II Implementation. Member of the following Board Committees at Bank Hapoalim: the Credit Committee and the New Products Committee.

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

Member of the Board of Trustees of Ben-Gurion University; member of the Executive Board of the Association of Public Companies.

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

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

Director with accounting and financial expertise.

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

Avi Idelson

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

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

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

Member of the Audit Committee 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; member of the balance sheet, audit, and remuneration committees of the board of directors of Mehadrin Ltd.

In the last five years or during part of that period, served as head of human resources and special consultant at the BSG Investments Group; member of the governing board of the Bank of Israel and head of human resources and administration; and a consultant to companies in the area of human resources for mergers and acquisitions and global systems.

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

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

Courses in banking and management at Bank Hapoalim.

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

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

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.

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: 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. from April 16, 2009.

Head of Finance, CFO at the Bank.

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

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

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

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

From 2008 to 2009, CFO of Intouch Insurance BV.

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

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

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

C.P.A.

Director with accounting and financial expertise.

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

Rafi Rafael

Southern Region Manager, Bank Hapoalim B.M., from 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., (I.Z.) Queenco Ltd., and A.P. Logistics 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.

Member of the board of directors of the following companies: Isracard and Europay; member of the audit committees of these companies from May 29, 2012.

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

Director with accounting and financial expertise.

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

Senior Members of Management

Dov Kotler

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

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

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

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

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

M.B.A., Finance Section, Tel Aviv University; B.A. in Economics, studies in International Relations, Tel Aviv University; AMP (Advanced Management Program), Harvard University.

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

Ronen Zaretsky

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

Head of Technology.

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

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

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

Graduate of the IDF Command and Staff College.

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

Founder and joint authorized signatory 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.

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

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

Ron Cohen

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

Head of Credit and Financial Services.

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

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

Served as Head of Customer Relations in the Corporate Banking Area at Bank Hapoalim B.M., for ten years. His clients included leading companies in the Israeli retail market.

M.A. in Business Administration, Marketing, and Finance, Hebrew University of Jerusalem; B.A. in Economics and International Relations, Hebrew University of Jerusalem.

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

Oren Cohen Butensky

Member of Management of the Company from June 2011.

Head of Customer and Merchant Service.

Member of the Board of Directors of Tzameret Mimunim from April 4, 2012.

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

M.A. in Business and Marketing, Derby University; B.A. in Economics and Social Sciences, Bar Ilan University; B.A. in Psychology, Open University.

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

Ram Gev

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

Head of Finance and Administration.

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

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

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

C.P.A.

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

Maora Shalgi	Member of the Management of the Company from May 1, 2011. Head of Human Resources. M.A. in Human Resources, Faculty of Labor Studies, Tel Aviv University; B.A. in Social Sciences and Liberal Arts, Open University. To the best of the knowledge of the Company and of Ms. M. Shalgi, she is not a family member of another interested party of the corporation.
Ron Weksler	Member of the Management of the Company from October 2, 2011. Head of Commerce and Sales. Served as a director (with accounting and financial expertise) of Isracard and Europay, and as a member of the audit committees of these companies, until the end of September 2011. Also serves as a member of the board of directors of Global Factoring Ltd. Served in various positions at Bank Hapoalim B.M. from 2002. Doctor of Philosophy and Ph.D. in Public Administration, Bar Ilan University; M.B.A., Bar Ilan University; LL.B., Tel Aviv University; B.A. in Accounting, Tel Aviv University. To the best of the knowledge of the Company and of Mr. R. Weksler, he is not a family member of another interested party of the corporation.

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

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

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

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

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

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

Evaluation of Controls and Procedures Regarding Disclosure

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

Internal Controls over Financial Reporting

During the fourth quarter ended on December 31, 2012, there was no change in the Company's internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Company's internal controls over financial reporting.

Wages and Benefits of Officers

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

Remuneration of Auditors[1][2]

	2012	2011
	In NIS thousands	
For audit activities[3]:		
Joint auditors	459	438
For tax services[4]:		
Joint auditors	-	*-
Total remuneration of auditors	**459**	**438**

* Amount lower than NIS 1 thousand.

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

(2) Includes remuneration paid and remuneration accrued.

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

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

Irit Izakson
Chairperson of the Board of Directors

Dov Kotler
Chief Executive Officer

Tel Aviv, February 27, 2013.

Poalim Express Ltd.

Management's Review

For the Year Ended December 31, 2012

Table of Contents

Balance Sheets – Multi-Period Data

Addendum 1

Reported amounts

NIS millions

	December 31				
	2012	2011	2010	2009	2008
Assets					
Cash on hand and deposits with banks	13	25	205	195	189
Debtors in respect of credit-card activity	1,744	1,594	1,492(1)(2)	1,243(1)(2)	1,074(1)(2)
Allowance for credit losses	(10)	(7)	(8)(1)(2)	(9)(1)(2)	(8)(1)(2)
Debtors in respect of credit-card activity, net	1,734	1,587	1,484	1,234	1,066
Computers and equipment	2	2	1	1	1
Other assets	400	337	88(3)	4	5
Total assets	**2,149**	**1,951**	**1,778**	**1,434**	**1,261**
Liabilities					
Credit from banking corporations	4	1	2	6	2
Creditors in respect of credit-card activity	1,868	1,708(3)	1,566(3)	1,307(3)	1,183(3)
Subordinated notes	56	58	56	25	-
Other liabilities	17	18(3)	12(3)	11(3)	14(3)
Total liabilities	**1,945**	**1,785**	**1,636**	**1,349**	**1,199**
Capital	204	166	142	85	62
Total liabilities and capital	**2,149**	**1,951**	**1,778**	**1,434**	**1,261**

* 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 at 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.F.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.D to the Financial Statements.

(3) Reclassified.

Statements of Profit and Loss – Multi-Period Data

Addendum 2

Reported amounts

NIS millions

	For the year ended December 31				
	2011	2010	2009	2008	
Income					
From credit-card transactions	292	256(1)	223(1)	193(1)	182(1)
Net interest income (expenses)	7	7(1)	2(1)	2(1)	4(1)
Other income (expenses)	1	*-(1)	1(1)	*-(1)	(4)(1)
Total income	**300**	**263**	**226**	**195**	**182**
Expenses					
Provision for credit losses	6	4	1	2	2
Operating expenses	91	82(2)	72(2)	57(2)	51(2)
Sales and marketing expenses	54	48(2)	50(2)	32(2)	36(2)
General and administrative expenses	25	22	19	18	15
Payments to banks	73	63	54	55	53
Total expenses	**249**	**219**	**196**	**164**	**157**
Profit before taxes	51	44	30	31	25
Provision for taxes on profit	13	9	8	8	7
Net profit	**38**	**35**	**22**	**23**	**18**
Basic and diluted net profit per common share (in NIS)	**275**	**249**	**168**	**224**	**180**

* Amount lower than NIS 0.5 million.

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

(2) Reclassified.

Rates of Income and Expenses

Addendum 3

Unlinked Israeli Currency

	For the year ended December 31, 2012		
	Average balance[1]	**Financing income (expenses)**	**Rate of income (expenses**
	In NIS millions		**In percent**
Assets	1,996	8	0.40
Total assets	**1,996**	**8**	**0.40**
Liabilities	1,800	(2)	(0.11)
Total liabilities	**1,800**	**(2)**	**(0.11)**
Interest-rate gap			**0.29**

CPI-Linked Israeli Currency

	For the year ended December 31, 2012		
	Average balance[1]	**Financing income (expenses)**	**Rate of income (expenses)**
	In NIS millions		**In percent**
Assets	6	-	-
Total assets	**6**	**-**	**-**
Liabilities	7	-	-
Total liabilities	**7**	**-**	**-**
Interest-rate gap			**-**

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency

	For the year ended December 31, 2012		
	Average balance[(1)]	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In percent
Assets[(2)]	64	*-	-
Total assets	**64**	***-**	**-**
Liabilities[(2)]	61	*-	-
Total liabilities	**61**	***-**	**-**
Interest-rate gap			**-**

* Amount lower than NIS 0.5 million.

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

(2) Including Israeli currency linked to foreign currency.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Total

	For the year ended December 31, 2012		
	Average balance(1)	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In percent
Monetary assets generating financing income	2,066	8	0.39
Total assets	**2,066**	**8**	**0.39**
Monetary liabilities generating financing expenses	1,868	(2)	(0.11)
Total liabilities	**1,868**	**(2)**	**(0.11)**
Interest-rate gap			**0.28**
Profit from financing activity in the old format(2)		**6**	
Net rate differences		(*-)	
Fees from financing business and other financing expenses		1	
Net interest income before provision for credit losses		**7**	
Provision for credit losses		(6)	
Net interest income after provision for credit losses		**1**	

* Amount lower than NIS 0.5 million.

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

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2012
	Average balance[1]
	In NIS millions
Monetary assets generating financing income	2,066
Other monetary assets	8
Allowance for credit losses	(8)
Total assets	**2,066**
Monetary liabilities generating financing expenses	1,868
Other monetary liabilities	17
Total liabilities	**1,885**
Total surplus of monetary assets over monetary liabilities	**181**
Non-monetary assets	4
Non-monetary liabilities	1
Total capital means	**184**

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2012		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)
	In USD millions		In percent
Assets[2]	17	*-	-
Total assets	**17**	***-**	**-**
Liabilities[2]	16	*-	-
Total liabilities	**16**	***-**	**-**
Interest-rate gap			**-**

* Amount lower than USD 0.5 million.

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

(2) Including Israeli currency linked to foreign currency.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Unlinked Israeli Currency

	For the year ended December 31, 2011		
	Average balance(1)	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In percent
Assets	1,763	8	0.45
Total assets	**1,763**	**8**	**0.45**
Liabilities	1,598(2)	(2)	(0.13)
Total liabilities	**1,598**	**(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)
	In NIS millions		In percent
Assets	7	-	-
Total assets	**7**	**-**	**-**
Liabilities	7	-	-
Total liabilities	**7**	**-**	**-**
Interest-rate gap			**-**

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

(2) Reclassified.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency

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

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

(2) Including Israeli currency linked to foreign currency.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Total

	For the year ended December 31, 2011		
	Average balance(1)	Financing income (expenses)	Rate of income (expenses)
	In NIS millions		In percent
Monetary assets generating financing income	1,824	8	0.44
Total assets	**1,824**	**8**	**0.44**
Monetary liabilities generating financing expenses	1,659	(3)	(0.18)
Total liabilities	**1,659**	**(3)**	**(0.18)**
Interest-rate gap			**0.26**
Profit from financing activity in the old format(2)		**5**	
Net rate differences		1	
Fees from financing business and other financing expenses		1	
Net interest income before provision for credit losses		**7**	
Provision for credit losses		(4)	
Net interest income after provision for credit losses		**3**	

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

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

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Reported amounts

Total

	For the year ended December 31, 2011
	Average balance[1]
	In NIS millions
Monetary assets generating financing income	1,824
Other monetary assets	6
Allowance for credit losses	(11)
Total assets	**1,819**
Monetary liabilities generating financing expenses	1,654
Other monetary liabilities	16[2]
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.

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

(2) Reclassified.

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

Rates of Income and Expenses (cont.)

Addendum 3 (cont.)

Foreign Currency – Nominal in USD

	For the year ended December 31, 2011		
	Average balance[1]	Financing income (expenses)	Rate of income (expenses)[2]
	In USD millions		In percent
Assets[3]	15	(*-)	-
Total assets	**15**	**(*-)**	**-**
Liabilities[3]	15	(*-)	-
Total liabilities	**15**	**(*-)**	**-**
Interest-rate gap			**-**

* Amount lower than NIS 0.5 million.

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

(2) Calculated on an annualized basis.

(3) Including Israeli currency linked to foreign currency.

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

Exposure of the Company to Changes in Interest Rates as at December 31, 2012

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	1,335	340	322	72	*-
Total fair value	**1,335**	**340**	**322**	**72**	***-**
Financial liabilities:					
Financial liabilities	1,021	384	348	98	11
Total fair value	**1,021**	**384**	**348**	**98**	**11**
Financial instruments, net					
Exposure to changes in interest rates in the segment	314	(44)	(26)	(26)	(11)
Cumulative exposure in the segment	314	270	244	218	207
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.

	Over 5 years	No maturity period	Total fair value	Internal rate of return	Effective average duration
				In percent	In years
	-	(3)	2,066	1.83%	0.16
	-	**(3)**	**2,066**	**1.83%**	**0.16**
	-	7	1,869	1.90%	0.24
	-	**7**	**1,869**	**1.90%**	**0.24**
	-	(10)	197		
	207	197			
	-	-	8	(0.25%)	0.26
	-	**-**	**8**	**(0.25%)**	**0.26**
	-	-	8	(0.25%)	0.26
	-	**-**	**8**	**(0.25%)**	**0.26**
	-	-	*-		
	*-	*-			

Exposure of the Company to Changes in Interest Rates as at December 31, 2012 (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	65	(7)	*-	-	-
Total fair value	**65**	**(7)**	***-**	**-**	**-**
Financial liabilities:					
Financial liabilities	47	5	1	-	-
Total fair value	**47**	**5**	**1**	**-**	**-**
Financial instruments, net					
Exposure to changes in interest rates in the segment	18	(12)	(1)	-	-
Cumulative exposure in the segment	18	6	5	5	5
Total exposure to changes in interest rates					
Financial assets:					
Financial assets	1,402	335	326	72	-
Total fair value	**1,402**	**335**	**326**	**72**	**-**
Financial liabilities:					
Financial liabilities	1,070	391	353	98	11
Total fair value	**1,070**	**391**	**353**	**98**	**11**
Financial instruments, net					
Exposure to changes in interest rates in the segment	332	(56)	(27)	(26)	(11)
Cumulative exposure in the segment	332	276	249	223	212

* 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
	-	-	58	0.18%	0.03
	-	**-**	**58**	**0.18%**	**0.03**
	-	2	55	0.27%	0.03
	-	**2**	**55**	**0.27%**	**0.03**
	-	(2)	3		
	5	3			
	-	(3)	2,132	1.81%	0.15
	-	**(3)**	**2,132**	**1.81%**	**0.15**
	-	9	1,932	1.88%	0.23
	-	**9**	**1,932**	**1.88%**	**0.23**
	-	(12)	200		
	212	200			

Exposure of the Company to Changes in Interest Rates as at 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 at 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

* 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
	-	-	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			

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

Addendum 5

Reported amounts

NIS millions

	2012			
	Q4	Q3	Q2	Q1
Assets				
Cash on hand and deposits with banks	13	30	21	16
Debtors in respect of credit-card activity	1,744	1,742	1,692	1,647
Allowance for credit losses	(10)	(9)	(9)	(8)
Debtors in respect of credit-card activity, net	1,734	1,733	1,683	1,639
Computers and equipment	2	2	2	2
Other assets	400	389	368	329
Total assets	**2,149**	**2,154**	**2,074**	**1,986**
Liabilities				
Credit from banking corporations	4	1	6	4
Creditors in respect of credit-card activity	1,868	1,883	1,808	1,735
Subordinated notes	56	58	57	57
Other liabilities	17	16	17	16
Total liabilities	**1,945**	**1,958**	**1,888**	**1,812**
Capital	204	196	186	174
Total liabilities and capital	**2,149**	**2,154**	**2,074**	**1,986**

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

Addendum 5 (cont.)

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
Allowance 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)]	1,708	1,709	1,581	1,514
Subordinated notes	58	58	57	57
Other liabilities[(1)]	18	21	25	23
Total liabilities	**1,785**	**1,792**	**1,667**	**1,598**
Capital	166	155	147	137
Total liabilities and capital	**1,951**	**1,947**	**1,814**	**1,735**

(1) Reclassified.

Quarterly Statements of Profit and Loss – Multi-Quarter Data

Addendum 6

Reported amounts

NIS millions

	2012			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions	72	78	74	68
Net interest income	2	2	1	2
Other income	*-	*-	1	*-
Total income	**74**	**80**	**76**	**70**
Expenses				
Provision for credit losses	1	2	2	1
Operating expenses	23	23	22	23
Sales and marketing expenses	16	15	10	13
General and administrative expenses	7	7	5	6
Payments to banks	16	20	21	16
Total expenses	**63**	**67**	**60**	**59**
Profit before taxes	11	13	16	11
Provision for taxes on profit	3	3	4	3
Net profit	**8**	**10**	**12**	**8**
Basic and diluted net profit per common share (in NIS)	**59**	**74**	**84**	**59**

* Amount lower than NIS 0.5 million.

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

Addendum 6 (cont.)

Reported amounts

NIS millions

	2011			
	Q4	**Q3**	**Q2**	**Q1**
Income				
From credit-card transactions(1)	65	69	64	58
Net interest income(1)	2	3	1	1
Other income (expenses)(1)	*-	(*-)	(*-)	*-
Total income	**67**	**72**	**65**	**59**
Expenses				
Provision for doubtful debts	(2)	1	1	4
Operating expenses(2)	20	23	21	18
Sales and marketing expenses(2)	14	14	10	10
General and administrative expenses	6	6	5	5
Payments to banks	17	17	16	13
Total expenses	**55**	**61**	**53**	**50**
Profit before taxes	12	11	12	9
Provision for taxes on 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.

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

(2) Reclassified.

Certification

I, Dov Kotler, hereby declare that:

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

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure[1] and internal control over financial reporting[1]; furthermore:

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

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

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

   D. We have disclosed in the Report any change in the internal control over financial reporting at the Company that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control 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 over financial reporting that can reasonably be expected to impair the Company's ability to record, process, summarize, or report financial information; and

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

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

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

Dov Kotler

Chief Executive Officer

Tel Aviv, February 27, 2013.

Certification

I, Sigal Barmack, hereby declare that:

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

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

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

4. I, and others at the Company making this declaration, are responsible for the establishment and application of controls and procedures regarding the Company's disclosure[1] and internal control over financial reporting[1]; furthermore:

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

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

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

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

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

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

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

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

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

Sigal Barmack

Manager of Finance and Accounting Department,
Chief Accountant

Tel Aviv, February 27, 2013.

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

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

The Management of the Company, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2012, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management believes that as at December 31, 2012, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2012 was audited by the Company's external auditors, Somekh Chaikin Certified Public Accountants (Isr.) and Ziv Haft Certified Public Accountants (Isr.), as noted in their report on page 138. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Company's internal control of financial reporting as at December 31, 2012.

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

Tel Aviv, February 27, 2013.

Poalim Express Ltd.

Financial Statements

For the year ended December 31, 2012

Table of Contents

Somekh Chaikin

ZIV HAFT

Auditors' Report to the Shareholders of Poalim Express Ltd.

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

We have audited the internal control over financial reporting of Poalim Express Ltd. (hereinafter: "the Company") as at December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO"). The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

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

We have also audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of credit-card companies as determined by guidelines of the Supervisor of Banks, the accompanying financial statements of the Company as at December 31, 2012 and 2011, and for each of the years in the three-year period ended on December 31, 2012. Our report dated February 27, 2013, expressed an unqualified opinion on the said financial statements.

Somekh Chaikin
Certified Public Accountants (ISR)

Ziv Haft
Certified Public Accountants (ISR)

Tel Aviv, February 27, 2013

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

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

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

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the United States concerning audits of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Company over financial reporting as at December 31, 2012, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, and our report dated February 27, 2013, expressed an unqualified opinion of the effectiveness of the Company's internal control over financial reporting.

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

Tel Aviv, February 27, 2013

Balance Sheets

Reported amounts

In NIS millions

		December 31	
	Note	2012	2011
Assets			
Cash on hand and deposits with banks	2	13	25
Debtors in respect of credit-card activity	3, 4	1,744	1,594
Allowance for credit losses	3A	(10)	(7)
Debtors in respect of credit-card activity, net		1,734	1,587
Computers and equipment	5	2	2
Other assets	6	400	337
Total assets		**2,149**	**1,951**
Liabilities			
Credit from banking corporations	7	4	1
Creditors in respect of credit-card activity	8	1,868	1,708(1)
Subordinated notes	9	56	58
Other liabilities	10, 15	17	18(1)
Total liabilities		**1,945**	**1,785**
Contingent liabilities and special agreements	15		
Equity	11	204	166
Total liabilities and capital		**2,149**	**1,951**

(1) Reclassified.

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

Tel Aviv, February 27, 2013

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

Statements of Profit and Loss

Reported amounts

In NIS millions

	Note	For the year ended December 31		
		2012	2011	2010
Income				
From credit-card transactions	18	292	256(1)	223(1)
Net interest income	19	7	7(1)	2(1)
Other income		1	*-(1)	1(1)
Total income		**300**	**263**	**226**
Expenses				
Provision for credit losses	3A	6	4	1
Operating expenses	20	91	82(2)	72(2)
Sales and marketing expenses	21	54	48(2)	50(2)
General and administrative expenses	22	25	22	19
Payments to banks	15F	73	63	54
Total expenses		**249**	**219**	**196**
Profit before taxes		**51**	**44**	**30**
Provision for taxes on profit	23	13	9	8
Net profit		**38**	**35**	**22**
Basic and diluted net profit per common share (in NIS)		**275**	**249**	**168**
Number of common shares used in calculation		139,326	139,326	132,772

* Amount lower than NIS 0.5 million.

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

(2) Reclassified.

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

Statements of Changes in Equity

Reported amounts

In NIS millions

	Share capital	Premium on shares	Capital reserve from controlling shareholder	Total share capital and capital reserves	Retained earnings	Total capital
Balance as at Dec. 31, 2009	*-	-	*-	*-	85	85
Benefits received from controlling shareholder	-	-	*-	*-	-	*-
Share issuance	*-	35	-	35	-	35
Annual net profit	-	-	-	-	22	22
Balance as at Dec. 31, 2010	***-**	**35**	***-**	**35**	**107**	**142**
Cumulative effect, net of tax, of initial implementation of directive on measurement of impaired debts and allowance for credit losses on Jan. 1, 2011	-	-	-	-	(11)	(11)
Benefits received from controlling shareholder	-	-	*-	*-	-	*-
Annual net profit	-	-	-	-	35	35
Balance as at Dec. 31, 2011	***-**	**35**	***-**	**35**	**131**	**166**
Benefits received from controlling shareholder	**-**	**-**	***-**	***-**	**-**	***-**
Annual net profit	**-**	**-**	**-**	**-**	**38**	**38**
Balance as at Dec. 31, 2012	***-**	**35**	***-**	**35**	**169**	**204**

* Amount lower than NIS 0.5 million.

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

Statements of Cash Flows

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	2011***	2010***
		Audited	
Cash flows from operating activity			
Annual net profit	38	35	22
Adjustments:			
Depreciation of computers and equipment	1	1	*-
Provisions for credit losses	6	4	1
Deferred taxes, net	(2)	(2)	(*-)
Revaluation of subordinated notes	(2)	2	1
Benefit from a transaction with a controlling party	*-	*-	*-
Adjustments for rate differences	(1)	1	*-
Changes in current assets			
Decrease (increase) in credit to cardholders and merchants, net	(5)	(3)	4
Increase in other debtors in respect of credit-card activity, net	(147)	(115)	(255)
Increase in other assets, net	(61)	(245)	(84)
Changes in current liabilities			
Increase (decrease) in short-term credit from banking corporations, net	3	(1)	(4)
Increase (decrease) in creditors in respect of credit-card activity, net	160	**142	**259
Increase (decrease) in other liabilities	(2)	**3	**1
Net cash from operating activity	(12)	(178)	(55)

* Amount lower than NIS 0.5 million.

** Reclassified.

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

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

Statements of Cash Flows (cont.)

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	2011**	2010**
	Audited		
Cash flows from investing activity			
Acquisition of computers and equipment	(1)	(1)	(*-)
Net cash from investing activity	(1)	(1)	(*-)
Cash flows from financing activity			
Issuance of subordinated notes	-	-	30
Net cash from financing activity	-	-	35
	-	-	65
Increase (decrease) in cash	(13)	(179)	10
Balance of cash at beginning of year	25	205	195
Effect of changes in exchange rates on cash balances	1	(1)	(*-)
Balance of cash at end of year	13	25	205
Interest and taxes paid and/or received			
Interest received	9	9	4
Interest paid	4	*-	2
Taxes paid on income	17	11	7
Taxes received on income	1	*-	*-

* Amount lower than NIS 0.5 million.

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

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

Note 1 – Significant Accounting Policies

A. General

1. Poalim Express Ltd. (hereinafter: the "**Company**") is a corporation incorporated in Israel in 1995 and is wholly owned by Bank Hapoalim B.M. The holder of the permit for control of Bank Hapoalim is Ms. Shari Arison. The Company is an auxiliary corporation under the Banking Law (Licensing), 1981. The Company issues and clears transactions in 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 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, 2013.

B. Definitions

In these financial statements:

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

- **Generally accepted accounting principles (GAAP) for US banks** – Accounting principles which American banks traded in the United States are required to implement. These rules are established by the banking supervision agencies in the United States, the Securities and Exchange Commission in the United States, the Financial Accounting Standards Board in the United States, and other entities in the United States, and implemented according to the hierarchy established in FAS 168 (ASC 105-10), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which replaced FAS 162. In addition, as established by the Supervisor of Banks, despite the hierarchy established in FAS 168, it has been clarified that any position stated to the public by the bank supervision agencies in the United States or by the staff of the banking supervision agencies in the United States with regard to the manner of implementation of US GAAP constitutes GAAP for US banks.

Note 1 – Significant Accounting Policies (cont.)

B. Definitions (cont.)

1. The Company – Poalim Express Ltd.

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

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

4. Interested parties – As defined in Paragraph 1 of the definition of an “interested party” of a "corporation" in Section 1 of the Securities Law, 1968.

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

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

7. USD – United States dollar.

8. Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with the directives of Opinion Statements No. 23 and 36 of the Institute of Certified Public Accountants in Israel.

9. Adjusted financial reporting – Financial reporting in values adjusted to changes in the general purchasing power of Israeli currency, in accordance with the directives of the Opinion Statements of the Institute of Certified Public Accountants in Israel.

10. Reported amount – Amount adjusted to the transition date (December 31, 2003), plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.

11. Cost – Cost in reported amounts.

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

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

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

Note 1 – Significant Accounting Policies (cont.)

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 and guidelines of the Supervisor of Banks. In preparing the financial statements, the Company implements, among other matters, certain IFRS and GAAP for US banks, in the following manner:

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

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

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

  - In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Company acts according to specific implementation guidelines established by the Supervisor;

  - Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Company acts in accordance with the IFRS;

  - Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Company acts in accordance with the Public Reporting Directives and with Israeli GAAP;

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

2. Functional Currency and Presentation Currency

The financial statements are presented in New Israeli Shekels (NIS), the functional currency of the Company, rounded to the nearest million, except where otherwise noted.

Note 1 – Significant Accounting Policies (cont.)

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

4. Use of Estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidelines of the Supervisor of Banks requires the Management of the Company to exercise judgment in the use of estimates, evaluations, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements 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.)

D. Reclassification

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

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

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

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

Items included in the statement of profit and loss:

- Due to the initial implementation of the directives of the Supervisor of Banks regarding the new format for the statement of profit and loss (see Section E below), the reclassifications described below were performed in the financial statements for the years ended December 31, 2011 and 2010.
- Net exchange-rate differences in the amount of NIS 1 million and an amount lower than NIS 0.5 million for the years ended December 31, 2011 and 2010, respectively, were reclassified, from profit from financing activity before provisions for credit losses to other income.
- Fees to banks in the amount of NIS 1 million for the years ended December 31, 2011 and 2010 were reclassified, from profit from financing activity before provisions for credit losses to operating expenses.
- The items profit from financing activity before provisions for credit losses and operating profit before taxes were changed to net interest income and profit before taxes, respectively. For further details regarding the effect of the initial implementation of the directive, see Note 1(D) below.

D. Reclassification (cont.)

Items included in the statement of cash flows:

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

- Net changes in cash flows in respect of current assets (such as credit to cardholders and merchants, and debtors in respect of credit-card activity) previously included in investing activity (formerly activity in assets), in the amount of NIS 118 million and NIS 249 million in the years ended December 31, 2011 and 2010, respectively, were reclassified under current activity.

- Net changes in cash flows in respect of current liabilities (such as creditors in respect of credit-card activity, and net short-term credit from banking corporations) previously included in financing activity (formerly activity in liabilities and capital), in the amount of NIS 141 million and NIS 255 million in the years ended December 31, 2011 and 2010, respectively, were reclassified under current activity.

Items included in the notes to the financial statements:

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

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

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

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

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

   - IAS 7, Statement of Cash Flows;

   - IAS 12, Income Taxes;

Note 1 – Significant Accounting Policies (cont.)

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

- IAS 23, Borrowing Costs;
- IAS 24, Related Party Disclosures.

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

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

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

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

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

1. Foreign Currency and Linkage

Transactions in Foreign Currency

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

Note 1 – Significant Accounting Policies (cont.)

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

CPI-Linked Assets and Liabilities Not Measured at Fair Value

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

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

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

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

2. Basis for Recognition of Revenue and Expenses

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

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

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

Pursuant to the directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, beginning on January 1, 2011, the Company has implemented the American accounting standard ASC 310 and the position statements of the banking supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives and in the position statements and guidelines of the Supervisor of Banks. In addition, beginning on that date, the Company has implemented the directives of the Supervisor of Banks concerning the treatment of problematic debts.

Debtors in Respect of Credit Card Activity and Other Debt Balances

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

Allowance for Credit Losses

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

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

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

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.)

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

Troubled Debt Restructuring

A debt that has undergone a troubled debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Company has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (reduction or postponement of cash payments required of the borrower).

In order to determine whether a debt arrangement executed by the Company constitutes a troubled debt restructuring, the Company performs a qualitative examination of the terms and circumstances of the arrangement in aggregate, to establish whether: (1) the borrower is in financial difficulties; and (2) the Company granted a concession to the borrower as part of the arrangement.

In order to determine whether the borrower is in financial difficulties, the Company determines whether there are signs indicating that the borrower was in difficulties at the time of the arrangement, or whether there is a reasonable probability that the borrower will fall into financial difficulties without the arrangement. Among other factors, the Company examines the existence of one or more of the following circumstances: (1) at the date of the debt arrangement, the borrower is in default, including when any other debt of the borrower is in default; (2) with regard to debts that at the date of the arrangement are not in arrears, the Company estimates whether, based on the borrower's current repayment capability, it is likely that the borrower will default in the foreseeable future and will fail to comply with the original contractual terms of the debt; (3) the debtor has been declared bankrupt, is in a receivership proceeding, or there are significant doubts regarding the continued survival of the borrower as a going concern; and (4) if there is no change in the terms of the debt, the borrower will be unable to raise funds from other resources at the prevalent interest rate in the market for borrowers who are not in default.

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

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

Note 1 – Significant Accounting Policies (cont.)

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

Charge-Offs

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

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

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

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

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

Effect of the initial implementation of the directives of the Supervisor of Banks concerning the update of disclosures of the credit quality of debts and credit loss allowances, for the adoption of ASU 2010-20

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

Note 1 – Significant Accounting Policies (cont.)

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

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

4. Establishing the Fair Value of Financial Instruments

The Company applies the rules established in FAS 157 (ASC 820-10), which defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation. In addition, beginning on January 1, 2012, the Company applies the directives of the Supervisor of Banks concerning fair value measurement, which integrate the rules established in ASU 2011-04, "Fair Value Measurement (ASC 820): Revision of Fair Value Measurement and Uniform Disclosure Requirements in US GAAP and IFRS," into the Public Reporting Directives.

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

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

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

In addition, the fair value of financial instruments is measured without taking the blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial

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

instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair value measurement by market participants in the absence of Level 1 data.

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

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

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

♦ With regard to fair value measurements classified as Level 3 in the fair value hierarchy:

  - Quantitative disclosure of significant unobservable inputs and a description of the assessment technique applied by the Company, with regard to items measured at fair value on a recurring basis as well as on a non-recurring basis;

  - Qualitative discussion of an analysis of the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of the interaction between such unobservable inputs, if any;

♦ Classification into levels, within the fair value hierarchy, for items not measured at fair value in the balance sheet, but for which the disclosure of fair value is required;

♦ For every transfer from Level 1 to Level 2 or vice versa of items measured at fair value on a recurring basis, a description should be provided of the item, the amount of the transfer, the reason for the transfer, and the policy of the banking corporation;

♦ Use of a non-financial asset in a manner different from the highest and best use, when the asset is measured at fair value in the balance sheet or when its fair value is included in the disclosures according to the assumption of highest and best use;

Note 1 – Significant Accounting Policies (cont.)

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

- A detailed breakdown of the fair value hierarchy (the division into 3 levels) in respect of balances and fair value estimates of financial instruments.

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

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

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

6. Offsetting Financial Instruments

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

- With respect to such liabilities, a legally enforceable right exists to offset the liabilities against the assets;
- There is an intention to settle the liability and realize the assets on a net basis or simultaneously.

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

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.

Note 1 – Significant Accounting Policies (cont.)

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

Costs of acquired software that constitutes an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Company classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item “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 and loss when they arise. Profit or loss from the disposal of a fixed-asset item are determined by comparing the consideration from the disposal of the asset with its book value, and recognized as a net amount under the item “other income” in the statement of profit and loss.

Depreciation

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

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset. 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.

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

Computers and peripheral equipment	3-5 years
Software costs	4 years
Furniture and office equipment	5-16 years

Note 1 – Significant Accounting Policies (cont.)

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

8. Leases

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

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

Payments and receipts in operational leases are allocated to profit and loss using the straight-line method, over the period of the lease.

9. Intangible Assets

Software Costs

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

Amortization

Amortization is the systematic allocation of the cost of an intangible asset over its useful life. Amortization is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life of intangible assets, including software assets, starting on the date when the assets are available for use, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in each asset.

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

10. Impairment of Non-Financial Assets

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

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

Cancellation of Loss from Impairment

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

Impairment of In-House Software Development Costs

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

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

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

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

If one or more of the signs listed above exists, the Company tests for impairment, in accordance with the rules set forth in IAS 36, Impairment of Assets.

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 represents a provision at a rate of approximately 85% of the balance of unutilized points as at the end of 2012.

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 at 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 issued in this area by the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance. In addition, various statistics are taken into consideration with regard to mortality tables, rates of employee turnover, and the real rate of change of employee wages over time. The calculation also includes active employees expected to retire with preferred retirement terms, before the legal retirement age. Changes in the various actuarial characteristics would lead to results different from those obtained today.

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

Note 1 – Significant Accounting Policies (cont.)

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

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

On March 27, 2011, the Supervisor of Banks issued instructions regarding the reinforcement of internal control over financial reporting on employee benefits. The instructions establish several clarifications regarding the assessment of the liability in respect of employee benefits and instructions regarding internal control over the process of financial reporting on employee benefits, with requirements for the involvement of a licensed actuary, identification and classification of liabilities in respect of employee benefits, maintenance of internal controls with regard to the reliance upon and validation of the actuary’s assessment, and certain disclosure requirements.

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

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 performance conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are execution 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.

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees’ unconditional eligibility for the payment is attained. The liability is remeasured at every reporting date, until the date of settlement. Any change in the fair value of the liabilities is allocated as an expense under “salaries and related expenses” in profit and loss.

Note 1 – Significant Accounting Policies (cont.)

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

With regard to share-based payment transactions in which the Parent Company grants employees of the Company rights to equity instruments, the Company measures the services received as share-based payment transactions settled in equity instruments. An expense is recognized in the financial statements of the Company, in the statement of profit and loss, over the period of the employees' entitlement to the equity instruments, against a corresponding amount recorded in equity in respect of the equity inflow received from the Parent Company.

The fair value of the amount owed to the employees of the Company as employees of the Company in respect of rights to the increase in value of shares settled in cash or in equity instruments of the Parent Company is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional right to the payment or equity instruments is attained. The liability is remeasured at every reporting date, until the date of settlement. Any change in the fair value of the liabilities is allocated as an expense in the statement of profit and loss.

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.

(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

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

Note 1 – Significant Accounting Policies (cont.)

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

Current Taxes

Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws legislated or legislated in practice at the reporting date, including changes in tax payments referring to previous years.

Deferred Taxes

Deferred taxes are recognized with reference to temporary differences between the book value of assets and liabilities for the purposes of financial reporting and their value for tax purposes. The measurement of deferred taxes reflects the tax effects that will derive from the manner in which the Company expects, at the end of the reporting period, to recover or settle the book value of the assets and liabilities. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws legislated or legislated in practice at the balance-sheet date.

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

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

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

Offsetting Deferred Tax Assets and Liabilities

The Company offsets deferred tax assets and liabilities if a legally enforceable right exists to offset current tax assets and liabilities.

Note 1 – Significant Accounting Policies (cont.)

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

16. Capitalization of Borrowing Costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that requires a substantial period of time to prepare for its designated use or sale, including, among other matters, fixed assets, software assets, and other assets where a long period is necessary in order to bring the assets to a condition in which they can fulfill their designated function or be sold. However, it has been clarified in the directives of the Supervisor of Banks that banking corporations and credit-card corporations shall not capitalize borrowing costs unless they have established clear policy, procedures, and controls with regard to the criteria for recognition of qualifying assets and with regard to the borrowing costs capitalized. Accordingly, the Company does not capitalize borrowing costs of qualifying assets.

Effect of the Initial Implementation of the New Directives of the Supervisor of Banks Concerning Borrowing Costs

The initial implementation of these directives had no effect on the financial statements.

17. Earnings Per Share

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

18. Statement of Cash Flows

The statement of cash flows is presented with classification into cash flows from regular activity, investing activity (formerly “activity in assets”), and financing activity (formerly “activity in liabilities and capital”).

Cash flows arising from main activities of the Company are classified under regular activity.

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

Note 1 – Significant Accounting Policies (cont.)

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

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

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

19. Segmental Reporting

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

20. Related Party Disclosures

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

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

As part of the adoption of the standard by the Supervisor of Banks, the format of the required disclosure in the financial statements was reclassified, in order to comply with the disclosure requirements of IAS 24 as well as the additional disclosures required under the Securities Regulations (Annual Financial Statements), 2010.

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

The Company has implemented the new directives of the Supervisor of Banks concerning IAS 24,

Note 1 – Significant Accounting Policies (cont.)

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

Related Party Disclosures, beginning on January 1, 2012, retroactively. For the purpose of the initial implementation of the standard, the Company mapped its relationships with related parties. Under the new definition, as a result of the mapping process, new related parties were identified. For further information regarding transactions and balances with related parties, see Note 17, "Interested and Related Parties of the Company."

The initial implementation of the standard had no effect on the financial statements, other than a change in presentation.

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

1. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS). The standard stipulates that entities subject to the Securities Law, 1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting January 1, 2008 or later. The aforesaid does not apply to banking corporations and credit-card companies whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks. In June 2009, the Supervisor of Banks issued a letter concerning reporting by banking corporations and credit-card companies in Israel in accordance with IFRS, which establishes the expected manner of adoption of IFRS by banking corporations and credit-card companies.

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

- ♦ On matters related to the core business of banking – The Supervisor of Banks intends to reach a final decision, taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards.
- ♦ On matters not related to the core business of banking – Adopted gradually during 2011 and 2012. However, IAS 19, Employee Benefits, has not yet taken effect and will be adopted according to the instructions of the Supervisor of Banks, when such instructions are published, with regard to the timing and manner of initial implementation.

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

A circular of the Supervisor of Banks was issued on December 29, 2011, with the aim of adjusting the Public Reporting Directives for the purpose of adoption of the rules established in US GAAP regarding nonrefundable fees and other costs. The directive establishes rules for the treatment of loan origination fees and direct loan origination costs. The eligible fees and costs, according to the criteria established in the directive, shall not be recognized immediately in the statement of profit and loss, but shall be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of credit commitment fees and costs, including credit-card transactions.

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

3. Directive Concerning the Statement of Comprehensive Income

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

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

4. Directive Concerning Offsetting of Assets and Liabilities

A circular amending the Public Reporting Directives of the Supervisor of Banks on Offsetting Assets and Liabilities was issued on December 12, 2012. The amendments set forth in the circular are aimed at adjusting Section 15A of the Public Reporting Directives to US GAAP.

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

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

Note 2 – Cash on Hand and Deposits with Banks

Reported amounts

In NIS millions

	December 31	
	2012	2011
Cash on hand[(1)]	13	25
Deposits with banks for an original term of up to 3 months	-	-
Total	**13**	**25**

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

Note 3 – Debtors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

A. Debtors in respect of credit-card activity

	December 31		December 31	
	Average annual interest rate 2012		2012	2011
	For daily balance	For transactions in the last month		
	%	%		
Debtors in respect of credit cards[(1) (2)]	-	-	1,692	1,540
Credit to merchants[(3)]	4.90	2.63	32	28
Total debtors and credit to credit-card holders and merchants[(4) (5)]			1,724	1,568
Less: Allowance for credit losses			(10)	(7)
Total debtors and credit to credit-card holders and merchants, net			1,714	1,561
International credit-card organization			17	24
Income receivable			2	2
Others			1	*-
Total debtors in respect of credit-card activity, net			**1,734**	**1,587**
(1) Of which, under the responsibility of banks			1,357	1,240

(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 30 million (Dec. 31, 2011: NIS 28 million).

(4) Of which, NIS 27 million in debts examined on an individual basis, including debts found to be unimpaired, the allowance for credit losses in respect of which was calculated on a collective basis (Dec. 31, 2011: NIS 22 million). For further details, see Note 3C below.

(5) Of which, NIS 1,697 million in debts not examined individually, the allowance for credit losses in respect of which was calculated on a collective basis (Dec. 31, 2011: NIS 1,546 million). For further details, see Note 3D below.

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

B. Debtors and credit to credit-card holders and merchants

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Debtors and credit to credit-card holders and merchants – debts examined on an individual basis	27	3	24	22	2	20
Debtors and credit to credit-card holders and merchants – debts examined on a collective basis	1,697	7	1,690	1,546(1)	5	1,541(1)
Total debtors and credit to credit-card holders and merchants	**1,724**	**10**	**1,714**	**1,568**	**7**	**1,561**

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

C. Debtors and credit to credit-card holders and merchants – debts examined on an individual basis

1. Impaired debts examined on an individual basis include:

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts*	2	2	-	1	1	-
Other unimpaired debts**	25	1	24	21	1	20
Total debts examined on an individual basis	**27**	**3**	**24**	**22**	**2**	**20**

* Impaired debts do not accrue interest income.

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

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

Reported amounts

In NIS millions

C. Debtors and credit to credit-card holders and merchants – debts examined on an individual basis (cont.)

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

	December 31, 2012	December 31, 2011
2. Impaired debts in respect of which an allowance for credit losses on an individual basis exists	2	1
Total impaired debts	2	1
3. Impaired debts in restructuring in which terms of the debt not accruing interest were changed	2	1
Total impaired credit to the public	2	1
4. Average recorded debt balance of impaired debts examined individually during the reported period	2	1

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

D. Debtors in respect of credit-card activity – debts examined on a collective basis

	December 31, 2012			December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired debts**	1	*-	1	1	*-	1
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	1,694	6	1,688	1,543(1)	4	1,539(1)
Total debts examined on a collective basis	**1,697**	**7**	**1,690**	**1,546**	**5**	**1,541**

* Amount lower than NIS 0.5 million.

** Impaired debts do not accrue interest income.

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

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

Reported amounts

In NIS millions

	For the year ended December 31, 2012		
	Individual allowance	Collective allowance	Total
Allowance for credit losses as at Dec. 31, 2011	**1**	**9**	**10**
Net provision for credit losses	2	4	6
Charge-offs	(1)	(6)	(7)
Recovery of debts charged off in previous years(1)	*-	5	5
Net charge-offs	(1)	(1)	(2)
Allowance for credit losses as at Dec. 31, 2012	**2**	**12**	**14**
Composition of allowance for credit losses as at Dec. 31, 2012			
In respect of debtors and credit to credit-card holders and merchants	2	8	10
In respect of other debts	-	*-	*-
In respect of off-balance-sheet credit instruments	-	4	4
Composition of allowance for credit losses as at 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

* Amount lower than NIS 0.5 million.

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

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

Reported amounts

In NIS millions

	For the year ended December 31, 2011		
	Individual allowance	**Collective allowance**	**Total**
Allowance for credit losses as at Dec. 31, 2010	**2**	**9**	**11**
Provision (income) for credit losses	1	3	4
Charge-offs	(2)	(9)[1]	(11)[1]
Recovery of debts charged off in previous years[2]	*-	6[1]	6[1]
Net charge-offs	(2)	(3)	(5)
Allowance for credit losses as at Dec. 31, 2011	**1**	**9**	**10**
Composition of allowance for credit losses as at 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 for credit losses as at Jan. 1, 2011			
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.

(1) Reclassified.

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

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

Change in Allowance for Credit Losses

Reported amounts

In NIS millions

	December 31, 2012				
	Debtors and credit in respect of credit cards(3)				
	Under the responsibility of the Company	Under the responsibility of banks	Credit to merchants(3)	Other(2)	Total
Allowance for credit losses at beginning of year	8	*-	2	*-	10
Provision for credit losses	5	(*-)	1	(*-)	6
Charge-offs	(6)	-	(1)	-	(7)
Recovery of debts charged off in previous years	5	-	-(1)	-	5
Net charge-offs	(1)	-	(1)	-	(2)
Allowance at end of year	**12**	***-**	**2**	***-**	**14**

	December 31, 2011				
	Debtors and credit in respect of credit cards(3)				
	Under the responsibility of the Company	Under the responsibility of banks	Credit to merchants(3)	Other(2)	Total
Allowance for credit losses at beginning of year	7	-	1	-	8
Net charge-offs recognized as at January 1, 2011	(9)	-	(1)	-	(10)
Other changes in allowance as at January 1, 2011	12	*-	2	*-	13
Provision for credit losses	3	*-	1	*-	4
Charge-offs	(11)	-	*-	-	(11)
Recovery of debts charged off in previous years	6	-	-(1)	-	6
Net charge-offs	(5)	-	*-	-	(5)
Allowance at end of year	**8**	***-**	**2**	***-**	**10**

* Amount lower than NIS 0.5 million.

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

(2) Includes other debts.

(3) Includes off-balance sheet credit instruments.

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

Credit Quality and Arrears

Reported amounts

In NIS millions

	December 31, 2012					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	1,357	-	-	1,357	-	-
Debtors in respect of credit cards under the responsibility of the Company	330	2	3	335	-	2
Credit to merchants	32	*-	*-	32	-	*-
Other	431	-	-	431	-	-
Total	**2,150**	**2**	**3**	**2,155**	**-**	**2**

	December 31, 2011					
		Problematic			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired	Total	In arrears of 90 days or more	In arrears of 30 to 89 days
Debtors in respect of credit cards under the responsibility of banks	1,240	-	-	1,240	-	-
Debtors in respect of credit cards under the responsibility of the Company	296	2	2	300	-	2
Credit to merchants	28	*-	*-	28	-	*-
Other	381	-	-	381	-	-
Total	**1,945**	**2**	**2**	**1,949**	**-**	**2**

* 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, 2012			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
		In NIS millions		
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	249,111	302	296	47
Borrower balances over 5 and up to 10	73,485	380	348	161
Borrower balances over 10 and up to 15	35,641	252	214	195
Borrower balances over 15 and up to 20	25,311	174	127	274
Borrower balances over 20 and up to 30	32,728	214	129	589
Borrower balances over 30 and up to 40	17,698	126	64	510
Borrower balances over 40 and up to 80	10,170	140	87	363
Borrower balances over 80 and up to 150	981	49	39	51
Borrower balances over 150 and up to 300	200	24	19	15
Borrower balances over 300 and up to 600	55	12	9	10
Borrower balances over 600 and up to 1,200	24	15	11	7
Borrower balances over 1,200 and up to 2,000	8	8	3	5
Borrower balances over 2,000 and up to 4,000	3	6	3	4
Borrower balances over 4,000 and up to 8,000	4	23	8	1
Borrower balances over 8,000 and up to 20,000	2	17	-	10
Borrower balances over 20,000 and up to 40,000	-	-	-	-
Total	**445,421**	**1,742**	**1,357**	**2,242**
Income receivable and other debtors	-	2	-	-
Total	**445,421**	**1,744**	**1,357**	**2,242**

(1) Debtors in respect of credit-card activity and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and 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, 2011			
		Debtors in respect of credit-card activity		
	Number of borrowers[2]	Total	Of which: under responsibility of banks	Off-balance-sheet credit risk[3]
	In NIS millions			
Credit ceiling (in NIS thousands)				
Borrower balances up to 5	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 4,000 and up to 8,000	2	3	3	3
Borrower balances over 8,000 and up to 20,000	1	5	5	-
Borrower balances over 20,000 and up to 40,000	5	20	8	26
Total	1	24	-	-
Income receivable and other debtors	**394,599**	**1,592**	**1,240**	**2,557**
	-	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 allowance for credit losses, and after the effect of collateral permitted for deduction for the purpose of the indebtedness of borrowers and groups of borrowers.

(2) Number of borrowers by total debtors and 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 at December 31, 2011	8	*-	1	9
Additions	1	-	*-	1
As at December 31, 2012	9	*-	1	10
Accrued depreciation:				
As at December 31, 2011	6	*-	1	7
Additions	1	*-	*-	1
As at December 31, 2012	7	*-	1	8
Depreciated balance as at December 31, 2012	2	*-	*-	2
Depreciated balance as at December 31, 2011	2	*-	*-	2
Weighted average depreciation rate in % in 2012	21.8	7.6	25.0	
Weighted average depreciation rate in % in 2011	20.7	8.3	25.0	

(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

	December 31	
	2012	2011
Deferred taxes receivable, net (see Note 23)	8	6
Other debtors and debit balances:		
Prepaid expenses	1	1
Related companies*	390	329
Others	1	1
Total other debtors and debit balances	392	331
Total other assets	**400**	**337**

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

Note 7 – Credit from Banking Corporations

Reported amounts

In NIS millions

	December 31, 2012		December 31	
	Average annual interest rate		2012	2011
	For daily balance	For transactions in the last month		
	%	%		
Credit in current drawing accounts	**1.19**	**1.27**	**4**	**1**

Note 8 – Creditors in Respect of Credit-Card Activity

Reported amounts

In NIS millions

	December 31	
	2012	**2011**
Merchants[1]	1,790	1,636
Prepaid income	1	*-
Provision for loyalty program	51	45
Expenses payable	8	**9
Others	18	18
Total creditors in respect of credit-card activity	**1,868**	**1,708**

* Amount lower than NIS 0.5 million.

** Reclassified.

(1) Net of balances in respect of the discounting of sales slips for merchants in the amount of NIS 61 million as at December 31, 2012 (Dec. 31, 2011: NIS 63 million).

Note 9 – Subordinated Notes

Reported amounts

In NIS millions

A. Item composition

	Average duration(1)	Internal rate of return(2)	December 31	
	%	%	2012	2011
	2012			
In Israeli currency				
Unlinked	6.43	2.95	56	*58

* Includes a balance of payable interest in the amount of NIS 2 million as at December 31, 2011.

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

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

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 interest 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	
	2012	**2011**
Surplus current income-tax reserves over advances paid	*-	1
Other creditors and credit balances:		
Expenses payable in respect of wages and related expenses	2	3
Suppliers of services and equipment	5	3
Expenses payable	3	*4
Institutions	3	2
Allowance for credit losses in respect of off-balance-sheet liabilities	4	3
Others	*-	2
Total other creditors and credit balances	17	17
Total other liabilities	**17**	**18**

* Reclassified.

Note 11A – Equity

	December 31, 2012		December 31, 2011	
	Registered	**Issued and paid-up**	**Registered**	**Issued and paid-up**
	In NIS			
Common shares of par value NIS 1 each	500,000	139,326	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, 2012	December 31, 2011
1. Capital for the calculation of the capital ratio		
	In NIS millions	
Core capital and tier 1 capital	204	166
Tier 2 capital*	56	56
Total overall capital	**260**	**222**

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

2. Weighted balances of risk-adjusted assets

	December 31, 2012		December 31, 2011	
	Weighted balances of risk-adjusted assets	Capital requirement	Weighted balances of risk-adjusted assets	Capital requirement
	In NIS millions			
Credit risk	1,393	125	1,308	118
Market risks – foreign currency exchange rate risk	4	*-	3	*-
Operational risk	304	28	258	23
Total weighted balances of risk-adjusted assets	**1,701**	**153**	**1,569**	**141**

3. Ratio of capital to risk-adjusted assets

	December 31, 2012	December 31, 2011
	In percent	
Ratio of core capital and tier 1 capital to risk-adjusted assets	12.0	10.6
Ratio of total capital to risk-adjusted assets	15.3	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."

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

B. Capital components for the calculation of the capital ratio

	December 31, 2012	December 31, 2011
Tier 1 capital		
Equity	204	166
Total tier 1 capital	**204**	**166**
Tier 2 capital		
Lower tier 2 capital		
Subordinated notes	56	56
Total tier 2 capital	**56**	**56**

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

Capital Adequacy Target

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

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

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

Note 12 – Employee Benefits

A. Personal Contracts – Chairperson of the Board of Directors and CEO of the Company

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

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

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

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

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

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

Note 12 – Employee Benefits (cont.)

A. Personal Contracts – Chairperson of the Board of Directors and CEO of the Company (cont.)

additional months after the vesting date. In addition, various limits have been set on the exercise of the RSU, in connection with the results of operations and financial condition of Bank Hapoalim.

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

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

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

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

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

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

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

In August 2012, Isracard paid Bank Hapoalim the value of the RSU at the date of the grant.

Note 12 – Employee Benefits (cont.)

A. Personal Contracts – Chairperson of the Board of Directors and CEO of the Company (cont.)

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

The exercise of the options granted to the Chairperson of the Board of Directors of the Company under her previous employment agreement, which ended December 31, 2011, was approved by the appropriate organs of Isracard. The acquisition of the shares arising from these options by Isracard was subject to approval by the Supervisor of Banks. Because the Supervisor did not grant approval for the purchase of the shares by Isracard, the shares were acquired by Bank Hapoalim. The acquisition of the shares by Bank Hapoalim was in a total amount of approximately NIS 3.5 million (before deduction of applicable tax).

The Chairperson of the Board of Directors no longer holds options of Isracard under her previous employment agreement.

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

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

The CEO of the Company, Mr. Dov Kotler, was appointed on February 1, 2009 and employed under a personal contract until January 31, 2012. Mr. Kotler also serves as CEO of Isracard Ltd., Aminit Ltd., and Europay (Eurocard) Israel Ltd. Mr. Dov Kotler's term of service as CEO of the Company was extended by three additional years, from February 1, 2012 to January 31, 2015 (hereinafter: the "**New Employment Agreement**").

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

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

Note 12 – Employee Benefits (cont.)

A. Personal Contracts – Chairperson of the Board of Directors and CEO of the Company (cont.)

the bonus plan applicable to the Chairperson of the Board of Directors and the CEO of the Company, see below.

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

In July 2012, Isracard paid Bank Hapoalim the value of the RSU at the date of the grant.

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

The exercise of the options granted to the CEO of the Company under his previous employment agreement, which ended January 31, 2012, was approved by the appropriate organs of Isracard. The acquisition of the shares arising from these options by Isracard was subject to approval by the Supervisor of Banks. Because the Supervisor did not grant approval for the purchase of the shares by Isracard, the shares were acquired by Bank Hapoalim. The acquisition of the shares by Bank Hapoalim was in a total amount of approximately NIS 4.1 million (before deduction of applicable tax).

The CEO no longer holds options of Isracard under his previous employment agreement.

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

B. Bonuses

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

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

Note 12 – Employee Benefits (cont.)

B. Bonuses (cont.)

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

Pursuant to the Plan, a positive or negative personal budget will be established each year for each of the Chairperson of the Board of Directors and the CEO, based on the difference between the aggregate net accounting profit/loss of all of the companies in the Isracard Group in the given year (as it appears in the annual financial statements of the group of companies, excluding provisions recorded for bonuses for the senior management of the Company), and the threshold profit for compensation established as noted above with regard to the Chairperson of the Board of Directors and the CEO (hereinafter: the "**Actual ROE Difference**"). In a year in which the Actual ROE Difference is positive, the budget shall be calculated according to progressively rising increments of the Actual ROE Difference, from an Actual ROE Difference of 2% to a ceiling of 30%; in a year in which the Actual ROE Difference is negative, the budget shall be calculated from a negative ROE difference of 2% to a negative ceiling of 30%. In a year in which the positive Actual ROE Difference is between 0% and 2%, the Board of Directors, at its sole discretion (with regard to the Chairperson of the Board of Directors, also subject to approval by the organs of Bank Hapoalim, as required by law), may approve an annual bonus in a limited positive amount for the Chairperson of the Board of Directors or the CEO of the Company. In addition, the positive or negative bonus budget to be established as described above shall be adjusted to the Actual ROE Difference of Bank Hapoalim in the relevant year; such adjustment may increase or decrease the positive or negative bonus budget by up to 20%.

In the event that the bonus budget in a particular year is negative due to special external circumstances that affect the entire market in which the Company operates in that year, the Board of Directors of Isracard (with regard to the Chairperson of the Board of Directors, also subject to approval by the organs of Bank Hapoalim, as required by law) may reduce or cancel the negative bonus budget of the Chairperson of the Board of Directors or the CEO in respect of that year.

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

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

Note 12 – Employee Benefits (cont.)

B. Bonuses (cont.)

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

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

C. Details of Liabilities in Respect of Employee Benefits

	December 31	
	2012	2011
	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
Total	**1**	**1**

* Amount lower than NIS 0.5 million.

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

Note 12 – Employee Benefits (cont.)

D. Vacations

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.

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 option notes, 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 number 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 options were allocated to employees of the Company on loan from the Bank. The value of the benefit in respect of these allocations, calculated according to the Black-Scholes model, amounts to approximately NIS 2 million.

(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 purchase shares of the Bank at the aforesaid price. The said option notes 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 option notes will be exercisable for one year, starting when 48 months have elapsed from January 1 of the year in which they were allocated.

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

Note 12 – Employee Benefits (cont.)

F. Agreement with Employee Union (cont.)

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, 2012					
	Israeli currency		Foreign currency(1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	1	-	12	-	-	13
Debtors in respect of credit-card activity, net	1,680	8	42	4	-	1,734
Computers and equipment	-	-	-	-	2	2
Other assets	398	-	-	-	2	400
Total assets	**2,079**	**8**	**54**	**4**	**4**	**2,149**
Liabilities						
Credit from banking corporations	*-	-	*-	4	-	4
Creditors in respect of credit-card activity	1,809	8	50	-	1	1,868
Subordinated notes	56	-	-	-	-	56
Other liabilities	17	-	*-	-	-	17
Total liabilities	**1,882**	**8**	**50**	**4**	**1**	**1,945**
Difference	197	*-	4	*-	3	204

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

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

Reported amounts

In NIS millions

	December 31, 2011					
	Israeli currency		Foreign currency(1)			
	Unlinked	CPI-linked	USD	Other	Non-monetary items	Total
Assets						
Cash on hand and deposits with banks	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	**1,653	8	47	-	*-	1,708
Subordinated notes	58	-	-	-	-	58
Other liabilities	**14	-	4	-	-	18
Total liabilities	**1,726**	**8**	**51**	**-**	***-**	**1,785**
Difference	161	(*-)	(1)	3	3	166

(1) Including foreign-currency linked.

* Amount lower than NIS 0.5 million.

** Reclassified.

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

Reported amounts

In NIS millions

	December 31, 2012					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	1,336	341	325	62	13	-
Liabilities	967	373	344	75	27	14
Difference	369	(32)	(19)	(13)	(14)	(14)
CPI-linked Israeli currency						
Assets	2	2	4	*-	*-	-
Liabilities	2	2	4	*-	*-	-
Difference	-	-	-	-	-	-
Foreign currency(3)						
Assets	65	(7)	*-	-	-	-
Liabilities	47	5	*-	-	-	-
Difference	18	(12)	-	-	-	-
Non-monetary items						
Assets	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Difference	-	-	-	-	-	-
Total						
Assets	1,403	336	329	62	13	-
Liabilities	1,016	380	348	75	27	14
Difference	387	(44)	(19)	(13)	(14)	(14)

(1) Expected future contractual cash flows in respect of asset and liability items by linkage base, according to remaining contractual terms to maturity of each cash flow. Data are presented net of the allowance for credit losses.

(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	Total	Contractual rate of return[4]
-	-	-	-	2,077	4	2,079	0%
2	59	-	-	1,861	9	1,882	1.88%
(2)	(59)	-	-	216	(5)	197	
-	-	-	-	8	-	8	0%
-	-	-	-	8	-	8	0%
-	-	-	-	-	-	-	
-	-	-	-	58	-	58	0%
-	-	-	-	52	2	54	0%
-	-	-	-	6	(2)	4	
-	-	-	-	-	4	4	0%
-	-	-	-	-	1	1	0%
-	-	-	-	-	3	3	
-	-	-	-	2,143	8	2,149	0%
2	59	-	-	1,921	12	1,945	1.87%
(2)	(59)	-	-	222	(4)	204	

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

Reported amounts

In NIS millions

	December 31, 2011					
	Expected future contractual cash flows					
	Upon demand and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years	Over 3 years and up to 4 years
Unlinked Israeli currency						
Assets	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 cash flow. Data are presented net of the allowance for credit losses.

(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.

				Balance-sheet balance[2]			
Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows[1]	No maturity date	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 15 – Contingent Liabilities and Special Agreements

A. Off-Balance-Sheet Financial Instruments

	December 31	
	2012	**2011**
	Reported amounts in NIS millions	
Unutilized credit-card credit lines:		
Credit risk on the Company	2,219	2,518
Credit risk on banks	5,990	5,919
Allowance for credit losses	(4)	(3)
Total unutilized credit-card credit lines, net	8,205	8,434
Other liabilities:		
Exposure in respect of merchant credit lines	23	39

B. Antitrust Issues and Additional Regulation

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 (hereinafter: 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.

An amended cross-clearing arrangement, revising the earlier agreements, was submitted to the Tribunal on December 28, 2011; this arrangement is in effect from the date of its approval until December 31, 2018. A ruling handed down by the Antitrust Tribunal on March 7, 2012 approved the amended arrangement, including all of the terms thereof. The 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 effect on its conduct and revenue.

Note 15 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Additional Regulation (cont.)

Additional Regulation

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

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

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

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

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

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

Note 15 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Additional Regulation (cont.)

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

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

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

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

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

8. In June 2012, the Knesset plenum passed a government bill, in a first reading, which would update the list of causes with regard to conditions considered depriving conditions in uniform contracts, and establish rules with regard to the authority of the Uniform Contracts Court. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company, if any.

Note 15 – Contingent Liabilities and Special Agreements (cont.)

B. Antitrust Issues and Additional Regulation (cont.)

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

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

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

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

13. In October 2012, the Economics Committee passed a private bill, in a second and third reading, according to which customers should be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the bill. At this stage, the Company cannot estimate whether the aforesaid bill will result in legislation, and if so, its implications for the Company.

    In October 2012, the Knesset plenum passed the bill for dispersal of the 18th Knesset, in a second and third reading. The election recess began on October 16, 2012 and continued until the 19th Knesset took office on February 5, 2013. Legislative proceedings for private bills can

B. Antitrust Issues and Additional Regulation (cont.)

continue in the 19th Knesset if they were passed in a first reading by the 18th Knesset, and if the law of continuity has been applied to them.

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

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

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

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

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

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

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-card arrangement:

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**").

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 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 do not indicate the value of the Company as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different companies.

2. Principal methods and assumptions used to calculate estimates of the fair value of financial instruments

Deposits with banks – By discounting future cash flows according to the interest rates at which the Company performed similar transactions close to the balance-sheet date.

Debtors in respect of credit-card activity – The fair value of the balance of debtors in respect of credit-card activity is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of debtors was segmented into homogeneous categories. In each category, the receipts were discounted by an interest rate reflecting similar transactions at the balance-sheet date.

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

Creditors in respect of credit-card activity – By discounting cash flows according to the interest rate at which the Company raised similar credit close to the balance-sheet date.

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

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2012				
		Fair value[a]			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	13	13	-	-	13
Debtors in respect of credit-card activity, net	1,734	-	-	1,728	1,728
Other financial assets	391	-	-	391	391
Total financial assets	***2,138**	**13**	**-**	**2,119**	**2,132**
Financial liabilities:					
Credit from banking corporations	4	4	-	-	4
Creditors in respect of credit-card activity	1,867	-	-	1,859	1,859
Subordinated notes	56	-	56	-	56
Other financial liabilities	13	-	-	13	13
Total financial liabilities	***1,940**	**4**	**56**	**1,872**	**1,932**

* Of which: assets and liabilities in the amount of NIS 13 million and NIS 4 million, respectively, whose balance in the balance sheet is identical to the fair value (instruments presented in the balance sheet at fair value).

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

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

Level 3 - Fair value measurements using significant unobservable inputs.

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

Reported amounts

In NIS millions

B. Balances and Fair-Value Estimates of Financial Instruments

	December 31, 2011				
		Fair value(a)			
	Balance-sheet balance	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash on hand and deposits with banks	25	25	-	-	25
Debtors in respect of credit-card activity, net	1,587	-	-	1,579	1,579
Other financial assets	330	-	-	330	330
Total financial assets	***1,942**	**25**	**-**	**1,909**	**1,934**
Financial liabilities:					
Credit from banking corporations	1	1	-	-	1
Creditors in respect of credit-card activity	1,707	-	-	1,696	1,696
Subordinated notes	58	-	58	-	58
Other financial liabilities	14	-	-	13	13
Total financial liabilities	***1,780**	**1**	**58**	**1,709**	**1,768**

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

(a) Level 1 - Fair value measurements using prices quoted on an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.

Note 17 – Interested and Related Parties of the Company

Reported amounts

In NIS millions

The Company implemented IAS 24, Related Party Disclosures, for the first time in January 2012. For details, see Note 1.E.2 above. Accordingly, new related and interested parties were identified, and others were removed; data for previous years were restated based on the new population. The Company is a direct subsidiary of Bank Hapoalim B.M.

A. Balances

	December 31, 2012					
	Interested parties				Related parties	
	Controlling shareholders		Key executives[(2)]		Others[(3)]	
	Year-end balance	Highest balance during the year[(4)]	Year-end balance	Highest balance during the year[(4)]	Year-end balance	Highest balance during the year[(4)]
Assets						
Cash on hand and deposits with banks	13	30	-	-	-	-
Debtors in respect of credit-card activity, net[(1)]	-	-	*-	*-	-	-
Other assets	1	1	-	-	389	400
Liabilities						
Credit from banking corporations	4	7	-	-	-	-
Creditors in respect of credit-card activity	9	16	-	-	342	400
Subordinated notes	56	58	-	-	-	-
Other liabilities	-	-	*-	*-	*-	*-
Shares (included in equity)	*-	*-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	4,030	4,086	3	4	-	-
Guarantees given by banks	759	812	-	-	-	-
Discounting balance with related party	-	-	-	-	2	2

* Amount lower than NIS 0.5 million.

(1) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

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

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

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

Note 17 – Interested and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

A. Balances (cont.)

	December 31, 2011[1]					
	Interested parties				Related parties	
	Controlling shareholders		Key executives[3]		Others[4]	
	Year-end balance	Highest balance during the year[5]	Year-end balance	Highest balance during the year[5]	Year-end balance	Highest balance during the year[5]
Assets						
Cash on hand and deposits with banks	25	352	-	-	-	-
Debtors in respect of credit-card activity, net[2]	*-	1	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
Subordinated notes	58	58	-	-	-	-
Other liabilities	-	-	-	-	*-	5
Shares (included in equity)	*-	*-	-	-	-	-
Credit risk and off-balance-sheet financial instruments	4,078	4,237	3	4	-	-
Guarantees given by banks	753	766	-	-	-	-

* Amount lower than NIS 0.5 million.

(1) Restated; see Note 1.F.20.

(2) All transactions with related parties were performed in the ordinary course of business, at terms similar to those of transactions with entities unrelated to the Company.

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

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

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

Note 17 – Interested and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

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

	For the year ended December 31, 2012		
	Interested parties		Related parties
	Controlling shareholders	Key executives[2]	Others[3]
Income from credit-card transactions	2	-	33
Net interest income	3	-	2
Other income	-	-	-
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(17)
Payments to banks	(45)	-	-
Total	**(41)**	**(1)**	**18**

	For the year ended December 31, 2011[1]		
	Interested parties		Related parties
	Controlling shareholders	Key executives[2]	Others[3]
Income from credit-card transactions	2	-	27
Net interest income	4	-	1
Other income	-	-	-
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(15)
Payments to banks	(42)	-	-
Total	**(37)**	**(1)**	**13**

	For the year ended December 31, 2010[1]		
	Interested parties		Related parties
	Controlling shareholders	Key executives[2]	Others[3]
Income from credit-card transactions	2	-	25
Net interest income	(2)	-	1
Other income	-	-	-
Operating expenses	(1)	-	-
General and administrative expenses	-	(1)	(13)
Payments to banks	(36)	-	-
Total	**(37)**	**(1)**	**13**

* Amount lower than NIS 0.5 million.
(1) Restated; see Note 1.F.20.
(2) Including their close family members, as defined in IAS 24.
(3) Parties that meet the definition of a related party pursuant to IAS 24, and were not included in the other columns.

Note 17 – Interested and Related Parties of the Company (cont.)

Reported amounts

In NIS millions

C. Benefits for Interested Parties

	For the year ended December 31, 2012	
	Key executives	
	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	1	4

	For the year ended December 31, 2011(1)	
	Key executives	
	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	1	5

	For the year ended December 31, 2010(1)	
	Key executives	
	Total benefits	Number of benefit recipients
Interested party employed by the corporation or on its behalf	1	4

In addition, in 2012, the Company had salary and related expenses in the amount of approximately NIS 2 million (similar to the years ended December 31, 2011 and December 31, 2010) for approximately 7 employees on loan from Bank Hapoalim.

(1) Restated; see Note 1.F.20.

D. Additional Information

- See Note 12 – Employee Benefits.
- See Note 15 – Contingent Liabilities and Special Agreements.

Note 18 – Income from Credit-Card Transactions

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	2011	2010
Income from merchants:			
Merchant fees	269	236	210
Other income	1	1	1
Total gross income from merchants	270	237	211
Less fees to other issuers	(22)	(21)	(23)
Total net income from merchants	248	216	188
Income in respect of credit-card holders:			
Issuer fees	11	9	8
Service fees	26	*23	*20
Fees from transactions abroad	7	8	7
Total income in respect of credit-card holders	44	40	35
Total income from credit-card transactions	**292**	**256**	**223**

* Reclassified; see footnote 1 to the Statement of Profit and Loss, above.

Note 19 – Net Interest Income

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	**2011**	**2010**
A. Financing income in respect of assets:			
From credit to merchants	2	2	1
From debtors in respect of credit cards	*-	**;*-	**;*-
From deposits with banks	5	**7	**2
From other assets	2	1	1
Total in respect of assets	**9**	**10**	**4**
B. Financing expenses in respect of liabilities:			
To banking corporations	(*-)	(1)	(*-)
On notes	(2)	(2)	(2)
Total in respect of liabilities	**(2)**	**(3)**	**(2)**
Total net interest income	**7**	**7**	**2**

* Amount lower than NIS 0.5 million.

** Reclassified; see footnote 1 to the Statement of Profit and Loss, above.

Note 20 – Operating Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	2011	2010
Wages and related expenses	20	21	16
Data processing and computer maintenance	13	11	10
Automatic Bank Services (ABS)	2	2	1
Royalties to international organization	34	29	28
Operating expenses for incoming and outgoing tourism	-	**-	**-
Amortization and depreciation	1	1	*-
Communications	1	1	1
Production and delivery	11	**11	**11
Damages from abuse of credit cards	2	1	1
Rent and building maintenance	5	4	3
Others	2	**1	**1
Total operating expenses	**91**	**82**	**72**

* Amount lower than NIS 0.5 million.

** Reclassified.

Note 21 – Sales and Marketing Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	**2011**	**2010**
Wages and related expenses	11	11	10
Advertising	5	*5	*6
Customer retention and recruitment	9	11	9
Gift campaigns for credit-card holders	22	16	21
Club management fees	4	*3	*2
Others	3	2	2
Total sales and marketing expenses	**54**	**48**	**50**

* Reclassified.

Note 22 – General and Administrative Expenses

Reported amounts

In NIS millions

	For the year ended December 31		
	2012	**2011**	**2010**
Wages and related expenses	4	3	3
Insurance	1	1	1
Payments to Isracard(1)	17	15	13
Others	3	3	2
Total general and administrative expenses	**25**	**22**	**19**

(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		
	2012	**2011**	**2010**
Current taxes for the accounting year	14	11	7
Current taxes for previous years	*-	*-	(*-)
Deferred taxes for the accounting year	(1)	(2)	1
Provision for taxes on income	**13**	**9**	**8**

* Amount lower than NIS 0.5 million.

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

	For the year ended December 31		
	2012	**2011**	**2010**
Tax rate applicable to the Company in Israel	25%	24%	25%
Tax amount based on statutory rate	13	11	8
Change in balance of deferred taxes due to changes in tax rates	-	(2)	-
Provision for taxes on income	**13**	**9**	**8**

3. Final tax assessments have been issued to the Company up to and including the tax year 2007, 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	
	2012	**2011**
From allowance for credit losses	7	6
From benefits for employees	1	*-
Total	**8**	**6**

Note 23 – Provision for Taxes on Operating Profit (cont.)

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

The Law for Change in the Tax Burden (Legislative Amendments), 2011 was passed by 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 laws as noted above.

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, 2012		
Profit and loss information	**Issuance Segment**	**Clearing Segment**	**Total**
Income			
Fees from external customers	44	248	292
Inter-segmental fees	105	(105)	-
Total	149	143	292
Net interest income (expenses)	(*-)	7	7
Other income (expenses)	2	(1)	1
Total income	**151**	**149**	**300**
Expenses			
Provision for credit losses	5	1	6
Operating expenses	53	38	91
Sales and marketing expenses	46	8	54
General and administrative expenses	12	13	25
Payments to banks	33	40	73
Total expenses	**149**	**100**	**249**
Profit before taxes	2	49	51
Provision for taxes on profit	1	12	13
Net profit	**1**	**37**	**38**
Return on equity (percent net profit out of average capital)	0.6	20.1	20.7
Average balance of assets	1,821	249	2,070
Average balance of liabilities	109	1,777	1,886
Average balance of risk-adjusted assets	1,410	216	1,626

* Amount lower than NIS 0.5 million.

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 external customers	**40	**216	256
Inter-segmental fees	104	(104)	-
Total	144	112	256
Net interest income (expenses)	**;*-	**7	7
Other income (expenses)	**1	**(1)	*-
Total income	**145**	**118**	**263**
Expenses			
Provision for credit losses	4	*-	4
Operating expenses	***48	***34	82
Sales and marketing expenses	***43	***5	48
General and administrative expenses	11	11	22
Payments to banks	30	33	63
Total expenses	**136**	**83**	**219**
Profit before taxes	9	35	44
Provision for taxes on 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.

**	Reclassified. See footnote 1 to the Statement of Profit and Loss, above.

***	Reclassified.

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 external customers	**35	**188	223
Inter-segmental fees	97	(97)	-
Total	132	91	223
Net interest income (expenses)	**(1)	**3	2
Other income (expenses)	**2	**(1)	1
Total income	**133**	**93**	**226**
Expenses			
Provision for doubtful debts	1	*-	1
Operating expenses	***42	***30	72
Sales and marketing expenses	***45	***5	50
General and administrative expenses	9	10	19
Payments to banks	28	26	54
Total expenses	**125**	**71**	**196**
Profit before taxes	8	22	30
Provision for taxes on 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.

** Reclassified. See footnote 1 to the Statement of Profit and Loss, above.

*** Reclassified.

Note 25 – Information Based on Historical Nominal Data for Tax Purposes

	December 31	
	2012	2011
	Amounts in NIS millions	
Total assets	2,149	1,951
Total liabilities	1,945	1,785
Equity	204	166
Nominal net profit	38	35